

August 9, 2001

To:

[Address List]

Re: Division Case No. 12563 - Application of the New Mexico Oil Conservation Division for termination of gas prorationing in the Jalmat and Eumont Gas Pools and to amend the special rules governing both pools, Lea County, New Mexico.

Ladies and Gentlemen:

This matter came to hearing before Examiner David R. Catanach on July 12, 2001 in Santa Fe, New Mexico. The Division presented proposed special rule changes for the Jalmat and Eumont Gas Pools, respectively. At the end of this hearing Examiner Catanach ordered the Division to address several minor concerns that were addressed at the hearing in a revised set of special rules to be: (i) distributed to all operators of gas wells within the Jalmat and Eumont Gas Pools; and (ii) placed on the Division's web site at <http://www.emnrd.state.nm.us/ocd>. In addition this case was continued to the Examiner's hearing scheduled for September 6, 2001 so that all interested parties would be granted adequate time for comment.

Attached is a revised set of special pool rules for both the Jalmat and Eumont Gas Pools. The Division welcomes all comments concerning this matter and encourages all interested parties to appear at the September 6, 2001 hearing.

Sincerely,

David K. Brooks
Assistant General Counsel

New Mexico Oil Conservation Division
Exhibit No. 1-A
REVISED: JULY 18, 2001
Proposed Special Rules and Regulations
for the Jalmat Gas Pool, Lea County, New Mexico.
Prepared by the Division subsequent to the July 12th.

Case No. 12563
Before Examiner David R. Catanach
July 12, 2001

SPECIAL RULES AND REGULATIONS
FOR THE JALMAT GAS POOL

The Jalmat Gas Pool in Lea County, New Mexico was created effective September 1, 1954 from a consolidation of the Jalco and Langmat Pools, which were created February 7, 1953. The Jalmat Gas Pool now includes acreage that was formerly included in the Jal, Cooper-Jal, Eaves, Falby-Yates, Jalco, and Langmat Pools.

RULE 1. DEFINITIONS:

The vertical limits of the Jalmat Gas Pool, except in the area described immediately below shall extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation. **In the area described immediately below**, the vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 13: SE/4 NE/4 and SE/4

Section 23: E/2 E/2

Section 24: All

Section 25: N/2

Section 26: E/2 NE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 18: SW/4 NW/4 and W/2 SW/4

Section 19: W/2

Section 30: NW/4.

A gas well in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

An oil well in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

The limiting gas/oil ratio for oil wells in the Jalmat Gas Pool for allocation purposes under Division Rules 503, 505, and 506 shall be 10,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) A standard gas spacing unit in the Jalmat Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.

(B) A standard oil spacing and proration unit in the Jalmat Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

EXPLANATION FOR THE FOLLOWING GAS WELL LOCATION PROVISIONS:

The following two gas well location rules are being offered to all interested parties to this proceeding for consideration only. Please review both carefully and consider the effects each could have, not only within the immediate area of your operations, but on the overall operations and development within the entire pool.

(A) Each well in the Jalmat Gas Pool, either oil or gas, shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision boundary line.

OR

(A) **Well locations:**

(1) An oil well in the Jalmat Gas Pool shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision boundary line.

(2) A gas well in the Jalmat Gas Pool shall be no closer than: (a) 660 feet to any outer boundary of its assigned gas spacing unit; (b) 660 feet to any governmental quarter section line; and (c) 330 feet to any governmental quarter-quarter section line or other inner subdivision boundary.

(B) For any 40-acre, more or less, oil spacing and proration unit within the Jalmat Gas Pool, no more than one well per unit shall be allowed. Only those 40-acre spacing and proration units committed to active secondary recovery projects shall be permitted more than one well.

Otherwise an exception to this rule will require a hearing before a duly appointed hearing examiner.

(C) For any existing gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to not more than one well per 160-acre quarter section. *Examples: For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit that comprises the corresponding number of quarter sections for that size of unit, a maximum of three, two, or one well (s), respectively, shall be allowed provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.*

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(A) The Director may grant an exception to the well location requirements of Rule 3 (A) above, administratively, without hearing, when the exception is necessary to prevent waste or protect correlative rights, provided that:

- (1) an application has been duly filed under the provisions of Division Rule 104.F and
- (2) the applicant presents proof of consent of or notice to all operators within the subject unit and any unit or units adjacent thereto in the form and manner provided by Rule 4 (D) below.

