

"H" 2/1/56
Wittness - Woodruff

PROPOSED SPECIAL RULES AND REGULATIONS FOR THE CROSBY DEVONIAN GAS POOL

WELL SPACING AND ACREAGE REQUIREMENTS FOR DRILLING TRACTS

Rule 1. Any well drilled a distance of one mile or more outside the boundary of the Crosby Devonian Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile outside the boundary of the Crosby Devonian Gas Pool shall be spaced, drilled, operated and prorated in accordance with the regulations in effect in the Crosby Devonian Gas Pool.

Rule 2. Each well drilled or recompleted within the Crosby Devonian Gas Pool on a standard proration unit after the effective date of this rule shall be drilled not closer than 990 feet to any boundary line of the tract or section line nor closer than 330 feet to a quarter-quarter section line or subdivision inner boundary line. Any well drilled to and producing from the Crosby Devonian Gas Pool prior to the effective date of this order at a location conforming to the spacing requirements effective at the time said well was drilled shall be considered to be located in conformance with this rule.

Rule 3. The Secretary of the Commission shall have authority to grant exception to the requirements of Rule 2 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 1980-foot radius of the subject well a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all operators within such radius, together with evidence that proper notice has been given said operator at the addresses given. The Secretary of the Commission shall wait at least 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. The provisions of Statewide Rule 104, Paragraph (k), shall not apply to the Crosby Devonian Gas Pool Located in Lea County, New Mexico.

GAS PRORATION

Rule 5. (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 Crosby Devonian Gas Pool, a standard proration unit shall consist of between 632 and 648 contiguous surface acres substantially in the form of a square which shall be a legal subdivision (section) of the U. S. Public Land Survey; provided, however, that a non-standard gas proration unit may be formed after notice and hearing by the Commission, or under the provisions of Paragraph (B) of this Rule.

In establishing a non-standard gas proration unit the location of the well with respect to the two nearest boundary lines thereof shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration; provided, however, that any well drilled to and producing from the Crosby Devonian Gas Pool, as defined herein, 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 granted a tolerance not exceeding 330 feet with respect to the required distances from the boundary lines.

(B) The Director of the Commission shall have authority to establish a non-standard gas proration unit by administrative action (without notice and hearing) where application has been filed in due form and where all the following facts exist and all the following provisions are complied with.

1. The non-standard proration unit will consist of contiguous quarter-quarter sections and/or lots, with a common side between any two adjacent quarter-quarter sections and/or lots.

2. The non-standard proration unit will lie wholly within a single governmental section.
3. The entire non-standard proration unit may be reasonably assumed to be productive of gas from the Crosby Devonian Gas Pool.
4. The length or width of the non-standard gas proration unit will not exceed 5280 feet.
5. The applicant presents written consent in the form of waivers from:
 - (a) All operators owning interests in the section in which the non-standard gas proration unit is to be situated, which interest is not included in the proposed non-standard gas proration unit.
 - (b) All operators owning interests within 1980 feet of the well to which such non-standard gas proration unit is to be dedicated.
6. In lieu of the provisions of subparagraph 5 under Paragraph (b) of this rule, applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. The Director of the Commission may approve such application for administrative approval of a non-standard gas proration unit if, after a period of 30 days following the mailing of said notice, no operator has entered an objection to the formation of such non-standard gas proration unit.

Rule 6. Acreage dedicated to a gas well in the Crosby Devonian Gas Pool shall not be simultaneously dedicated to an oil well completed in the same pool.

Rule 7. In the event an oil well completed within the limits of the Crosby Devonian Gas Pool is reclassified as a gas well, the operator of such well will be afforded the opportunity to form a non-standard proration unit for the well; provided, however, that until such unit is formed, the well shall be allocated a gas allowable commensurate with the acreage contained in the unit formerly dedicated to the oil well.

In the event such reclassification shall cause the occurrence of two Devonian gas wells producing from a single proration unit, the sum of the allowables allocated to the two wells shall be equivalent to that volume of gas allocated to a single proration unit calculated on the basis of the 72-hour shut-in wellhead pressure of the original well on the unit; however, the operator of such wells shall have the option to determine the proration of the assigned allowable to be produced by each well except that not more than 50% of the allowable may be produced by any well not in conformance with the spacing rules as provided in Rule 5 (A).

Rule 8. (A) The Commission after notice and hearing, shall consider the nominations of gas purchasers from the Crosby Devonian Gas Pool and other relevant data and shall fix the allowable production of gas from the Crosby Devonian Gas Pool.

(B) After deducting the allowables of all marginal wells, the balance of the allowable for the pool shall be allocated to each non-marginal well in the proportion that the number of acres contained in the gas proration unit for the well multiplied by its wellhead pressure, determined in accordance with Rule 17, bears to the sum of such product for all non-marginal wells in the pool.

