

# **EXHIBIT 3**

**NORTHEAST SHOE BAR-STRAWN POOL**  
Lea County, New Mexico

Order No. R-10848, Adopting Temporary Operating Rules for the Northeast Shoe Bar-Strawn Pool, Lea County, New Mexico, April 3, 1997.

Order No. R-10848-A, effective March 16, 1999, continues in full force and effect the rules adopted in Order No. R-10848.

Application of Chesapeake Oil Company for Pool Creation, Special Pool Rules, and the Assignment of a Discovery Allowable, Lea County, New Mexico.

NOMENCLATURE  
Case No. 11750  
Case No. R-10848

**ORDER OF THE DIVISION**

**BY THE DIVISION:** This cause came on for hearing at 8:15 a.m. on May 1, 1997 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 31st day of July, 1997, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS THAT:**

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant in this matter, Chesapeake Oil Company ("Chesapeake"), is the owner and operator of the Chambers "7" Well No. 1 (API No. 30-025-33623), located 1700 feet from the North line and 900 feet from the East line (Unit H) of Section 7, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, which was drilled to a total depth of 12,047 feet and subsequently completed in November, 1996 as a Strawn producing oil well through perforations from 11458 feet to 11468 feet.

(3) By Division Order No. R-10776, issued in Case 11737, dated February 28, 1997 and made effective March 1, 1997, the Division created and defined the Northeast Shoe Bar-Strawn Pool for the production of oil from the Strawn formation, with its horizontal limits comprising the NE/4 of said Section 7. The discovery well for this pool was the aforementioned Chambers "7" Well No. 1. The poolwide depth bracket allowable was therefore established pursuant to General Rule 505.A as 365 barrels of oil per day.

(4) By letter of application dated March 11, 1997, Chesapeake requested the Division, after notice and hearing, issue an order:

(a) creating a new pool for the production of oil from the Strawn formation comprising the S/2 NE/4 of said Section 7; and,

(b) providing for the promulgation of special poolwide rules and regulations therefor including provisions:

(i) for 80-acre oil spacing and proration units;

(ii) for designated well location requirements whereby wells would be permitted to be located no closer than 330 feet to any quarter-quarter section line with no more than one producing well for each 80-acre unit;

(iii) for a special limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil;

(iv) for a special depth bracket oil allowable of 445 barrels of oil per day per standard 80-acre unit; and,

(v) that each well completed or recompleted in this pool or in the Strawn formation within one mile thereof, shall be spaced, drilled, operated, and produced in accordance with these proposed special rules and regulations.

(5) At the time of the hearing the applicant remained silent as to the assignment of a discovery allowable, per Division General Rule 509, for the above-described Chambers "7" Well No. 1, as indicated by the heading of this order or as advertised; therefore, that portion of this application can be dismissed.

(6) Also, since many of the requests by Chesapeake in this matter are somewhat redundant with respect to established Division rules, procedures, and policies, as well as standard industry practices, it will be necessary to revise the application in order to address those issues that require a formal Division directive issued subsequent to a hearing.

(7) That portion of Chesapeake's application seeking a pool creation can be dismissed at this time since Division Order No. R-10776 has already addressed the formation of a new pool for Strawn production attributable to its Chambers "7" Well No. 1.

**FINDING:** Any order issued in this matter should therefore apply to the Northeast Shoe Bar-Strawn Pool as created and defined by said Division Order No. R-10776.

(8) The technical evidence presented by the applicant at the time of the hearing indicates that production from the Chambers "7" Well No. 1 is characteristic of other Strawn oil production in the general area such as the West Lovington-Strawn Pool, South Big Dog-Strawn Pool, Northeast Lovington-Pennsylvanian Pool, and Humble City-Strawn Pool, which are primarily Strawn oil producing pools, all of which produce from localized highly porous algal reef mounds within the Strawn formation. Chesapeake's evidence further indicates that the Strawn formation encountered in the above-described well is of high permeability and is capable of draining an area in excess of 40 acres.