(B) An exception to gas well density provisions of Rule 3 (C) above, or the formation of a non-standard gas spacing unit that will result in a situation where the required well density of one well per quarter section will be compromised, shall require a showing by the operator that:

- (1) the proposed well is needed (a) to effectively and efficiently drain a 160-acre quarter section that can not be adequately drained by the existing well or wells, (b) to adequately protect the subject unit from offsetting drainage, (c) to prevent waste by utilizing an existing or previously abandoned wellbore, and/or (d) to recover additional reserves that would otherwise not be recovered from the reservoir; and
- (2) that the proposed well will not violate correlative rights.
- (3) such proof will require sufficient technical data, geological evidence, and reservoir drainage evaluation, which must be submitted with the application. **It is further provided however that, in no event shall any Jalmat gas spacing unit be allowed more than one well per quarter-quarter section.**
- (4) In addition the applicant for such exception or non-standard unit shall present proof of consent of or notice to all operators of any unit or units adjacent to

the gas spacing unit containing the well density exception, or all lessees or unleased mineral interest owners adjacent to the proposed non-standard unit, in the form and manner provided by Rule 4 (D) below.

(C) Non-Standard Gas Spacing Units:

The Director may establish non-standard gas spacing units in the Jalmat Gas Pool as follows:

(1) Units that comprise one, two, or three complete quarter sections:

The Director may grant an exception to the requirements of Rule 2 (A) above to establish a single 160-acre, more or less, non-standard spacing unit comprising a single quarter section, or a 320-acre, 480-acre, or 640-acre, more or less, non-standard gas spacing unit that consists of two, three, or four complete quarter sections that are contiguous by a common bordering side without a hearing provided that the applicant presents proof of consent of or notice to all offset operators adjoining the proposed non-standard spacing unit in the form and manner provided in Rule 4 (D).

(2) Unit that involve partial quarter sections regardless of size (up to 640 acres):

The Director may grant an exception to the requirements of Rule 2 (A) above to establish a non-standard gas spacing unit containing legal subdivisions smaller than a quarter section [quarter-quarter section (s) or lots] without a hearing provided that:

(a) the non-standard spacing unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side;

(b) the applicant presents proof of consent from or notice to all offset operators adjoining the proposed non-standard spacing unit and all owners of working interests or unleased interests in any tract that is: **(1)** located within any quarter section or quarter sections any part of which is to be included in the proposed non-standard unit; and **(2)** not included in the proposed non-standard unit nor currently committed to any other Jalmat gas or oil spacing unit. Such consent or notice to be in the form and manner provided in Rule 4 (D) below; and

(c) the applicant furnishes the necessary technical and geological evidence required by Rule 4 (B) above.

(3) Applications for non-standard gas spacing units shall include:

(a) A detailed explanation as to the necessity for requesting the proposed non-standard gas spacing unit;

(b) A land plat that identifies the non-standard gas spacing unit being sought and identifies all existing Jalmat gas wells currently dedicated to the unit, and

(c) information concerning any old well within the proposed unit that once had Jalmat production, either oil or gas (well name and number, operator, last acreage dedication, plugging date and cumulative oil and gas production, and any applicable Division order granting an exception any Jalmat rule);

(d) A land plat that clearly shows all existing Jalmat oil and gas spacing units that directly offset the proposed non-standard unit and, if applicable, reference to all orders approving such non-standard gas spacing unit;

(e) For non-standard Jalmat gas spacing units that contain partial quarter sections where there are mineral interests to be excluded and are not currently committed to any other Jalmat gas or oil spacing unit, a land plat that clearly depicts such acreage and identifies the owners of such mineral interests by name, address (if known), and percentage;

(f) geological and technical information required by Rule 4 (B) (2), if applicable; and

(g) proof of compliance with applicable consent or notice provisions of Rule 4.

(D) With reference to any exception which may be granted administratively without hearing as provided by any provision of this Rule 4,

(1) Any required proof of consent shall be evidenced by written waivers setting forth the substance of the exception sought and expressly consenting thereto, and signed by the person whose consent is required by the applicable provision of this Rule.

