

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,119
)
APPLICATION OF THE OIL CONSERVATION)
DIVISION TO AMEND RULE 104)
(19 NMAC 15.C.104) PERTAINING TO)
WELL SPACING)

OFFICIAL EXHIBIT FILE

COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN
JAMI BAILEY, COMMISSIONER
ROBERT LEE, COMMISSIONER

July 15th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Thursday, July 15th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

104 WELL SPACING AND LOCATION

104.A. CLASSIFICATION OF WELLS: WILDCAT AND DEVELOPMENT WELLS

(1) WILDCAT WELLS:

(a) San Juan, Rio Arriba, Sandoval, and McKinley Counties

Any well to be drilled the spacing unit of which is a distance of two (2) miles or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(b) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

Any well to be drilled the spacing unit of which is a distance of one (1) mile or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(2) DEVELOPMENT WELLS:

(a) Any well which is not a wildcat well shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Such development well shall be spaced, drilled, operated, and produced in accordance with the rules in effect for that pool, provided the well is completed in that pool. [5-25-64...2-1-96]

(b) Any well classified as a development well for a pool but which is completed in a producing formation not included in the vertical limits of that pool shall be operated and produced in accordance with the rules in effect for the nearest pool (within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else) which is producing from that

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. <u>2119</u> Exhibit No. <u>1</u>
Submitted by <u>OOD</u>
Hearing Date <u>7/15/99</u>

formation. If there is no designated pool for that producing formation within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else, the well shall be re-classified as a wildcat well. [5-25-64...2-1-96]

104.B. ACREAGE AND WELL LOCATION REQUIREMENTS FOR OIL WELLS

(1) Any wildcat well which is projected as an oil well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of oil rather than gas and (unless otherwise provided in special pool orders) each development well for a defined oil pool shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such unit. Only those 40-acre spacing units committed to active secondary recovery projects shall be permitted more than four wells.

(2) If a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well location rules, the operator must apply for administrative approval for a non-standard location before the well can produce. The Director may set any such application for hearing.

104.C. ACREAGE AND WELL LOCATION REQUIREMENTS FOR GAS WELLS

Any wildcat well which is projected as a gas well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of gas rather than oil and (unless otherwise provided in a special pool orders) each development well for a defined gas pool shall be spaced and located as follows:

(1) 640-ACRE SPACING shall apply to those deep gas wells in Northwest New Mexico (Rio Arriba, San Juan, Sandoval and McKinley Counties) that are projected to access a gas producing formation older than the Dakota formation or are within a gas pool created and defined by the Division after June 1, 1997 a formation older than the Dakota formation, and which formation or pool is located within the surface outcrop of the Pictured Cliffs formation (the "San Juan Basin"). Wells shall be located on designated spacing units consisting of 640 contiguous surface areas, more or less, substantially in the form of a square which is a section and legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 1200 feet to any outer boundary of the spacing unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(2) 320-ACRE SPACING shall apply to deep gas wells in Southeast New Mexico (Lea, Chaves, Eddy and Roosevelt Counties), defined as wells that are projected to access a gas producing formation or are within a defined gas pool in the Wolfcamp and older formations. Wells shall be located on spacing units consisting of 320 surface continuous acres, more or less, comprising any two contiguous quarter sections of a single governmental section ~~and~~ which is a legal subdivision of the U.S. Public Land Surveys provided that:

- (a) The initial well on a 320-acre unit shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (b) Only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and shall be no closer than 660 feet to the outer boundary of the quarter section nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and
- (c) the Division-designated operator for the infill well shall be the same operator designated by the Division for the initial well.

(3) 160 ACRE SPACING shall apply to all other gas wells not covered above including: (i) shallow gas wells in Southeast New Mexico (defined as wells that are projected to access a gas producing formation, or are within a defined gas pool in a formation, younger than the Wolfcamp formation); (ii) shallow gas wells in Northwest New Mexico (defined as wells that are either projected to access a gas-bearing formation, or are in a gas pool created and defined by the Division after March 1, 1997 in a formation, younger than and including the Dakota formation); and (iii) deep gas wells outside the surface outcrop of the Pictured Cliffs formation. Wells shall be located in designated spacing units consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 660 feet to any outer boundary of such unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

104.D. ACREAGE ASSIGNMENT

(1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat or development gas well to which more than 40 acres has been dedicated to conduct a potential test within 30 days following completion of the well and to file the test with the Division within 10 days following completion of the test. (See Rule 401) [5-25-64...2-1-96]

- (a) Date of completion for a gas well shall be the date of the conclusion of active completion work on the well. [5-25-64...2-1-96]

- (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage dedicated to the well to that for the standard spacing of an oil well. [5-25-64...2-1-96]
- (c) Failure of the operator to file the test within the specified time will also subject the well to such acreage reduction. [5-25-64...2-1-96]

(2) Non-Standard Spacing Units. Any well which does not have the required amount of acreage dedicated to it for the pool or formation in which it is completed may not be produced until a standard spacing unit for the well has been formed and dedicated or until a non-standard spacing unit has been approved. [5-25-64...2-1-96]

- (a) The supervisor of the appropriate Division District Office shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein. [5-25-64...2-1-96]
- (b) The Division Director may grant administrative approval to non-standard spacing units after notice and opportunity for hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist:
 - (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that share a common side; and
 - (ii) the non-standard spacing unit lies wholly within: a single governmental quarter section if the well is completed in a pool or formation for which 40, 80, or 160 acres is the standard spacing unit size; a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size; or a single governmental section if the well is completed in a pool or formation for which 640 acres is the standard spacing unit size.

