

CONTINENTAL OIL COMPANY

PROPOSED CHANGES IN GAS POOL RULES AND REGULATIONS

WELL SPACING AND ACREAGE REQUIREMENTS FOR DRILLING TRACTS.

RULE 1. Any well drilled a distance of one mile or more outside the boundary from the outer boundary of the \_\_\_\_\_ Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile outside the boundary from the outer boundary of the \_\_\_\_\_ Gas Pool shall be spaced, drilled, operated and prorated in accordance with the Regulations in effect in the \_\_\_\_\_ Gas Pool.

RULE 2. Each well drilled or recompleted within the Jalee Gas Pool shall be located on a tract consisting of not less than a quarter section of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys.

RULE 2. (Previous Rule 3) Each well drilled within the \_\_\_\_\_ Gas Pool after the effective date of this order shall not be drilled not closer than 660 feet to any boundary line of the tract nor closer than 330 feet to a quarter-quarter section or subdivision inner boundary nor closer than 1,320 feet to a well drilling to or capable of producing from the same pool. Any well drilled to and producing from the \_\_\_\_\_ Gas Pool prior to the effective date of this order at a location conforming with the spacing requirements effective at the time said well was drilled shall be considered to be located in conformance with this rule.

RULE 3. (Previous Rule 4) The Secretary of the Commission shall have authority to grant exception to the requirements of Rule 3<sup>7</sup> without Notice and Hearing where application has been filed in due form and the necessity for the unorthodox location is based on topographical conditions or is occasioned by the recompletion of a well previously drilled to another horizon.

Applicants shall furnish all operators within a 1320 foot radius of the subject well a copy of the application to the Commission, and applicant shall include with his application a ~~written~~ stipulation that all operators within such radius have been properly notified. a list of names and addresses of all operators within such radius together with a stipulation that proper notice has been given said operators at the addresses given. The Secretary of the Commission shall wait at least ~~10~~ 20 days before approving any such unorthodox location, and shall approve such unorthodox location only in the absence of objection of any offset operators. In the event an operator objects to the unorthodox location the Commission shall consider the matter only after proper notice and hearing.

RULE 4. (Previous Rule 5) The provision of Statewide Rule 104 Paragraph (k), shall not apply to the \_\_\_\_\_ Gas Pool located in Lea County, New Mexico.

#### GAS PRORATION

RULE 5. (Previous Rule 7) (a) The acreage allocated to a gas well for proration purposes shall be known as the gas

proration unit for that well. For the purpose of gas allocation in the \_\_\_\_\_ Gas Pool, a standard proration unit shall consist of between 158 and 162 contiguous surface acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys; provided, however, that a non-standard gas proration unit ~~either than a legal quarter section~~ may be formed after notice and hearing by the Commission, ~~except as outlined in Paragraph (b) or under the provision of Paragraph (b) of this Rule.~~ Any allocation unit containing less than 158 acres or more than 162 acres shall be a non-standard unit and its allowable shall be decreased or increased to that proportion of the standard unit allowable that the number of acres contained therein bears to 160 acres. Any standard proration unit consisting of between 158 and 162 contiguous surface acres shall be considered as containing 160 acres for the purpose of gas allocation.

Any non-standard gas proration unit containing less than 158 or more than 162 acres shall receive an allowable decreased or increased to that proportion of the allowable of a standard gas proration unit which the number of acres contained in said non-standard gas proration unit bears to 160. Any gas proration unit containing between 158 and 162 acres shall be considered to contain 160 acres for the purpose of computing allowables.

(b) The Secretary of the Commission shall have authority to grant an exception to Rule 7 (a) without Notice and Hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with;

1. The non-standard unit consists of less acreage than a standard proration unit.

2. The acreage assigned to the non-standard unit lies wholly within a legal quarter section and contains a well capable of producing gas into a gas transportation facility on the date of this order.

3. The operator receives written consent in the form of waivers from all operators in the adjoining 160 acre proration units.

1. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.

2. The non-standard gas proration unit lies wholly within a single governmental section.

3. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas.

4. The length or width of the non-standard gas proration unit does not exceed 5280 feet.

5. The applicant presents written consent in the form of waivers from (1) all operators owning interests in the quarter sections in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit, and (2) all operators owning interests within 1500 feet of the well to which such gas proration unit is proposed to be allocated.

6. In lieu of paragraph 5 of this rule, the applicant may furnish proof of the fact that said offset operators were

notified of his intent to form such non-standard gas proration unit. The Secretary of the Commission may approve the application if after a period of 30 days following said notice, no operator has made objection to formation of such non-standard gas proration unit.

RULE 6. (a) The Commission after notice and hearing, shall consider the nominations of gas purchasers from the \_\_\_\_\_ Gas Pool and other relevant data and shall fix the allowable production of the \_\_\_\_\_ Gas Pool, and shall allocate production among the gas wells in the \_\_\_\_\_ Gas Pool upon a reasonable basis with due regard to correlative rights.

(b) The allowable assigned to any well capable of producing its normal gas allowable in the \_\_\_\_\_ Gas Pool shall be the same proportion of the total remaining allowable allocated to said pool after deducting allowables of marginal wells that the number of acres contained in the gas proration unit for that well bears to the acreage contained in all gas proration units assigned to non-marginal wells in the \_\_\_\_\_ Gas Pool.

