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RULE 0.1 - DEFINITIONS

(as of 3-1-91)

ADJUSTED ALLOWABLE shall mean the allowable production a well or proration unit receives after all adjustments are made.

ALLOCATED POOL is one in which the total oil or natural gas production is restricted and allocated to various wells therein in accordance with proration schedules.

ALLOWABLE PRODUCTION shall mean that number of barrels of oil or standard cubic feet of natural gas authorized by the Division to be produced from an allocated pool.

AQUIFER shall mean a geological formation, group of formations, or a part of a formation that is capable of yielding a significant amount of water to a well or spring.

BACK ALLOWABLE shall mean the authorization for production of any shortage or underproduction resulting from pipeline proration.

BARREL shall mean 42 United States Gallons measured at 60 degrees Fahrenheit and atmospheric pressure at the sea level.

BARREL OF OIL shall mean 42 United States Gallons of oil, after deductions for the full amount of basic sediment, water and other impurities present, ascertained by centrifugal or other recognized and customary test.

BOTTOM HOLE OR SUBSURFACE PRESSURE shall mean the gauge pressure in pounds per square inch under conditions existing at or near the producing horizon.

BRADENHEAD GAS WELL shall mean any well producing gas through wellhead connections from a gas reservoir which has been successfully cased off from an underlying oil or gas reservoir.

CARBON DIOXIDE GAS shall mean noncombustible gas composed chiefly of carbon dioxide occurring naturally in underground rocks.

CASINGHEAD GAS shall mean any gas or vapor or both gas and vapor indigenous to and produced from a pool classified as an oil pool by the Division. This also includes gas-cap gas produced from such an oil pool.

COMMISSION shall mean the Oil Conservation Commission.

COMMON PURCHASER FOR NATURAL GAS shall mean any person now or hereafter engaged in purchasing from one or more producers gas produced from gas wells within each common source of supply from which it purchases.

COMMON PURCHASER FOR OIL shall mean every person now engaged or hereafter engaging in the business of purchasing oil to be transported through pipelines.

COMMON SOURCE OF SUPPLY. See Pool.

CONDENSATE shall mean the liquid recovered at the surface that results from condensation due to reduced pressure or temperature of petroleum hydrocarbons existing in a gaseous phase in the reservoir.

CONTIGUOUS shall mean acreage joined by more than one common point, that is, the common boundary must be at least one side of a governmental quarter-quarter section.

CONVENTIONAL COMPLETION shall mean a well completion in which the production string of casing has an outside diameter in excess of 2.875 inches.

CORRELATIVE RIGHTS shall mean the opportunity afforded, as far as it is practicable to do so, to the owner of each property in a pool to produce without waste his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as can be practicably obtained without waste, substantially in the proportion that the quantity of recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for such purpose to use his just and equitable share of the reservoir energy.

CUBIC FEET OF GAS OR STANDARD CUBIC FOOT OF GAS, for the purpose of these rules, shall mean that volume of gas contained in one cubic foot of space and computed at a base pressure of 10 ounces per square inch above the average barometric pressure of 14.4 pounds per square inch (15.025 psia), at a standard base temperature of 60 degrees Fahrenheit.

DEEP POOL shall mean a common source of supply which is situated 5000 feet or more below the surface.

DEPTH BRACKET ALLOWABLE shall mean the basic oil allowable assigned to a pool and based on its depth, unit size, or special pool rules, which, when multiplied by the market demand percentage factor in effect, will determine the top unit allowable for the pool.

DIVISION shall mean the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department.

EXEMPTED AQUIFER shall mean an aquifer that does not currently serve as a source of drinking water, and which cannot now and will not in the foreseeable future serve as a source of drinking water because:

- (a) it is hydrocarbon producing;
- (b) it is situated at a depth or location which makes the recovery of water for drinking water purposes economically or technologically impractical; or,
- (c) it is so contaminated that it would be economically or technologically impractical to render that water fit for human consumption.

FIELD means the general area which is underlaid or appears to be underlaid by at least one pool; and field also includes the underground reservoir or reservoirs containing such crude petroleum oil or natural gas, or both. The words field and pool mean the same thing when only one underground reservoir is involved; however, field unlike pool may relate to two or more pools.

FRESH WATER (to be protected) includes the water in lakes and playas, the surface waters of all streams regardless of the quality of the water within any given reach, and all underground waters containing 10,000 milligrams per liter (mg/l) or less of total dissolved solids (TDS) except for which, after notice and hearing, it is found there is no present or reasonably foreseeable beneficial use which would be impaired by contamination of such waters. The water in lakes and playas shall be protected from contamination even though it may contain more than 10,000 mg/l of TDS unless it can be shown that hydrologically connected fresh ground water will not be adversely affected.

GAS LIFT shall mean any method of lifting liquid to the surface by injecting gas into a well from which oil production is obtained.

GAS-OIL RATIO shall mean the ratio of the casinghead gas produced in standard cubic feet to the number of barrels of oil concurrently produced during any stated period.

GAS-OIL RATIO ADJUSTMENT shall mean the reduction in allowable of a high gas-oil ratio unit to conform with the production permitted by the limiting gas-oil ratio for the particular pool during a particular proration period.

GAS TRANSPORTATION FACILITY shall mean a pipeline in operation serving gas wells for the transportation of natural gas, or some other device or equipment in like operation whereby natural gas produced from gas wells connected therewith can be transported or used for consumption.

GAS WELL shall mean a well producing gas or natural gas from a gas pool, or a well with a gas-oil ratio in excess of 100,000 cubic feet of gas per barrel of oil producing from an oil pool.

HIGH GAS-OIL RATIO PRORATION UNIT shall mean a unit with at least one producing oil well with a gas-oil ratio in excess of the limiting gas-oil ratio for the pool in which the unit is located.

ILLEGAL GAS shall mean natural gas produced from a gas well in excess of the allowable determined by the Division.

ILLEGAL OIL shall mean crude petroleum oil produced in excess of the allowable as fixed by the Division.

ILLEGAL PRODUCT shall mean any product of illegal gas or illegal oil.

INACTIVE WELL shall be a well which is not being utilized for beneficial purposes such as production, injection or monitoring and which is not being drilled, completed, repaired or worked over.

INJECTION OR INPUT WELL shall mean any well used for the injection of air, gas, water, or other fluids into any underground stratum.

LIMITING GAS-OIL RATIO shall mean the gas-oil ratio assigned by the Division to a particular oil pool to limit the volumes of casinghead gas which may be produced from the various oil producing units within that particular pool.

LOAD OIL is any oil or liquid hydrocarbon which has been used in remedial operation in any oil or gas well.

LOG OR WELL LOG shall mean a systematic detailed and correct record of formations encountered in the drilling of a well.

MARGINAL UNIT shall mean a proration unit which is incapable of producing top unit allowable for the pool in which it is located.

MARKET DEMAND PERCENTAGE FACTOR shall mean that percentage factor of 100 percent or less as determined by the Division at an oil allowable hearing, which, when multiplied by the depth bracket allowable applicable to each pool, will determine the top unit allowable for that pool.

MINIMUM ALLOWABLE shall mean the minimum amount of production from an oil or gas well which may be advisable from time to time to the end that production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

MULTIPLE COMPLETION (COMBINATION) shall mean a multiple completion in which two or more common sources of supply are produced through a combination of two or more conventional diameter casing strings cemented in a common well-bore, or a combination of small diameter and conventional diameter casing strings cemented in a common well-bore, the conventional diameter strings of which might or might not be a Multiple Completion (Conventional).

MULTIPLE COMPLETION (CONVENTIONAL) shall mean a completion in which two or more common sources of supply are produced through one or more strings of tubing installed within a single casing string, with the production from each common source of supply completely segregated by means of packers.

MULTIPLE COMPLETION (TUBINGLESS) shall mean completion in which two or more common sources of supply are produced through an equal number of casing strings cemented in a common well-bore, each such string of casing having an outside diameter of 2.875 inches or less, with the production from each common source of supply completely segregated by use of cement.

NATURAL GAS OR GAS shall mean any combustible vapor composed chiefly of hydrocarbons occurring naturally in a pool

classified by the Division as a gas pool.

**NON-MARGINAL UNIT** shall mean a proration unit which is capable of producing top unit allowable for the pool in which it is located, and to which has been assigned a top unit allowable.

**OFFICIAL GAS-OIL RATIO TEST** shall mean the periodic gas-oil ratio test made by order of the Division by such method and means and in such manner as prescribed by the Division.

**OIL, CRUDE OIL, OR CRUDE PETROLEUM OIL** shall mean any petroleum hydrocarbon produced from a well in the liquid phase and which existed in a liquid phase in the reservoir.

**OIL WELL** shall mean any well capable of producing oil and which is not a gas well as defined herein.

**OPERATOR** shall mean any person or persons who, duly authorized, is in charge of the development of a lease or the operation of a producing property.

**OVERAGE OR OVERPRODUCTION** shall mean the amount of oil or the amount of natural gas produced during a proration period in excess of the amount authorized on the proration schedule.

**OWNER** means the person who has the right to drill into and to produce from any pool, and to appropriate the production either for himself or for himself and another.

**PENALIZED UNIT** shall mean a proration unit to which, because of an excessive gas-oil ratio, an allowable has been assigned which is less than top unit allowable for the pool in which it is located and also less than the ability of the well(s) on the unit to produce.

**PERSON** means any natural person, corporation, association, partnership, receiver, trustee, guardian, executor, administrator and fiduciary of any kind.

**POOL** means any underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure, which zone is completely separated from any other zone in the structure, is covered by the word "pool" as used herein. "Pool" is synonymous with "common source of supply" and with "common reservoir."

**POTENTIAL** shall mean the properly determined capacity of a well to produce oil, or gas, or both, under conditions prescribed by the Division.

**PRESSURE MAINTENANCE** shall mean the injection of gas or other fluid into a reservoir, either to maintain the existing pressure in such reservoir or to retard the natural decline in the reservoir pressure.

**PRODUCED WATER** shall mean those waters produced in conjunction with the production of crude oil and/or natural gas and commonly collected at field storage, processing, or disposal facilities including but not limited to: lease tanks, commingled tank batteries, burn pits, LACT units, and community or lease salt water disposal systems and which may be collected at gas processing plants, pipeline drips and other processing or transportation facilities.

**PRODUCER** shall mean the owner of a well or wells capable of producing oil or natural gas or both in paying quantities.

**PRODUCT** means any commodity or thing made or manufactured from crude petroleum oil or natural gas, and all derivatives of crude petroleum oil or natural gas, including refined crude oil, crude tops, topped crude, processed crude petroleum, residue from crude petroleum, cracking stock, uncracked fuel oil, treated crude oil, fuel oil, residuum, gas oil, naphtha, distillate, gasoline, kerosene, benzene, wash oil, lubricating oil, and blends or mixtures of crude petroleum oil or natural gas or any derivative thereof.

**PRORATION DAY** shall consist of 24 consecutive hours which shall begin at 7 a.m. and end at 7 a.m. on the following day.

PRORATION MONTH shall mean the calendar month which shall begin at 7 a.m. on the first day of such month and end at 7 a.m. on the first day of the next succeeding month.

PRORATION PERIOD shall mean for oil the proration month and for gas the twelve-month period which shall begin at 7 a.m. on January 1 of each year and end at 7 a.m. on January 1 of the succeeding year or other period designated by general or special order of the Division.

PRORATION SCHEDULE shall mean the order of the Division authorizing the production, purchase, and transportation of oil, casinghead gas, and natural gas from the various units of oil or of natural gas in allocated pools.

RECOMPLETE shall mean the subsequent completion of a well in a different pool from the pool in which it was originally completed.

SECONDARY RECOVERY shall mean a method of recovering quantities of oil or gas from a reservoir which quantities would not be recoverable by ordinary primary depletion methods.

SHALLOW POOL shall mean a pool which has a depth range from 0 to 5000 feet.

SHORTAGE OR UNDERPRODUCTION shall mean the amount of oil or the amount of natural gas during a proration period by which a given proration unit failed to produce an amount equal to that authorized in the proration schedule.

SHUT-IN shall be the status of a production well or an injection well which is temporarily closed down, whether by closing a valve or disconnection or other physical means.

SHUT-IN PRESSURE shall mean the gauge pressure noted at the wellhead when the well is completely shut in, not to be confused with bottom hole pressure.

TANK BOTTOMS shall mean that accumulation of hydrocarbon material and other substances which settles naturally below crude oil in tanks and receptacles that are used in handling and storing of crude oil, and which accumulation contains in excess of two (2%) percent of basic sediment and water; provided, however, that with respect to lease production and for lease storage tanks, a tank bottom shall be limited to that volume of the tank in which it is contained that lies below the bottom of the pipeline outlet thereto.

TEMPORARY ABANDONMENT shall be the status of a well which is inactive and has been approved for temporary abandonment in accordance with the provisions of these rules.

TOP UNIT ALLOWABLE FOR GAS shall mean the maximum number of cubic feet of natural gas, for the proration period, allocated to a gas producing unit in an allocated gas pool.

TOP UNIT ALLOWABLE FOR OIL shall mean the maximum number of barrels for oil daily for each calendar month allocated on a proration unit basis in a pool to non-marginal units. The top unit allowable for a pool shall be determined by multiplying the applicable depth bracket allowable by the market demand percentage factor in effect.

TREATING PLANT shall mean any plant constructed for the purpose of wholly or partially or being used wholly or partially for reclaiming, treating, processing, or in any manner making tank bottoms or any other waste oil marketable.

TUBINGLESS COMPLETION shall mean a well completion in which the production string of casing has an outside diameter of 2.875 inches or less.

UNDERGROUND SOURCE OF DRINKING WATER shall mean an aquifer which supplies water for human consumption or which contains ground water having a total dissolved solids concentration of 10,000 mg/l or less and which is not an exempted aquifer.

UNIT OF PRORATION FOR GAS shall consist of such multiples of 40 acres as may be prescribed by special pool rules issued by the Division.

UNIT OF PRORATION FOR OIL shall consist of one 40-acre tract or such multiples of 40-acre tracts as may be prescribed by special pool rules issued by the Division.

UNORTHODOX WELL LOCATION shall mean a location which does not conform to the spacing requirements established by the rules and regulations of the Division.

WASTE, in addition to its ordinary meaning, shall include:

- (a) Underground Waste as those words are generally understood in the oil and gas business, and in any event to embrace the inefficient, excessive, or improper use or dissipation of the reservoir energy, including gas energy and water drive, of any pool, and the locating, spacing, drilling, equipping, operating, or producing, of any well or wells in a manner to reduce or tend to reduce the total quantity of crude petroleum oil or natural gas ultimately recovered from any pool, and the use of inefficient underground storage of natural gas.
- (b) Surface Waste as those words are generally understood in the oil and gas business, and in any event to embrace the unnecessary or excessive surface loss or destruction without beneficial use, however caused, of natural gas of any type or in any form, or crude petroleum oil, or any product thereof, but including the loss or destruction, without beneficial use, resulting from evaporation, seepage, leakage, or fire, especially such loss or destruction incident to or resulting from the manner of spacing, equipping, operating or producing a well or wells, or incident to or resulting from the use of inefficient storage or from the production of crude petroleum oil or natural gas, in excess of the reasonable market demand.
- (c) The production of crude petroleum oil in this state in excess of the reasonable market demand for such crude petroleum oil. Such excess production causes or results in waste which is prohibited by the Oil and Gas Act. The words "reasonable market demand" as used herein with respect to crude petroleum oil, shall be construed to mean the demand for such crude petroleum oil, for reasonable current requirements for current consumption and use within or outside of the state, together with the demand of such amounts as are reasonably necessary for building up or maintaining reasonable storage reserves of crude petroleum oil or the products thereof, or both such crude petroleum oil and products.
- (d) The non-ratable purchase or taking of crude petroleum oil in this state. Such non-ratable taking and purchasing causes or results in waste, as defined in paragraphs (a), (b), and (c) of this definition and causes waste by violating Section 70-2-16 of the Oil and Gas Act.
- (e) The production in this state of natural gas from any gas well or wells, or from any gas pool, in excess of the reasonable market demand from such source for natural gas of the type produced or in excess of the capacity of gas transportation facilities for such type of natural gas. The words "reasonable market demand," as used herein with respect to natural gas, shall be construed to mean the demand for natural gas for reasonable current requirements, for current consumption and for use within or outside the state, together with the demand for such amounts as are necessary for building up or maintaining reasonable storage reserves of natural gas or products thereof, or both such natural gas and products.

B - MISCELLANEOUS RULES

RULE 1. - SCOPE OF RULES AND REGULATIONS

(as of 3-1-91)

A. The following General Rules of statewide application have been adopted by the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department to conserve the natural resources of the State of New Mexico, to prevent waste, to protect correlative rights of all owners of crude oil and natural gas, and to protect fresh waters. Special rules, regulations and orders have been and will be issued when required and shall prevail as against General Rules, Regulations and Orders if in conflict therewith. However, whenever these General Rules do not conflict with special rules heretofore or hereafter adopted, these General Rules shall apply.

B. The Division may grant exceptions to these rules after notice and hearing, when the granting of such exceptions will not result in waste but will protect correlative rights or prevent undue hardship.

RULE 2. - ENFORCEMENT OF LAWS, RULES AND REGULATIONS

(as of 3-1-91)

DEALING WITH CONSERVATION OF OIL AND GAS

The Division, its agents, representatives and employees are charged with the duty and obligation of enforcing all rules and statutes of the State of New Mexico relating to the conservation of oil and gas including the related protection of fresh waters. However, it shall be the responsibility of all the owners or operators to obtain information pertaining to the regulation of oil and gas before operations have begun.

RULE 3. - GENERAL OPERATIONS/WASTE PROHIBITED

(as of 3-1-91)

A. The production or handling of crude petroleum oil or natural gas of any type or in any form, or the handling of products thereof, in such a manner or under such conditions or in such amount as to constitute or result in waste is hereby prohibited.

B. All operators, contractors, drillers, carriers, gas distributors, service companies, pipe pulling and salvaging contractors, treating plant operators or other persons shall at all times conduct their operations in or related to the drilling, equipping, operating, producing, plugging and abandonment of oil, gas, injection, disposal, and storage wells or other facilities in a manner that will prevent waste of oil and gas, the contamination of fresh waters and shall not wastefully utilize oil or gas, or allow either to leak or escape from a natural reservoir, or from wells, tanks, containers, pipe or other storage, conduit or operating equipment.

RULE 4.- UNITED STATES GOVERNMENT LEASES

(as of 3-1-91)

Operator shall file or cause to be filed with the Division copies of "Application for Permit to Drill, Deepen or Plug Back," (BLM Form No. 3160-3), "Sundry Notices and Reports on Wells," (BLM Form No. 3160-5), and "Well Completion or Recompletion Report and Log," (BLM Form No. 3160-4), as approved by the Bureau of Land Management for wells on U.S. Government Land.

RULE 5. - CLASSIFYING AND DEFINING POOLS

(as of 3-1-91)

The Division will determine whether a particular well or pool is a gas or oil well, or a gas or oil pool, as the case may be, and from time to time classify and reclassify wells and name pools accordingly, and will determine the limits of any pool or pools producing crude petroleum oil or natural gas and from time to time redetermine such limits.

RULE 6. - FORMS UPON REQUEST

(as of 3-1-91)

Forms for written notices, requests and reports required by the Division will be furnished upon request.

RULE 7.- AUTHORITY TO COOPERATE WITH OTHER AGENCIES

(as of 3-1-91)

The Division may from time to time enter into arrangements with State and Federal governmental agencies, industry committees and individuals, with respect to special projects, services and studies relating to conservation of oil and gas and the associated protection of fresh waters.

RULE 8. - LINED PITS/BELOW GRADE TANKS

(as of 3-1-91)

A. After January 1, 1986, lined pits and below grade tanks may be used to contain produced water, sediment oil, tank bottoms, miscellaneous hydrocarbons, or other fluids subject to the jurisdiction of the Division under the Oil and Gas Act only upon prior approval of the Division. Applications for approval of lined pits and below grade tanks should be made in accordance with applicable special rules or, in the absence of special rules, in accordance with Division "Guidelines".

B. To protect migratory birds, all tanks exceeding 16 feet in diameter, exposed pits and ponds shall be screened, netted or covered. Upon written application by the operator, an exception to screening, netting or covering of a facility may be granted by the district supervisor upon a showing that an alternative method will protect migratory birds or that the facility is not hazardous to migratory birds.

DRILLING

RULE 101. - PLUGGING BOND

(as of 3-1-91)

A. Any person, firm, corporation, or association who has drilled or acquired, is drilling, or proposes to drill or acquire any oil, gas, or service well on privately owned or state owned lands within this state shall furnish to the Division, and obtain approval thereof, a surety bond running to the State of New Mexico, in a form prescribed by the Division, and conditioned that the well be plugged and abandoned in compliance with the rules and regulations of the Division. Such bond may be a one-well plugging bond or a blanket plugging bond. All bonds shall be executed by a responsible surety company authorized to do business in the State of New Mexico.

B. Blanket plugging bonds shall be in the amount of fifty thousand dollars (\$50,000) conditioned as above provided, covering all oil, gas, or service wells drilled, acquired or operated in this state by the principal on the bond.

C. One-well plugging bonds shall be in the amounts stated below in accordance with the depth and location of the well:

(1) Chaves, Eddy, Lea, McKinley, Rio Arriba, Roosevelt, Sandoval, and San Juan Counties, New Mexico:

| <u>Projected Depth of Proposed Well<br/>or Actual Depth of Existing Well</u> | <u>Amount of Bond</u> |
|--|-----------------------|
| Less than 5,000 feet   | \$ 5,000              |
| 5,000 feet to 10,000 feet  | \$ 7,500              |
| More than 10,000 feet  | \$ 10,000             |

(2) All other Counties in the State:

| <u>Projected Depth of Proposed Well<br/>or Actual Depth of Existing Well</u> | <u>Amount of Bond</u> |
|--|-----------------------|
| Less than 5,000 feet   | \$ 7,500              |
| 5,000 feet to 10,000 feet  | \$ 10,000             |
| More than 10,000 feet  | \$ 12,500             |

D. Revised plans for an actively drilling well may be approved by the appropriate District Office of the Division for drilling as much as 500 feet deeper than the normal maximum depth allowed on the well's bond. Any well to be drilled more than 500 feet deeper than the normal depth bracket must be covered by a new bond in the amount prescribed for the deeper depth bracket.

E. The bond requirement for any intentionally deviated well shall be determined by the well's measured depth, and not its true vertical depth.

F. A cash bond may be accepted by the Division pursuant to the conditions set forth hereinafter. Cash representing the full amount of the bond shall be deposited by the operator in an account in a federally-insured financial institution located within the State of New Mexico, such account to be held in trust for the Division. Both one well and blanket cash bonds shall be in the amount specified for surety bonds. A document, approved by the Division, evidencing the terms and conditions of the cash bond shall be executed by an authorized representative of the operator and the depository institution and filed with the Division prior to the effective date of the bond. No cash bond will be authorized by the Director and no wells

may be drilled or acquired under a blanket cash bond unless the operator/applicant is in good standing with the Division. If the financial status or reliability of the applicant is unknown to the Director he may require the filing of a financial statement or such other information as may be necessary to evaluate the ability of the applicant/operator to fulfill the conditions of the bond.

G. From time to time any accrued interest over and above the face amount of the bond may be paid to the operator. Upon satisfactory plugging by the operator of any well(s) covered by a cash bond, the Director shall issue an order authorizing the release of said bond.

H. Any bond required by this rule is a plugging bond, not a drilling bond, and shall endure until any well drilled or acquired under such bond has been plugged and abandoned and such plugging and abandonment has been approved by the Division, or has been covered by another bond approved by the Division.