[5-25-64...2-1-96]

- (c) Applications for administrative approval of non-standard spacing units pursuant to D(2)(b) shall be submitted to the Division's Santa Fe Office and be accompanied by: (i) a plat showing the spacing unit and an applicable standard spacing unit for the applicable pool or formation, the proposed well dedications and all adjoining spacing units; (ii) a list of affected persons as defined in Rule 1207.A(3); and (iii) a statement discussing the reasons for the formation of the non-standard spacing unit. [5-25-64...2-1-96]
- (d) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in (c) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Director may approve the application upon receipt of waivers from all the notified persons or if no person has filed an objection within the 20 day period. [5-25-64... 2-1-96]
- (e) The Division Director may set for hearing any application for administrative approval. [5-25-64...2-1-96]

(3) Number of Wells Per Spacing Unit. Exceptions to the number of wells allowed per spacing unit as provided by statewide rules or special pool orders shall be permitted by the Director only after notice and opportunity for hearing. Notice shall be given to those affected persons defined in Rule 1207.A.(2)(a). [5-25-64...2-1-96]

104.E. FORMS

Form C-102 "Well Location and Acreage Dedication Plat" for any well shall designate the exact legal subdivision dedicated to the well. Form C-101 "Application for Permit to Drill, Deepen, or Plug Back" will not be approved without an acreage designation on Form C-102. [12-29-52...2-1-96]

104.F. UNORTHODOX LOCATIONS

(1) Well locations for producing wells and/or injection wells which are unorthodox based on the requirements of B and C above and which are necessary for an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that the unorthodox location within the project is no closer than the required minimum distance to the outer boundary of the lease or unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner

boundary. These locations shall only require prior approval as for an orthodox location. [1-1-50...2-1-96]

(2) The Director may grant an exception to the well location requirements of B and C above or special pool orders after notice and opportunity for hearing when the exception is necessary to prevent waste or protect correlative rights. [1-1-82...2-1-96]

(3) Applications for administrative approval pursuant to F(2) above shall be submitted to the Division's Santa Fe Office and accompanied by (a) a plat showing the spacing unit, the proposed unorthodox well location and the adjoining spacing units and wells, (b) a list of affected persons as defined in Rule 1207.A(2), and (c) information evidencing the need for the exception. Notice shall be given as required in Rule 1207.A(2). [2-9-66...2-1-96]

(4) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in F(3) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Division Director may approve the unorthodox location upon receipt of waivers from all the affected persons or if no affected person has filed an objection within the 20 day period. [2-9-66...2-1-96]

(5) The Director may set for hearing any application for administrative approval of an unorthodox location. [1-1-82...2-1-96]

(6) Whenever an unorthodox location is approved, the Division may order such action as is necessary to offset any advantage of the unorthodox location. [1-1-50...2-1-96]

104.G. EFFECT ON ALLOWABLES

(1) If the drilling tract is within a prorated/allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 ½ acres or more than 40 ½ acres, the top unit allowable for the well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40. [1-1-50...2-1-96]

(2) If the drilling tract is within a prorated/allocated gas pool or is subsequently placed within an prorated/allocated gas pool, and the drilling tract consists of less than 158 acres or more than 162 acres in 160-acre pools, or less than 316 acres or more than 324 acres in 320-acre pools, or less than 632 acres or more than 648 acres in 640-acre pools, the top allowable for the well shall be decreased or increased in the proportion that the number of acres in the drilling tract bears to a standard spacing unit for the pool. [1-1-50...2-1-96]

(3) In computing acreage under (1) and (2) above, minor fractions of an acre shall not be counted but ½ acre or more shall count as one (1) acre. [1-1-50...2-1-96]

(4) The provisions of (1) and (2) above shall apply only to wells completed after January 1, 1950. [1-1-50...2-1-96]

104.H. DIVISION-INITATED EXCEPTIONS

In order to prevent waste, the Division may, after hearing, set different spacing requirements and require greater acreage for drilling tracts in any defined oil or gas pool. [1-1-50...2-1-96]

104.I. POOLING OR COMMUNITIZATION OF SMALL OIL LOTS

The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with a contiguous oil spacing unit when the ownership is common and the tracts are part of the same lease with the same royalty interests if the following requirements are satisfied: [6-19-52...2-1-96]

- (a) Application to the Division for pooling is accompanied by a copy of a certified plat showing the dimensions and acreage involved, the ownership of all acreage involved, and the location of any proposed wells. [6-19-52...2-1-96]
- (b) Notice is given to affected persons defined in Rule 1207.A.(2).(a).
- (c) The Division shall wait at least twenty days before approving the pooling, and shall approve the pooling only in the absence of objection from any person entitled to notice. In the event of an objection, the Division shall set the matter for hearing. [6-19-52...2-1-96]
- (d) The Division may waive the twenty-day waiting period requirement if the applicant furnishes the Division with the written consent of all affected persons. [6-19-52...2-1-96]
- (e) The Division may consider the common ownership and common lease requirements met if the applicant furnishes with the application a copy of an executed pooling agreement communitizing the tracts involved. [6-19-52...2-1-96]

104 WELL SPACING AND LOCATION



104.A. CLASSIFICATION OF WELLS: WILDCAT AND DEVELOPMENT WELLS

(1) WILDCAT WELLS:

(a) San Juan, Rio Arriba, Sandoval, and McKinley Counties

Any well to be drilled the spacing unit of which is a distance of two (2) miles or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(b) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

Any well to be drilled the spacing unit of which is a distance of one (1) mile or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(2) DEVELOPMENT WELLS:

(a) Any well which is not a wildcat well ~~as defined above~~ shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Such development well shall be spaced, drilled, operated, and produced in accordance with the rules in effect for that pool, provided the well is completed in that ~~formation~~ pool. [5-25-64...2-1-96]

(b) Any well classified as a development well for a pool but which is completed in a producing formation not included in the vertical limits of that pool shall be operated and produced in accordance with the rules in effect for the nearest pool (within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or

within one mile everywhere else) which is producing from that formation. If there is no designated pool for that producing formation within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else, the well shall be re-classified as a wildcat well. [5-25-64...2-1-96]

104.B. ACREAGE AND WELL LOCATION REQUIREMENTS FOR OIL WELLS

(1) Any wildcat well which is projected as an oil well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of oil rather than gas and (unless otherwise provided in special pool orders) each development well for a defined oil pool shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such unit. Only those 40-acre spacing units committed to active secondary recovery projects shall be permitted more than four wells.