RULE 7. (Previous Rule 8) At least 30 days prior to the beginning of each gas proration period the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser its "Preliminary Nominations" of the amount of gas which each in good faith actually desires to purchase within the ensuing proration period, by months, from the \_\_\_\_\_ Gas Pool. The Commission shall consider the

"Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste within the ensuing proration period. "Preliminary Nominations" shall be submitted on a form prescribed by the Commission.

RULE 8. (Previous Rule 9) Each month, the Commission shall cause to be submitted by each gas purchaser its "Supplemental Nominations" of the amount of gas which each in good faith actually desires to purchase within the ensuing proration month from the \_\_\_\_\_ Gas Pool. In the event a gas purchaser's market shall have increased or decreased, he may file with the Commission prior to the 10th day of the month a supplemental nomination, showing the amount of gas he actually in good faith desires to purchase during the ensuing proration month from the \_\_\_\_\_ Gas Pool. The Commission shall hold a public hearing between the 15th and 20th days of each month to determine the reasonable market demand for gas for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. Included in the monthly proration schedule shall be a tabulation of allowable and production for the second preceding month together with an adjusted allowable computation for the second preceding month. Said adjusted allowable shall be computed by comparing the actual allowable assigned with the actual production. In the event the allowable assigned is greater than the actual production, the allowables assigned the top

allowable units shall be reduced proportionately, and in the event that allowable assigned is less than the production then the allowables assigned the top allowable units shall be increased proportionately. "Supplemental Nominations" shall be submitted on a form prescribed by the Commission.

The Commission shall include in the proration schedule the gas wells in the \_\_\_\_\_ Gas Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of the \_\_\_\_\_ Gas Pool any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to the pool each month shall be equal to the sum of the supplemental nominations together with any adjustment which the Commission deems advisable. The allocation to a pool remaining after subtracting the capacities of marginal units shall be divided and allocated ratably among the non-marginal units in the proportion that the acreage contained in each unit bears to the total acreage allotted to such non-marginal units.

#### BALANCING OF PRODUCTION

RULE 9. (Previous Rule 10) Underproduction: The dates 7:00 A.M., January 1 and 7:00 A.M., July 1, shall be known as balancing dates and the periods of time bounded by these dates shall be known as gas proration periods. The amount of current gas allowable remaining unproduced at the end of each proration

period shall be carried forward to and may be produced during the next succeeding proration period in addition to the normal gas allowable for such succeeding period; but whatever amount thereof is not made up within the first succeeding proration period shall be cancelled. If, at the end of the first succeeding proration period, a greater amount of allowable remains unproduced than was carried forward as underproduction, the amount carried forward to the second succeeding period shall be the total underproduction less the amount carried forward to the first succeeding period.

If it appears that such continued underproduction has resulted from inability of the well to produce its allowable, it may be classified as a marginal well and its allowable reduced to the well's ability to produce.

RULE 10. (Previous Rule 11) Overproduction: A well which has produced a greater amount of gas than was allowed during a given proration period shall have its allowable for the first succeeding proration period reduced by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. If, at the end of the first succeeding proration period, the well is still overproduced, and has not been in balance since the end of the preceding proration period, then it shall be shut in and its current monthly allowable charged against said overproduction until the well is in balance. If, at any time, a well is overproduced an amount equaling six times its current monthly allowable, it shall be shut in until it is in balance.

The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut in upon a showing at public hearing after due notice that complete shut in of the well would result in material damage to the well.

#### GRANTING OF ALLOWABLES

RULE 11. (Previous Rule 12) No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 12. (Previous Rule 13) Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104 and Form C-110 and the plat described above, whichever date is the later.

#### REPORTING OF PRODUCTION

RULE 13. (Previous Rule 14) The monthly gas production from each gas well shall be metered separately and the gas production therefrom shall be ~~submitted~~ reported to the Commission so as to reach the Commission on or before the twentieth day of the month next succeeding the month in which the gas was produced. The operator shall show on such report what disposition has been made

of the gas produced. The full production of gas from each well shall be charged against the well's allowable regardless of what disposition has been made of the gas; provided, however, that gas used on the lease for consumption in lease houses, treaters, combustion engines and other similar lease equipment shall not be charged against the well's allowable.

#### DEFINITIONS

RULE 14. (Previous Rule 15) A gas well shall mean a well producing gas or natural gas from a common source of gas supply from a gas pool determined by the Commission. A gas well shall mean a well producing with a gas-oil ratio in excess of 100,000 cubic feet of gas per barrel of oil.

RULE 15. A well producing from the \_\_\_\_\_ Pool and not classified as a gas well as defined in Rule 14 shall be classified as an oil well.

RULE 16. The term "gas purchaser" as used in these rules, shall mean any "taker" of gas either at the wellhead or at any point on the lease where connection is made for gas transportation or utilization. It shall be the responsibility of said "taker" to submit a nomination.

RULE 17. No gas, either dry gas or casinghead gas, produced from the \_\_\_\_\_ Pool shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

RULE 18. Oil wells producing from the \_\_\_\_\_ Pool shall be allowed to produce a volume of gas each day not exceeding the daily normal unit oil allowable multiplied by 6,000, provided, however, that such well shall not be allowed to produce oil in excess of the normal unit allowable as ordered by the Commission under the provisions of Rule 505.