I. Transfer of a property does not of itself release a bond. In the event of transfer of ownership of a well, the appropriate form, C-103 or C-104, properly executed, shall be filed with the District Office of the Division in accordance with Rule 1103 or Rule 1104 by the new owner of the well. The District Office may approve the transfer providing that a new one-well bond covering the well or a blanket bond in the name of the new owner has been approved by the Santa Fe office of the Division.

J. Upon approval of the bond and the Form C-103 or C-104, the transferrer is released of plugging responsibility for the well, and upon request, the original bond will be released. No blanket bond will be released, however, until all wells covered by the bond have been plugged and abandoned or transferred in accordance with the provisions of this rule.

K. All bonds shall be filed with the Santa Fe office of the Division, and approval of such bonds, as well as releases thereof, obtained from said office.

L. All bonds required by these rules shall be conditioned for well plugging and location cleanup only, and not to secure payment for damages to livestock, range, water, crops, tangible improvements, nor any other purpose.

M. Upon failure of the operator to properly plug and abandon the well(s) covered by a bond, the Division shall give notice to the operator and surety, if applicable, and hold a hearing as to whether the well(s) should be plugged in accordance with a Division-approved plugging program. If, at the hearing, it is determined that the operator has failed to plug the well as provided for in the bond conditions and Division Rules, the Division Director shall issue an order directing the well(s) to be plugged in a time certain. Such an order may also direct the forfeiture of the bond upon the failure or refusal of the operator, surety, or other responsible party to properly plug the well(s). If the proceeds of the bond(s) are not sufficient to cover all of the costs incurred by the Division in plugging the well(s) covered by the bond, the Division shall take such legal action as is necessary to recover such additional costs. Any monies recovered through bond forfeiture or legal actions shall be placed in the Oil & Gas Reclamation Fund.

RULE 102. - NOTICE OF INTENTION TO DRILL

(as of 3-1-91)

A. Prior to the commencement of operations, notice shall be delivered to the Division of intention to drill any well for oil or gas or for injection purposes and approval obtained on Form C-101. A copy of the approved Form C-101 must be kept at the well site during drilling operations.

B. No permit shall be approved for the drilling of any well within the corporate limits of any city, town, or village of this state unless notice of intention to drill such well has been given to the duly constituted governing body of such city, town or village or its duly authorized agent. Evidence of such notification shall accompany the application for a permit to drill (Form C-101).

C. When filing a permit to drill in any quarter-quarter section containing an existing well or

wells, the applicant shall concurrently file a plat or other acceptable document locating and identifying such well(s) and a statement that the operator(s) of such well(s) have been furnished a copy of the permit.

RULE 103. - SIGN ON WELLS

(as of 3-1-91)

All wells subject to these regulations, including drilling, production, and injection wells, shall be identified by a sign, posted on the derrick or not more than 20 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. The wells on each lease or property shall be numbered in non-repetitive, logical and distinctive sequence. Each sign shall show the number of the well, the name of the lease (which shall be different or distinctive for each lease), the name of the lessee, owner or operator, and the location by quarter section, township and range. The location, for each sign posted after March 1, 1968, shall indicate the quarter-quarter section, township, and range.

RULE 104. - WELL SPACING: ACREAGE REQUIREMENTS  
FOR DRILLING TRACTS

(as of 3-1-91)

A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS

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

- (a) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and
- (b) 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.

(2) 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.

(3) 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 one mile which is producing from that horizon. If there is no designated pool for said producing horizon within one mile, the well shall be re-classified as a wildcat well.

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 1980 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.)

- (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.
- (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.

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

- (a) Wildcat Gas Wells. In San Juan, Rio Arriba, and Sandoval Counties, a wildcat well which is projected to a gas-producing horizon 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 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section or subdivision inner boundary.
- (b) In the event oil production is encountered in a well which was projected to a gas-producing horizon and which is located accordingly but does not conform to the oil well location rule below, it shall be necessary for the operator to bring the matter to a hearing before approval for the production of oil can be given.
- (c) 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.
- (d) In the event gas production is encountered in a well which was projected to an oil-producing horizon and which is located accordingly but does not conform to the above gas well location rules, it shall be necessary for the operator to bring the matter to a hearing before approval for the

production of gas can be given.

- (3) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba and Sandoval.
- (a) Any wildcat well which is projected as an oil well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval 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.
  - (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.

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.
- (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.
  - (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 1980 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 Section B I(a) of this rule.)

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

- (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 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

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

- (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.

D. ACREAGE ASSIGNMENT, COMPLETED WELLS

(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.)

- (a) Date of completion for a gas well shall be the date a Christmas tree is installed or 30 days following conclusion of active completion work on the well, whichever date comes first.
- (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.
- (c) Failure of the operator to file the aforesaid tests within the specified time will also subject the well to such acreage reduction.

(2) Non-Standard Units. Any completed gas 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 unit for the well has been formed and dedicated or until a non-standard unit has been approved.

- (a) The Division Director may grant administrative approval to non-standard gas units without notice and hearing when an application has been filed for a non-standard unit and the unorthodox size or shape of the unit 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 unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
  - (ii) The non-standard unit lies wholly within a single governmental quarter section if the well is completed in a pool or formation for which 160 acres is the standard unit size or wholly within a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard unit size.
  - (iii) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the quarter section (for 160-acre pools or formations) or the half section (for 320-acre pools or formations) in which the non-standard unit is situated and which acreage is not included in said non-standard unit.
  - (iv) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Director has received the application.

E. Form C-101, Application for Permit to Drill, Deepen, or Plug Back for any well shall designate the exact legal subdivision allotted to the well and no Form C-101 will be approved by the Division or any of its agents without such proper designation of acreage.

F. UNORTHODOX LOCATIONS

(1) The Division Director shall have authority to grant an exception to the well location requirements of Sections B and C above without notice and hearing when the necessity for such unorthodox location is based upon topographical conditions, 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, or to permit the completion of an efficient production and injection pattern within a secondary recovery or pressure maintenance project, provided that any such unorthodox location within such project is no closer than 330 feet 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.

(2) The Division Director shall have authority to grant an exception to the well location requirements of Rule 104 B.I.(a) and Rule 104 C.II.(a) without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the proration unit.

(3) Applications for administrative approval of unorthodox locations shall be filed in TRIPLICATE and shall be accompanied by plats, showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon. If the

proposed unorthodox location is based upon topography, the plat shall also show and describe the existent topographical conditions. If the proposed unorthodox location is based upon completion of an efficient production and injection pattern, the plat shall also show the project outline identifying all producing and injection wells therein, and the applicant shall further include a statement setting forth the necessity for such location. If the proposed unorthodox location is based upon geology as provided in Paragraph (2) above, the application shall include appropriate geologic maps, cross-sections, and/or logs, and a discussion of the geologic conditions which result in the necessity for the unorthodox location.

(4) All operators of proration or spacing units offsetting the unit for which the unorthodox location is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the unorthodox location upon receipt of waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Director has received the application.

(5) The Division Director may, at his discretion, set any application for administrative approval of an unorthodox location for public hearing.

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.

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 1/2 acres or more than 40 1/2 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.

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 unit for the pool.

J. In computing acreage under H and I above, minor fractions of an acre shall not be counted but 1/2 acre or more shall count as 1 acre.

K. The provisions of H and 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.

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 B and C above.

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

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

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.

O. Applicant shall furnish all operators who directly and diagonally offset the units involved a copy of the application to the Division and shall include with his application a written statement that all offset operators have been properly notified. Offset operators shall include only those operators who have offset properties within the State of New Mexico. 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 offset operator. In the event that an operator objects to the pooling, the Division shall consider the matter only after proper notice and hearing.

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.

Q. The Division may consider that the requirements of subparagraphs 2 and 3 of paragraph M of this rule have been fulfilled if the applicant furnishes with each copy of each application to the Division a copy of executed pooling agreement communitizing the units involved.

R. Each well drilled on any communitized tract shall be located in the approximate geographical center of the combined units with a tolerance of 150 feet for topographical conditions, but in any event shall not be located closer than 330 feet to the outer boundaries of the proposed proration unit or communitized tract.

RULE 105. - PIT FOR CLAY, SHALE, DRILL FLUID AND DRILL CUTTINGS

(as of 3-1-91)

A. In order to assure a supply of proper material for mud-laden fluid to confine oil, gas, or water to their native strata during the drilling of any well, operators shall provide before drilling is commenced an adequate pit for the accumulation of drill cuttings. Drilling fluids and drill cuttings must be disposed of at the well site in a manner to prevent contamination to surface or subsurface waters. Removal of drilling fluids or drill cuttings for offsite disposal will be permitted only by approval of the appropriate Division district supervisor.

B. To protect migratory birds, pits used for drilling, completion, blowdown, workover or an emergency immediately after cessation of the activity must have oil removed from their surface or be screened, netted or covered.

RULE 106. - SEALING OFF STRATA

(as of 3-1-91)

A. During the drilling of any oil well, injection well or any other service well, all oil, gas, and water strata above the producing and/or injection horizon shall be sealed or separated in order to prevent their contents from passing into other strata.

B. All fresh waters and waters of present or probable value for domestic, commercial, or stock purposes shall be confined to their respective strata and shall be adequately protected by methods approved by the Division. Special precautions by methods satisfactory to the Division shall be taken in drilling and abandoning wells to guard against any loss of artesian water from the strata in which it occurs, and the contamination of artesian water by objectionable water, oil, or gas.

C. All water shall be shut off and excluded from the various oil- and gas-bearing strata which are penetrated. Water shut-offs shall ordinarily be made by cementing casing.

A. Any well drilled for oil or natural gas shall be equipped with such surface and intermediate casing strings and cement as may be necessary to effectively seal off and isolate all water-, oil-, and gas-bearing strata and other strata encountered in the well down to the casing point. In addition thereto, any well completed for the production of oil or natural gas shall be equipped with a string of properly cemented production casing at sufficient depth to ensure protection of oil- and gas-bearing strata encountered in the well, including the one(s) to be produced.

B. Sufficient cement shall be used on surface casing to fill the annular space behind the casing to the top of the hole, provided however, that authorized field personnel of the Division may, at their discretion, allow exceptions to the foregoing requirement when known conditions in a given area render compliance impracticable.

C. All cementing shall be by pump and plug method unless some other method is expressly authorized by the Division.

D. All cementing shall be with conventional-type hard-setting cements to which such additives (lighteners, densifiers, extenders, accelerators, retarders, etc.) have been added to suit conditions in the well.

E. Authorized field personnel of the Division may, when conditions warrant, allow exceptions to the above paragraph and permit the use of oil-base casing packing material in lieu of hard-setting cements on intermediate and production casing strings; provided however, that when such materials are used on the intermediate casing string, conventional-type hard-setting cements shall be placed throughout all oil- and gas-bearing zones and throughout at least the lowermost 300 feet of the intermediate casing string. When such materials are used on the production casing string, conventional-type hard-setting cements shall be placed throughout all oil- and gas-bearing zones and shall extend upward a minimum of 500 feet above the uppermost perforation or, in the case of an open-hole completion, 500 feet above the production casing shoe.

F. All casing strings shall be tested and proved satisfactory as provided in paragraph I. below.

G. After cementing, but before commencing tests required in paragraph I. below, all casing strings shall stand cemented in accordance with Option 1 or 2 below. Regardless of which option is taken, the casing shall remain stationary and under pressure for at least eight hours after the cement has been placed. Casing shall be "under pressure" if some acceptable means of holding pressure is used or if one or more float valves are employed to hold the cement in place.

(1) OPTION 1 Allow all casing strings to stand cemented a minimum of eighteen (18) hours prior to commencing tests. Operators using this option shall report on Form C-103 the actual time the cement was in place before initiating tests.

(2) OPTION 2 (May be used in the counties of San Juan, Rio Arriba, McKinley, Sandoval, Lea, Eddy, Chaves, and Roosevelt only.) Allow all casing strings to stand cemented until the cement has reached a compressive strength of at least 500 pounds per square inch in the "zone of interest" before commencing tests, provided however, that no tests shall be commenced until the cement has been in place for at least eight (8) hours.

(a) The "zone of interest" for surface and intermediate casing strings shall be the bottom 20 percent of the casing string, but shall be no more than 1000 feet nor less than 300 feet of the bottom-part of the casing unless the casing is set at less than 300 feet. The "zone of interest" for production casing strings shall include the interval or intervals where immediate completion is contemplated.

- (b) To determine that a minimum compressive strength of 500 pounds per square inch has been attained, operators shall use the typical performance data for the particular cement mix used in the well, at the minimum temperature indicated for the zone of interest by Figure 107-A, Temperature Gradient Curves. Typical performance data used shall be that data furnished by the cement manufacturer or by a competent materials testing agency, as determined in accordance with the latest edition of API Code RP 10 B "Recommended Practice for Testing Oil-Well Cements."

H. Operators using the compressive strength criterion (Option 2) shall report the following information on Form C-103:

- (1) Volume of cement slurry (cu. ft.) and brand name of cement and additives, percent additives used, and sequence of placement if more than one type cement slurry is used.
- (2) Approximate temperature of cement slurry when mixed.
- (3) Estimated minimum formation temperature in zone of interest.
- (4) Estimate of cement strength at time of casing test.
- (5) Actual time cement in place prior to starting test.

I. All casing strings except conductor pipe shall be tested after cementing and before commencing any other operations on the well. Form C-103 shall be filed for each casing string reporting the grade and weight of pipe used. In the case of combination strings utilizing pipe of varied grades or weights,

the footage of each grade and weight used shall be reported. The results of the casing test, including actual pressure held on pipe and the pressure drop observed shall also be reported on the same Form C-103.

(1) Casing strings in wells drilled with rotary tools shall be pressure tested. Minimum casing test pressure shall be approximately one-third of the manufacturer's rated internal yield pressure except that the test pressure shall not be less than 600 pounds per square inch and need not be greater than 1500 pounds per square inch. In cases where combination strings are involved, the above test pressure shall apply to the lowest pressure rated casing used. Test pressures shall be applied for a period of 30 minutes. If a drop of more than 10 percent of the test pressure should occur, the casing shall be considered defective and corrective measures shall be applied.

(2) Casing strings in wells drilled with cable tools may be tested as outlined in subparagraph I. (1) above, or by bailing the well dry in which case the hole must remain satisfactorily dry for a period of at least one (1) hour before commencing any further operations on the well.

J. Requirements for tubing of wells are as follows:

(1) All flowing oil wells equipped with casing larger in size than 2 7/8-inch OD shall be tubed.

(2) All gas wells equipped with casing larger in size than 2 7/8-inch OD shall be tubed.

(3) Tubing shall be set as near the bottom as practical and tubing perforations shall not be more than 250 feet above the top of the pay.

(4) The Division Director may, upon proper application, grant administrative exceptions to the provisions of sub-paragraphs (2) and (3) above, without notice and hearing, provided waste will not be caused thereby.

K. The Division's District Supervisors or their representatives shall have authority to approve tubingless completions without the necessity of administrative approval or notice and hearing when the following conditions exist:

(1) The well is to be completed with a total depth of 5,000 feet or less,

(2) The well is not a wildcat (it is not more than one mile from an existing well producing from the same common source of supply to which it is projected),

(3) No known corrosive or pressure problems exist which might make the tubingless method of completion undesirable,

(4) The well will not be a dual completion,

(5) The tubing used as a substitute for casing will be either 2 3/8-inch OD or 2 7/8-inch OD.

RULE 108. - DEFECTIVE CASING OR CEMENTING

(as of 31-1-91)

If any well appears to have a defective casing program or faultily cemented or corroded casing which will permit or may create underground waste or contamination of fresh waters, the operator shall give written notice to the Division within five (5) working days and proceed with diligence to use the appropriate method and means to eliminate such hazard. If such hazard of waste or contamination of fresh water cannot be eliminated, the well shall be properly plugged and abandoned.

RULE 109. - BLOWOUT PREVENTION (See Rule 114 B. also)

(as of 3-1-91)

A. Blowout preventers shall be installed and maintained in good working order on all drilling rigs operating in areas of known high pressures at or above the projected depth of the well and in all areas where pressures which will be encountered are unknown, and on all workover rigs working on wells in which high pressures are known to exist.

B. Blowout preventers shall be installed and maintained in good working order on all drilling rigs and workover rigs operating within the corporate limits of any city, town, or village, or within 1320 feet of habitation, school, or church, wherever located.

C. All operators, when filing Form C-101, Application for Permit to Drill, Deepen, or Plug Back, or Form C-103, Sundry Notices, for any operation requiring blowout prevention equipment in accordance with Sections A. and B. above, shall submit a proposed blowout prevention program for the well. The program as submitted may be modified by the District Supervisor if, in his judgement, such modification is necessary.

RULE 110. - PULLING OUTSIDE STRINGS OF CASING

(as of 3-1-91)

In pulling outside strings of casing from any oil or gas well, the space outside the casing left in the hole shall be kept and left full of mud-laden fluid or cement of adequate specific gravity to seal off all fresh and salt water strata and any strata bearing oil or gas not producing.

RULE 111. - DEVIATION TESTS AND DIRECTIONAL DRILLING

(as of 3-1-91)

A. Any well which is drilled or deepened with rotary tools shall be tested at reasonably frequent intervals to determine the deviation from the vertical. Such tests shall be made at least once each 500 feet or at the first bit change succeeding 500 feet. A tabulation of all deviation tests run, sworn to and notarized, shall be filed with Form C-104, Request for Allowable and Authorization to Transport Oil and Natural Gas. When the deviation averages more than five degrees in any 500-foot interval, the operator shall include the calculations of the maximum possible horizontal displacement of the hole and the Division Director may require that a directional survey be run to establish the location of the producing interval(s).

B. The Division Director, at the request of an offset operator, may require any operator to make a directional survey of any well. Said directional survey and all associated costs shall be at the expense of the requesting party and shall be secured in advance by a \$5,000 indemnity bond posted with and approved by the Division. The requesting party may designate the well survey company, and said survey shall be witnessed by the Division.

C. Except as provided in Paragraph D. below, no well shall be intentionally deviated without special permission from the Division. Permission to deviate toward the vertical to straighten a crooked hole, to deviate toward the vertical or in an indeterminate direction to sidetrack junk in the hole, or to drill a relief well to control a blow-out shall be obtained from the appropriate District Office of the Division on Division Form C-103 with copies of said Form C-103 being furnished to all offset operators. Upon request from the Division Director, any well which was deviated in an indeterminate direction or toward the vertical shall be directionally surveyed. In addition, a directional survey of the entire well bore must be made on any well which was deviated in a predetermined direction, except toward the vertical. The District Office of the Division shall be notified of the approximate time all directional surveys are to be conducted. All directional surveys run on any well which was intentionally deviated in any manner for any reason must be filed with the Division upon completion of the well. The Division will not assign an allowable to a well until the operator has submitted an affidavit that all such directional surveys have been filed.

D. The Division Director shall have the authority to grant administrative approval to intentionally deviate a well from vertical when:

(1) the surface location is not a satisfactory drillsite due to topographic conditions or other surface obstructions, and,

(2) the bottomhole location is orthodox or an unorthodox location previously approved.

E. Applications for administrative approval shall be filed in TRIPLICATE and shall be accompanied by plats showing both the surface location and targeted bottomhole location. The application shall state the reason(s) for deviating the subject well and include a site map and/or topography map illustrating the surface obstruction. The bottomhole location obtained will be considered reasonable and satisfactory if the actual location at total depth is orthodox or is no more than 50 feet from the approved bottomhole location.

F. All operators of proration or spacing units offsetting the unit for which the permit to deviate is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the application upon receipt of waivers from all offset operators or if no offset operator has entered an objection within 20 days after the Director has received the application.

G. The Division Director may, at his discretion, set any application for administrative approval for directional drilling for public hearing.

H. Permission to deviate a well in any manner or for any other reason not provided for in these rules will be granted only after notice and hearing.

#### RULE 112-A - MULTIPLE COMPLETIONS

(as of 3-1-91)

A. The multiple completion of any well may be permitted only as hereinafter provided. Multiple completion of any well without prior approval by the Division shall be solely at the operator's risk and shall in no way commit the Division to subsequent approval thereof.

#### B. District Approval

(1) The Supervisor of the appropriate Division district may authorize the multiple completion (qualifying conventional, tubingless, or combination) whenever the zones to be completed are to be produced through tubing or through casing where such casing has an outside diameter of 2.875 inches or less. The supervisor may authorize one gas zone to be produced through a casing-tubing annulus if such zone produces no more than one barrel of liquids per day.

(2) To obtain approval for multiple completion the operator shall file four copies of Division Form C-107 (Application for Multiple Completion) with the appropriate district office. Form C-107 shall be accompanied by a diagrammatic sketch of the Multiple Completion, showing all casing strings, including diameters and setting depths, centralizers and/or turbolizers and location thereof, quantities used and top of cement, perforated intervals, tubing strings, including diameters and setting depth, location of packers, side door chokes, and such other information as may be pertinent.

(3) The district supervisor may forward any application to the Director of the Division for approval.

#### C. Administrative Approval (Division Director)

(1) The Division Director may authorize the multiple completion (qualifying conventional, tubingless, or combination) not qualifying for District approval or referred to him by the district supervisor.

(2) When any gas zone of a proposed multiple completion is to be produced through a casing-tubing annulus and such zone produces more than one barrel per day of liquids, the applicant shall furnish proof that such liquids may be efficiently produced without undue use of reservoir energy for the expected producing life of the well.

(3) Application for administrative approval of a multiple completion shall be made in QUADRUPPLICATE, with two copies of the application to be mailed to the Division's Santa Fe Office, and two copies to the District office for the area in which the well is located. Application shall be made on the Division Form C-107 (Application for Multiple Completion) and shall be accompanied by the following:

- (a) Diagrammatic Sketch of the Multiple Completion, showing all casing strings, including diameters and setting depths, centralizers and/or turbolizers and location thereof, quantities used and top of cement, perforated intervals, tubing strings, including diameters and setting depth, location of packers, side door chokes, and such other information as may be pertinent.
- (b) Electrical log of the well or other acceptable log with tops and bottoms of producing zones and intervals of perforation indicated thereon. (If such log is not available at the time application is filed, it shall be submitted as hereinafter provided.)

(4) Upon receipt of a complete application the Division Director may approve the matter administratively or he may set any such application for public hearing.

#### D. Qualifying Multiple Completions

(1) The following defines those mechanical installations qualifying for District or Administrative approval of multiple completion.

- (a) The applicant proposes to utilize one of the conventional mechanical installations described below:
  - (i) The well is to be completed as a gas-gas dual or as a gas-gas-gas triple and the hydrocarbons from each of the zones can be safely and efficiently produced through parallel strings of tubing or a combination of tubing string(s) and the tubing-casing annulus; or
  - (ii) The well is to be completed as an oil-oil dual or as an oil-oil-oil triple and the hydrocarbons from each of the zones can be safely and efficiently produced through parallel strings of tubing; or
  - (iii) The well is to be completed as a combination oil and gas multiple completion and the hydrocarbons from each oil zone can be safely and efficiently produced through parallel strings of tubing and the hydrocarbons from each gas zone can be safely and efficiently produced through parallel string(s) of tubing or through a combination of tubing and the tubing-casing annulus; and
  - (iv) All strings of tubing used for the production of oil in the proposed multiple completion will have a nominal inside diameter of not less than 1.670 inches nor greater than 2.50 inches; and

(v) The downhole equipment used to segregate the separate zones of the multiple completion will be production-type packer(s), polished bore receptacles, or the equivalent, and shall effectively prevent communication between all producing zones.

(b) The applicant proposes to employ one of the following tubingless and/or combination methods of completion:

(i) Multiple Completion (Tubingless) utilizing two or more small diameter casing strings (2.875 inches OD or less), one to each common source of supply, all cemented in a common well-bore; or

(ii) Multiple Completion (Combination) utilizing a combination of small diameter (2.875 inches OD or less) and conventional diameter (greater than 2.875 inches) casing strings, all cemented in a common well-bore; and demonstrates that

(iii) Sufficient cement will be used in said multiple completion to extend throughout each pay and a minimum of 100 feet above; and

(iv) Centralizers and/or turbolizers will be installed on each joint of casing throughout each pay and on a minimum of three joints above; and

(v) Directional perforating equipment will be used in perforating all intervals in any casing string in said multiple completion which intervals are in a zone through which one or more other casing strings pass.