(2) If a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well location rules, the operator must apply for administrative approval for a non-standard location before the well can produce. The Director may set any such application for hearing.

104.C. ACREAGE AND WELL LOCATION REQUIREMENTS FOR GAS WELLS

Any wildcat well which is projected as a gas well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of gas rather than oil and (unless otherwise provided in a special pool orders) each development well for a defined gas pool shall be spaced and located as follows:

(1) 640-ACRE SPACING shall apply to those deep gas wells in ~~the San Juan Basin Area~~ Northwest New Mexico (Rio Arriba, San Juan, Sandoval and McKinley Counties) that are projected to access a gas producing formation ~~or are within a defined gas pool in a formation older than the Dakota formation or are within a gas pool (below the base of the the Cretaceous period), which pool was~~ or are within a gas pool created and defined by the Division after June 1, 1997 ~~and which is located within~~ in a formation older than the Dakota formation, and which formation or pool is located within the surface outcrop of the Pictured Cliffs formation (i.e., the "San Juan Basin"). Wells shall be located on designated spacing units consisting of 640 contiguous surface areas, more or less, substantially in the form of a square which is a section and legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 1200 feet to any outer boundary of the spacing unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(2) 320-ACRE SPACING shall apply to deep gas wells in Southeast New Mexico (Lea, Chaves, Eddy and Roosevelt Counties), defined as wells that are projected to access a gas producing formation or are within a defined gas pool in the Wolfcamp and older formations. Wells shall be located on spacing units consisting of 320 surface continuous acres, more or less, comprising any two contiguous quarter sections of a single governmental section ~~and~~ which is a legal subdivision of the U.S. Public Land Surveys provided that:

- (a) The initial well on a 320-acre unit shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (b) Only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and shall be no closer than 660 feet to the outer boundary of the quarter section nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and
- (c) the Division-designated operator for the infill well shall be the same operator designated by the Division for the initial well.

(3) 160 ACRE SPACING shall apply to all other gas wells not covered above including: (i) shallow gas wells in Southeast New Mexico (defined as wells that are projected to access a gas producing formation, or are within a defined gas pool in a formation, younger than the Wolfcamp formation); (ii) shallow gas wells in ~~the San Juan Basin Area~~ Northwest New Mexico (defined as wells that are either projected to access a gas-bearing formation, or are in a gas pool ~~in a formation younger than the Dakota formation which pool was created and defined by the Division after March 1, 1997~~); in a formation, younger than and including the Dakota formation; and (iii) ~~these~~ deep gas wells outside the ~~San Juan Basin (defined as those wells located outside the surface outcrop of the Pictured Cliffs formations)~~. Wells shall be located in designated spacing units consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 660 feet to any outer boundary of such unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

104.D. ACREAGE ASSIGNMENT

(1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat or development gas well to which more than 40 acres has been dedicated to conduct a potential test within 30 days following completion of the well and to file the test with the Division within 10 days following completion of the test. (See Rule 401) [5-25-64...2-1-96]

- (a) Date of completion for a gas well shall be the date of the conclusion of active completion work on the well ~~whichever data comes first.~~ [5-25-64...2-1-96]

- (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage dedicated to the well to that for the standard spacing of an oil well. [5-25-64...2-1-96]
- (c) Failure of the operator to file the test within the specified time will also subject the well to such acreage reduction. [5-25-64...2-1-96]

(2) Non-Standard Spacing Units. Any well which does not have the required amount of acreage dedicated to it for the pool or formation in which it is completed may not be produced until a standard spacing unit for the well has been formed and dedicated or until a non-standard spacing unit has been approved. [5-25-64...2-1-96]

- (a) The supervisor of the appropriate Division District Office shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein. [5-25-64...2-1-96]
- (b) The Division Director may grant administrative approval to non-standard spacing units after notice and opportunity for hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist ~~and the following provisions are compiled with:~~
 - (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that share a common side; and
 - (ii) the non-standard spacing unit lies wholly within: a single governmental quarter section if the well is completed in a pool or formation for which 40, 80, or 160 acres is the standard spacing unit size; a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size; or a single governmental section if the well is completed in a

pool or formation for which 640 acres is the standard spacing unit size.

[5-25-64...2-1-96]

- (c) Applications for administrative approval of non-standard spacing units pursuant to D(2)(b) shall be submitted to the Division's Santa Fe Office and be accompanied by: (i) a plat showing the spacing unit and an applicable standard spacing unit for the applicable pool or formation, the proposed well dedications and all adjoining spacing units; (ii) a list of affected persons as defined in Rule 1207.A(3); and (iii) a statement discussing the reasons for the formation of the non-standard spacing unit. [5-25-64...2-1-96]
- (d) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in (c) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Director may approve the application upon receipt of waivers from all the notified persons or if no person has filed an objection within the 20 day period. [5-25-64... 2-1-96]
- (e) The Division Director may set for hearing any application for administrative approval. [5-25-64...2-1-96]

(3) Number of Wells Per Spacing Unit. Exceptions to the number of wells allowed per spacing unit as provided by statewide rules or special pool orders shall be permitted by the Director only after notice and opportunity for hearing. Notice shall be given to those affected persons defined in Rule 1207.A.(2)(a). [5-25-64...2-1-96]

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104.F. UNORTHODOX LOCATIONS

(1) Well locations for producing wells and/or injection wells which are unorthodox based on the requirements of B and C above and which are necessary for an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that the unorthodox location within the

project is no closer than the required minimum distance to the outer boundary of the lease or unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. These locations shall only require prior approval as for an orthodox location. [1-1-50...2-1-96]

(2) The Director may grant an exception to the well location requirements of B and C above or special pool orders after notice and opportunity for hearing when the exception is necessary to prevent waste or protect correlative rights. [1-1-82...2-1-96]