Rule 9. 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 "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 Crosby Devonian 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 Form C-121-A.

Rule 10. 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 his revised estimate of the amount of gas he actually in good faith desires to purchase during the ensuing proration month from the Crosby Devonian Gas Pool. The Commission shall hold a public hearing between the 13th 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. "Supplemental Nominations" shall be submitted on the form prescribed by the Commission.

(A) Shown on the monthly proration schedule shall be sufficient information to enable the operator to efficiently produce his well in conformance with the rules and regulations of the Commission.

(B) The Commission shall include in the Proration Schedule the gas wells in the Crosby Devonian Gas Pool delivering to a gas transportation facility, and shall also include in the proration schedule of the Crosby Devonian 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.

(C) The total allowable to be allocated to the pool each month shall be equal to the sum of the preliminary or supplemental nominations (whichever is applicable) together with any adjustment which the Commission deems advisable.

(D) If during a proration month the acreage assigned a well is increased, the operator shall notify the Proration Manager in writing (Box 2045, Hobbs, New Mexico) of such increase. The increased allowable assigned the gas proration unit for the well shall be effective on the first day of the month following receipt of the notification by the Proration Manager.

BALANCING OF PRODUCTION

Rule 11. 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.

(A) Underproduction: The amount of 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. Any overproduction accrued during any one month in said succeeding proration period shall be applied against the underproduction carried into that proration period. Whatever amount thereof is not made up within the first succeeding proration period shall be cancelled.

If it appears that such continued underproduction has resulted from the inability of the well to produce its allowable, it may be classified as a marginal well and its allowable will be set at the maximum monthly volume produced in the preceding six months and its ~~adjusted~~ allowable shall be equal to its production. If at the end of a proration period

a marginal well has produced more than the total allowable assigned to a corresponding non-marginal unit or has produced more than six times its preliminary marginal allowable, the marginal well shall have its status reviewed and may be classified as a non-marginal well.

All wells which the Commission classifies as marginal at the beginning of a proration period shall remain marginal during the succeeding proration periods except in instances where the production of the well indicates that the marginal classification is erroneous, in which case the Commission shall reclassify the well as non-marginal.

If during the proration period a marginal well is reworked or recompleted in such a manner that its productive capacity is increased to the extent that it should be reclassified as a non-marginal well, the reclassification shall be effective on the first day of the proration month following the date of recompletion. The Commission may reclassify a well from a marginal to non-marginal category or vice versa at any time that their records indicate that the existing category of the well is in error.

(B) Overproduction: The operator of a well which has produced a greater amount of gas than was allowed during a given proration period shall reduce that well's production for the first succeeding proration period by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. Any underproduction accrued during any one month during said first succeeding proration period shall be applied against the overproduction carried into that proration period. Any allowable accrued to a well at the end of a proration period due to the cancellation of underage and redistribution thereof, shall be applied against the overproduction carried into said 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 preceeding 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 equal to 6 times the most recently calculated monthly ~~allowable~~ allowable, it shall be shut in for the current month.

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 12. No gas well shall be given an allowable until the operator has filed Form C-104, C-110 together with a plat showing acreage attributed to said well and the locations of all wells on the lease and Form C-125.

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, Form C-110 and the plat described above and Form C-125 whichever date is the later.

REPORTING OF PRODUCTION

Rule 14. The monthly gas production from each well shall be metered separately and the gas produced therefrom shall be reported to the Commission by each purchaser or taker of gas in the Crosby Devonian Gas Pool on Form C-111 or Form C-114 (whichever is applicable) with the

wells being listed in approximately the same order as they appear on the proration schedule. These forms shall be submitted so as to reach the Commission on or before the 15th day of the month next succeeding the month in which the gas was purchased or taken. These forms shall be submitted in duplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, and the first carbon being sent to Box 2045, Hobbs, New Mexico. 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, compressors, combustion engines and other similar lease equipment shall not be charged against the well's allowable.

DEFINITIONS

Rule 15. 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 16. No gas, produced from the Crosby Devonian Gas Pool shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

Rule 17. Shut-in wellhead pressure shall be taken on a dead-weight tester after the well has been shut-in consecutively between 68 and 76 hours. These tests shall be conducted semi-annually during the months of April and October on all gas wells within the horizontal limits of the Crosby Devonian Gas Pool as hereinafter set out in Exhibit "A". Results of such tests will be reported to the Commission on Form C-125 on or before the 15th day of May and the 15th day of November for each calendar year. New wells shall be tested in conformance with the above method and shall be reported to the Commission on Form C-125 in conformance with Rule 13 before an allowable will be granted.

Rule 18. Horizontal limits of the Crosby Devonian Gas Pool shall be those limits set forth in Exhibit "A" attached hereto and made a part hereof.