(2) The requirements of paragraphs (iii) and (iv) may be modified for multiple completions within given common sources of supply and within a given area if, in the opinion of the Division Director, circumstances warrant such modification.

#### E. Hearings

(1) Any multiple completion not qualifying for district or administrative approval must be set for public hearing.

(2) Application for public hearing to authorize a multiple completion shall be made in TRIPLICATE to the Division's Santa Fe office. Application may be made in accordance with Rule 1203 or on the Division Form C-107, Application for Multiple Completion, setting forth all material facts relative to the common sources of supply involved and the manner and method of completion proposed.

#### F. Operation and Testing

(1) All multiple completions, whether approved after hearing or by district or administrative procedure, shall be subject to the following rules:

(a) Prior to actual multiple completion of a well, the operator shall make adequate pressure tests of the casing to determine that no casing leaks exist. Results of casing tests shall be reported to the Division on Form C-103.

(b) The well shall be completed and thereafter produced in such a manner that there will be no commingling of hydrocarbons from the separate strata.

- (c) The operator shall commence a segregation test and/or packer leakage test not later than fifteen (15) days after actual multiple completion of the well. Segregation tests and/or packer leakage tests shall also be made any time the packer is disturbed and at such other intervals as the Division may prescribe. The Operator shall also make all other tests and determinations deemed necessary by the Division. The Division shall be notified of the time such tests are to be commenced and tests may be witnessed by the Division at its election. Representatives of offset operators may witness such tests at their election and shall advise the producer in writing if they desire to be notified when such tests are to be conducted. Results of such tests shall be filed with the Division within fifteen (15) days after the completion of tests; provided, however, that in the event a segregation test or packer leakage test indicates that there is communication between the separate strata, the operator, shall immediately notify the Division and commence remedial action on the well.
- (d) The well shall be so equipped that reservoir pressure may be determined for each of the separate strata and further be so equipped that meters may be installed and the gas, oil and gas, and oil produced from each of the separate strata may be accurately measured, and the gas-oil ratio or the gas-liquid ratio thereof determined.
- (e) Within 20 days after the completion of the well, the operator shall furnish the Division with a diagrammatic sketch of the mechanical installation which was actually used in completing the well together with a report of the gravity, gas-oil ratio or gas-liquid ratio, and surface or bottomhole pressure for each of the separate zones, and the log of the well if the same has not been previously submitted.
- (f) No multiple completion may continue to produce in a manner which is unnecessarily wasteful of reservoir energy.
- (g) The Division may require the proper plugging of any abandoned zone of a multiply completed well if such plugging appears necessary to prevent waste or protect correlative rights.

RULE 112-B. - BRADENHEAD GAS WELLS

(as of 3-1-91)

A. The production of gas from a bradenhead gas well may be permitted only by order of the Division upon hearing, except as noted by the provisions of paragraph C. of this rule.

B. The application for such hearings shall be submitted in TRIPLICATE and shall include an exhibit showing the location of all wells on applicant's lease and all offset wells on offset leases, together with a diagrammatic sketch showing the casing program, formation tops, estimated top of cement on each casing string run and any other pertinent data, including drill stem tests.

C. The Division Director shall have authority to grant an exception to the requirements of paragraph A. above without notice and hearing where application has been filed in due form, and when the lowermost producing zone involved in the completion is an oil or gas producing zone within the defined limits of an oil or gas pool and the producing zone to be produced through the bradenhead connection is a gas producing zone within the defined limits of a gas pool.

D. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Division, and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Division Director shall wait at least 10 days before approving the production of gas from the bradenhead gas well, and shall approve such production only in the absence of objection from any offset operator. In the event an operator objects to the completion the Division Director shall consider the matter only after proper notice and hearing.

E. The Division may waive the 10-day waiting period requirement if the applicant furnishes the Division with the written consent to the production of gas from the bradenhead connection by all offset operators involved.

F. This rule shall apply only to wells hereinafter completed as bradenhead gas wells.

RULE 113. - SHOOTING AND CHEMICAL TREATMENT OF WELLS

(as of 3-1-91)

If injury results to the producing formation, injection interval, casing or casing seat from shooting, fracturing, or treating a well and which injury may create underground waste or contamination of fresh water, the operator shall give written notice to the Division within five (5) working days and proceed with diligence to use the appropriate method and means for rectifying such damage. If shooting, fracturing, or chemical treating results in irreparable injury to the well the Division may require the operator to properly plug and abandon the well.

RULE 114. - SAFETY REGULATIONS

(as of 3-1-91)

A. All oil wells shall be cleaned into a pit or tank, not less than 40 feet from the derrick floor and 150 feet from any fire hazard. All flowing oil wells must be produced through an oil and gas separator of ample capacity and in good working order. No boiler or portable electric lighting generator shall be placed or remain nearer than 150 feet to any producing well or oil tank. Any rubbish or debris that might constitute a fire hazard shall be removed to a distance of at least 150 feet from the vicinity of wells and tanks. All waste shall be burned or disposed of in such manner as to avoid creating a fire hazard.

B. When coming out of the hole with drill pipe, drilling fluid shall be circulated until equalized and subsequently drilling fluid level shall be maintained at a height sufficient to control subsurface pressures. During course of drilling blowout preventers shall be tested at least once each 24-hour period.

RULE 115. - WELL AND LEASE EQUIPMENT

(as of 3-1-91)

A. Christmas tree fittings or wellhead connections shall be installed and maintained in first class condition so that all necessary pressure tests may easily be made on flowing wells. On oil wells the Christmas tree fittings shall have a test pressure rating at least equivalent to the calculated or known pressure in the reservoir from which production is expected. On gas wells the Christmas tree fittings shall have a test pressure equivalent to at least 150 percent of the calculated or known pressure in the reservoir from which production is expected.

B. Valves shall be installed and maintained in good working order to permit pressures to be obtained on both casing and tubing. Each flowing well shall be equipped to control properly the flowing of each well, and in case of an oil well, shall be produced into an oil and gas separator of a type generally used in the industry.

RULE 116. - NOTIFICATION OF FIRE, BREAKS, LEAKS, SPILLS  
AND BLOWOUTS

(as of 3-1-91)

A. The Division shall be notified of any fire, break, leak, spill, or blowout occurring at any injection or disposal facility or at any oil or gas drilling, producing, transporting, or processing facility in the State of New Mexico by the person operating or controlling such facility.

B. "Facility," for the purpose of this rule, shall include any oil or gas well, any injection or disposal well, and any drilling or workover well; any pipe line through which crude oil, condensate, casinghead or natural gas, or injection or disposal fluid (gaseous or liquid) is gathered, piped, or transported (including field flow-lines and lead-lines but not including natural gas distribution systems); any receiving tank, holding tank, or storage tank, or receiving and storing receptacle into which crude oil, condensate, injection or disposal fluid, or casinghead or natural gas is produced, received, or stored; any injection or disposal pumping or compression station including related equipment; any processing or refining plant in which crude oil, condensate, or casinghead or natural gas is processed or refined; and any tank or drilling pit or slush pit associated with oil or gas well or injection or disposal well drilling operations or any tank, storage pit, or pond associated with oil or gas production or processing operations or with injection or disposal operations and containing hydrocarbons or hydrocarbon waste or residue, salt water, strong caustics or strong acids, or other deleterious chemicals or harmful contaminants.

C. Notification of such fire, break, leak, spill, or blowout shall be in accordance with the provisions set forth below:

(1) Well Blowouts. Notification of well blowouts and/or fires shall be "immediate notification" described below. ("Well blowout" is defined as being loss of control over and subsequent eruption of any drilling or workover well, or the rupture of the casing, casinghead, or wellhead or any oil or gas well or injection or disposal well, whether active or inactive, accompanied by the sudden emission of fluids, gaseous or liquid, from the well.)

(2) "Major" Breaks, Spills, or Leaks. Notification of breaks, spills, or leaks of 25 or more barrels of crude oil or condensate, or 100 barrels or more of salt water, none of which reaches a watercourse or enters a stream or lake; breaks, spills, or leaks in which one or more barrels of crude oil or condensate or 25 barrels or more of salt water does reach a watercourse or enters a stream or lake; and breaks, spills, or leaks of hydrocarbons or hydrocarbon waste or residue, salt water, strong caustics or strong acids, gases, or other deleterious chemicals or harmful contaminants of any magnitude which may with reasonable probability endanger human health or result in substantial damage to property, shall be "immediate notification" described below.

(3) "Minor" Breaks, Spills, or Leaks. Notification of breaks, spills, or leaks of 5 barrels or more but less than 25 barrels of crude oil or condensate, or 25 barrels or more but less than 100 barrels of salt water, none of which reaches a watercourse or enters a stream or lake, shall be "subsequent notification" described below.

(4) "Gas Leaks and Gas Line Breaks. Notification of gas leaks from any source or of gas pipe line breaks in which natural or casinghead gas of any quantity has escaped or is escaping which may with reasonable probability endanger human health or result in substantial damage to property shall be "immediate notification" described below. Notification of gas pipe line breaks or leaks in which the loss is estimated to be 1000 or more MCF of natural or casinghead gas but in which there is no danger to human health nor of substantial damage to property shall be "subsequent notification" described below.

(5) Tank Fires. Notification of fires in tanks or other receptacles caused by lightning or any other cause, if the loss is, or it appears that the loss will be, 25 or more barrels of crude oil or condensate, or fires which may with reasonable probability endanger human health or result in substantial damage to property, shall be "immediate notification" as described below. If the loss is, or it appears that the loss will be at least 5 barrels but less than 25 barrels, notification shall be "subsequent notification" described below.

(6) Drilling Pits, Slush Pits, and Storage Pits and Ponds. Notification of breaks and spills from any drilling pit, slush pit, or storage pit or pond in which any hydrocarbon or hydrocarbon waste or residue, strong caustic or strong acid, or other deleterious chemical or harmful contaminant endangers human health or does substantial surface damage, or reaches a watercourse or enters a stream or lake in such quantity as may with reasonable probability endanger human health or result in substantial damage to such watercourse, stream, or lake, or the contents thereof, shall be "immediate notification" as described below. Notification of breaks or spills of such magnitude as to not endanger human health, cause substantial surface damage, or result in substantial damage to any watercourse, stream, or lake, or the contents thereof, shall be "subsequent notification" described below, provided however, no notification shall be required where there is no threat of any damage resulting from the break or spill.

(7) IMMEDIATE NOTIFICATION. "Immediate Notification" shall be as soon as possible after discovery and shall be either in person or by telephone to the district office of the Division district in which the incident occurs, or if the incident occurs after normal business hours, to the District Supervisor, the Oil and Gas Inspector, or the Deputy Oil and Gas Inspector. A complete written report ("Subsequent Notification") of the incident shall also be submitted in DUPLICATE to the appropriate district office of the Division within ten days after discovery of the incident.

(8) SUBSEQUENT NOTIFICATION. "Subsequent Notification" shall be a complete written report of the incident and shall be submitted in duplicate to the district office of the Division district in which the incident occurred within ten days after discovery of the incident.

(9) CONTENT OF NOTIFICATION. All reports of fires, breaks, leaks, spills, or blowouts, whether verbal or written, shall identify the location of the incident by quarter-quarter, section, township, and range, and by distance and direction from the nearest town or prominent landmark so that the exact site of the incident can be readily located on the ground. The report shall specify the nature and quantity of the loss and also the general conditions prevailing in the area, including precipitation, temperature, and soil conditions. The report shall also detail the measures that have been taken and are being taken to remedy the situation reported.

(10) WATERCOURSE, for the purpose of this rule, is defined as any lake-bed or gully, draw, stream bed, wash, arroyo, or natural or man-made channel through which water flows or has flowed.

#### RULE 117. - WELL LOG, COMPLETION AND WORKOVER REPORTS

Within 20 days after the completion of a well drilled for oil or gas, or the recompletion of a well into a different common source of supply, a completion report shall be filed with the Division on Form C-105. For the purpose of this rule, any hole drilled or cored below fresh water or which penetrates oil- or gas-bearing formations or which is drilled by an "owner" as defined herein shall be presumed to be a well drilled for oil or gas.

#### RULE 118. - HYDROGEN SULFIDE GAS - PUBLIC SAFETY

(as of 3-1-91)

A. The intent of this rule is to provide for the protection of the public's safety in areas where hydrogen sulfide (H<sub>2</sub>S) gas in concentrations greater than 100 parts per million (PPM) may be encountered.

B. Producing operations should be conducted with due consideration and guidance from American Petroleum Institute (API) publication "Conducting Oil and Gas Production Operations Involving Hydrogen Sulfide" (RP-55). The operator of a lease producing, or a gas processing plant handling H<sub>2</sub>S or any other related facility where H<sub>2</sub>S gas is present in concentrations of 100 PPM or more shall take reasonable measures to forewarn and safeguard persons having occasion to be on or near the property. In addition to training operator's employees in H<sub>2</sub>S safety such measures may include, but are not necessarily limited to, posting of warning signs, fencing of surface installations, installation of safety devices and wind direction indicators, and maintaining tanks, thief

hatches and gaskets, valves and piping in condition so as to prevent avoidable loss of vapors. Where release of hydrogen sulfide is unavoidable, the operator shall burn or vent the gas stream in such a manner as to avoid endangering human life.

C. Wells drilled in known H<sub>2</sub>S gas producing areas, or where there is substantial probability of encountering H<sub>2</sub>S gas in concentrations of 100 PPM or more, should be planned and drilled with due regard to and guidance from API RP-49 "Recommended Practices for Safe Drilling of Wells Containing Hydrogen Sulfide", latest edition. Wells completed and serviced by well servicing units where there is substantial probability of encountering H<sub>2</sub>S gas in concentrations of 100 PPM or more should be worked on with due regard to the latest industry accepted practices. These practices may include, but are not necessarily limited to, the proper training of personnel in H<sub>2</sub>S safety and the use of H<sub>2</sub>S safety equipment as listed for safe operations by the American Petroleum Institute draft report for "Land, Oil and Gas Well Servicing and Workover Operations Involving Hydrogen Sulfide."\*

D. Within ninety (90) days after completion of the first well on a lease, or within ninety (90) days after H<sub>2</sub>S is discovered in a gas stream, each operator shall submit in writing to the Division's district office having jurisdiction, on a form acceptable to the Division, for each lease in each pool in production at that time, the H<sub>2</sub>S concentration from an analysis of a representative sample of the gas stream. The analysis shall be performed by an industry-recognized method and procedure. The measurement report shall specify the name of the operator, lease or facility name, pool, testing point, tester, test method, and the measured H<sub>2</sub>S concentration. Tests within the past three (3) years and which are still representative may be utilized for submittal from previously producing leases. NOTE: Owners or operators of existing wells and facilities shall have until July 1, 1987, to come into compliance with this paragraph of these rules.

E. (1) Any well, lease, processing plant or related facility handling H<sub>2</sub>S gas with concentration of 500 PPM (0.05%) or more shall have a warning sign at the entrance. The sign, as a minimum, shall be legible from at least fifty (50) feet, and contain the words "poison gas." The use of existing signs will meet the requirements of this section providing they convey the intended safety message.

(2) Any lease producing gas or related facility having storage tanks containing gas with a H<sub>2</sub>S concentration of 1,000 PPM (0.1%) or more shall have, in addition to the sign required in subparagraph E. (1), a sign at the foot of the battery stairway that shall accomplish the requirements of E. (1), plus specify any protective measures that may be necessary. This paragraph does not apply to gas processing plants.

(3) Any well, lease or processing plant handling gas with H<sub>2</sub>S concentration and volume such that the H<sub>2</sub>S fraction equates to 10 MCF per day or more of H<sub>2</sub>S and which is located within one-fourth (1/4) mile of a dwelling, public place or highway shall install safety devices and maintain them in operable condition or shall establish safety procedures designed to prevent the undetected continuing escape of H<sub>2</sub>S. Wind direction indicators shall be installed at at least one strategic location at or near the site and shall be readily visible throughout the site. Also, unattended surface facilities or plants within one-fourth (1/4) mile of a dwelling or public meeting place shall be protected from public access by fencing and locking, or other equivalent security means. In addition, the operator shall prepare a contingency plan to be carried out should the public be threatened by a release. The plan shall provide for notification of endangered parties, as well as public safety personnel, for evacuation of threatened parties as warranted, and institution of measures for closing in the flow of gas. Contingency plans shall be available for Division inspection and shall be retained at the location which lends itself best to activation of any such plan. The operator, as an alternative, may utilize Figure 4.1 of API (RP-55) Revised March, 1983 and if the 100 PPM radius of exposure includes a dwelling, public place or highway, the operator must meet the public safety requirements as specified in this section.

(4) The provisions of this section shall be applicable within 30 days after the filing of sample data showing the existence and concentration of H<sub>2</sub>S gas described in Paragraphs E. (1) through E. (3) above. In unusual circumstances guidance on placement and content of signs may be obtained from the supervisor of the appropriate Division District Office.

F. The Director of the Division may administratively grant exceptions or extensions to the requirements of this rule for good cause shown and where such exception will not result in a threat to human life.

\*At such time as the American Petroleum Institute adopts the "Recommended Practice for Land Oil and Gas Well Servicing and Workover Operations on Involving Hydrogen Sulfide", it shall take the place of any previous draft reports.

D - ABANDONMENT AND PLUGGING OF WELLS

RULE 201. - WELLS TO BE PROPERLY ABANDONED

(as of 3-1-91)

A. The operator of any well drilled for oil, gas or injection; for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.

B. A well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within ninety (90) days after:

- (1) A sixty (60) day period following suspension of drilling operations, or
- (2) A determination that a well is no longer usable for beneficial purposes, or
- (3) A period of one (1) year in which a well has been continuously inactive.

RULE 202. - PLUGGING AND PERMANENT ABANDONMENT

(as of 3-1-91)

A. NOTICE OF PLUGGING

(1) Notice of intention to plug must be filed with the Division on Form C-103, Sundry Notices and Reports on Wells, by the operator prior to the commencement of plugging operations, which notice must provide all of the information required by Rule 1103 including operator and well identification and proposed procedures for plugging said well, and in addition the operator shall provide a well-bore diagram showing the proposed plugging procedure. Twenty-four hours notice shall be given prior to commencing any plugging operations. In the case of a newly drilled dry hole, the operator may obtain verbal approval from the appropriate District Supervisor or his representative of the method of plugging and time operations are to begin. Written notice in accordance with this rule shall be filed with the Division ten (10) days after such verbal approval has been given.

B. PLUGGING

(1) Before any well is abandoned, it shall be plugged in a manner which will permanently confine all oil, gas and water in the separate strata in which they are originally found. This may be accomplished by using mud-laden fluid, cement and plugs singly or in combination as approved by the Division on the notice of intention to plug.

(2) The operator shall mark the exact location of plugged and abandoned wells with a steel marker not less than four inches (4") in diameter set in cement and extending a least four feet (4') above mean ground level. The operator name, lease name and well number and location, including unit letter, section, township and range, shall be welded, stamped or otherwise permanently engraved into the metal of the marker.

(3) As soon as practical but no later than one year after the completion of plugging operations, the operator shall:

- (a) fill all pits;
- (b) level the location;
- (c) remove deadmen and all other junk; and
- (d) take such other measures as are necessary or required by the Division to restore the location to a safe and clean condition.

(4) Upon completion of plugging and clean up restoration operations as required, the operator shall contact the appropriate district office to arrange for an inspection of the well and location.

C. Reports

(1) The operator shall file Form C-105, Well Completion or Recompletion Report and Log as provided in Rule 1105.

(2) Within thirty (30) days after completing all required restoration work, the operator shall file with the Division, in TRIPLICATE, a record of the work done on Form C-103 as provided in Rule 1103.

(3) The Division shall not approve the record of plugging or release any bonds until all necessary reports have been file and the location has been inspected and approved by the Division.

RULE 203. - TEMPORARY ABANDONMENT

(as of 3-1-91)

A. WELLS WHICH MAY BE TEMPORARILY ABANDONED

(1) The Division may permit any well which is required to be properly abandoned under these rules but which has potential for future beneficial use for enhanced recovery or injection, and any other well for which an operator requests temporary abandonment, to be temporarily abandoned for a period of up to five (5) years. Prior to the expiration of any approved temporary abandonment the operator shall return the well to beneficial use under a plan approved by the Division, permanently plug and abandon said well or apply for a new approval to temporarily abandon the well.

B. REQUEST FOR APPROVAL AND PERMIT

(1) Any operator seeking approval for temporary abandonment shall submit on Form C-103, Sundry Notices and Reports on Wells, a notice of intent to temporarily abandon the well describing the proposed temporary abandonment procedure to be used. No work shall be commenced until approved by the Division and the operator shall give 24 hours notice to the appropriate District office of the Division before work actually begins.

(2) No temporary abandonment shall be approved unless evidence is furnished to show that the casing of such well is mechanically sound and in such condition as to prevent:

- (a) damage to the producing zone;
- (b) migration of hydrocarbons or water;
- (c) the contamination of fresh water or other natural resources; and
- (d) the leakage of any substance at the surface.

(3) If the well fails the mechanical integrity test required herein, the well shall be plugged and abandoned in accordance with these rules or the casing problem corrected and the casing retested within ninety (90) days.

(4) Upon successful completion of the work on the temporarily abandoned well, the operator will submit a request for Temporary Abandonment to the appropriate district office on Form C-103 together with such other information as is required by Rule 1103 E.(1).

(5) The Division may require the operator to post with the Division a one-well plugging bond for the well in an amount to be determined by the Division to be satisfactory to meet the particular requirements of the well.

(6) The Division shall specify the expiration date of the permit, which shall be not more than five (5) years from the date of approval.

C. TESTS REQUIRED

(1) The following methods of demonstrating casing integrity may be approved for temporarily abandoning a well:

(a) A cast iron bridge plug will be set within one hundred (100) feet of uppermost perforations or production casing shoe and the casing loaded with inert fluid and pressure tested to 500 pounds per square inch with a pressure drop of not more than 10% for thirty (30) minutes; or

(b) A retrievable bridge plug or packer will be run to within one hundred (100) feet of uppermost perforations or production casing shoe and the well tested to 500 pounds per square inch for thirty minutes with a pressure drop of not greater than 10% for thirty (30) minutes; or

(c) For a gas well in southeast New Mexico completed above the San Andres formation, if the operator can demonstrate that the fluid level is below the base of the salt and that a Bradenhead test shows no casing leaks, the Division may exempt the well from the requirement for a bridge plug or packer; or

(d) a casing inspection log confirming the mechanical integrity of the production casing may be submitted.

(2) Any such test which is submitted must have been conducted within the previous twelve (12) months.

(3) The Division may approve other casing tests submitted on Form C-103 on an individual basis.

RULE 204. - WELLS TO BE USED FOR FRESH WATER

(as of 3-1-91)

A. When a well to be plugged may safely be used as a fresh water well and the landowner agrees to take over said well for such purpose, the well need not be plugged above the sealing plug set below the fresh water formation.

B. The operator must comply with all other requirements contained in Rule 202 regarding plugging, including surface restoration and reporting requirements.

C. Upon completion of plugging operations, the operator must file with the Division a written agreement signed by the landowner whereby the landowner agrees to assume responsibility for such well. Upon the filing of this agreement and approval by the Division of well abandonment operations, the operator shall no longer be responsible for such well, and any bonds thereon may be released.