(3) Applications for administrative approval pursuant to F(2) above shall be submitted to the Division's Santa Fe Office and accompanied by (a) a plat showing the spacing unit, the proposed unorthodox well location and the adjoining spacing units and wells, (b) a list of affected persons as defined in Rule 1207.A(2), and (c) information evidencing the need for the exception. Notice shall be given as required in Rule 1207.A(2). [2-9-66...2-1-96]

(4) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in F(3) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Division Director may approve the unorthodox location upon receipt of waivers from all the affected persons or if no affected person has filed an objection within the 20 day period. [2-9-66...2-1-96]

(5) The Director may set for hearing any application for administrative approval of an unorthodox location. [1-1-82...2-1-96]

(6) Whenever an unorthodox location is approved, the Division may order such action as is necessary to offset any advantage of the unorthodox location. [1-1-50...2-1-96]

104.G. EFFECT ON ALLOWABLES

(1) If the drilling tract is within a prorated/allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 ½ acres or more than 40 ½ acres, the top unit allowable for the well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40. [1-1-50...2-1-96]

(2) If the drilling tract is within a prorated/allocated gas pool or is subsequently placed within an prorated/allocated gas pool, and the drilling tract consists of less than 158 acres or more than 162 acres in 160-acre pools, or less than 316 acres or more than 324 acres in 320-acre pools, or less than 632 acres or more than 648 acres in 640-acre pools, the top allowable for the well shall be decreased or increased in the proportion that the number of acres in the drilling tract bears to a standard spacing unit for the pool. [1-1-50...2-1-96]

(3) In computing acreage under (1) and (2) above, minor fractions of an acre shall not be counted but $\frac{1}{2}$ acre or more shall count as one (1) acre. [1-1-50...2-1-96]

(4) The provisions of (1) and (2) above shall apply only to wells completed after January 1, 1950. [1-1-50...2-1-96]

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In order to prevent waste, the Division may, after hearing, set different spacing requirements and require greater acreage for drilling tracts in any defined oil or gas pool. [1-1-50...2-1-96]

104.I. POOLING OR COMMUNITIZATION OF SMALL OIL LOTS

The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with a contiguous oil spacing unit when the ownership is common and the tracts are part of the same lease with the same royalty interests if the following requirements are satisfied: [6-19-52...2-1-96]

- (a) Application to the Division for pooling is accompanied by a copy of a certified plat showing the dimensions and acreage involved, the ownership of all acreage involved, and the location of any proposed wells. [6-19-52...2-1-96]
- (b) Notice is given to affected persons defined in Rule 1207.A.(2).(a).
- (c) The Division shall wait at least twenty days before approving the pooling, and shall approve the pooling only in the absence of objection from any person entitled to notice. In the event ~~a person entitled to notice objects of an objection~~, the Division shall set the matter for hearing. [6-19-52...2-1-96]
- (d) The Division may waive the twenty-day waiting period requirement if the applicant furnishes the Division with the written consent of all affected persons. [6-19-52...2-1-96]
- (e) The Division may consider the common ownership and common lease requirements met if the applicant furnishes with the application a copy of an executed pooling agreement communitizing the tracts involved. [6-19-52...2-1-96]

104 WELL SPACING AND LOCATION**104.A. CLASSIFICATION OF WELLS: WILDCAT AND DEVELOPMENT WELLS****(1) Wildcat Wells:****(a) San Juan, Rio Arriba, Sandoval, and McKinley Counties**

Any well to be drilled the spacing unit of which is a distance of 2 miles or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(b) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

Any well to be drilled the spacing unit of which is a distance of one mile or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected; and
- (ii) any well which has produced oil or gas from the formation to which the proposed well is projected. [12-29-52...2-1-96]

(2) Development Wells

- (a) Any well which is not a wildcat well as defined above shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Such development well shall be spaced, drilled, operated, and produced in accordance with the rules in effect for that pool, provided the well is completed in that formation. [5-25-64...2-1-96]
- (b) Any well classified as a development well for a pool but which is completed in a producing formation not included in the vertical limits of that pool shall be operated and produced in accordance with the rules in effect for the nearest pool (within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or

within one mile everywhere else) which is producing from that formation. If there is no designated pool for that producing formation within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else, the well shall be re-classified as a wildcat well. [5-25-64...2-1-96]

104.B. ACREAGE AND WELL LOCATION REQUIREMENTS FOR OIL WELLS

(1) Any wildcat well which is projected as an oil well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of oil rather than gas and (unless otherwise provided in special pool orders) each development well for a defined oil pool shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such unit. Only those 40-acre spacing units committed to active secondary recovery projects shall be permitted more than four wells.

(2) If a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well location rules, the operator must apply for administrative approval for a non-standard location before the well can produce. The Director may set any such application for hearing.

104.C. ACREAGE AND WELL LOCATION REQUIREMENTS FOR GAS WELLS

Any wildcat well which is projected as a gas well to a formation and in an area that (in the opinion of the Division representative approving the application to drill) may reasonably be presumed to be productive of gas rather than oil and (unless otherwise provided in a special pool orders) each development well for a defined gas pool shall be spaced and located as follows:

(1) 640-ACRE SPACING shall apply to those deep gas wells in the San Juan Basin Area (Rio Arriba, San Juan, Sandoval and McKinley Counties) that are projected to access a gas producing formation or are within a defined gas pool in a formation older than the Dakota formation (below the base of the Cretaceous period), which pool was created and defined by the Division after June 1, 1997, and which is located within the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin"). Wells shall be located on designated spacing units consisting of 640 contiguous surface areas, more or less, substantially in the form of a square which is a section and a legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 1200 feet to any other boundary of the spacing unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(2) 320-ACRE SPACING shall apply to deep gas wells in southeast New Mexico (Lea, Chaves, Eddy and Roosevelt Counties), defined as wells that are projected to access a gas producing formation or are within a defined gas pool in the Wolfcamp and older

formations. Wells shall be located on spacing units consisting of 320 surface continuous acres, more or less, comprising any two contiguous quarter sections of a single governmental section and which is a legal subdivision of the U.S. Public Land Surveys provided that:

- (a) The initial well on a 320-acre unit shall be located not closer than 660 feet to the outer boundary of the quarter section on which the well is located and not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (b) Only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and shall be no closer than 660 feet to the outer boundary of the quarter section and not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and
- (c) the Division-designated operator for the infill well shall be the same operator designated by the Division for the initial well.