(9) The proposed 330-foot set back requirement is a departure from the established set-back requirements for 80-acre pools which restricts well locations to an area of 150 feet radius of the center of either quarter-quarter section or lot that comprise a single 80-acre unit.

(10) Numerous location exceptions have been granted over time, not only in the above-mentioned pools but in most of the pools in southeastern New Mexico where these patch reefs/algal mounds are the trapping source of production within the Strawn formation, based on geology so as to increase the likelihood of a well intercepting these small localized geologic features thereby increasing the chances of a well becoming commercially productive.

**FINDING:** The 330-foot set-back request with a limitation of one well per proration unit would serve to provide the operators in the subject pool maximum flexibility in locating wells at more favorable positions on the reef mound or mounds in the immediate area.

(11) In order to: (i) assure orderly development of the proposed pool, (ii) prevent the economic loss caused by the drilling of unnecessary wells, (iii) avoid the augmentation of risk arising from the drilling of an excessive number of wells, (iv) prevent reduced recovery which might result from the drilling of too few wells, and (v) to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 80-acre spacing units along with the proposed well location restrictions should be promulgated for the proposed pool.

(12) Division General Rule 506.A provides that all pools be limited to a gas/oil ratio of 2,000 cubic feet of gas per barrel of oil unless otherwise provided for by special pool rules; therefore, Chesapeake's request for a special 2,000 to one GOR limitation is currently in effect and can therefore be dismissed.

## THEAST SHOE BAR-STRAWN POOL - Cont'd.)

(13) Pursuant to Division General Rule 505.A the depth bracket oil allowable for production at depths from 11,000 feet to 11,999 feet is 445 barrels of oil per day. Chesapeake's request for a special depth bracket oil allowable of 445 barrels of oil per day per spacing unit can also be dismissed.

(14) Division General Rule 104.A defines a development well in southeast New Mexico as a well within one mile of a pool and subject to said rules governing that pool; therefore, this rule satisfies the applicant's request that all wells within one mile of a particular pool be spaced, drilled, operated, and produced in accordance with any special pool rules herein adopted.

(15) The evidence presented in this matter, along with the records on file with the Division indicates a need for the special rules to be adopted for this pool be made retroactive as of April 3, 1997.

(16) No other operator and/or interest owner appeared at the hearing in opposition to the subject application.

(17) As suggested by the applicant this case should be reopened at an examiner hearing in February, 1999, at which time the operators in the Pool should be prepared to appear and present evidence and testimony as to the nature of the reservoir with regards to making these rules permanent and to show cause why said pool should not be developed either on standard statewide 40-acre spacing or with an optional second well on each 80-acre tract.

## IT IS THEREFORE ORDERED THAT:

(1) The effective date for this order and all provisions included therein shall be made retroactive back to April 3, 1997.

(2) The Temporary Special Rules and Regulations for the Northeast Shoe Bar-Strawn Pool, currently comprising the NE/4 of Section 7, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby promulgated as follows:

**TEMPORARY SPECIAL RULES AND REGULATIONS  
FOR THE  
NORTHEAST SHOE BAR-STRAWN POOL**

**RULE 1.** Each well completed or recompleted in the Northeast Shoe Bar-Strawn Pool or in the Strawn formation within one mile thereof, and not nearer to or within the limits of another Strawn oil pool, shall be spaced, drilled, operated and produced in accordance with the Special Rules and Regulations hereinafter set forth.

**RULE 2.** Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section.

**RULE 3.** The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been duly filed under the provisions of Rule 104.d(2) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11351 on January 18, 1996.

**RULE 4.** Only one well per 80-acre unit shall be permitted and the location of such well shall be located no closer than 330 feet to any quarter-quarter section line.

**RULE 5.** The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been duly filed under the provisions of Rule 104.F of said General Rules and Regulations of the Division.

(3) The locations of all wells presently drilling to or completed in the Northeast Shoe Bar-Strawn Pool or in the Strawn formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well within thirty days from the date of this order.