E - OIL PRODUCTION OPERATING PRACTICES

RULE 301. - GAS-OIL RATIO AND PRODUCTION TESTS

(as of 3-1-91)

A. Each operator shall take a gas-oil ratio test no sooner than 20 days nor later than 30 days following the completion or recompletion of each oil well, if:

- (1) the well is a wildcat, or
- (2) the well is located in a pool which is not exempt from the requirements of this rule.

(Wells completed within one mile of the outer boundary of a defined oil pool producing from the same formation shall be governed by the provisions of this rule which are applicable to the pool.) The results of the test shall be reported to the Division on Form C-116 within 10 days following completion of the test. The gas-oil ratio thus reported shall become effective for proration purposes on the first day of the calendar month following the date they are reported.

(3) Each operator shall also take an annual gas-oil ratio test of each producing oil well, located within a pool not exempted from the requirements of this rule, during a period prescribed by the Division. A gas-oil ratio survey schedule shall be established by the Division setting forth the period in which gas-oil ratio tests are to be taken for each pool wherein a test is required. The gas-oil ratio test shall be such test designated by the Division, made by such method and means, and in such manner as the Division in its discretion may prescribe from time to time.

B. The results of gas-oil ratio tests taken during survey periods shall be filed with the Division on Form C-116 not later than the 10th of the month following the close of the survey period for the pool in which the well is located. The gas-oil ratios thus reported shall become effective for proration purposes on the first day of the second month following the close of the survey period. Unless Form C-116 is filed within the required time limit, no further allowable will be assigned the affected well until Form C-116 is filed.

C. In the case of special tests taken between regular gas-oil ratio surveys, the gas-oil ratio shall become effective for proration purposes upon the date Form C-116, reporting the results of such test, is received by the Division. A special test does not exempt any well from the regular survey.

D. During gas-oil ratio test, no well shall be produced at a rate exceeding top unit allowable for the pool in which it is located by more than 25 percent.

E. The Division Director shall have the authority to exempt such pools as he may deem proper from the gas-oil ratio test requirements of this rule. Such exemption shall be by executive order directed to all operators in the pool being exempted.

F. The Division Director shall have the authority to require annual productivity tests of all oil wells in pools exempt from gas-oil ratio tests, during a period prescribed by the Division. An oil well productivity survey schedule shall be established by the Division setting forth the period in which productivity tests are to be taken for each pool wherein such tests are required.

G. The results of productivity tests taken during survey periods shall be filed with the Division on Form C-116 (with the word "Exempt" inserted in the column normally used for reporting gas production) not later than the 10th of the month following the close of the survey period for the pool in which the well is located. Unless Form C-116 is filed within the required time limit, no further allowable will be assigned the affected well until Form C-116 is filed.

H. In the case of special productivity tests taken between regular test survey periods, which result in a change of allowable assigned to the well, the allowable change shall become effective upon the date

the Form C-116 is received by the proration department. A special test does not exempt any well from the regular survey.

I. During the productivity test, no well shall be produced at a rate exceeding top unit allowable for the pool in which it is located by more than 25 percent.

RULE 302. - SUBSURFACE PRESSURE TESTS

(as of 3-1-91)

The operator shall make a subsurface pressure test on the discovery well of any new pool hereafter discovered, and shall report the results thereof to the Division within 30 days after the completion of such discovery well. On or before December 1 of each calendar year the Division shall designate the months in which subsurface pressure tests shall be taken in designated pools. Included in the designated list shall be listed the required shut-in pressure time and datum of tests to be taken in each pool. In the event a newly discovered pool is not included in the Division's list, the Division shall issue a supplementary Bottom Hole Pressure Schedule. Tests as designated by the Division shall only apply to flowing wells in each pool. This test shall be made by a person qualified by both training and experience to make such test, and with an approved subsurface pressure instrument which shall be calibrated against an approved dead-weight tester at intervals frequent enough to ensure its accuracy within one percent. Unless otherwise designated by the Division all wells shall remain completely shut in for at least 24 hours prior to the test. In the event a definite datum is not established by the Division the subsurface determination shall be obtained as close as possible to the mid-point of the productive sand of the reservoir. The report shall be on Form C-124 and shall state the name of the pool, the pool datum (if established), the name of the operator and lease, the well number, the wellhead elevation above sea level, the date of the test, the total time the well was shut in prior to the test, the subsurface temperature in degrees Fahrenheit at the test depth, the depth in feet at which the subsurface pressure test was made, the observed pressure in pounds per square inch gauge (corrected for calibration and temperature), the corrected pressure computed from applying to the observed pressure the appropriate correction for difference in test depth and reservoir datum plane and any other information as required by Form C-124.

RULE 303. - SEGREGATION OF PRODUCTION FROM POOLS

(as of 3-1-91)

A. SEGREGATION REQUIRED

(1) Each pool shall be produced as a single common source of supply and wells therein shall be completed, cased, maintained, and operated so as to prevent communication, within the wellbore, with any other specific pool or horizon, and the production therefrom shall at all times be actually segregated, and the commingling or confusion of such production, before marketing, with the production from any other pool or pools is strictly prohibited.

B. SURFACE COMMINGLING

(1) The Division Director shall have the authority to grant an exception to Rule 303-A to permit the commingling in common facilities of the commonly owned production from two or more common sources of supply, without notice and hearing, provided that the liquid hydrocarbon production from each common source of supply is to be accurately measured or determined prior to such commingling in accordance with the applicable provisions of the Division's "Manual for the Installation and Operation of Commingling Facilities," then current.

(2) Application for administrative approval to commingle the production from two or more common sources of supply shall be filed in TRIPLICATE with the Santa Fe Office of the Division. The application must contain detailed data as to the gravities of the liquid hydrocarbons, the values thereof, and the volumes of the liquid hydrocarbons production from each pool, as well as the expected gravity and value of the commingled liquid hydrocarbons production; a schematic diagram of the proposed installation; a plat showing the location of all wells on the applicant's lease and the pool from which each well is producing. The application shall also state specifically whether the actual commercial value of such commingled production will be less than the sum of the values of the production from each common source of supply and, if so, how much less.

(3) Where State and Federal lands are involved, applicant shall furnish evidence that the Commissioner of Public Lands for the State of New Mexico or the Regional Supervisor of the United States Bureau of Land Management has consented to the proposed commingling.

C. DOWNHOLE COMMINGLING

(1) The Director of the Division shall have the authority to grant an exception to Rule 303-A to permit the commingling in the well bore of oil-oil, gas-gas, or gas-oil zones in a well when the following facts exist and the following conditions are met:

(a) For Wells Involving Oil Zones:

- (i) The total combined daily oil production from oil zones before commingling (as determined in accordance with Section D, paragraphs (4) and (5) below) does not exceed the following:

| <u>Bottom perforation, lowermost pool</u> | <u>Bbls/day oil</u> |
|---|---------------------|
| Less than 4,999 feet                      | 20                  |
| 5,000 feet to 5,999 feet                  | 30                  |
| 6,000 feet to 6,999 feet                  | 40                  |
| 7,000 feet to 7,999 feet                  | 50                  |
| 8,000 feet to 8,999 feet                  | 60                  |
| 9,000 feet to 9,999 feet                  | 70                  |
| More than 10,000 feet                     | 80                  |

- (ii) Oil zones require artificial lift, or, both zones are capable of flowing. (Special consideration may be given to an exception to this latter requirement in the case in which a particular well's characteristics may justify same; however, the commingled production must be artificially lifted if either zone required artificial lift prior to commingling.)
- (iii) Neither zone produces more water than the combined oil limit as determined in paragraph (i) above.
- (iv) The fluids from each zone are compatible with the fluids from the other, and combining the fluids will not result in the formation of precipitates which might damage either reservoir.
- (v) The total value of the crude will not be reduced by commingling.
- (vi) Ownership of the zones to be commingled is common (including working interest, royalty, and overriding royalty).
- (vii) The commingling will not jeopardize the efficiency of present or future secondary recovery operations in either of the zones to be commingled.

(b) For Wells Involving A Gas Zone:

- (i) That the commingling is necessary to permit a zone or zones to be produced which would not otherwise be economically producible.

- (ii) That there will be no crossflow between the zones to be commingled.
- (iii) That any zone which is producing from fluid-sensitive sands, which may be subject to damage from water or other produced liquids, is protected from contact from such liquids produced from other zones in the well.
- (iv) The fluids from each zone are compatible with the fluids from the other(s), and combining the fluids will not result in the formation of precipitates which might damage any of the reservoirs.
- (v) That ownership of the zones to be commingled is common (including working interest, royalty, and overriding royalty).
- (vi) The bottomhole pressure of the lower pressure zone is not less than 50 percent of the bottom hole pressure of the higher pressure zone adjusted to a common datum.

D. To obtain approval for downhole commingling, the operator of the well shall submit the following in DUPLICATE to the Division Director plus one copy to the appropriate District Office of the Division.

- (1) Name and address of the operator.
- (2) Lease name, well number, well location, name of the pools to be commingled.
- (3) A plat of the area showing the acreage dedicated to the well and the ownership of all offsetting leases.
- (4) A current (within 30 days) 24-hour productivity test on Division Form C-116 showing the amount of oil, gas, and water produced from each zone.
- (5) A production decline curve for both zones showing that for a period of at least one year a steady rate of decline has been established for each zone which will permit a reasonable allocation of the commingled production to each zone for statistical purposes. (This requirement may be dispensed with in the case of a newly completed or recently completed well which has little or no production history. However, a complete resume of the well's completion history including description of treating, testing, etc., of each zone, and a prognostication of future production from each zone shall be submitted.)
- (6) Estimated bottomhole pressure for each artificially lifted zone. A current (within 30 days) measured bottomhole pressure for each zone capable of flowing.
- (7) A description of the fluid characteristics of each zone showing that the fluids will not be incompatible in the well-bore.
- (8) A computation showing that the value of the commingled production will not be less than the sum of the values of the individual streams.
- (9) A formula for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formula.
- (10) A statement that all offset operators and, in the case of a well on federal land, the United States Bureau of Land Management, have been notified in writing of the proposed commingling.

E. The Division Director may approve the proposed downhole commingling in the absence of a valid objection within 20 days after the receipt of the application if, in his opinion, there is no disqualifying disparity of bottomhole pressures or other reservoir characteristics, waste will not result thereby, and

correlative rights will not be violated. The 20-day waiting period may be dispensed with upon receipt of waivers of objection from all parties mentioned in Section D, paragraph 10.

F. Upon such approval, the well shall be operated in accordance with the provisions of the administrative order which authorized the commingling, and allocation of the commingled production from the well to each of the producing zones shall be in accordance with the allocation formula set forth in the order. The production from a well with commingled oil zones shall be subject to the lower of the daily gas-oil ratio limitations applicable to the reservoirs. The production attributable to an oil zone commingled with a gas zone shall be subject to the daily gas-oil ratio limitation applicable to such oil zone or pool. Wells shall be tested on a commingled basis annually, except that a well penalized for a high gas-oil ratio shall be tested semi-annually.

G. The Division Director may rescind authority to commingle production in the wellbore and require both zones to be produced separately, if, in his opinion, waste or reservoir damage is resulting thereby or the efficiency of any secondary recovery project is being impaired, or if any change of conditions renders the installation no longer eligible for downhole commingling under the provision of Section (1)(a) or (1)(b).

RULE 304. - CONTROL OF MULTIPLE COMPLETED WELLS

(as of 3-1-91)

Multiple completed wells which have been authorized by the Division shall at all times be operated, produced, and maintained in a manner to ensure the complete segregation of the various common sources of supply. The Division may require such tests as it deems necessary to determine the effectiveness of segregation of the different common sources of supply.

RULE 305. - METERED CASINGHEAD GAS

(as of 3-1-91)

The owner of a lease shall not be required to measure the exact amount of casinghead gas produced and used by him for fuel purposes in the development and normal operation of the lease. All casinghead gas produced and sold or transported away from a lease, except small amounts of flare gas, shall be metered and reported in standard cubic feet monthly to the Division. The amount of casinghead gas sold in small quantities for use in the field may be calculated upon a basis generally acceptable in the industry, or upon a basis approved by the Division in lieu of meter measurements.

RULE 306. - CASINGHEAD GAS

(as of 3-1-91)

A. No casinghead gas produced from any well in this state shall be flared or vented after 60 days following completion of the well.

B. Any operator seeking an exception to the foregoing shall file an application therefor on Division Form C-129, Application for Exception to No-Flare Rule 306. Form C-129 shall be filed in TRIPLICATE with the appropriate district office of the Division. The district supervisor may grant an exception when the same appears reasonably necessary to protect correlative rights, prevent waste, or prevent undue hardships on the applicant. The district supervisor shall either grant the exception within ten days after receipt of the application or refer it to the Division Director who will advertise the matter for public hearing if a hearing is desired by the applicant.

C. The flaring or venting by an operator of gas from any well in violation of this rule will result in suspension of the allowable assigned to the well.

D. No extraction plant processing gas in the State of New Mexico shall flare or vent such gas unless such flaring or venting is made necessary by mechanical difficulty of a very limited temporary nature or unless the gas flared or vented is of no commercial value.

E. In the event of a more prolonged mechanical difficulty or in the event of plant shut-downs or curtailment because of scheduled or non-scheduled maintenance or testing operations or other reasons, or in the event a plant is unable to accept, process, and market all of the casinghead gas produced by wells connected to its system, the plant operator shall notify the Division as soon as possible of the full details of such shut-down or curtailment, following which the Division shall take such action as is necessary to reduce the total flow of gas to such plant.

F. Pending connection of a well to a gas-gathering facility, or when a well has been excepted from the provisions of Paragraph A. of this rule, all gas produced and not utilized shall be burned, and the estimated volume reported on the monthly production report, Form C-115.

G. The provisions of Paragraph A. of this rule shall not be applicable to wells completed prior to January 1, 1971, in pools which had no gas-gathering facilities on that date, provided however, said provisions shall be applicable to all wells in such a pool 60 days after the date of first casinghead gas connection in the pool.

RULE 307. - USE OF VACUUM PUMPS (as of 3-1-91)

Vacuum pumps or other devices shall not be used for the purpose of creating a partial vacuum in any stratum containing oil or gas.

RULE 308. - SALT OR SULPHUR WATER (as of 3-1-91)

Operators shall report monthly on Form C-115 the amount of water produced with the oil and gas from each well.

RULE 309.-A. - CENTRAL TANK BATTERIES - AUTOMATIC CUSTODY TRANSFER EQUIPMENT (as of 3-1-91)

A. Oil shall not be transported from a lease until it has been received and measured in a facility of an approved design located on the lease. Such facilities shall permit the testing of each well at reasonable intervals and may be comprised of manually gauged closed stock tanks for which proper strapping tables have been prepared, with a maximum of sixteen proration units producing into said tanks, or of automatic custody transfer (ACT) equipment. The use of such automatic custody transfer equipment shall be permitted only after compliance with the following:

(1) The operator shall file with the Division Form C-106, Notice of Intention to Utilize Automatic Custody Transfer Equipment, and shall receive approval thereof prior to transferring oil through the ACT system. The carrier shall not accept delivery of oil through the ACT system until Form C-106 has been approved.

B. Form C-106 shall be submitted in QUADRUPPLICATE to the appropriate District Office of the Division and shall be accompanied (in QUADRUPPLICATE) by the following:

(1) Plat of the lease showing thereon all wells which will be produced into the ACT system.

(2) Schematic diagram of the ACT equipment, showing thereon all major components such as surge tanks and their capacity, extra storage tanks and their capacity, transfer pumps, monitors, reroute valves, treaters, samplers, strainers, air and gas eliminators, back pressure valves, metering devices, (indicating type and capacity, i.e. whether automatic measuring tank, positive volume metering chamber, weir-type measuring vessel, or positive displacement meter). Schematic diagram shall also show means employed to prove accuracy of measuring device.

(3) Letter from transporter agreeing to utilization of ACT system as shown on schematic diagram.

C. Form C-106 will not be approved by the Division unless the ACT system is to be installed and operated in compliance with the following:

(1) Provision must be made for accurate determination and recording of uncorrected volume and applicable temperature, or of temperature corrected volume. The overall accuracy of the system shall equal or surpass manual methods.

(2) Provision must be made for representative sampling of the oil transferred for determination of API gravity and BSW content.

(3) Provision must be made if required by either the producer or the transporter of the oil to give adequate assurance that only merchantable oil is run by the ACT system.

(4) Provision must be made for set-stop counters to stop the flow of oil through the ACT system at or prior to the time the allowable has been run. All counters shall provide non-reset totalizers which shall be visible for inspection at all times.

(5) All necessary controls and equipment must be enclosed and sealed, or otherwise be so arranged as to provide assurance against, or evidence of, accidental or purposeful mismeasurement resulting from tampering.

(6) All components of the ACT system shall be properly sized to ensure operation within the range of their established ratings. All components of the system which require periodic calibration and/or inspection for proof of continued accuracy must be readily accessible. The frequency and methods of such calibration and/or inspection shall be set forth in Rule 309-A, D (3).

(7) The control and recording system must include adequate fail-safe features which will provide assurance against mismeasurement in the event of power failure, or the failure of the ACT system's component parts.

(8) (a) The ACT system and allied facilities shall include such fail-safe equipment as may be necessary, including high level switches in the surge tank or overflow storage tank which, in the event of power failure or malfunction of the ACT or other equipment, will shut down all artificially lifted wells connected to the ACT system and will shut in all flowing wells at the well-head or at the header manifold, in which latter case all flowlines shall be pressure-tested to at least 1 1/2 times the maximum well-head shut-in pressure prior to initial use of the ACT system and each two years thereafter.

(b) As an alternative to the requirements of paragraph (8) (a) above, the producer shall provide and shall at all times maintain a minimum of available storage capacity above the normal high working level of the surge tank to receive and hold the amount of oil which may be produced during maximum unattended time of lease operation.

D. (1) In all ACT systems employing automatic measuring tanks, weir-type measuring vessels, positive volume metering chambers, or any other volume measuring container, the container and allied components shall be properly calibrated prior to initial use and shall be operated, maintained, and inspected as necessary to ensure against incrustation, changes in clingage factors, valve leakage or other leakage, and improper action of floats, level detectors, etc.

(2) In all ACT systems employing positive displacement meters, the meter(s) and allied components shall be properly calibrated prior to initial use and shall be operated, maintained, and inspected as necessary to ensure against mismeasurement of oil.

(3) The measuring and recording devices of all ACT systems shall be checked for accuracy at least once each month unless exception to such determination has been obtained from the Division Director. API Standard 1101, "Measurement of Petroleum Liquid Hydrocarbons by Positive Displacement Meter," shall be used where applicable. Meters may be proved against Master Meters, Portable Prover Tanks, or Prover Tanks permanently installed on the lease. If permanently installed Prover Tanks are used, the distance between the opening and closing levels and the provision for determining the opening and closing readings shall be sufficient to detect variations of 5/100 of one percent. Reports of determination shall be filed on the Division Form entitled "Meter Test Report," or on another acceptable form and shall be submitted in DUPLICATE to the appropriate District office of the Division.

(4) To obtain exception to the requirement of Paragraph (3) above that all measuring and recording devices be checked for accuracy once each month, either the producer or transporter may file such a request with the Division Director setting forth all facts pertinent to such exception. The application shall include a history of the average factors previously obtained, both tabulated and plotted on a graph of factors versus time, showing that the particular installation has experienced no erratic drift. The applicant shall also furnish evidence that the other interested party has agreed to such exception. The Division Director may then set the frequency for determination of the system's accuracy at the interval which he deems prudent.

E. Failure to operate an automatic custody transfer system in compliance with this rule shall subject the approval thereof to revocation by the Division.

RULE 309.-B. - ADMINISTRATIVE APPROVAL, LEASE COMMINGLING

(as of 3-1-91)

A. The Division Director shall have authority to grant exceptions to Rule 309-A to permit the commingling of production from two or more separate leases in a common tank battery without notice and hearing, provided application has been filed in TRIPLICATE with the Division and is accompanied by plats of the leases showing thereon the wells on the leases and the formations in which they are completed, and schematic diagrams of the commingling facility, showing it to be of an acceptable design in accordance with the Division "Manual for the Installation and Operation of Commingling Facilities," then current, and provided further that:

(1) All production is from the same common source of supply or an exception to Rule 303 A. (1) has been obtained.

(2) Adequate facilities will be provided for accurately determining production from each well at reasonable intervals.

(3) All parties owning an interest in the leases and the purchaser of the commingled production therefrom have consented in writing to the commingling of production from the separate leases.

(4) In lieu of paragraph (3) of this rule, the applicant may furnish proof of the fact that said parties were notified by registered or certified mail of his intent to commingle production from the separate leases. The Division Director may approve the application if, after a period of 20 days following receipt of the application, no party has made objection to the application.

(5) In addition to the foregoing requirements for administrative approval to commingle production from two or more separate leases, the following requirements shall also apply:

(a) To commingle production from two or more separate leases in a common tank battery without first separately measuring the production from each such lease, the ownership of the leases must be common throughout. This shall include working interest ownership, royalty ownership, and overriding royalty ownership.

(b) To commingle production from two or more separate leases in a common tank battery where there is a diversity of ownership (whether in working interest,

royalty interest, or overriding royalty interest) the hydrocarbon production from each lease shall be accurately measured and determined in accordance with the applicable provisions of the Division "Manual for the Installation and Operation of Commingling Facilities," then current.

RULE 309.-C. - ADMINISTRATIVE APPROVAL, OFF-LEASE STORAGE

(as of 3-1-91)

A. For good cause shown, the Division Director shall have authority to grant an exception to Rule 309-A to permit the production from one lease to be transported prior to measurement to another lease for storage thereon, provided an application reflecting ownership of the lease has been filed in TRIPLICATE with the Division and is accompanied by plats of the leases showing thereon the wells on the leases and the formations in which they are completed and the proposed location of the tank battery, and provided further that:

- (1) All production is from the same common source of supply.
- (2) Commingling of production from the two leases will not result.
- (3) There will be no intercommunication of the handling, separating, treating or storage facilities designated to each lease.
- (4) All parties owning an interest in the leases have consented in writing to the off-lease storage.

(5) In lieu of paragraph (4) of this rule, the applicant may furnish proof of the fact that said parties were notified by registered or certified mail of his intent to transport prior to measurement the production from one lease to another lease for storage. The Division Director may approve the application if, after a period of 20 days following receipt of the application, no party has made objection to the application.

(6) Where State or Federal lands are involved, the applicant shall furnish evidence that the Commissioner of Public Lands for the State of New Mexico or the Regional Supervisor of the United States Bureau of Land Management has consented to the proposed off-lease storage.

RULE 310.- TANKS, OIL TANKS, FIRE WALLS, AND  
TANK IDENTIFICATION

(as of 3-1-91)

A. Oil shall not be stored or retained in earthen reservoirs, or in open receptacles. Dikes or fire walls shall not be required except such fire walls must be erected and kept around all permanent oil tanks, or battery of tanks that are within the corporate limits of any city, town or village, or where such tanks are closer than 150 feet to any producing oil or gas well or 500 feet to any highway or inhabited dwelling or closer than 1000 feet to any school or church, or where such tanks are so located as to be deemed an objectional hazard within the discretion of the Division. Where fire walls are required, fire walls shall form a reservoir having a capacity one-third larger than the capacity of the enclosed tank or tanks.

B. After August 1, 1982, all oil tanks, tank batteries, automatic custody transfer systems, tanks used for salt water collection or disposal, and tanks used for sediment oil treatment or storage shall be identified by a sign posted on or not more than 50 feet from the tank, tank battery, or system. Such signs shall be of durable construction and the lettering thereon shall be kept in a legible condition and shall be large enough to be legible under normal conditions at a distance of 50 feet and shall identify the name of the operator, the name of the lease(s) being served by the tank(s) or system, if any, and the location of such tank(s) or system by unit letter, section, township, and range.