(3) 160 ACRE SPACING shall apply to all other gas wells not covered above and shall include: (i) shallow gas wells in southeast New Mexico (defined as wells that are projected to access a gas producing formation or are within a defined gas pool in a formation younger than the Wolfcamp formation); (ii) shallow gas wells in the San Juan Basin Area (defined as wells that are either projected to access a gas-bearing formation or are in a gas pool in a formation younger than the Dakota formation which pool was created and defined by the Division after March 1, 1997); and (iii) those deep gas wells outside the San Juan Basin (defined as those wells located outside the surface outcrop of the Pictured Cliffs formations). Wells shall be located in designated spacing units consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and shall be located not closer than 660 feet to any outer boundary of such unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

104.D. ACREAGE ASSIGNMENT

(1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat or development gas well to which more than 40 acres has been dedicated to conduct a potential test within 30 days following completion of the well and to file the test with the Division within 10 days following completion of the test. (See Rule 401) [5-25-64...2-1-96]

- (a) Date of completion for a gas well shall be the date of the conclusion of active completion work on the well, whichever date comes first. [5-25-64...2-1-96]
- (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage

dedicated to the well to that for the standard spacing of an oil well.
[5-25-64...2-1-96]

- (c) Failure of the operator to file the test within the specified time will also subject the well to such acreage reduction. [5-25-64...2-1-96]

(2) Non-Standard Spacing Units. Any well which does not have the required amount of acreage dedicated to it for the pool or formation in which it is completed may not be produced until a standard spacing unit for the well has been formed and dedicated or until a non-standard spacing unit has been approved. [5-25-64...2-1-96]

- (a) The supervisor of the appropriate Division District Office shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein. [5-25-64...2-1-96]

- (b) The Division Director may grant administrative approval to non-standard spacing units after notice and opportunity for hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist and the following provisions are complied with:

- (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that share a common bordering side; and
- (ii) The non-standard spacing unit lies wholly within: a single governmental quarter section if the well is completed in a pool or formation for which 40, 80, or 160 acres is the standard spacing unit size; a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size; or a single governmental section if the well is completed in a pool or formation for which 640 acres is the standard spacing unit size. [5-25-64...2-1-96]

- (c) Applications for administrative approval of non-standard spacing units pursuant to D(2) shall be accompanied by: (i) a plat showing the spacing unit and an applicable standard spacing unit for the applicable pool or formation, the proposed well dedications and all adjoining spacing units; (ii) a list of affected persons as defined in Rule 1207.A(3); and (iii) a statement discussing the reasons for the formation of the non-standard spacing unit. [5-25-64...2-1-96]
- (d) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in (c) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Director may approve the application upon receipt of waivers from all the notified persons or if no person has filed an objection within the 20 day period. [5-25-64... 2-1-96]
- (e) The Division Director may set for hearing any application for administrative approval. [5-25-64...2-1-96]

(3) Number of Wells Per Spacing Unit. Exceptions to the number of wells allowed per spacing unit as provided by statewide rules or special pool orders shall be permitted only after notice and opportunity for hearing. Notice shall be given to those affected persons defined in Rule 1207.A.(2)(a). [5-25-64...2-1-96]

104.E. FORMS. Form C-102 "Well Location and Acreage Dedication Plat" for any well shall designate the exact legal subdivision dedicated to the well. Form C-101 "Application for Permit to Drill, Deepen, or Plug Back" will not be approved without an acreage designation on Form C-102. [12-29-52...2-1-96]

104.F. UNORTHODOX LOCATIONS

(1) Well locations for producing wells and/or injection wells which are unorthodox based on the requirements of B and C above and which are necessary for an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that the unorthodox location within the project is no closer than the required minimum distance to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. These locations shall only require prior approval as for an orthodox location. [1-1-50...2-1-96]

(2) The Director may grant an exception to the well location requirements of B and C above or special pool orders after notice and opportunity for hearing when the exception is necessary to prevent waste or protect correlative rights. [1-1-82...2-1-96]

(3) Applications for administrative approval pursuant to F(2) above shall be accompanied by (a) a plat showing the spacing unit, the proposed unorthodox well location and the adjoining spacing units and wells, (b) a list of affected persons as defined in Rule 1207.A(2), and (c) information evidencing the need for the exception. Notice shall be given as required in Rule 1207.A(2). [2-9-66...2-1-96]

(4) The applicant shall submit a statement attesting that applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in F(3) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within twenty days from the date the Division received the application. The Division Director may approve the unorthodox location upon receipt of waivers from all the affected persons or if no affected person has filed an objection within the 20 day period. [2-9-66...2-1-96]

(5) The Director may set for hearing any application for administrative approval of an unorthodox location. [1-1-82...2-1-96]

(6) Whenever an unorthodox location is approved, the Division may order such action as is necessary to offset any advantage of the unorthodox location. [1-1-50...2-1-96]

104.G. EFFECT ON ALLOWABLES

(1) If the drilling tract is within a prorated/allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 ½ acres or more than 40 ½ acres, the top unit allowable for the well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40. [1-1-50...2-1-96]

(2) If the drilling tract is within a prorated/allocated gas pool or is subsequently placed within an prorated/allocated gas pool, and the drilling tract consists of less than 158 acres or more than 162 acres in 160-acre pools, or less than 316 acres or more than 324 acres in 320-acre pools, or less than 632 acres or more than 648 acres in 640-acre pools, the top allowable for the well shall be decreased or increased in the proportion that the number of acres in the drilling tract bears to a standard spacing unit for the pool. [1-1-50...2-1-96]