(2) Any required notice shall be given in the manner provided in Rule 1207 (B), except that in lieu of stating the time and place of hearing, such notice shall state that the exception sought may be granted without hearing unless a protest is filed with the Santa Fe office of the Division within twenty (20) days after the filing of the application and proof of notice with the Division. An affidavit shall be filed with the application setting forth the information required by Rule 1207 (C) with respect to any persons required to be notified by the applicable provision of this Rule from whom written waivers are not furnished.

(3) If an application is supported by written waivers as provided in Rule 4 (D) (1) from all persons whose consent is required and an affidavit attesting that the persons whose waivers are attached are all of the persons whose consent is required, the Director may grant the application without further notice or hearing.

(4) If an application is supported by proof of notice as provided in Rule 4 (D) (2), the Director may grant the application without hearing if no protest is filed with the Division within twenty (20) days after the date of filing of the application and proof of notice.

(E) The Division Director may set for hearing any application for administrative approval. If a protest is filed as to any such application as provided in Rule 4 (D), such application shall be denied or set for hearing, in the discretion of the Director.

RULE 5. WELL TESTING:

(A) **Gas-liquid ratio tests:** The operator of each newly completed well shall cause a gas-liquid ratio test to be taken on the well upon recovery of all load oil from the well, provided however, that in no event shall the test be commenced later than 30 days from the date of first production. Any well which is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. Semi-annual gas-liquid ratio tests shall be taken on all wells during each year in accordance with a test schedule prepared by the Hobbs district office of the Division. The initial gas-liquid ratio test shall suffice as the first semi-annual test. Gas-liquid ratio tests shall be 24-hour tests, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of each test shall be filed on Division Form C-116 on or before the tenth day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the Hobbs district office of the Division a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the test schedule shall also be furnished to all adjoining operators. The supervisor of the Hobbs district office may grant an exception to the above well test requirements where it is demonstrated that the well (s) produce (s) no liquids. Special gas-liquid ratio tests shall also be taken at the request of the Division and may also be taken at the option of the operator. Such special gas-liquid ratio tests shall be taken in accordance with the procedures outlined hereinabove, including notification to the Division and offset operators.

(B) An initial shut-in pressure test shall be taken on each gas well and shall be reported to the Division on Form C-125.

RULE 6. MISCELLANEOUS:

(A) Oil wells in the Jalmat Gas Pool shall receive oil and casinghead gas allowables as provided in Division Rules 503, 505, and 506.

(B) All existing administrative exceptions and orders in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice.

File: Case No. 12563

**BEFORE THE
NEW MEXICO ENERGY, MINERALS AND
NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF NEW MEXICO OIL CONSERVATION
DIVISION FOR TERMINATION OF GAS PRORATIONING
IN THE JALMAT AND EUMONT GAS POOLS AND TO
AMEND THE SPECIAL RULES GOVERNING BOTH POOLS,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12563

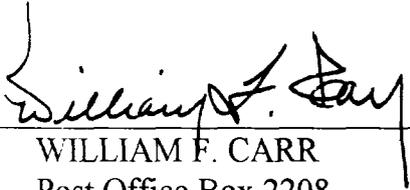
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OIL CONSERVATION DIVISION

ENTRY OF APPEARANCE

COMES NOW HOLLAND & HART, L.L.P. and CAMPBELL & CARR, and hereby enters its appearance in the above referenced case on behalf of Chevron U.S.A., Inc.

Respectfully submitted,

HOLLAND & HART, L.L.P.
AND
CAMPBELL & CARR

By: 

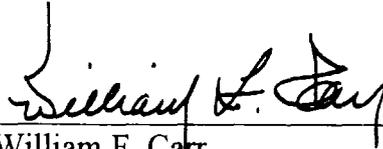
WILLIAM F. CARR
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Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR CHEVRON U.S.A., INC.

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of July, 2001, I have caused to be hand-delivered a copy of our Entry of Appearance in the above-captioned case to the following named parties:

David Brooks, Esq.
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

A handwritten signature in black ink, appearing to read "William F. Carr", written over a horizontal line.

William F. Carr
Attorney for Chevron U.S.A., Inc.