RULE 311. - SEDIMENT OIL, TANK CLEANING, AND  
TRANSPORTATION OF MISCELLANEOUS HYDROCARBONS

(as of 3-1-91)

A. "Sediment Oil" is defined as tank bottoms and any other accumulations of liquid hydrocarbons on an oil and gas lease, which hydrocarbons are not merchantable through normal channels.

B. No tank shall be cleaned of sediment oil nor shall sediment oil be removed from any lease without prior approval of the appropriate Division district office. Authorization for tank cleaning may be received by the operator of the lease or by the company contracted or otherwise authorized to perform the tank cleaning by obtaining approval on Form C-117-A (Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit). No operator, contractor, or other party shall engage in the cleaning of any tank of sediment oil or the removal of sediment oil from any lease without an approved copy of Form C-117-A at the site.

C. No sediment oil shall be destroyed unless and until the appropriate Division district office has approved an application to destroy the same on Form C-117-A (Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit). Unless the authorization to destroy sediment oil is utilized within ten (10) days after approval of the Form C-117-A such authorization is automatically revoked. However, the District Supervisor may approve one ten (10) day extension for good cause shown.

D. Any operator, contractor, or party, other than a treating plant operator, who cleans any tank of sediment oil and removes sediment oil from any lease shall file Form C-117-B (Monthly Sediment Oil Disposal Statement) setting out all information required thereon.

E. A representative sample of sediment oil from any source shall be tested in a manner designed to accurately estimate the percentage of good oil expected to be recovered therefrom. Such test shall be performed prior to transport and prior to commingling with sediment oil from other leases or sources and the results recorded on the appropriate Form C-117-A.

(1) The Division recommends the standard centrifugal tests prescribed by API Manual of Petroleum Measurement Standards, Chapter 10, Section 4. Other test procedures may be used if such procedures reliably predict the percentage of good oil to be recovered from sediment oil.

F. All sediment oil removed from storage shall be reported on Form C-115 (Operator's Monthly Report) together with the Form C-117-A (Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit) permit number.

G. "Miscellaneous Hydrocarbons" are defined as tank bottoms occurring at pipeline stations, crude oil storage terminals, or refineries, pipeline break oil, catchings collected in traps, drips, or scrubbers by operators of gasoline plants in such plants or in the gathering lines serving such plants, the catchings collected in private, community, or commercial salt water disposal systems, or any other liquid hydrocarbon which is not lease crude or condensate.

H. Except in case of emergency, no miscellaneous hydrocarbons shall be delivered to a treating plant or other facility until Division approval is obtained on Form C-117-A (Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit).

I. Whenever an emergency exists which requires delivery of miscellaneous hydrocarbons to a treating plant or other facilities prior to approval of Form C-117-A, the transporter of such hydrocarbons shall notify the supervisor of the appropriate Division district office of the nature and extent of such emergency on the first working day following the emergency and shall file Form C-117-A within two working days following the emergency. For prolonged emergencies, the district supervisor may authorize the extended movement of miscellaneous hydrocarbons to a treating plant or other facilities during the period of the emergency and shall approve a Form C-117-A filed subsequent to the conclusion of such emergency covering the entire volume of miscellaneous hydrocarbons transported.

## A. No treating plant shall operate except in conformity with the following provisions:

(1) Prior to the construction of a treating plant, application in the form of an affidavit for treating plant permit shall be filed in DUPLICATE with the Santa Fe Office of the Division and one copy to the appropriate district office. Such application shall be accompanied by:

- (a) a plat showing the location of the plant in relation to governmental surveys (section, township and range) and to highways or roads giving access to the plant site;
- (b) a description of the plant, type and process of treatment and design capacity;
- (c) a diagrammatic plan of plant layout including location of water wells, pits, dikes, dwellings, fences and cattle-guards within 1/4 mile of the site;
- (d) a description of containment dikes and pits, if any, with detailed information on construction and lining;

(Note: any pits, lined pits or below grade tanks used at the site must meet Division requirements for ground water protection);

- (e) a demonstration that any unmerchantable solids or liquids resulting from operation of the facility will be disposed of at a Division approved site;
- (f) a demonstration that the notice requirements of Paragraph ??? (2) of this rule have been met.

(2) The applicant shall give written notice to the owners of the surface of the plant site and an area within one-half (1/2) mile. The applicant shall also give notice of his application by advertisement in a paper of general circulation published in the county in which the treating plant is to be located. Both the written notice and published notice shall state the name of the plant operator, the nature of the proposed operation, the design capacity, and that any person seeking to oppose such application must file a protest with the Division within 20 days of the date of the notice.

(3) Before commencing construction all treating plants shall have a surety or cash bond in the amount of \$25,000, in a form approved by the Division, conditioned upon compliance with statutes of the State of New Mexico and rules of the Division, and satisfactory clean-up of site upon cessation of operation, in accordance with Part (12) ??? of this Rule. If a bond has been secured for a commercial surface waste disposal facility permit at the location, that bond shall be sufficient for the treating plant portion of the facility, providing they are contiguous. If an adequate bond is posted by the applicant with a federal or state agency and the bond otherwise fulfills the requirements of this rule, the Division may consider the bond as satisfying the requirement of this rule. The applicant must notify the Division of any material change affecting the bond filed for the site and must, in any case, report the status of their bond annually to the Division;

(4) The Director of the Division may issue a treating plant permit upon a finding that a complete and proper application has been filed and that no party has objected within 20 days following submittal of the application.

(5) The permit shall be consistent with the application and appropriate requirements of Division rules and The Oil and Gas Act.

(6) The Director of the Division may set any application for a treating plant permit for public hearing.

(7) Such permit shall entitle the treating plant operator to an approved Form C-104, Request for Allowable and Authorization to Transport Oil and Natural Gas, for the total amount of products secured from sediment oils and miscellaneous hydrocarbons processed by the operator. All permits shall be revocable, after notice and hearing, upon showing of good cause and are transferable only upon written approval of the Division Director.

(8) No treating plant operator may accept sediment oil at or into the treating facility unless the same is accompanied by an approved Form C-117-A (Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit).

(9) Except as provided under Rule ??? 311(h), no treating plant operator may accept tank bottoms from pipeline stations, crude oil storage terminals or refineries, pipeline break oil or other miscellaneous hydrocarbons for processing or mixing with recovered pipeline oil unless the same is accompanied by an approved Form C-117-A.

(10) All treating plant operators shall file a monthly report which shall detail the net oil recovered and sold during the preceding month. See Rule 1118.

(11) The operator of each lease from which sediment oil is removed for reclamation shall be promptly notified by the treating plant operator of the amount of pipeline oil recovered therefrom. In the event sediment oil from two or more separate leases is to be commingled prior to treating, the treating plant operator shall determine the amount of pipeline oil attributable to each lease by testing a representative sample of the sediment oil from said lease in accordance with the standard centrifugal test prescribed by the API Manual of Petroleum Measurement Standards, Chapter 10, Section 4. Other test procedures may be used if such procedures reliably predict the percentage of good oil to be recovered from sediment oil.

(12) To protect migratory birds, all tanks exceeding 16 feet in diameter, and exposed pits and ponds shall be screened, netted or covered. Upon written application by the operator, an exception to screening, netting or covering of a facility may be granted by the district supervisor upon a showing that an alternative method will protect migratory birds or that the facility is not hazardous to migratory birds.

(13) Upon cessation of treating plant operations for 6 consecutive months, the operator will complete clean-up and restoration of the facility site within 6 months, unless an extension of time is granted by the Director of the Division. Such clean-up shall be in accordance with a plan acceptable to the Division Director and may include removal or demolition of buildings, removal of all tanks, vessels, equipment or hardware, containment and removal of fluids and chemicals, back-filling and grading of pits, removal of contaminated soil, and reclamation of the general plant site area. Prior to release of the bond covering the plant, a representative of the Division will inspect the site to determine that restoration is adequate.

(14) The Director of the Division may suspend any treating plant permit when it appears that such suspension is necessary to prevent waste, to protect fresh water, or to assure compliance with Division rules or orders.

RULE 313. - EMULSION, BASIC SEDIMENTS,  
AND TANK BOTTOMS

(as of 3-1-91)

Wells producing oil shall be operated in such a manner as will reduce as much as practicable the formation of emulsion and basic sediments. These substances and tank bottoms shall not be allowed to pollute fresh waters or cause surface damage. If tank bottoms are removed to surface pits, the pits shall be fenced and the fence shall be kept in good repair. To protect migratory birds, all tanks exceeding 16 feet in diameter, and exposed pits and ponds shall be screened, netted or covered. Upon written application by the operator, an exception to screening, netting or covering of a facility may be granted by the district supervisor upon a showing that an alternative method will protect migratory birds or that the facility is not hazardous to migratory birds.

A. "Drip" is defined as any liquid hydrocarbon incidentally accumulating in a gas gathering or transportation system.

B. The waste of drip is hereby prohibited when it is economically feasible to salvage the same.

C. The movement and sale of drip is hereby authorized, provided the provisions of this Rule are complied with.

D. No drip shall be transported nor sold until the gas transporter has filed Division Form C-104 designating the drip transporter authorized to remove the drip from its gas gathering or transportation system.

E. Every person transporting drip within the State of New Mexico shall file Division Form C-112 each month, showing the amount, source, and disposition of all drip handled during the reporting period, and such other reports as may hereafter be required by the Division.

F. Prior to commencement of operations, every person transporting drip directly from a gas gathering or transportation system shall file with the Division plats drawn to scale, locating and identifying each drip trap which he is authorized to service.

G. Every person transporting drip directly from a gas gathering or transportation system shall keep a record of daily acquisitions from each drip trap which he is authorized to service, which records shall be made available at all reasonable times for inspection by the Division or its authorized representatives.

H. Every gas transporter in the State of New Mexico shall, on or before the first day of November of each year, file with the Division maps of its entire gas gathering and transportation systems within the State of New Mexico, locating and identifying thereon each drip trap in said systems, said maps to be accompanied by a report, on a form prescribed by the Division, showing the disposition being made of the drip from each of said drip traps.

F - NATURAL GAS PRODUCTION OPERATING PRACTICE

RULE 401. - METHOD OF DETERMINING NATURAL GAS  
WELL POTENTIAL

(as of 3-1-91)

A. All operators shall conduct tests to determine the daily open flow potential volumes of all natural gas wells from which gas is being used or marketed. Such tests shall be reported on forms prescribed by the Division within 60 days after:

- (1) the date of initial connection of the well to a gas transportation facility; and
- (2) the date of reconnection following workover.

B. To establish comparable open flow capacity, wells shall be tested in accordance with the Oil Conservation Division "Manual for Back-Pressure Testing of Natural Gas Wells." In the event the Division approves the alternate method for testing, all wells producing from a common source of supply shall be tested in a uniform and comparable manner.

C. All gas wells which are not connected to a gas gathering facility shall be tested within 30 days following the installation of a Christmas Tree. Tests shall be taken in accordance with the Rules of Procedure for Testing Unconnected Gas Well contained in the Oil Conservation Division "Manual for Back-Pressure Testing of Natural Gas Wells." Tests shall be reported on Form C-122 in compliance with Rule 1122 and shall be filed within 10 days following completion of the test.

RULE 402. - METHOD AND TIME OF SHUT-IN PRESSURE TESTS

(as of 3-1-91)

A. Shut-in pressure tests shall be taken on all natural gas wells annually. Such tests shall be taken by the operator of the well during the months of July, August, or September unless otherwise specified by special pool rules or special directive. Tests shall be reported as prescribed by the Division on Form C-125 not later than October 15 of the same year.

B. Shut-in pressures shall be taken with a dead-weight gauge after a minimum shut-in period of 24 hours. When the shut-in period exceeds 24 hours, the length of time the well was shut in shall be reported to the Division.

C. The Division Director may prescribe special shut-in pressure test periods and procedures for pools when he deems the same necessary in order to obtain more accurate pressure data.

RULE 403. - NATURAL GAS FROM GAS WELLS TO BE MEASURED

(as of 3-1-91)

All natural gas produced shall be accounted for by metering or other method approved by the Division and reported to the Division by the transporter of the gas. Gas produced from a gas well and delivered to a gas transportation facility shall be reported by the owner or operator of the gas transportation facility. Gas produced from a gas well and required to be reported under this rule, which is not delivered to and reported by a gas transportation facility shall be reported by the operator of the well.

RULE 404. - NATURAL GAS UTILIZATION

(as of 3-1-91)

A. After the completion of a natural gas well, no gas from such well shall be:

- (1) permitted to escape to the air;

(2) used expansively in engines or pumps and then vented, or

(3) used to gas-lift wells unless all gas produced is processed in a gasoline plant, used in the manufacture of carbon black, or beneficially used thereafter without waste.

B. Carbon black plants may utilize natural gas only in those instances in which all casinghead gas and residue gas produced in the vicinity of or which may reasonably be reached from the carbon black plant, is being used beneficially.

C. Any carbon black plant constructed after June 10, 1954, or any then existing carbon black plant which enlarges or expands its facilities for the manufacture of carbon black, may utilize natural gas in the manufacture of carbon black only after permission of the Division is obtained upon due notice and hearing.

RULE 405. - STORAGE GAS

(as of 3-1-91)

With the exception of the requirement to meter and report monthly the amount of gas injected and the amount of gas withdrawn from storage, in the absence of waste these rules and regulations shall not apply to gas being injected into or removed from storage. (See Rule 1131.)

RULE 406. - CARBON DIOXIDE

(as of 3-1-91)

The statewide regulations relating to gas and natural gas, gas wells, and gas reservoirs including, but not limited to, those provisions relating to well locations, acreage dedication requirements, casing and cementing requirements, and measuring and reporting of production shall also apply to carbon dioxide gas, carbon dioxide wells, and carbon dioxide reservoirs.

RULE 407. - DISCONNECTION OF GAS WELLS

(as of 3-1-91)

All gas wells which are disconnected from intrastate gas transportation facilities shall be reported to the Division by the operator of the well or wells within 30 days of the date of disconnection. Such notice must be filed on Form C-130 in compliance with Rule 1130.

RULE 408. - HARDSHIP GAS WELL

(as of 3-1-91)

A. Hardship gas well is defined as a gas well wherein "underground waste" will occur if the well should be shut-in or curtailed below its minimum sustainable flow rate.

B. No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division.

C. Wells approved as hardship gas wells under Rule 409 and/or Rule 410 shall be given priority access (over other gas wells) to the current available gas market to the extent that they might otherwise be restricted below the approved minimum flow rate.

RULE 409. - APPLICATION FOR HARDSHIP GAS WELL  
CLASSIFICATION

(as of 3-1-91)

A. Application for hardship gas well classification shall be made in the form prescribed by the Division and shall include the following:

(1) a narrative description of the problem(s) which leads the applicant to believe that underground waste will occur if the well is shut-in or curtailed below its ability to produce;

(2) documentation that the applicant has made all reasonable and economic attempts to eliminate or correct the problem(s) or an explanation and justification as to why such attempts were not made;

(3) a wellbore sketch;

(4) historical data such as permanent loss of productivity after shut-in, frequency and actual costs of swabbing after shut-in or curtailment including length of swab time required, actual cost figures showing the inability to continue operations without special relief, or any other data which would show that shut-in or curtailment would cause underground waste;

(5) if failure to obtain a hardship gas well classification would result in premature abandonment of the well, a calculation of the reserves which would be lost thereby;

(6) the minimum sustainable producing rate as determined by a minimum flow or "log-off" test or documentation of well production history;

(7) a plat and/or map showing the proration unit dedicated to the well and the ownership of the offsetting acreage;

(8) the name of the authorized transporter (and purchaser if different) of gas; and

(9) any other data the applicant considers relevant.

B. Applications for hardship gas well classification shall be made in duplicate with the original copy being filed at Santa Fe and a copy being filed with the appropriate Division district office.

C. In addition, the applicant will notify the transporter and purchaser of gas from the well and all offset operators of the application and the requested minimum producing rate and shall so certify to the Division in his application.

RULE 410. - PROCESSING OF APPLICATIONS FOR HARDSHIP  
GAS WELLS

(as of 3-1-91)

A. The Director of the Division may administratively approve any application for hardship gas well classification or he may set such matter for notice and hearing.

B. (1) Applications which are to be approved administratively shall be listed in the Dockets of Division or commission hearings which are issued from time to time.

(2) If no affected party has filed written objection to any such proposed administrative action within 20 days following the date of the hearing for which the Docket is issued, the application may be approved. If any such party shall file an objection before or within such 20 day period, the application will be set for hearing unless withdrawn by the applicant.

(3) The Director of the Division, on his own or upon the request of an affected party, may require a minimum flow (log-off) test on the well for which the hardship classification is being sought. The applicant shall give notice to the Division, the gas transporter and purchaser and the requesting affected party of any minimum flow test conducted following such a request, in order that such test may, at the option of the Division or said parties, be witnessed.

(a) Notice of any minimum flow test conducted prior to submitting a hardship gas well application shall be given to the appropriate Division district office, the gas transporter and purchaser, and offset operators in order that such test may, at the option of said parties, be witnessed.

RULE 411. - EMERGENCY HARDSHIP GAS WELL  
CLASSIFICATION

(as of 3-1-91)

A. The supervisor of the appropriate Division district office may grant emergency approval of a hardship gas well classification upon receipt of a copy of the application form and attachments and a request by the applicant.

B. Approval of such emergency classification shall be made in writing to the Director of the Division, the applicant, and the purchaser. Emergency approval shall be given for 90 days and on a one time only basis.

RULE 412. - LIMITS ON HARDSHIP GAS WELL  
CLASSIFICATION

(as of 3-1-91)

A. No hardship gas well classification shall be retained for a period in excess of one year unless the applicant shall annually request an extension thereof and certify that the condition of the well has not substantially changed.

B. The Division on its own motion may require that the applicant show cause why approval of the hardship gas well classification should not be rescinded in cases of suspected abuse, changed market conditions, or for any other reason.

C. Any well classified as a hardship gas well located in a prorated gas pool shall accumulate over or under production. No well which is classified as a hardship gas well shall be shut in for reason of over production.

D. Affected parties may petition the Division for hearing for the purpose of offsetting any ratable take advantage which might be gained by the operator of a hardship gas well.

RULE 414. GAS SALES BY LESS THAN ONE HUNDRED PERCENT  
OF THE OWNERS IN A WELL

(as of 3-1-91)

When there are separate owners in a well and where any such owner's gas is not being sold with current production from such well, such owner may, if necessary to protect his correlative rights, petition the Division for a hearing seeking appropriate relief.

### 3 - OIL PRORATION AND ALLOCATION

#### RULE 501. - REGULATION OF OIL POOLS

(as of 3-1-91)

A. To prevent waste, the Division shall prorate and distribute the allowable production among the producers in a pool upon a reasonable basis and recognizing correlative rights.

B. After notice and hearing, the Division, in order to prevent waste and protect correlative rights, may promulgate special rules, regulations, or orders pertaining to any pool.

#### RULE 502. - RATE OF PRODUCING WELLS

(as of 3-1-91)

##### A. Daily Tolerance

(1) It is recognized that oil wells located on units capable of producing their allowables may overproduce one day and underproduce another. No unit capable of producing its allowable, except for the purpose of testing, in the process of completing or recompleting a well or for tests made for the purpose of obtaining scientific data, shall produce any day more than 125% of the daily top unit allowable for the pool in which the same is located. (Subject to the foregoing, any underproduction may be made up by production from the same unit within the same month, and in like manner any overproduction shall be adjusted or balanced by underproduction from the same unit, within the same proration period).

(2) It is also recognized that certain wells must, as a matter of practicality, be produced at daily rates in excess of 125% of the daily top unit allowable for the pool in which such wells are located. The Division Director is hereby given authority to grant exceptions to the provisions of Paragraph (1) above, without formal hearing, where application is filed in due form setting out the reasons for such requested exception; applicants for such exceptions shall, at the time of filing, also furnish each operator in the pool in which the subject well is located, a copy of such application. Included in any application for exception or attached thereto, filed under authority hereof, shall be a formal written statement by the applicant that every operator in the pool in which the subject well is located has been served with a copy of such application. The Division Director shall wait at least ten (10) days after receipt before approving any such application, and shall approve the same only in absence of objection from any operator or interested party, or in his discretion. In the event the Director for any reason fails to approve such application, the Division after notice will hear and determine the matter.

##### B. Monthly Tolerance

(1) No unit shall produce during any one proration period more than the allowable production of such unit for the proration period plus a tolerance of not to exceed five (5) days allowable production. This permissive tolerance of overproduction from a unit shall be subject to all other provisions of Rule 502 and particularly to the provisions of Paragraph D. This permissive tolerance of overproduction from a unit shall be adjusted or balanced by subsequent corresponding underproduction from the same unit. Overproduction within the permitted tolerance shall be considered as oil produced against the allowable production assigned to the unit for the proration period during which such overproduction is adjusted or balanced by underproduction.

##### C. Production in Excess of Monthly Allowable, Plus Tolerance

(1) Oil produced from any unit in excess of the assigned monthly allowable plus the permissive proration period tolerance shall be "illegal oil" as defined in the Oil and Gas Act, unless:

- (a) such excess oil be produced as a result of mistake or error;
- (b) mechanical failure beyond the immediate control of the operator; or,

- (c) resulting from essential tests of the unit within the purview of Oil Conservation Rules.

Whenever production from any unit for a proration period is in excess of the assigned allowable, plus the permitted tolerance authorized herein and the cause of such excess reasonably falls within (a), (b), or (c) of this paragraph, the producer or operator shall briefly set forth the cause of such excess production together with a proposed plan of adjustment thereof, upon all copies of the operator's monthly report (Form C-115) for the month in which such excess production occurs. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following proration period, and it may be transported from the lease tanks only as and when the unit accrues daily allowable to offset such excess production.

D. General

(1) The tolerance permitted on a daily or monthly basis as provided hereinabove shall not be construed to increase the allowable of a producing unit or to grant authority to any operator to market or to any transporter to transport any quantity of oil in excess of the unit's allowable.

(2) The possession of a quantity of oil in lease storage at the end of any proration period in excess of five days allowable plus any rerun allowable oil shall be construed as violation of this Rule, unless reported in the manner and within the time provided for filing Form C-115 provided by Section C. above.

E. Storage Records

(1) All producers and all transporters of oil are required to maintain adequate records showing unrun allowable oil in storage at the end of each proration period. Such storage oil shall be the amount of oil in tanks from which oil is measured and delivered to the transporter.

RULE 503. - AUTHORIZATION FOR PRODUCTION OF OIL

(as of 3-1-91)

A. Except as provided below, the daily top unit allowable for any oil pool shall be 100 percent of the depth bracket allowable for the pool determined pursuant to the provisions of Rule 505.

B. The Division shall have the option, within five days prior to the end of the month, to make a determination as to the likelihood of the total producing capacity of all oil wells in the state being in excess of anticipated reasonable market demand for crude petroleum oil from this state.

(1) If the Division determines that such capacity may be in excess of the anticipated reasonable market demand, and that a market demand factor of less than 100 percent may be necessary to prevent waste, it shall immediately institute proper proceedings for a hearing to be held before the 20th day of the following month to determine actual reasonable market demand up to a maximum of 6 months.

C. At said hearing the Division shall consider all evidence of market demand for crude petroleum oil from this state, and if it is determined that the market demand percentage factor should be less than 100 percent, an order shall be issued establishing the market demand factor and setting a date for the next market demand hearing.

D. The market demand factor thus established shall be multiplied by the applicable depth bracket allowable for each well and each pool to determine its unit allowable. Any fraction of a barrel shall be regarded as a full barrel in determining top unit allowable.

(1) Upon initial establishment of a market demand factor, and from time to time thereafter, the Division shall issue a proration schedule authorizing the production of oil from the various proration units in the various pools in the state. Any well completed or recompleted after the issuance of said schedule and for which Form C-104 has been approved, shall, by supplement to the schedule, be authorized a daily allowable equal

to the top unit allowable in effect. The allowable for such well shall become effective at 7:00 a.m. on the date of the completion, provided Form C-104 is submitted and approved within ten days following date of completion; otherwise the allowable shall be effective on the date the C-104 is approved. (As provided in Rule 1104, "date of completion" is the date when new oil is delivered into the stock tanks.)