(3) In computing acreage under (1) and (2) above, minor fractions of an acre shall not be counted but ½ acre or more shall count as 1 acre. [1-1-50...2-1-96]

(4) The provisions of (1) and (2) above shall apply only to wells completed after January 1, 1950. [1-1-50...2-1-96]

104.H. In order to prevent waste, the Division may, after hearing, set different spacing requirements and require greater acreage for drilling tracts in any defined oil or gas pool. [1-1-50...2-1-96]

104.I. The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with a contiguous oil spacing unit when the ownership is common and the tracts are part of the same lease with the same royalty interests if the following requirements are satisfied: [6-19-52...2-1-96]

- (a) Application to the Division for pooling shall be accompanied by a copy of a certified plat showing the dimensions and acreage involved, the ownership of all acreage involved, and the location of any proposed wells. [6-19-52...2-1-96]
- (b) Notice shall be given to affected persons as defined in Rule 1207.A.(2).
- (c) The Division shall wait at least twenty days before approving the pooling, and shall approve the pooling only in the absence of objection from any person entitled to notice. In the event a person entitled to notice objects, the Division shall set the matter for hearing. [6-19-52...2-1-96]
- (d) The Division may waive the twenty-day waiting period requirement if the applicant furnishes the Division with the written consent of all affected persons. [6-19-52...2-1-96]
- (e) The Division may consider the common ownership and common lease requirements met if the applicant furnishes with the application a copy of an executed pooling agreement communitizing the tracts involved. [6-19-52...2-1-96]

103 SIGN ON WELLS

All wells subject to these regulations shall be identified by a sign not more than 50 feet from such well, and such sign shall be of durable construction and the lettering thereon shall be kept in legible condition and shall be large enough to be legible under normal conditions at a distance of 50 feet. Each sign shall show the number of the well, the name of the property, the name of the operator, and the location by unit letter, section, township and range. Each sign posted after June 30, 1997, shall show the API number of the well with the state code, the county code, and the next five digits of the API number. An operator will have 60 days from the effective date of an operator name change to change the operator name on the well sign unless an extension of time, for good cause shown along with a schedule for making the changes, is granted. If an API number has not been assigned to a well before it is spud, then the number is not required on the sign used at the drilling site even if it is a permanent sign. The API number must however be added after it is assigned. [1-1-50...2-1-96; 6-30-97]

104 WELL SPACING: ACREAGE REQUIREMENTS FOR DRILLING TRACTS**104.A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS****(1) San Juan, Rio Arriba, Sandoval, and McKinley Counties**

- (a) Any well which is to be drilled the spacing unit of which is a distance of 2 miles or more from:
- (i) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and
 - (ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.

[12-29-52...2-1-96]

(2) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

- (a) Any well which is to be drilled the spacing unit of which is a distance of one mile or more from:
- (i) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and
 - (ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.

[12-29-52...2-1-96]

(3) Any well which is not a wildcat well as defined above shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Any such development well shall be spaced, drilled, operated, and produced in accordance with the rules and regulations in effect in such nearest pool, provided the well is completed in the formation to which it was projected. [5-25-64...2-1-96]

(4) Any well classified as a development well for a given pool but which is completed in a producing horizon not included in the vertical limits of said pool shall be operated and produced in accordance with the rules and regulations in effect in the nearest pool within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else which is producing from that horizon. If there is no designated pool for said producing horizon within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else, the well shall be re-classified as a wildcat well. [5-25-64...2-1-96]

104.B. ACREAGE AND WELL LOCATION REQUIREMENTS FOR WILDCATS

(1) Lea, Chaves, Eddy and Roosevelt Counties

(a) Wildcat Gas Wells. In Lea, Chaves, Eddy and Roosevelt Counties, a wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the engineer or supervisor approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. Provided, however, that any such wildcat gas well which is projected to the Wolfcamp or older formations shall be located on a drilling tract consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys.

Any such "deep" wildcat gas well to which is dedicated more than 160 acres shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary is defined as one of the outer boundaries running lengthwise to the tract's greatest overall dimensions; "end" boundary is defined as one of the outer boundaries perpendicular to a side boundary and closing the tract across its least overall dimension.) [5-25-64...2-1-96]

(b) Wildcat Oil Wells. In Lea, Chaves, Eddy, and Roosevelt Counties, a wildcat well which is not a wildcat gas well as defined above shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract.

[5-25-64...2-1-96]

(c) In the event gas production is encountered in a well which was projected as an oil well and which is located accordingly but does not conform to the above gas well location rule, it shall be necessary for the operator to bring the matter to a hearing before approval for the production of gas can be given. [5-25-64...2-1-96]

(2) San Juan, Rio Arriba, Sandoval, and McKinley Counties

(a) Shallow Wildcat Gas Wells. In San Juan, Rio Arriba, Sandoval and McKinley Counties, a wildcat well which is projected to a gas-producing horizon in a formation younger than the Dakota formation, or in the Dakota formation, which was created and defined by the Division after March 1, 1997, shall be located on a designated drilling tract consisting of 160 contiguous surface acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section line or subdivision inner boundary. [5-25-64...2-1-96; 6-30-97]

(b) Deep Wildcat Gas Wells.

In San Juan, Rio Arriba, Sandoval and McKinley Counties, a wildcat well which is projected to a gas-producing formation in a formation older than the Dakota formation (below the base of the Cretaceous period) and

(i) located **within** the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin") shall be located on a designated drilling tract consisting of 640 contiguous surface acres, more or less, substantially in the form of a square which is a section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 1200 feet to any outer boundary of the tract nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; or

(ii) located **outside** the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin") shall be located on a designated drilling tract consisting of 160 contiguous surface acres, more or less, substantially in the form of a square which is a section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter section line, quarter-quarter section line or subdivision inner boundary.