(4) Pursuant to Paragraph A of Section 70-2-18, NMSA (1978), contained in Chapter 271, Laws of 1969, existing wells in the Northeast Shoe Bar-Strawn Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within sixty days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said sixty-day limitation, each well presently drilling to or completed in the Northeast Shoe Bar-Strawn Pool or in the Strawn formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(5) Unless called earlier upon the motion of the Division, this case shall be reopened at an examiner hearing in February, 1999, at which time the operators in the subject pool should be prepared to appear and show cause why the temporary special pool rules for the Northeast Shoe Bar-Strawn Pool should not be rescinded and said pool not be developed either on statewide 40-acre spacing or with an optional second well on each 80-acre unit.

## IT IS FURTHER ORDERED THAT:

(6) The portion of the application of Chesapeake Oil Company for the:

(a) creation of a new pool for the production of oil from the Strawn formation comprising the S/2 NE/4 of said Section 7;

(b) the promulgation of special poolwide rules and regulations therefor including provisions:

(i) for a special limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil;

(ii) for a special depth bracket oil allowable of 445 barrels of oil per day per standard 80-acre unit; and,

(iii) that each well completed or recompleted in this pool or in the Strawn formation within one mile thereof, shall be spaced, drilled, operated, and produced in accordance with these proposed special rules and regulations; and,

(c) the assignment of a discovery allowable, per Division General Rule 509, for its Chambers "7" Well No. 1 (API No. 30-025-33623), located 1700 feet from the North line and 900 feet from the East line (Unit H) of said Section 7;

is hereby dismissed.

(7) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

NORTH SHOE BAR-WOLFCAMP POOL  
Lea County, New Mexico

Order No. R-4657, Adopting Temporary Operating Rules for the North Shoe Bar-Wolfcamp Pool, Lea County, New Mexico, November 19, 1973.

Order No. R-4657-A, December 3, 1974, makes permanent the rules adopted in Order No. R-4657.

Application of Mesa Petroleum Company for a Dual Completion and Special Pool Rules, Lea County, New Mexico.

CASE NO. 5081  
Order No. R-4657

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on October 17, 1973, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 16th day of November, 1973, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Mesa Petroleum Company, seeks approval for the dual completion of its Skelly State Well No. 1, located in Unit I of Section 14, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, in such a manner as to produce oil from the North Shoe Bar-Wolfcamp Pool and gas from an undesignated Morrow gas pool through 2-7/8 inch tubing and through the casing-tubing annulus, respectively, by means of a crossover flow assembly, with separation of the zones achieved by means of a packer set at approximately 11,787 feet.

(3) That the applicant further seeks the promulgation of temporary special pool rules for said North Shoe Bar-Wolfcamp Pool, including a provision for 160-acre drilling and proration units.

(4) That the mechanics of the proposed dual completion are feasible and in accord with good conservation practices.

(5) That the proposed dual completion will prevent waste and protect correlative rights and should be approved.

(6) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 160-acre spacing units should be promulgated for the North Shoe Bar-Wolfcamp Pool.

(7) That the temporary special rules and regulations should provide for limited well locations in order to assure orderly development of the pool and protect correlative rights.

(8) That the temporary special rules and regulations should be established for a one-year period in order to allow the operators in the subject pool to gather reservoir information to establish the area that can be efficiently and economically drained and developed by one well.

(9) That this case should be reopened at any examiner hearing in November, 1974, at which time the operators in the subject pool should be prepared to appear and show cause why the North Shoe Bar-Wolfcamp Pool should not be developed on less than 160-acre spacing units.

IT IS THEREFORE ORDERED:

(1) That the applicant, Mesa Petroleum Company is hereby authorized to complete its Skelly State Well No. 1, located in Unit I of Section 14, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico as a dual completion (conventional) to produce oil from the North Shoe Bar-Wolfcamp Pool and gas from an undesignated Morrow Gas Pool through 2-7/8 inch tubing and through the casing-tubing annulus, respectively, by means of a crossover flow assembly, with separation of the zones by means of a packer set at approximately 11,787 feet.