E. A non-marginal unit is defined as being a proration unit which is capable of producing top unit allowable for the pool in which it is located and to which has been assigned a top unit allowable. Any such non-marginal unit shall be permitted to produce said top unit allowable without waste and subject to the provisions of Rules 301, 502, and 506, and all other applicable rules.

F. A marginal unit is defined as being a proration unit which is incapable of producing top unit allowable for the pool in which it is located as evidenced by well test, production history, or other report or form filed by the operator with the Division. Any such marginal unit shall be permitted to produce any amount of oil which it is capable of producing without waste up to top unit allowable for the pool, subject to the provisions of Rules 301, 502, and 506, and all other applicable rules, provided that an allowable has been assigned to the unit to authorize such production.

G. A penalized non-marginal unit is defined as being a proration unit to which, because of an excessive gas-oil ratio, an allowable has been assigned which shall be determined in accordance with the procedure set forth in Rule 506. In calculating a penalized allowable, any fraction of a barrel shall be regarded as a full barrel.

H. A periodic tabulation of all supplements to the current proration schedule shall be made and distributed by the Division.

I. The provisions of Rule 104 H. et seq. shall be adhered to in fixing top unit allowables.

J. In the event it becomes necessary for any transporter of crude petroleum to resort to pipeline proration in New Mexico, such transporter shall, as soon as possible and not later than 24 hours after the effective date thereof, notify the Division of its decision to so prorate; upon receipt of such notice from such transporter, the Division may take such emergency action, as may be deemed proper, and/or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority, to preserve and protect correlative rights.

K. In case of pipeline proration any operator affected thereby has the right to make application to the Division for authorization to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such applications shall be made upon a form hereby authorized to be prescribed by the Division and filed therewith within thirty days after the close of the first proration period in which such pipeline proration shortage occurred, and such authorization shall be limited in any event to wells capable of producing the daily top unit allowable for such period.

L. In approving any such application the Division shall determine the period of time during which such shortage shall be made up without injury to the well or pool, and shall include the same in the regularly approved proration schedules following the conclusion of pipeline proration.

RULE 504. - AUTHORIZATION FOR PRODUCTION OF OIL WHILE COMPLETING,  
RECOMPLETING, OR TESTING AN OIL WELL

(as of 3-1-91)

A. In the event an operator does not have sufficient lease storage to hold oil produced from a well during the process of its drilling, completing, recompleting, or testing, the operator of said well shall be permitted to produce and sell from said well an amount of oil as may be necessary to drill, complete, recomplete or test said well; provided however, that the operator of said well shall file with the Division a written application stating the circumstances at said well and setting forth therein the estimated amount of oil to be produced during the aforementioned process of operations, and provided further that said application is approved by the Division. Oil produced during the process of drilling, completion or recompletion, or testing a well shall be charged against the allowable production of said well.

B. No well shall be placed on the proration schedule until Form C-104 has been filed with and approved by the Division.

RULE 505. - DEPTH BRACKET ALLOWABLES

(as of 3-1-91)

A. Subject to the market demand percentage factor determined pursuant to the provisions of Rule 503, the daily oil allowable for each oil pool in the state shall be equal to the appropriate depth bracket allowable below. The depth of the casing shoe or the top perforation in the casing, whichever is higher, in the first well completed in the pool shall determine the depth classification for the pool. Daily oil allowables for each of the several ranges of depth and spacing patterns shall be as follows:

| POOL DEPTH RANGE   | DEPTH BRACKET ALLOWABLE |                 |                  |
|--------------------|-------------------------|-----------------|------------------|
|                    | <u>40 Acres</u>         | <u>80 Acres</u> | <u>160 Acres</u> |
| 0 to 4,999 feet    | 80 bbls.                | 160 bbls.       |                  |
| 5,000 to 5,999 "   | 107 "                   | 187 "           | 347 bbls.        |
| 6,000 to 6,999 "   | 142 "                   | 222 "           | 382 "            |
| 7,000 to 7,999 "   | 187 "                   | 267 "           | 427 "            |
| 8,000 to 8,999 "   | 230 "                   | 310 "           | 470 "            |
| 9,000 to 9,999 "   | 275 "                   | 355 "           | 515 "            |
| 10,000 to 10,999 " | 320 "                   | 400 "           | 560 "            |
| 11,000 to 11,999 " | 365 "                   | 445 "           | 605 "            |
| 12,000 to 12,999 " | 410 "                   | 490 "           | 650 "            |
| 13,000 to 13,999 " | 455 "                   | 535 "           | 695 "            |
| 14,000 to 14,999 " | 500 "                   | 580 "           | 740 "            |
| 15,000 to 15,999 " | 545 "                   | 625 "           | 785 "            |
| 16,000 to 16,999 " | 590 "                   | 670 "           | 830 "            |
| 17,000 to 17,999 " | 635 "                   | 715 "           | 875 "            |

B. The 40-acre depth bracket allowables shall apply to all undesignated wells not governed by special pool rules and to all pools developed on the normal 40-acre statewide spacing unit.

C. The 80-acre and 160-acre depth bracket allowables shall apply to wells governed by applicable special pool rules promulgated by the Division as an exception to the normal 40-acre statewide spacing unit.

D. The Division may, where the same is deemed appropriate, assign to a given pool a special depth bracket allowable at variance to the depth bracket allowable normally assigned to a pool of similar depth and spacing. Such special allowable may be more or less than the regular depth bracket allowable and shall be assigned only after notice and hearing.

E. In assigning a lesser than regular depth bracket allowable, the Division may consider, among other pertinent factors, reservoir damage, casinghead gas production and disposition, water production and disposition, transportation facilities, the prevention of surface or underground waste, and the protection of correlative rights.

F. Assignment of a greater than regular depth bracket allowable shall be made only after sufficient reservoir information is available to ensure that said allowable can be produced without damage to the reservoir and without causing surface or underground waste. The Division shall also consider the availability of crude oil transportation and marketing facilities, casinghead gas transportation, processing, and marketing facilities, water disposal facilities, the protection of correlative rights, and other pertinent factors.

RULE 506. - GAS-OIL RATIO LIMITATION

(as of 3-1-91)

A. In allocated pools containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit oil allowable for the pool. In the event the Division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2,000 cubic feet of gas for each barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule.

B. Unless heretofore or hereafter specifically exempted by order of the Division issued after hearing, a gas-oil ratio limitation shall be placed on all allocated oil pools, and all proration units having a gas-oil ratio exceeding the limit for the pool shall be penalized in accordance with the following procedure:

(1) Any proration unit which, on the basis of the latest official gas-oil ratio test, has a gas-oil ratio in excess of the limiting gas-oil ratio and has the capacity to produce above the top casinghead gas volume calculated by Rule 506 A. for the pool in which it is located shall be permitted to produce daily that number of barrels of oil which shall be determined by multiplying the current top unit allowable by a fraction, the numerator of which shall be the limiting gas-oil ratio for the pool and the denominator of which shall be the official test gas-oil ratio of the well, and the proration unit will be designated non-marginal.

(2) Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool.

(3) A marginal unit shall be permitted to produce the same volume of gas which it would be permitted to produce if it were a non-marginal well.

C. All non-marginal proration units to which gas-oil ratio adjustments are applied shall be so indicated in the proration schedule with adjusted allowables stated.

D. In cases of new pools, the limit shall be 2,000 cubic feet per barrel until such time as changed by order of the Division issued after a hearing. Upon petition and after notice and hearing according to law, the Division will determine or redetermine the specific gas-oil ratio limit which is applicable to a particular allocated oil pool.

RULE 507. - UNITIZED AREAS

(as of 3-1-91)

After petition and notice and hearing, the Division may grant approval for the combining of contiguous developed proration units into a unitized area.

RULE 508. - RECOVERED LOAD OIL

(as of 3-1-91)

A. Recovered load oil may be run from the lease on which it is recovered, provided Division approval is obtained by means of Form C-126. Form C-126 must be filed in QUADRUPLICATE with the appropriate district office of the Division. Upon approval, one copy will be returned to the operator and one copy will be sent to the designated transporter as authority to transport the oil.

B. This rule applies only to oil which has been obtained from a source other than the lease on which it is used.

C. Recovered load oil as used herein is any oil or liquid hydrocarbon which has been used in any operation in an oil or gas well, and which has been recovered as a merchantable product.

A. In addition to the normally assigned allowable, an oil discovery allowable may be assigned to a well completed as a bona fide discovery well in a new common source of supply. Said oil discovery allowable shall be in the amount of 5 barrels for each foot of depth of said well from the surface of the ground to the top of the perforations in the new pool or the depth of the casing shoe, whichever is higher. In counties where there is no other current oil production, and in any county when the discovery is the deepest oil production in the county, the oil discovery allowable shall be 10 barrels per foot of depth.

B. Date of discovery to determine the well which should properly receive the oil discovery allowable for any new pool shall be the date the well is completed and new oil is run into stock tanks, provided however, any operator drilling through and discovering a new oil pool in the course of drilling to a lower horizon may file an affidavit of such discovery within seven days after drill stem tests were made of said pool, accompanying said affidavit with all available pool data. If, prior to completion of said well, another operator claims discovery of a similar pool and there are reasonable grounds to believe the pools are one and the same, no discovery allowable will be assigned to either well until after the initial well for which the affidavit was filed has been completed. If at that time the operator of the initial well makes formal application for the discovery allowable in said pool, it will be determined after hearing which well shall receive the discovery allowable.

C. To obtain an oil discovery allowable, the owner of a discovery well shall file two copies of Division Form C-109, Application for Discovery Allowable and Creation of a New Pool, with the appropriate District Office of the Division and one with the Santa Fe office. Each copy of said form shall be accompanied by the following:

(1) A map depicting all wells within a two-mile radius of the discovery well. All producing oil and gas wells and the formations from which they are producing or have produced are to be clearly shown as well as all dry holes and the depths to which they were drilled. Maps shall be on a scale one inch equals 1,000 feet and shall also indicate the names of all lessees of record in the depicted area.

(2) A complete electrical log of the subject well with the tops and bottoms of producing formations in the subject well and in nearby wells identified thereon.

(3) If application is based on horizontal separation, a sub-surface structural map of the producing formation(s) for which the discovery allowable is sought, showing seismic or geological interpretation of the subject structure and any troughs, faults, pinch-outs, etc., which separate the subject well from nearby wells producing from the same formation(s).

(4) A geological cross-section prepared from electrical logs of the subject well and nearby wells establishing horizontal as well as vertical separation from other wells depicted on the plat which are producing or have produced from the discovery formation(s).

(5) A summary of all available reservoir data including bottom hole pressure data, fluid levels, core analyses, reservoir liquid characteristics and any other pertinent data on the subject reservoir as well as other nearby reservoirs which may help establish whether the subject well is in fact a discovery.

D. If, in the opinion of the Division staff, good cause exists to bring the pool on for hearing as a discovery, and no objection has been received from any other operator, the pool will be placed on the first available hearing docket for inclusion by the staff in its regular pool nomenclature case. If the staff is not in agreement with the applicant's contention that a new pool has been discovered, or if, within ten days after receiving a copy of the application another operator files with the Division an objection to the creation of a new pool and the assignment of a discovery allowable, the applicant will be so notified, and he will be expected to present the evidence supporting his case. Or, if the applicant so desires, the application may be set for separate hearing on other than the nomenclature docket for presentation of evidence by the applicant.

E. Effective date of a well's discovery allowable will be 7:00 a.m. on the first day of the month next succeeding the month in which the Division approves the discovery.

F. The total discovery allowable attributable to each zone in the well shall be produced over a two-year period commencing with the time of authorization. The well's daily allowable for each pool receiving the discovery allowable shall not exceed the daily top unit allowable for the pool plus the total pool discovery allowable divided by 730 days (731 days if a leap year is included).

G. A discovery well shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio for the pool multiplied by the top unit allowable for the pool plus the daily oil discovery allowable. In addition to all other statewide rules not specifically excepted herein, the provisions of Division Rule 502 relating to daily tolerance, monthly tolerance, and underproduction and overproduction, shall apply to oil discovery allowables as well as to regular allowables for discovery wells.

H. Nothing herein contained shall be construed as prohibiting the Division from curtailing the discovery allowables of wells during times of depressed market demand, provided however, such discovery allowables shall be reinstated for production at the earliest possible date. Further, when it appears reservoir damage or waste might result from production of the oil discovery allowable within the normal two-year period, the Division may, after notice and hearing, extend said period.

## H - GAS PRORATION AND ALLOCATION

### RULE 601. - ALLOCATION OF GAS PRODUCTION

(as of 3-1-91)

When the Division determines that allocation of gas production in a designated gas pool is necessary to prevent waste, the Division, after notice and hearing, shall consider the nominations of purchasers from that gas pool and other relevant data, and shall fix the allowable production of that pool, and shall allocate production among the gas wells in the pool delivering to a gas transportation facility upon a reasonable basis and recognizing correlative rights. The Division shall include in the proration schedule of such pool any gas 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.

### RULE 602. - PRORATION PERIOD

(as of 3-1-91)

The proration period shall be at least six months and the pool allowable and allocations thereof shall be made at least 30 days prior to each proration period.

### RULE 603. - ADJUSTMENT OF ALLOWABLES

(as of 3-1-91)

When the actual market demand from any allocated gas pool during a proration period is more than or less than the allowable set by the Division for the pool for the period, the Division shall adjust the gas proration unit allowables for the pool for the next proration period so that each gas proration unit shall have a reasonable opportunity to produce its fair share of the gas production from the pool and so that correlative rights shall be protected.

### RULE 604. - GAS PRORATION UNITS

(as of 3-1-91)

Before issuing a proration schedule for an allocated gas pool, the Division after notice and hearing, shall fix the gas proration unit for that pool.

T. - SECONDARY OR OTHER ENHANCED RECOVERY, PRESSURE MAINTENANCE  
SALT WATER DISPOSAL, AND UNDERGROUND STORAGE

RULE 701. - INJECTION OF FLUIDS INTO RESERVOIRS

(as of 3-1-91)

A. Permit for Injection Required

(1) The injection of gas, liquefied petroleum gas, air, water, or any other medium into any reservoir for the purpose of maintaining reservoir pressure or for the purpose of secondary or other enhanced recovery or for storage or the injection of water into any formation for the purpose of water disposal shall be permitted only by order of the Division after notice and hearing, unless otherwise provided herein.

B. Method of Making Application

(1) Application for authority for the injection of gas, liquefied petroleum gas, air, water or any other medium into any formation for any reason, including but not necessarily limited to the establishment of or the expansion of water flood projects, enhanced recovery projects, pressure maintenance projects, and salt water disposal, shall be by submittal of Division Form C-108 complete with all attachments.

(2) The Applicant shall furnish, by certified or registered mail, a copy of the application to the owner of the surface of the land on which each injection or disposal well is to be located and to each leasehold operator within one-half mile of the well.

C. Administrative Approval

(1) If the application is for administrative approval rather than for a hearing, it must also be accompanied by a copy of a legal publication published by the applicant in a newspaper of general circulation in the county in which the proposed injection well is located. (The details required in such legal notice are listed on Side 2 of Form C-108).

(2) No application for administrative approval may be approved until 15 days following receipt by the Division of Form C-108 complete with all attachments including evidence of mailing as required under paragraph B (2) above and proof of publication as required by paragraph C (1) above.

(3) If no objection is received within said 15-day period, and a hearing is not otherwise required, the application may be approved administratively.

D. Hearings

(1) If a written objection to any application for administrative approval of an injection well is filed within 15 days after receipt of a complete application, or if a hearing is required by these rules or deemed advisable by the Division Director, the application shall be set for hearing and notice thereof given by the Division.

E. Salt Water Disposal Wells

(1) The Division Director shall have authority to grant an exception to the requirements of Rule 701-A for water disposal wells only, without hearing, when the waters to be disposed of are mineralized to such a degree as to be unfit for domestic, stock, irrigation, or other general use, and when said waters are to be disposed of into a formation older than Triassic (Lea County only) and provided no objections are received pursuant to Rule 701-C.

(2) Disposal will not be permitted into zones containing waters having total dissolved solids concentrations of 10,000 mg/l or less except after notice and hearing, provided however, that the Division may establish exempted aquifers for such zones wherein such injection may be approved administratively.

(3) Notwithstanding the provisions of Paragraph (2) above, the Division Director may authorize disposal into such zones if the waters to be disposed of are of higher quality than the native water in the disposal zone.

F. Pressure Maintenance Projects

(1) Pressure maintenance projects are defined as those projects in which fluids are injected into the producing horizon in an effort to build up and/or maintain the reservoir pressure in an area which has not reached the advanced or "stripper" state of depletion.

(2) All applications for establishment of pressure maintenance projects shall be set for hearing. The project area and the allowable formula for any pressure maintenance project shall be fixed by the Division on an individual basis after notice and hearing.

(3) Pressure maintenance projects may be expanded and additional wells placed on injection only upon authority from the Division after notice and hearing or by administrative approval.

(4) The Division Director shall have authority to grant an exception to the hearing requirements of Rule 701-A for the conversion to injection of additional wells within a project area provided that any such well is necessary to develop or maintain efficient pressure maintenance within such project and provided that no objections are received pursuant to Rule 701-C.

G. Water Flood Projects

(1) Water flood projects are defined as those projects in which water is injected into a producing horizon in sufficient quantities and under sufficient pressure to stimulate the production of oil from other wells in the area, and shall be limited to those areas in which the wells have reached an advanced state of depletion and are regarded as what is commonly referred to as "stripper" wells.

(2) All applications for establishment of water flood projects shall be set for hearing.

(3) The project area of a water flood project shall comprise the proration units owned or operated by a given operator upon which injection wells are located plus all proration units owned or operated by the same operator which directly or diagonally offset the injection tracts and have producing wells completed on them in the same formation; provided however, that additional proration units not directly nor diagonally offsetting an injection tract may be included in the project area if, after notice and hearing, it has been established that such additional units have wells completed thereon which have experienced a substantial response to water injection.

(4) The allowable assigned to wells in a water flood project area shall be equal to the ability of the wells to produce and shall not be subject to the depth bracket allowable for the pool nor to the market demand percentage factor.

(5) Nothing herein contained shall be construed as prohibiting the assignment of special allowables to wells in buffer zones after notice and hearing. Special allowables may also be assigned in the limited instances where it is established at a hearing that it is imperative for the protection of correlative rights to do so.

(6) Water flood projects may be expanded and additional wells placed on injection only upon authority from the Division after notice and hearing or by administrative approval.

(7) The Division Director shall have authority to grant an exception to the hearing requirements of Rule 701-A for conversion to injection of additional wells provided that any such well is necessary to develop or maintain thorough and efficient water flood injection for any authorized project and provided that no objections are received pursuant to Rule 701-C.

H. Storage Wells

(1) The Division Director shall have authority to grant an exception to the hearing requirements of Rule 701-A for the underground storage of liquefied petroleum gas or liquid hydrocarbons in secure caverns within massive salt beds, and provided no objections are received pursuant to Rule 701-C.

(2) In addition to the filing requirements of Rule 701-B, the applicant for approval of a storage well under this rule shall file the following:

(a) With the Division Director:

(i) A plugging bond in accordance with the provisions of Rule 101;

(b) With the appropriate district office of the Division in TRIPLICATE:

(i) Form C-101, Application for Permit to Drill, Deepen, or Plug Back;

(ii) Form C-102, Well Location and Acreage Dedication Plat; and

(iii) Form C-105, Well Completion or Recompletion Report and Log.

RULE 702. - CASING AND CEMENTING OF INJECTION WELLS

(as of 3-1-91)

Wells used for injection of gas, air, water, or any other medium into any formation shall be cased with safe and adequate casing or tubing so as to prevent leakage, and such casing or tubing shall be so set and cemented as to prevent the movement of formation or injected fluid from the injection zone into any other zone or to the surface around the outside of any casing string.

RULE 703. - OPERATION AND MAINTENANCE

(as of 3-1-91)

A. Injection wells shall be equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.

B. Injection project, including injection wells and producing wells and all related surface facilities shall be operated and maintained at all times in such a manner as will confine the injected fluids to the interval or intervals approved and prevent surface damage or pollution resulting from leaks, breaks, or spills.

C. Failure of any injection well, producing well, or surface facility, which failure may endanger underground sources of drinking water, shall be reported under the "Immediate Notification" procedure of Rule 116.

D. Injection well or producing well failures requiring casing repair or cementing are to be reported to the Division prior to commencement of workover operations.

E. Injection wells or projects which have exhibited failure to confine injected fluids to the authorized injection zone or zones may be subject to restriction of injection volume and pressure, or shut-in, until the failure has been identified and corrected.

RULE 704. - TESTING, MONITORING, STEP-RATE TESTS,  
NOTICE TO THE DIVISION, REQUESTS FOR  
PRESSURE INCREASES

(as of 3-1-91)

A. Testing

(1) Prior to commencement of injection and any time tubing is pulled or the packer is reseated, wells shall be tested to assure the integrity of the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes or such other pressure and/or time as may be approved by the appropriate district supervisor. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate Division district office within 30 days following the test date.

(2) At least once every five years thereafter, injection wells shall be tested to assure their continued mechanical integrity. Tests demonstrating continued mechanical integrity shall include the following:

- (a) measurement of annular pressures in wells injecting at positive pressure under a packer or a balanced fluid seal; or,
- (b) pressure testing of the casing-tubing annulus for wells injecting under vacuum conditions; or,
- (c) such other tests which are demonstrably effective and which may be approved for use by the Division.

(3) Notwithstanding the test procedures outlined above, the Division may require more comprehensive testing of the injection wells when deemed advisable, including the use of tracer surveys, noise logs, temperature logs, or other test procedures or devices.

(4) In addition, the Division may order special tests to be conducted prior to the expiration of five years if conditions are believed to so warrant. Any such special test which demonstrates continued mechanical integrity of a well shall be considered the equivalent of an initial test for test scheduling purposes, and the regular five-year testing schedule shall be applicable thereafter.

(5) The injection well operator shall advise the Division of the date and time any initial, five-year, or special tests are to be commenced in order that such tests may be witnessed.

B. Monitoring

(1) Injection wells shall be so equipped that the injection pressure and annular pressure may be determined at the wellhead and the injected volume may be determined at least monthly.

C. Step-Rate Tests, Notice to the Division, Requests for Injection Pressure Limit Increases

(1) Whenever an operator shall conduct a step-rate test for the purpose of increasing an authorized injection or disposal well pressure limit, notice of the date and time of such test shall be given in advance to the appropriate Division district office.

(2) Copies of all injection or disposal well pressure-limit increase applications and supporting documentation shall be submitted to the Division Director and to the appropriate district office.

RULE 705. - COMMENCEMENT, DISCONTINUANCE, AND  
ABANDONMENT OF INJECTION OPERATIONS

(as of 3-1-91)

A. The following provisions shall apply to all injection projects, storage projects, salt water disposal wells and special purpose injection wells:

B. Notice of Commencement and Discontinuance

(1) Immediately upon the commencement of injection operations in any well, the operator shall notify the Division of the date such operations began.

(2) Within 30 days after permanent cessation of gas or liquefied petroleum gas storage operations or within 30 days after discontinuance of injection operations into any other well, the operator shall notify the Division of the date of such discontinuance and the reasons therefor. No injection well may be temporarily abandoned for a period exceeding six months unless the injection interval has been isolated by use of cement or a bridge plug. The Director of the Division may delay the cement or bridge plug requirements above upon a demonstration that there is a continuing need for such a well, that the well exhibits mechanical integrity, and that continued temporary abandonment will not endanger underground sources of drinking water.