[5-25-64...2-1-96; 6-30-97]

(c) In the event a well drilled as a gas well is completed as an oil well and is located accordingly but does not conform to the oil well location rule below, it shall be necessary for the operator to apply for administrative approval for a non-standard location before an oil allowable will be assigned. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production. [5-25-64...2-1-96]

(d) Wildcat Oil Wells. A wildcat well which is projected to an oil-producing horizon as recognized by the Division shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract. [5-25-64...2-1-96]

(e) In the event a well drilled as an oil well is completed as a gas well and is located accordingly but does not conform to the above gas well location rules, it shall be necessary for the operator to apply for administrative approval for a non-standard location before the well can produce. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production. [5-25-64...2-1-96]

(3) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley.

(a) Any wildcat well which is projected as an oil well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley Counties shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract. [1-1-50...2-1-96]

(b) Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the Division representative approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. [1-1-50...2-1-96]

104.C. ACREAGE AND WELL LOCATION REQUIREMENTS FOR DEVELOPMENT WELLS

(1) Oil Wells, All Counties.

- (a) Unless otherwise provided in special pool rules, each development well for a defined oil pool shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract nor closer than 330 feet to the nearest well drilling to or capable of producing from the same pool, provided however, only tracts committed to active secondary recovery projects shall be permitted more than four wells. [5-25-64...2-1-96]

(2) Lea, Chaves, Eddy and Roosevelt Counties.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool in a formation younger than the Wolfcamp formation, or in the Wolfcamp formation which was created and defined by the Division prior to November 1, 1975, or in a Pennsylvanian age or older formation which was created and defined by the Division prior to June 1, 1964, shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to the nearest well drilling to or capable of producing from the same pool. [5-25-64...2-1-96]

- (b) Unless otherwise provided in the special pool rules, each development well for a defined gas pool in the Wolfcamp formation which was created and defined by the Division after November 1, 1975, or of Pennsylvanian age or older which was created and defined by the Division after June 1, 1964, shall be located on a designated drilling tract consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Any such well having more than 160 acres dedicated to it shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary and "end" boundary are as defined in Rule 104.B(1)(a), above.) [5-25-64...2-1-96]

(3) San Juan, Rio Arriba, Sandoval, and McKinley Counties.

(a) Shallow Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool in a formation younger than the Dakota formation, or in the Dakota formation, which was created and defined by the Division after March 1, 1997, shall be located on a designated drilling tract consisting of 160 contiguous surface acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section line or subdivision inner boundary. [5-25-64. . . 2-1-96; 6-30-97]

(b) Deep Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool in a formation older than the Dakota formation (below the base of the Cretaceous period) and

(i) is located **within** the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin") which pool was created and defined by the Division **after** June 1, 1997, shall be located on a designated drilling tract consisting of 640 contiguous surface acres, more or less, substantially in the form of a square which is a section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 1200 feet to any outer boundary of the tract nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; or

(ii) is located **outside** the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin") which pool was created and defined by the Division after June 1, 1997, shall be located on a designated drilling tract consisting of 160 contiguous surface acres, more or less, substantially in the form of a square which is a section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter section line, quarter-quarter section line or subdivision inner boundary.

[5-25-64. . . 2-1-96; 6-30-97]

- (iii) is located **outside** the surface outcrop of the Pictured Cliffs formations (i.e., the "San Juan Basin") which pool was created and defined by the Division after June 1, 1997, shall be located on a designated drilling tract consisting of 160 contiguous surface acres, more or less, substantially in the form of a square which is a section, being a legal subdivision of the U.S. Public Land Survey, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter section line, quarter-quarter section line or subdivision inner boundary.

[5-25-64...2-1-96; 6-30-97]

(4) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to the nearest well drilling to or capable of producing from the same pool. [5-25-64...2-1-96]

104.D. ACREAGE ASSIGNMENT

(1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat gas well or development gas well to which more than 40 acres has been dedicated to conduct a potential test within 30 days following completion of the well and to file the same with the Division within 10 days following completion of the tests. (See Rule 401.) [5-25-64...2-1-96]

- (a) Date of completion for a gas well shall be the date a wellhead is installed or 30 days following conclusion of active completion work on the well, whichever date comes first. [5-25-64...2-1-96]
- (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage dedicated to the well. [5-25-64...2-1-96]
- (c) Failure of the operator to file the aforesaid tests within the specified time will also subject the well to such acreage reduction. [5-25-64...2-1-96]

(2) Non-Standard Spacing Units. Any well which does not have the required amount of acreage dedicated to it for the pool or formation in which it is completed may not be produced until a standard spacing unit for the well has been formed and dedicated or until a non-standard spacing unit has been approved. [5-25-64...2-1-96]

- (a) The supervisor of the appropriate District Office of the Division shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein. [5-25-64...2-1-96]

- (b) The Division Director may grant administrative approval to non-standard spacing units without notice and hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist and the following provisions are complied with:
 - (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that are us by a common bordering side; and
 - (ii) The non-standard spacing unit lies wholly within a single governmental quarter section if the well is completed in a pool or formation for which 40, 80, or 160 acres is the standard spacing unit size, wholly within a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size, or wholly within a single governmental section if the well is completed in a pool or formation for which 640 acres is the standard spacing unit size.[5-25-64...2-1-96]

- (c) Applications for administrative approval of non-standard spacing units, pursuant to Section D(2) above, shall be accompanied by a plat showing the subject spacing unit and an applicable standard spacing unit for the applicable pool or formation, its proposed well dedications, all adjoining spacing units and/or leases (whichever is applicable), and a list of affected parties. Also to be included is a statement that discusses the necessity for the formation of the subject non-standard spacing unit and the reasons why a standard sized spacing unit is not feasible. [5-25-64...2-1-96]
 - (i) Affected parties in this instance shall be defined as those parties who own interests in the applicable half quarter section (80-acre spacing), quarter section (160-acre spacing), half section (320-acre spacing), or section (640-acre spacing) in which the non-standard spacing unit is situated and which acreage is not included in said non-standard spacing unit;
 - (ii) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed non-standard spacing unit;

- (iii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed non-standard spacing unit; and
- (iv) in the absence of an operator or lessee, then to all owners of record of unleased mineral interests.