PROVIDED HOWEVER, that the applicant shall complete, operate, and produce said well in accordance with the provisions of Rule 112-A of the Commission Rules and Regulations insofar as said rule is not inconsistent with this order;

PROVIDED FURTHER, that the applicant shall take packer-leakage tests upon completion and annually thereafter during the Annual Shut-In Pressure Test Period for the Morrow Gas Pool.

(2) That effective November 10, 1973, Special Rules and Regulations for the North Shoe Bar-Wolfcamp Pool, Lea County, New Mexico, are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS  
FOR THE  
NORTH SHOE BAR-WOLFCAMP POOL

RULE 1. Each well completed or recompleted in the North Shoe Bar-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof, and not nearer to or within the limits of another designated Wolfcamp oil pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 160 acres, more or less, substantially in the form of a square, which is a quarter section being a legal subdivision of the United State Public Land Surveys.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United State Public Land Surveys. All operators off-setting the proposed non-standard unit shall be notified of the

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application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all offset operators if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5. The Secretary-Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Secretary-Director has received the application.

RULE 6. A standard proration unit (158 through 162 acres) shall be assigned a depth bracket allowable of 560 barrels, subject to the market demand percentage factor, and in the event there is more than one well on a 160-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion.

The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

## IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the North Shoe Bar-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before November 30, 1973.

(2) That, pursuant to Paragraph A. of Section 65-3-14.5, NMSA of 1953, contained in Chapter 271, Laws of 1969, existing wells in the North Shoe Bar-Wolfcamp Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or pursuant to Paragraph C. of said Section 65-3-14.5, existing wells may have non-standard spacing or proration units established by the Commission and dedicated thereto.

Failure to file new Forms C-102 with the Commission dedicating 160-acres to a well or to obtain a non-standard unit approved by the Commission within 60 days from the date of this order shall subject the well to cancellation of allowable.

(3) That this case shall be reopened at an examiner hearing in November, 1974, at which time the operators in the subject pool may appear and show cause why the North Shoe Bar-Wolfcamp Pool should not be developed on less than 160 acre spacing units.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

PARKWAY-WOLFCAMP POOL  
Eddy County, New Mexico

Order No. R-4181-A, Abolishing the Temporary Operating Rules Adopted for the Parkway-Wolfcamp Pool, Eddy County, New Mexico, September 22, 1972.

In the Matter of Case 4577 Being Reopened Pursuant to the Provisions of Order No. R-4181, Which Order Established Special Rules and Regulations for the Parkway-Wolfcamp Pool, Eddy County, New Mexico, Including a Provision for 160-Acre Spacing Units.

CASE NO. 4577  
Order No. R-4181-A

## ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on September 13, 1972, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 22nd day of September, 1972, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

## FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That by Order No. R-4181, dated August 17, 1971, temporary Special Rules and Regulations were promulgated for the Parkway-Wolfcamp Pool, Eddy County, New Mexico, establishing 160-acre spacing units and a proportional factor of 6.77 for allowable purposes for a period of one year.

(3) That pursuant to the provisions of Order No. R-4181, this case was reopened to allow the operators in the subject pool to appear and show cause why the Parkway-Wolfcamp Pool should not be developed on 40-acre or 80-acre spacing units.

(4) That no operator in the subject pool appeared to show cause why the Parkway-Wolfcamp Pool should not be developed on 40-acre or 80-acre spacing units.

(5) That no wells are presently producing from the subject pool.

(6) That it is not anticipated that additional wells will be drilled in the subject pool.

(7) That the operators in the subject pool have not established that one well can efficiently and economically drain and develop 160 acres.

(8) That no necessity exists for the continuation of the Special Rules and Regulations promulgated by Order No. R-4181 and that said rules should therefore be abolished.

## IT IS THEREFORE ORDERED:

(1) That the Special Rules and Regulations governing the Parkway-Wolfcamp Pool, Eddy County, New Mexico, promulgated by Order No. R-4181, are hereby abolished.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.