(3) Before any injection well is plugged, the operator shall obtain approval for the well's plugging program from the appropriate District Office of the Division in the same manner as when plugging oil and gas wells or dry holes.

C. Abandonment of Injection Operations

(1) Whenever there is a continuous six-month period of non-injection into any injection project, storage project, salt water disposal well, or special purpose injection well, such project or well shall be considered abandoned, and the authority for injection shall automatically terminate ipso facto.

(2) For good cause shown, the Division Director may grant an administrative extension or extensions of injection authority as an exception to Paragraph (1) above.

RULE 706. - RECORDS AND REPORTS

(as of 3-1-91)

A. The operator of an injection well or project for secondary or other enhanced recovery, pressure maintenance, natural gas storage, salt water disposal, or injection of any other fluids shall keep accurate records and shall report monthly to the Division gas or fluid volumes injected, stored, and/or produced as required on the appropriate form listed below:

- (1) Secondary or Other Enhanced Recovery on Form C-115;
- (2) Pressure Maintenance on Form C-115 and as otherwise prescribed by the Division;
- (3) Salt Water Disposal on Form C-120-A;
- (4) Natural Gas Storage on Form C-131-A; and
- (5) Injection of other fluids on a form prescribed by the Division.

B. The operator of a liquefied petroleum gas storage project shall report annually on Form C-131-B, Annual LPG Storage Report.

RULE 707. - RECLASSIFICATION OF WELLS

(as of 3-1-91)

The Division Director shall have authority to reclassify an injection well from any category defined in Rule 701-B to any other category without notice and hearing upon request and proper showing by the operator thereof.

RULE 708. - TRANSFER OF AUTHORITY TO INJECT

(as of 3-1-91)

A. Authority to inject granted under any order of the Division is not transferable except upon approval of the Division. Approval of transfer of authority to inject may be obtained by filing Form C-104 in accordance with Rule 1104 E.

B. The Division may require a demonstration of mechanical integrity prior to approving transfer of authority to inject.

RULE 709. - REMOVAL OF PRODUCED WATER FROM  
LEASES AND FIELD FACILITIES

(as of 3-1-91)

A. Transportation of any produced water by motor vehicle from any lease, central tank battery, or other facility, without an approved Form C-133 (Authorization to Move Produced Water) is prohibited.

B. Authorization to transport produced water may be obtained by filing three copies of Form C-133 with the Director of the Division in Santa Fe.

C. No owner or operator shall permit produced water to be removed from its leases or field facilities by motor vehicle except by a person possessing an approved Form C-133.

RULE 710. - DISPOSITION OF TRANSPORTED PRODUCED WATER

(as of 3-1-91)

A. No person, including any transporter, may dispose of produced water on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which will constitute a hazard to any fresh water supplies.

B. Delivery of produced water to approved salt water disposal facilities, secondary recovery or pressure maintenance injection facilities, or to a drill site for use in drilling fluid will not be construed as constituting a hazard to fresh water supplies provided the produced waters are placed in tanks or other impermeable storage at such facilities.

C. The supervisor of the appropriate district office of the Division may grant temporary exceptions to Paragraph A. above for emergency situations, for use of produced water in road construction or maintenance, or for use of produced waters for other construction purposes upon request and a proper showing by a holder of an approved Form C-133 (Authorization to Move Produced Water).

D. Vehicular movement or disposition of produced water in any manner contrary to these rules shall be considered cause, after notice and hearing, for cancellation of Form C-133.

RULE 711. - COMMERCIAL SURFACE WASTE DISPOSAL  
FACILITIES

(as of 3-1-91)

A. A commercial surface waste disposal facility is defined as any facility that receives compensation for collection, disposal, evaporation or storage of produced water, drilling fluids, drill cuttings, completion fluids, and/or other approved oil field related waste in surface pits, ponds, or below grade tanks.

Such facility will not be allowed to operate unless it has been permitted in conformity with the following provisions:

(1) Prior to the construction, reconstruction or enlargement of a commercial surface waste disposal facility, application for a permit or a modification to an existing permit shall be filed in DUPLICATE with the Santa Fe Office of the Division and ONE COPY to the appropriate district office. The application shall be accompanied by:

- (a) A plat and topographic map showing the location of the facility in relation to governmental surveys (1/4 1/4 section, township, and range), highways or roads giving access to the facility site, and watercourses, water wells, and dwellings within one mile of the site;
- (b) The names and address of the landowner of the disposal facility site and landowners of record within one-half mile of the site;
- (c) A description of the facility with a diagram indicating location of fences and cattleguards, and detailed engineering construction/installation diagrams of any pits, liners, dikes, piping, sprayers, and tanks on the facility, prepared in accordance with Division "Guidelines for Permit Application, Design and Construction of Waste Storage/Disposal Pits;"
- (d) A plan for disposal of approved waste solids or liquids in accordance with Division rules, regulations and guidelines;
- (e) A contingency plan for reporting and cleanup of spills or releases;
- (f) A routine inspection and maintenance plan to ensure permit compliance;
- (g) A closure plan;
- (h) Geological/hydrological evidence demonstrating that disposal of oil field wastes will not adversely impact fresh water;
- (i) Proof that the notice requirements of this Rule have been met;
- (j) Certification by an authorized representative of the applicant that information submitted in the application is true, accurate, and complete to the best of the applicant's knowledge; and
- (k) Such other information as is necessary to demonstrate compliance with OCD rules and/or orders.

(2) The applicant shall give written notice of application to the owners of surface lands and occupants thereof within one-half (1/2) mile and a copy and proof of such notice will be furnished to the Division. The Division will issue public notice by advertisement in a paper of general circulation published in the county in which the disposal facility is to be located. For permit modifications, the Division may issue public notice and may require the applicant to give written notice as above. Any person seeking to comment on such application must file comments with the Division within 30 days of the date of public notice. If there is objection by owners or occupants of adjacent lands, the Director of the Division may set any application for a surface waste disposal permit for public hearing.

(3) Before commencing construction, all commercial surface waste disposal facilities shall have a surety or cash bond in the amount of \$25,000, in a form approved by the Division, conditioned upon compliance with statutes of the State of New Mexico and rules of the Division, and satisfactory cleanup of the site upon cessation of operation, in accordance with Part (10) of this Rule. If a bond has been secured for a treating plant permit at the location, that bond shall be sufficient for the surface waste disposal portion of

the facility, providing they are contiguous. If an adequate bond is posted by the applicant with a federal or state agency and the bond otherwise fulfills the requirements of this rule, the Division may consider the bond as satisfying the requirement of this rule. The applicant must notify the Division of any material change affecting the bond filed for the site and must, in any case, report the status of their bond annually to the Division;

(4) The Director of the Division may administratively issue a permit upon a finding that a complete and proper application has been filed and that no significant objections have been filed within 30 days following public notice. All permits shall be revocable, after notice and hearing, upon showing of good cause and are transferable only upon written approval of the Division Director. The permit shall be consistent with the application and appropriate requirements of Division rules and The Oil and Gas Act.

(5) All surface waste disposal facility operators shall file forms C-117-A, C-118, and C-120-A as required by OCD rules.

(6) Each operator of a commercial surface disposal facility shall keep and make available for inspection records for each calendar month on the source, location, volume and type of waste (produced water, acids, completion fluids, drilling mud, etc.), date of disposal, and hauling company that disposes of fluids or material in their facility. Such records shall be maintained for a period of two (2) years from the date of disposal.

(7) Disposal at a surface facility shall occur only when an attendant is on duty. The facility shall be secured when no attendant is present. When loads can be monitored or otherwise isolated for inspection before disposal, no attendant is required.

(8) No produced water shall be received at the facility from motor vehicles unless the transporter has a valid Form C-133, Authorization to Move Produced Water, on file with the Division.

(9) To protect migratory birds, all tanks exceeding 16 feet in diameter, and exposed pits and ponds shall be screened, netted or covered. Upon written application by the operator, an exception to screening, netting or covering of a facility may be granted by the district supervisor upon a showing that an alternative method will protect migratory birds or that the facility is not hazardous to migratory birds.

(10) Additional requirements or restrictions may be imposed by a written finding by the Division, including but not limited to the following:

- (a) An operator with a history of failure to comply with Division rules, regulations, and orders, or
- (b) Site suitability limitations.

(11) The operator shall notify the Division of cessation of operations. Upon cessation of disposal operations for six (6) consecutive months, the operator will complete cleanup of constructed facilities and restoration of the facility site within the following six (6) months, unless an extension of time is granted by the Director of the Division. Such closure shall be in accordance with the closure plan and any modifications approved by the Division Director and may include removal or demolition of buildings, removal of all tanks, vessels, equipment or hardware, containment and removal of fluids and chemicals, backfilling and grading of pits, removal of contaminated soil, aquifer restoration (if necessary) and reclamation of the general facility site. Prior to release of the bond covering the facility, a representative of the Division will inspect the site to determine that restoration is adequate.

(12) Upon showing of proper cause, the Director of the Division may order immediate cessation of any surface waste disposal operation. The cessation will remain in effect until withdrawn, or until an order is issued after notice and hearing, when it appears that such cessation is necessary to prevent waste, to protect fresh water, to protect public safety, or to assure compliance with Division rules or orders.

J - OIL PURCHASING AND TRANSPORTING

RULE 801. - ILLEGAL SALE PROHIBITED

(as of 3-1-91)

The sale or purchase or acquisition, or the transporting, refining, processing, or handling in any other way, of crude petroleum oil or of any crude petroleum produced in excess of the amount allowed by any statute of this state, or by any rule, regulation, or order of the Division made thereunder, is prohibited.

RULE 802. - RATABLE TAKE; COMMON PURCHASER

(as of 3-1-91)

A. Every person now engaged or hereafter engaging in the business of purchasing oil to be transported through pipelines shall be a common purchaser thereof, and shall without discrimination in favor of one producer as against another in the same field, purchase any oil tendered to it which has been lawfully produced in the vicinity of, or which may be reasonably reached by pipelines through which it is transporting oil, or the gathering branches thereof, or which may be delivered to the pipeline or gathering branches thereof by truck or otherwise, and shall fully perform all the duties of a common purchaser. If any common purchaser shall not have need for all such oil lawfully produced within a field, or if for any reason it shall be unable to purchase all such oil, then it shall purchase from each producer in a field ratably, taking and purchasing the same quantity of oil from each well to the extent that each well is capable of producing its ratable portions; provided, however, nothing herein contained shall be construed to require more than one pipeline connection for each producing well. In the event any such common purchaser of oil is likewise a producer or is affiliated with a producer, directly or indirectly, it is hereby expressly prohibited from discriminating in favor of its own production or in favor of the production of an affiliated producer as against that of others and the oil produced by such common purchaser, or by the affiliate of such common purchaser shall be treated as that of any other producer, for the purposes of ratable taking.

B. It shall be unlawful for any common purchaser, to unjustly or unreasonably discriminate as to the relative quantities of oil purchased by it in various fields of the state; the question of the justice or reasonableness to be determined by the Division, taking into consideration the production and age of wells in the respective fields and all other factors. It is the intent of this rule that all fields shall be allowed to produce and market a just and equitable share of the oil produced and marketed in the State, insofar as the same can be effected economically and without waste.

C. In order to preclude premature abandonment, the common purchaser within its purchasing area is authorized and directed to make 100 percent purchases from units of settled production producing ten (10) barrels or less daily of crude petroleum in lieu of ratable purchases or takings. Provided, however, where such purchaser's takings are curtailed below ten (10) barrels per unit of crude petroleum daily, then such purchaser is authorized and directed to purchase equally from all such units within its purchasing area, regardless of their producing ability insofar as they are capable of producing.

RULE 803. - PRODUCTION OF LIQUID HYDROCARBONS  
FROM GAS WELLS

(as of 3-1-91)

A. All liquid hydrocarbons produced incidental to the authorized production of gas from a well classified by the Division as a gas well shall, for all purposes, be legal production.

B. For purposes of this rule, all gas produced from a gas well shall be considered to be authorized production with the following exceptions:

(1) When the well is being produced without an approved Form C-104, designating the gas transporter and the oil or condensate transporter for said well.

(2) When the well has been directed to be shut in by the Division.

C. In the event a gas well is directed to be shut in by the Division, both the gas transporter and oil transporter named on the well's Form C-104 shall be immediately notified of such fact.

RULE 804. - DOCUMENTATION REQUIRED

(as of 3-1-91)

A. All off-lease transportation of crude oil or lease condensate by motor vehicle shall be pursuant to an approved Form C-104 and shall be accompanied by a run ticket or equivalent document. The documentation shall identify the name and address of the transporter, the name of the operator and of the lease or facility from which the oil was taken, the date of removal, the API gravity of the oil, the observed percentage of BS and W, the volume of oil or opening and closing tank gauges or meter readings, and the signature of the driver. The document shall provide space for recording of the lease number and for signature of the operator or his representative.

B. After August 1, 1982, all such transportation must be accompanied by documentation sufficient to verify the location of the tanks or facility from which the liquid was removed. The location may be shown on the run ticket or equivalent document or may be carried separately.

C. All off-lease transportation of liquids which may contain crude oil, lease condensate, sediment oil, or miscellaneous hydrocarbons shall be accompanied by a run ticket, work order, or equivalent document, i.e., Form C-117-A. The documentation shall identify the name and address of the transporter, the name of the operator and of the lease or facility from which the liquid was removed, the nature of the liquid removed including the observed percentage of liquid hydrocarbons, the volume or estimated volume of liquids, and the destination.

D. After August 1, 1982, all such transportation must be accompanied by documentation sufficient to verify the location of the tanks or facility from which the liquid was removed. The location may be shown on the run ticket or equivalent document or may be carried separately.

E. The documentation required under A. and B. above shall be carried in the vehicle during transportation and shall be produced for examination and inspection by any employee of the Division, any State Police Officer, or any other law enforcement officer upon identification and request.

F. Except where the owner and the transporter are the same, one copy of such documentation shall be left at the facility from which the oil or other liquids were removed.

K - GAS PURCHASING AND TRANSPORTING

RULE 901. - ILLEGAL SALE PROHIBITED

(as of 3-1-91)

The sale, purchase or acquisition, or the transporting, refining, processing or handling in any other way, of natural gas in whole or in part (or of any product of natural gas so produced) produced in excess of the amount allowed by any statute of this state, or by any rule, regulation or order of the Division made thereunder, is prohibited.

RULE 902. - RATABLE TAKE

(as of 3-1-91)

A. Any person now or hereafter engaged in purchasing from one or more producers, gas produced from gas wells or casinghead gas produced from oil wells shall be a common purchaser thereof within each common source of supply from which it purchases, and as such it shall purchase gas lawfully produced from gas wells or casinghead gas produced from oil wells with which its gas transportation facilities are connected in the pool and other gas lawfully produced within the pool and tendered to a point on its gas transportation facilities. Such purchases shall be made without unreasonable discrimination in favor of one producer against another in the price paid, the quantities purchased, the bases of measurement or the gas transportation facilities afforded for gas of like quantity, quality and pressure available from such wells. In the event any such person is likewise a producer, he is prohibited to the same extent from discriminating in favor of himself on production from gas wells or casinghead gas produced from oil wells in which he has an interest, direct or indirect, as against other production from gas wells or casinghead gas produced from oil wells in the same pool. For the purposes of this rule reasonable differences in prices paid or facilities afforded, or both, shall not constitute unreasonable discrimination if such differences bear a fair relationship to differences in quality, quantity or pressure of the gas available or to the relative lengths of time during which such gas will be available to the purchaser. The provisions of this subsection shall not apply to:

- (1) any wells or pools used for storage and withdrawal from storage of natural gas originally produced not in violation of the rules, regulations or orders of the Division; or
- (2) persons purchasing gas principally for use in the recovery or production of oil or gas, or
- (3) any well which has been designated a "hardship well" by the Division.

B. Any common purchaser taking gas produced from gas wells or casinghead gas produced from oil wells from a common source of supply shall take ratably under such rules, regulations and orders, concerning quantity, as may be promulgated by the Division consistent with this rule. The Division, in promulgating such rules, regulations and orders may consider the quality and the deliverability of the gas, the pressure of the gas at the point of delivery, acreage attributable to the well, market requirements in the case of unprorated pools, and other pertinent factors.

C. Nothing in this rule shall be construed or applied to require, directly or indirectly, any person to purchase gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his gas transportation facilities then in service.

L - REFINING

RULE 1001. - REFINERY REPORTS

(as of 3-1-91)

Each refiner of oil within the State of New Mexico shall furnish for each calendar month a "Refiner's Monthly Report," Form C-113, containing the information and data indicated by such form, respecting oil and products involved in such refiner's operations during each month. Such report for each month shall be prepared and filed according to instructions on the form, on or before the 15th day of the next succeeding month.

RULE 1002. - GASOLINE PLANT REPORTS

(as of 3-1-91)

A. Each operator of a gasoline plant, cycling plant, or any other plant at which gasoline, butane, propane, condensate, kerosene, oil, or other liquid products are extracted from natural gas within the State of New Mexico shall furnish for each calendar month a Gas Purchaser's Monthly Report, Form C-111, containing the information indicated by such form respecting natural gas and products involved in the operation of each plant during each month. (This rule shall also be applicable to plants in the State of New Mexico processing carbon dioxide gas into liquid or solid form.)

B. Form C-111 shall be filed in accordance with the provisions of Rule 1111.

M - REPORTS

RULE 1100. - GENERAL

(as of 3-1-91)

A. Where to File Reports

Unless otherwise specifically provided for in any rule or order of the Division, all forms and reports required by these rules shall be filed with the appropriate District Office of the Division as provided in Rules 1301 and 1302.

B. Additional Data

These rules shall not be construed to limit or restrict the authority of the Oil Conservation Division to require the furnishing of such additional reports, data, or other information relative to the production, transportation, storing, refining, processing, or handling of crude petroleum oil, natural gas, or products in the State of New Mexico as may appear to it to be necessary or desirable, either generally or specifically, for the prevention of waste and the conservation of natural resources of the State of New Mexico.

C. Books and Records

All producers, injectors, transporters, storers, refiners, gasoline or extraction plant operators, treating plant operators, and initial purchasers of natural gas within the State of New Mexico shall make and keep appropriate books and records for a period of not less than five years, covering their operations in New Mexico, from which they may be able to make and substantiate the reports required by these rules.

D. Written Notices, Requests, Permits, and Reports

The forms listed below shall be used for the purpose shown in accordance with the instructions printed thereon and the rule covering the use of the form, or any special rule or order pertaining to its use.

|                |   |
|----------------|---|
| Form C-101     | Application for Permit to Drill, Deepen, or Plug Back   |
| Form C-102     | Well Location and Acreage Dedication Plat   |
| Form C-103     | Sundry Notices and Reports on Wells   |
| Form C-104     | Request for Allowable and Authorization to Transport Oil and Natural Gas                              |
| Form C-105     | Well Completion or Recompletion Report and Log  |
| Form C-106     | Notice of Intention to Utilize Automatic Custody Transfer Equipment                                   |
| Form C-107     | Application for Multiple Completion   |
| Form C-108     | Application to Dispose of Salt Water by Injection into a Porous Formation                             |
| Form C-109     | Application for Discovery Allowable and Creation of a New Pool  |
| Form C-111     | Gas Transporter's Monthly Report (Sheet 1 and Sheet 2)  |
| Form C-112     | Transporter's and Storer's Monthly Report   |
| Form C-113     | Refiner's Monthly Report (Sheet 1 and Sheet 2)  |
| Form C-115     | Operators Monthly Report  |
| Form C-115-EDP | Operator's Monthly Report (electronic data processing)  |
| Form C-116     | Gas-Oil Ratio Tests   |
| Form C-117-A   | Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit |
| Form C-117-B   | Monthly Sediment Oil Disposal Statement   |
| Form C-118     | Treating Plant Operator's Monthly Report (Sheet 1 and Sheet 2)  |
| Form C-119     | Carbon Black Plant Monthly Report   |
| Form C-120-A   | Monthly Water Disposal Report   |
| Form C-121     | Crude Oil Purchaser's Nomination  |
| Form C-121-A   | Purchaser's Gas Nomination  |
| Form C-122     | Multi-Point and One Point Back Pressure Test for Gas wells  |

|              |  |
|--------------|--|
| Form C-122-A | Gas Well Test Data Sheet-San Juan Basin (Initial Deliverability Test, blue paper; Annual Deliverability Test, white) |
| Form C-122-B | Initial Potential Test Data Sheet  |
| Form C-122-C | Deliverability Test Report   |
| Form C-122-D | Worksheet for Calculation of Static Column Wellhead Pressure ( $P_w$ ).  |
| Form C-122-E | Worksheet for Stepwise Calculation of (Surface) (Subsurface) Pressure ( $P_s$ & $P_w$ )                              |
| Form C-122-F | Worksheet for Calculation of Wellhead Pressures ( $P_s$ or $P_w$ ) from Known Bottomhole Pressure ( $P_r$ or $P_w$ ) |
| Form C-122-G | Worksheet for Calculation of Static Column Pressure at Gas Liquid Interface  |
| Form C-123   | Request for the Creation of a New Pool   |
| Form C-124   | Reservoir Pressure Report  |
| Form C-125   | Gas Well Shut-in Pressure Report   |
| Form C-126   | Permit to Transport Recovered Load Oil   |
| Form C-127   | Request for Allowable Change   |
| Form C-129   | Application for Exception to No-Flare Rule 306   |
| Form C-130   | Notice of Disconnection  |
| Form C-131-A | Monthly Gas Storage Report   |
| Form C-131-B | Annual LPG Storage Report  |
| Form C-133   | Authorization to Move Produced Water<br>Exhibit "A"  |

RULE 1101. - APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK (Form C-101) (as of 3-1-91)

A. Before commencing drilling or deepening operations, or before plugging a well back to another zone, the operator of the well must obtain a permit to do so. To obtain such permit, the operator shall submit to the Division FIVE copies of Form C-101, Application for Permit to Drill, Deepen, or Plug Back, completely filled out. If the operator has an approved bond in accordance with Rule 101, one copy of the Drilling Permit will be returned to him on which will be noted the Division's approval, with any modification deemed advisable. If the proposal cannot be approved for any reason, the Forms C-101 will be returned with the cause for rejection stated thereon.

B. Form C-101 must be accompanied by THREE copies of Form C-102, Well Location and Acreage Dedication Plat. (See Rule 1102.)

C. If the well is to be drilled on state land, submit SIX copies of Form C-101 and FOUR copies of Form C-102, the extra copy of each form being for the State Land Office.

RULE 1102. - WELL LOCATION AND ACREAGE DEDICATION PLAT (Form C-102) (as of 3-1-91)

A. Form C-102 is a dual purpose form used to show the exact location of the well and the acreage dedicated thereto. The form is also used to show the ownership and status of each lease contained within the dedicated acreage. When there is more than one working interest or royalty owner on a given lease, designation of the majority owner et. al. will be sufficient.

B. All information required on Form C-102 shall be filled out and certified by the operator of the well except the well location on the plat. This is to be plotted from the outer boundaries of the section and certified by a professional surveyor, registered in the State of New Mexico, or surveyor approved by the Division.

C. Form C-102 shall be submitted in TRIPLICATE or QUADRUPPLICATE as provided in Rule 1101.

D. Amended Form C-102 (in TRIPLICATE or QUADRUPPLICATE) shall be filed in the event there is a change in any of the information previously submitted. The well location need not be certified when filing amended Form C-102.

RULE 1103. - SUNDRY NOTICES AND REPORTS ON WELLS (Form C-103)

(as of 3-1-91)

Form C-103 is a dual purpose form to be filed with the appropriate District Office of the Division to obtain Division approval prior to commencing certain operations and also to report various completed operations.