[5-25-96...2-1-96]

- (d) The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Subpart (c) above by certified or registered mail-return receipt in accordance with Rule 1207(6)(a) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the non-standard spacing unit upon receipt of waivers from all said parties or if no said party has entered an objection to the non-standard spacing unit within 20 days after the Director has received the application. [5-25-64... 2-1-96]
- (e) The Division Director may set any application for administrative approval for a non-standard spacing unit for public hearing. [5-25-64...2-1-96]

(3) Number of Wells Per Spacing Unit in Non-Prorated Gas Pools: Unless otherwise permitted by special pool rules or authorized after notice and hearing, only one (1) well per spacing unit is permitted in non-prorated pools. [5-25-64...2-1-96]

104.E. Form C-102, "Well Location and Acreage Dedication Plat", for any well shall designate the exact legal subdivision allotted to the well and Form C-101, "Application for Permit to Drill, Deepen, or Plug Back", will not be approved by the Division without such proper designation of acreage. [12-29-52...2-1-96]

104.F. UNORTHODOX LOCATIONS

(1) Well locations for producing wells and/or injection wells which are unorthodox based on the well location requirements of Rule 104.C(1)(a) above and which are necessary to permit the completion of an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that any such unorthodox location within such project is no closer than the required minimum orthodox distance to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. Such locations shall only require such prior approval as is necessary for an orthodox location. [1-1-50...2-1-96]

(2) The Division Director shall have authority to grant an exception to the well location requirements of Sections 104.B and 104.C above or to the well location requirements of special pool rules without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions, archaeological conditions, topographical conditions, or the recompletion of a well previously drilled to a deeper horizon provided said well was drilled at an orthodox or approved unorthodox location for such original horizon. [1-1-82...2-1-96]

(3) Applications for administrative approval of unorthodox locations pursuant to Rule 104.F(2), above, shall be accompanied by a plat showing the subject spacing unit, its proposed unorthodox well location, the diagonal and adjoining spacing units and/or leases (whichever is applicable) and wells, and a list of affected parties. If the proposed unorthodox location is based upon topography or archaeology, the plat shall also show and describe the existent topographical or archaeological conditions. If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic exhibits and a discussion of the geologic conditions which result in the necessity for the unorthodox location. [2-9-66...2-1-96]

- (a) Adjoining and diagonal spacing units shall be defined as those immediately adjacent existing spacing units in the same pool(s) as the proposed unorthodox well and towards which the unorthodox well location encroaches. [2-9-66...2-1-96]
- (b) Affected parties shall be defined as those parties who own interests in leases or operate wells on adjoining or diagonal spacing units and include:
 - (i) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed well;
 - (ii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed well; and
 - (iii) in the absence of an operator or lessee, all owners of record of unleased mineral interests in the same pool(s) as the proposed well.

[2-9-66...2-1-96]

(4) The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Rule 104.F(3) above by certified or registered mail-return receipt in accordance with Rule 1207(A)(5) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the unorthodox location upon receipt of waivers from all said parties or if no said party has entered an objection to the unorthodox location within 20 days after the Director has received the application. [2-9-66...2-1-96]

(5) The Division Director may set any application for administrative approval of an unorthodox location for public hearing, and may require that a directional survey be run in the unorthodox well to establish the actual location of the producing interval(s). [1-1-82...2-1-96]

104.G. Whenever an exception is granted, the Division may take such action as will offset any advantage which the person securing the exception may obtain over other producers by reason of the unorthodox location. [1-1-50...2-1-96]

104.H. If the drilling tract is within an allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 ½ acres or more than 40 ½ acres, the top unit allowable for such well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40. [1-1-50...2-1-96]

104.I. If the drilling tract is within an allocated gas pool or is subsequently placed within an allocated gas pool, and the drilling tract consists of less than 158 acres or more than 162 acres in 160-acre pools, or less than 316 acres or more than 324 acres in 320-acre pools, the top allowable for such well shall be decreased or increased in the proportion that the number of acres in the drilling tract bears to a standard spacing unit for the pool. [1-1-50...2-1-96]

104.J. In computing acreage under Rules 104.H and 104.I above, minor fractions of an acre shall not be counted but $\frac{1}{2}$ acre or more shall count as 1 acre. [1-1-50...2-1-96]

104.K. The provisions of Rules 104.H and 104.I above shall apply only to wells completed after January 1, 1950. Nothing herein contained shall affect in any manner any well completed prior to the effective date of this rule and no adjustments shall be made in the allowable production for any such wells by reason of these rules. [1-1-50...2-1-96]

104.L. In order to prevent waste the Division may, after notice and hearing, fix different spacing requirements and require greater acreage for drilling tracts in any defined oil pool or in any defined gas pool notwithstanding the provisions of Rules 104.B and 104.C above. [1-1-50...2-1-96]

104.M. The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with another oil spacing unit when:

- (1) The tracts involved are contiguous;
- (2) They are part of the same basic lease, carrying the same royalty interest; and
- (3) The ownership of the tracts involved is common.

[6-19-52...2-1-96]

104.N. Application to the Division for pooling shall be accompanied by three (3) copies of a certified plat showing the dimensions and acreage involved in the pooling, the ownership of all leases and royalty interests involved, and the location of any proposed wells. [6-19-52...2-1-96]

104.O. The Division shall wait at least ten days before approving any such pooling, and shall approve such pooling only in the absence of objection from any party entitled to notice. In the event that a party entitled to notice objects to the pooling, the Division shall consider the matter only after proper notice and hearing. [6-19-52...2-1-96]

104.P. The Division may waive the ten-day waiting period requirement if the applicant furnishes the Division with the written consent to the pooling by all offset operators involved. [6-19-52...2-1-96]

104.Q. The Division may consider that the requirements of Rules 104.M(2) and (3) have been fulfilled if the applicant furnishes with each copy of each application to the Division a copy of executed pooling agreement communitizing the tracts involved. [6-19-52...2-1-96]

104.R. REPEALED [2-1-96]