A. Form C-103 as a Notice of Intention

(1) Form C-103 shall be filed in TRIPLICATE by the operator and approval obtain from the Division prior to:

- (a) Effecting a change of plans from those previously approved on Form C-101 or Form C-103.
- (b) Altering a drilling well's casing program or pulling casing or otherwise altering an existing well's casing installation.
- (c) Temporarily abandoning a well.
- (d) Plugging and abandoning a well.
- (e) Performing remedial work on a well which, when completed, will affect the original status of the well. (This shall include making new perforations in existing wells or squeezing old perforations in existing wells, but is not applicable to new wells in the process of being completed nor to old wells being deepened or plugged back to another zone when such recompletion has been authorized by an approved Form C-101, Application for Permit to Drill, Deepen, or Plug Back, nor to acidizing, fracturing, or cleaning out previously completed wells, nor to installing artificial lift equipment.)

(2) In the case of well plugging operations, the Notice of Intention shall include a detailed statement of the proposed work, including plans for shooting and pulling casing, plans for mudding, including weight of mud, plans for cementing, including number of sacks of cement and depths of plugs, and the time and date of the proposed plugging operations. If not previously filed, a complete log of the well on Form C-105 (See Rule 1105) shall accompany the Notice of Intention to plug the well; the bond will not be released until this is complied with.

B. Form C-103 as a Subsequent Report

(1) Form C-103 as a subsequent report of operations shall be filed in accordance with the section of this rule applicable to the particular operation being reported.

(2) Form C-103 is to be used in reporting such completed operations as:

- (a) Commencement of drilling operations
- (b) Casing and cement test
- (c) Altering a well's casing installation
- (d) Temporary abandonment
- (e) Plug and Abandon
- (f) Plugging back or deepening
- (g) Remedial work
- (h) Installation of artificial lifting equipment

- (i) Change of operator of a drilling well
- (j) Such other operations which affect the original status of the well but which are not specifically covered herein.

C. Information to be entered on Form C-103, Subsequent Report, for a particular operation is as follows:

(1) Report of Commencement of Drilling Operations

- (2) Within ten days following the commencement of drilling operations, the operator of the well shall file a report thereof on Form C-103 in TRIPLICATE. Such report shall indicate the hour and the date the well was spudded.

D. Report of Results of Test of Casing and Cement Job; Report of Casing Alteration

- (1) A report of casing and cement test shall be filed by the operator of the well within ten days following the setting of each string of casing or liner. Said report shall be filed in TRIPLICATE on Form C-103 and shall present a detailed description of the test method employed and the results obtained by such test, and any other pertinent information required by Rule 107. The report shall also indicate the top of the cement and the means by which such top was determined. It shall also indicate any changes from the casing program previously authorized for the well.

E. Report of Temporary Abandonment

- (1) A report of temporary abandonment of a well shall be filed by the operator of the well within thirty days following completion of the work. The report shall be filed in TRIPLICATE and shall present a detailed account of the work done on the well, including location and type of plugs used, if any, and status of surface and downhole equipment, and any other pertinent information relative to the overall status of the well.

F. Report on Plugging of Well

- (1) A report of plugging operations shall be filed by the operator of the well within 30 days following completion of plugging operations on any well. Said report shall be filed in TRIPLICATE on Form C-103 and shall include the date the plugging operations were begun and the date the work was completed, a detailed account of the manner in which the work was performed including the depths and lengths of the various plugs set, the nature and quantities of materials employed in the plugging operations including the weight of the mud used, the size and depth of all casing left in the hole, and any other pertinent information. (See Rules 201-204 regarding plugging operations.)
- (2) No plugging report will be approved by the Division until the pits have been filled and the location levelled and cleared of junk. It shall be the responsibility of the operator to contact the appropriate district office of the Division when the location has been so restored in order to arrange for an inspection of the plugged well and the location by a Division representative.

G. Report of Remedial Work

- (1) A report of remedial work performed on a well shall be filed by the operator of the well within 30 days following completion of such work. Said report shall be filed in QUADRUPPLICATE on Form C-103 and shall present a detailed account of the work done and the manner in which such work was performed; the daily production of oil, gas, and water both prior to and after the remedial operation; the size and depth of shots; the quantity of and, crude, chemical or other materials employed in the operation, and any

other pertinent information. Among the remedial work to be reported on Form C-103 are the following:

- (a) Report on shooting, fluid fracturing or chemical treatment of a previously completed well
- (b) Report of squeeze job
- (c) Report on setting of liner or packer
- (d) Report of installation of pumping equipment or gas lift facilities
- (e) Report of any other remedial operations which are not specifically covered herein.

H. Report on Deepening or Plugging Back Within the Same Pool

(1) A report of deepening or plugging back shall be filed by the operator of the well within 30 days following completion of such operations on any well. Said report shall be filed in QUADRUPPLICATE on Form C-103 and shall present a detailed account of work done and the manner in which such work was performed. If the well is recompleted in the same pool, it shall also report the daily production of oil, gas, and water both prior to and after recompletion. If the well is recompleted in another pool, Forms C-101, C-102, C-104 and C-105 must be filed in accordance with Rules 1101, 1102, 1104 and 1105.

I. Report of Change of Operator of a Drilling Well

(1) A report of change of ownership shall be filed by the new operator of any drilling well within ten days following actual transfer of ownership or responsibility. Said report shall be filed in TRIPLICATE on Form C-103 and shall include the name and address of both the new operator and the previous operator, the effective date of the change of ownership or responsibility, and any other pertinent information. No change in the operator of a drilling well will be approved by the Division unless the new operator has an approved bond in accordance with Rule 101. (Form C-104 shall be used to report transfer of operator of a completed well; see Rule 1104.)

J. Other Reports on Wells

(1) Reports on any other operations which affect the original status of the well but which are not specifically covered herein shall be submitted to the Division on Form C-103, in TRIPLICATE, by the operator of the well ten days following the completion of such operation.

RULE 1104. - REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT OIL AND NATURAL GAS (Form C-104) (as of 3-1-91)

A. Form C-104 completely filled out by the operator of the well must be filed in QUINTUPLICATE before an allowable will be assigned to any newly completed or recompleted well. (A recompleted well shall be considered one which has been deepened or plugged back to produce from a different pool than previously.) Form C-104 must be accompanied by a tabulation of all deviation tests taken on the well as provided by Rule 111.

B. The allowable assigned to an oil well shall be effective at 7:00 o'clock a.m. on the date of completion, provided the Form C-104 is received by the Division during the month of completion. Date of completion shall be that date when new oil is delivered into the stock tanks.

(1) Unless otherwise specified by special pool rules, the allowable assigned to a gas well shall be effective at 7:00 o'clock a.m. on the date of connection to a gas transportation facility, as evidenced by an affidavit of connection from the transporter to the Division, or the date of receipt of Form C-104 by the Division, whichever date is later.

C. No allowable will be assigned to any well until a standard unit for the pool in which the well is completed has been dedicated by the operator, or a non-standard unit has been approved by the Division, or a standard unit has been communitized or pooled and dedicated to the well.

D. No allowable will be assigned to any well until all forms and reports due have been received by the Division and the well is otherwise in full compliance with these rules.

E. Form C-104 with Sections I, II, III, and VI, completely filled out shall be filed in QUINTUPLICATE by the operator of the well in the event there is a change of operator of any producing well, injection well, or disposal well, or a change of transporter (oil, condensate, casinghead gas, or dry gas), a change in pool designation, lease name, or well number, or any other pertinent change in condition of any such well. When filing Form C-104 for change of operator, the new operator shall file the form in the above manner, and shall give the name and address of the previous as well as the present operator. The Form C-104 will not be approved by the Division unless the new operator has an approved bond in compliance with Rule 101.

F. Whenever there is a temporary change in transporter and oil is to be moved from the lease by anyone other than the regular transporter authorized by an approved Form C-104, the operator shall notify the appropriate District Office of the Division in writing within three days after the oil is moved, furnishing such information as may be required by the District Office. The operator shall furnish copies of the notification to the regular transporter and to the temporary transporter. This paragraph is intended to deal primarily with authorized batch movements of oil by the operator for use as load oil, frac oil, etc.; eventual sale of this oil is governed by Rules 508 and 1126.

RULE 1105. - WELL COMPLETION OR RECOMPLETION REPORT AND LOG (as of 3-1-91)  
(Form C-105)

A. Within 20 days following the completion or recompletion of any well, the operator shall file Form C-105 with the Division. It must be filed in QUINTUPLICATE and each copy accompanied by a summary of all special tests conducted on the well, including drill stem tests. In addition, one copy of all electrical and radio-activity logs run on the well must be filed with Form C-105. If the Form C-105 with attached log(s) and summaries is not received by the Division within the specified 20-day period, the allowable for the well will be withheld until this rule has been complied with.

B. In the case of a dry hole, a complete record of the well on Form C-105 with the above attachments shall accompany the notice of intention to plug the well, unless previously filed. The plugging report will not be approved nor the bond released until this rule has been complied with.

C. Form C-105 and accompanying attachments will not be kept confidential by the Division unless so requested in writing by the owner of the well. Upon such request, the Division will keep these data confidential for 90 days from the date of completion of the well, provided, however, that the report, log(s), and other attached data may, when pertinent, be introduced in any public hearing before the Division or its examiners or in any court of law, regardless of the request that they be kept confidential.

RULE 1106. - NOTICE OF INTENTION TO UTILIZE AUTOMATIC CUSTODY (as of 3-1-91)  
TRANSFER EQUIPMENT (Form C-106)

Form C-106, when applicable, shall be filed in accordance with Rule 309-A.

RULE 1107. - APPLICATION FOR MULTIPLE COMPLETION (Form C-107) (as of 3-1-91)

Form C-107, when applicable, shall be filed in accordance with Rule 112-A D.

RULE 1108. - APPLICATION FOR AUTHORIZATION TO INJECT (Form C-108) (as of 3-1-91)

Form C-108 shall be filed in accordance with Rule 701-B.

RULE 1109. - APPLICATION FOR DISCOVERY ALLOWABLE AND CREATION OF A NEW POOL (Form C-109) (as of 3-1-91)

Form C-109, when applicable, shall be filed in accordance with Rule 509.

RULE 1110. - No Rule; there is no Form C-110 at present.

RULE 1111. - GAS TRANSPORTER'S MONTHLY REPORT (Form C-111) (as of 3-1-91)

A. Form C-111, Gas Transporter's Monthly Report, shall be filed monthly in accordance with the rules below. It shall be postmarked on or before the 15th day of the month to report all gas taken during the preceding month. One copy shall be filed with the appropriate District Office of the Division and one copy with the Santa Fe Office of the Division. One additional copy shall also be sent to the Hobbs Office of the Division. Information on Sheet No. 2 of Form C-111 shall be itemized by pools, by operators, and by leases, in alphabetical order.

B. Form C-111 shall be filed each month by the operator of any gas gathering system, gas transportation system, recycling system, fuel system, gas lift system, gas drilling operation, etc. The form shall cover all natural gas, casinghead gas, and carbon dioxide gas taken into any such system during the preceding month and shall show the source of the gas and the disposition thereof.

C. Form C-111 shall also be filed each month by the operator of any gasoline plant, cycling plant, or other plant at which gasoline, butane, propane, kerosene, oil, or other products are extracted from gas within the State of New Mexico. The form shall cover all natural gas, casinghead gas, and carbon dioxide gas taken by any such plant during the preceding month and shall show the source of the gas and the disposition thereof. If a plant operator owns more than one plant in a given Division District, Sheet No. 1 of Form C-111 shall be filed for each such plant. In preparing Sheet No. 2, the plant operator shall consolidate all requisitions for all plants in the District, itemized in the order described in the first paragraph of this rule.

D. Where gas is taken by the producer and utilized by the producer for any of the above uses, the producer shall file Form C-111 itemizing such gas. The producer shall also include this gas on the Operator's Monthly Report, Form C-115. Gas used on the lease from which it was produced for consumption in lease houses, treaters, compressors, combustion engines, and other similar equipment, or gas which is flared, shall also be included on the Form C-115 but is not to be included on the Form C-111.

RULE 1112. - TRANSPORTER'S AND STORER'S MONTHLY REPORT (Form C-112) (as of 3-1-91)

Each transporter and each storer of crude petroleum oil and liquid hydrocarbons within the State of New Mexico shall file for each calendar month a Transporter's and Storer's Monthly Report, Form C-112, containing complete information and data indicated by such form respecting stocks of crude petroleum oil and liquid hydrocarbons on hand and receipts and deliveries of crude petroleum oil and liquid hydrocarbons by pipeline and trucks within the State of New Mexico, and receipts and deliveries from leases to storers or refiners; between transporters within the State; between storers and refiners within the State. Form C-112 shall be filed in DUPLICATE and postmarked on or before the 15th day of the next succeeding month.

RULE 1113. - REFINER'S MONTHLY REPORT (Form C-113) (as of 3-1-91)

Every refiner of crude petroleum oil within the State of New Mexico shall furnish for each calendar month Refiner's Monthly Report, Form C-113, containing the information and data indicated by such form respecting crude petroleum oil and products involved in such refiner's operation during each month. Such report for each month shall be filed in DUPLICATE and be postmarked on or before the 15th day of the next succeeding month.

RULE 1114. - No Rule; there is no Form C-114 at present.

RULE 1115. - OPERATOR'S MONTHLY REPORT (Form C-115) (as of 3-1-91)

A. Operator's Monthly Report, Form C-115 or Form C-115-EDP, shall be filed on each producing lease and each secondary or other enhanced recovery project or pressure maintenance project injection well within the State of New Mexico for each calendar month, setting forth complete information and data indicated on said forms in the order, format, and style prescribed by the Division Director. Oil production from wells which are producing into common storage shall be estimated as accurately as possible on the basis of periodic tests.

B. The reports on this form shall be filed by the producer as follows:

(1) Original to the Oil Conservation Division at Santa Fe; one copy to the District Office of the Division in which district the lease is located; and one copy to each transporter involved. Each report for each month shall be postmarked not later than the 24th day of next succeeding month. Failure of an operator to file this report in accordance with the provisions of this rule may result in cancellation of Form C-104 for the affected well or wells and/or cancellation of authority to inject.

RULE 1116. - GAS-OIL RATIO TESTS (Form C-116) (as of 3-1-91)

Gas-oil ratio tests shall be made and reported on Form C-116 as prescribed in Rule 301, Gas-Oil Ratio Tests, and any applicable special pool rules. This form shall be submitted in DUPLICATE.

RULE 1117. - TANK CLEANING, SEDIMENT OIL REMOVAL, TRANSPORTATION OF MISCELLANEOUS HYDROCARBONS AND DISPOSAL PERMIT (Form C-117-A), AND MONTHLY SEDIMENT OIL DISPOSAL STATEMENT (Form C-117-B) (as of 3-1-91)

A. Form C-117-A, Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit, shall be submitted to the appropriate District Office of the Division in QUINTUPPLICATE and in accordance with Rule 311 B. C. and H.

B. Form C-117-B, Monthly Sediment Oil Disposal Statement, shall be submitted both to the Santa Fe office and the appropriate District Office(s) of the Division in accordance with Rule 311 D.

RULE 1118. - TREATING PLANT OPERATOR'S MONTHLY REPORT (Form C-118) (as of 3-1-91)

Form C-118 shall be submitted in DUPLICATE to the appropriate District Office of the Division in accordance with Rule 312, and shall contain all the information required thereon. Column 1 of Sheet 1-A of Form C-118 entitled "Permit Number," has reference to the Tank Cleaning, Sediment Oil Removal, Transportation of Miscellaneous Hydrocarbons and Disposal Permit, Form C-117-A, for each lot of oil picked up for processing.

RULE 1119. - CARBON BLACK PLANT MONTHLY REPORT (Form C-119) (as of 3-1-91)

Each operator of a carbon black plant within the State of New Mexico shall file for each calendar month the monthly volume of gas received by him from a gasoline extraction plant or plants, and a monthly volume or volumes of gas received by him from each lease operator delivering natural gas directly to such plant, together with the opening and closing stocks and the production and deliveries by grades of carbon black or other products produced. Such reports shall be filed in DUPLICATE on Form C-119, Carbon Black Plant Monthly Report, and be postmarked on or before the 15th day of the next succeeding month. In addition, Form C-111 shall be filed each

month in accordance with Rule 1111 if the Carbon Black Plant operator makes any purchase directly from a lease or operates any gas gathering or transmission system.

RULE 1120. - MONTHLY WATER DISPOSAL REPORT (Form C-120-A) (as of 3-1-91)

Each operator of a salt water disposal system shall report such operations on Form C-120-A. Form C-120-A shall be filed in DUPLICATE (one copy with the Santa Fe Office and one copy with the appropriate district office) and shall be postmarked no later than the 15th day of the second succeeding month.

RULE 1121. - PURCHASER'S NOMINATION FORMS (Form C-121 and Form C-121-A) (as of 3-1-91)

A. Unless requested otherwise by the Division Director, one copy of Form C-121, Crude Oil Purchaser's Nomination, shall be submitted to the Santa Fe Office of the Division not later than the 20th day of each odd-numbered month. Nominations shall be filed by each person expecting to purchase oil from producing wells in New Mexico during the second and third succeeding two months. As an example, nominations submitted by the 20th day of July shall indicate the amount of oil the purchaser desires to purchase daily during September and October.

B. One copy of Form C-121-A, Purchaser's Gas Nomination, shall be submitted to the Santa Fe Office of the Division by the first day of the month during which the Division will consider at the gas allowable hearing the nominations for the purchase of gas from producing wells in New Mexico during the succeeding month. As an example, purchaser's nominations to take gas from a pool during the month of August would be considered by the Division at a hearing during July, and should be submitted to the Santa Fe office of the Division by July 1.

C. In addition to the monthly gas nominations, twelve-months nominations shall be filed in accordance with the appropriate pool rules.

RULE 1122. - MULTIPOINT AND ONE POINT BACK PRESSURE TEST FOR GAS WELL (Form C-122) (as of 3-1-91)

GAS WELL TEST DATA SHEET - SAN JUAN BASIN (Form C-122-A)

INITIAL POTENTIAL TEST DATA SHEET (Form C-122-B)

DELIVERABILITY TEST REPORT (Form C-122-C)

WORKSHEET FOR CALCULATION OF STATIC COLUMN WELLHEAD PRESSURE ( $P_w$ ) (Form C-122-D)

WORKSHEET FOR STEPWISE CALCULATION OF (SURFACE) (SUBSURFACE) PRESSURE ( $P_s$  &  $P_w$ ) ( $P_e$  &  $P_w$ ) (Form C-122-E)

WORKSHEET FOR CALCULATION OF WELLHEAD PRESSURES ( $P_s$  or  $P_w$ ) FROM KNOWN BOTTOMHOLE PRESSURE ( $P_e$  or  $P_w$ ) (Form C-122-F)

WORKSHEET FOR CALCULATION OF STATIC COLUMN PRESSURE AT GAS LIQUID INTERFACE (Form C-122-G)

The above forms shall be submitted to the appropriate district office of the Division in accordance with the provisions of the "Manual for Back-Pressure Testing of Natural Gas Wells," or "Gas Well Testing Manual for Northwest New Mexico", Rule 401 of the Division Rules and Regulations, and applicable special pool rules and proration orders. These forms shall be submitted in DUPLICATE except Form C-122-A which shall be submitted in TRIPLICATE.

RULE 1123. - REQUEST FOR THE CREATION OF A NEW POOL (Form C-123) (as of 3-1-91)

The operator of a well which requires the creation of a pool shall be given written instructions by the appropriate district office regarding the filing of Form C-123 in DUPLICATE.

RULE 1124. - RESERVOIR PRESSURE REPORT (Form C-124) (as of 3-1-91)

Form C-124 shall be submitted in TRIPLICATE and shall be used to report bottom hole pressures as required under the provisions of Rule 302 and any applicable special pool rules.

RULE 1125. - GAS WELL SHUT-IN PRESSURE TESTS (Form C-125) (as of 3-1-91)

Form C-125 shall be submitted in TRIPLICATE and shall be used to report shut-in pressure tests on gas wells as required under the provisions of Rule 402 and any applicable special pool rules.

RULE 1126. - PERMIT TO TRANSPORT RECOVERED LOAD OIL (Form C-126) (as of 3-1-91)

Form C-126 shall be submitted in QUADRUPPLICATE to the appropriate District Office of the Division and shall be used in conformance with Rule 508 and Rule 1104 F.

RULE 1127. - REQUEST FOR ALLOWABLE CHANGE (Form C-127) (as of 3-1-91)

One copy of Form C-127 shall be filed by the oil producer with the appropriate District Office of the Division not later than the 10th day of the month preceding the month for which oil well allowable changes are requested.

RULE 1128. - FORMS REQUIRED ON FEDERAL LAND (as of 3-1-91)

A. Federal forms shall be used in lieu of State forms when filing APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK and SUNDRY NOTICES AND REPORTS ON WELLS AND WELL COMPLETION OR RECOMPLETION REPORT AND LOG for wells on Federal lands in New Mexico. However, it shall be the duty of the operator to submit two extra copies of each of such forms to the BLM, which, upon approval, will transmit same to the Division. The following BLM forms will be used in lieu of Division forms by operators of wells on Federal land:

| <u>BLM Form No.</u>   | <u>Title of Form.</u><br>(Same for both agencies)       | <u>Form No.</u> |
|-----------------------|---|-----------------|
| 3160-3<br>(Nov. 1983) | APPLICATION FOR PERMIT TO DRILL, DEEPEN<br>OR PLUG BACK | C-101           |
| 3160-5<br>(Nov. 1983) | SUNDRY NOTICES AND REPORTS ON WELLS                     | C-103           |
| 3160-4<br>(Nov. 1983) | WELL COMPLETION OR RECOMPLETION REPORT<br>AND LOG       | C-105           |

B. The above forms as may be revised are the only forms that may be submitted in place of Division forms.

C. After a well is completed and ready for pipeline connection, Division Form C-104 shall be filed along with a copy of Form C-105 or BLM Form No. 3160-4, whichever is applicable, with the Division on any and all wells drilled in the State, regardless of land status. Further, all reports and forms as required under the preceding rules of this section of the Rules and Regulations that pertain to production must be filed on the proper Oil Conservation Division form as set out in said rule - no other forms will be accepted.

D. Failure to comply with the provisions of this rule will result in the cancellation of Form C-104 for the affected well or wells.

RULE 1129. - APPLICATION FOR EXCEPTION TO NO-FLARE RULE 306 (Form C-129) (as of 3-1-91)

Form C-129, when applicable, shall be filed in accordance with Rule 306.

RULE 1130. - NOTICE OF DISCONNECTION (Form C-130) (as of 3-1-91)

A. Form C-130, Notice of Disconnection, shall be filed in TRIPLICATE with the Division by the operator of the well as provided in Rule 407.

B. The operator shall state, to the best of his knowledge, the reasons for disconnecting any gas well from gas transportation facilities.

C. The Division shall furnish the New Mexico Public Service Commission with any Form C-130 indicating that a disconnected gas well may or will be reconnected to a gas transportation facility for ultimate distribution to consumers outside of the State of New Mexico.

RULE 1131. - MONTHLY GAS STORAGE REPORT (Form C-131-A) (as of 3-1-91)  
ANNUAL LPG STORAGE REPORT (Form C-131-B)

A. Each operator of an underground natural gas storage project shall report its operation monthly on Form C-131-A. Form C-131-A shall be filed in DUPLICATE (one copy to the appropriate district office) and shall be postmarked not later than the 24th day of the next succeeding month.

B. Each operator of an underground liquefied petroleum gas storage project approved by the Division shall report its operation annually on Form C-131-B.

RULE 1132. - AUTHORIZATION TO MOVE PRODUCED WATER (as of 3-1-91)

A. Each person who is a transporter of produced water shall obtain approval of Form C-133, Authorization to Move Produced Water, in accordance with Rule 709 C. prior to any such transportation.

B. Approval of a single Form C-133 is valid for all leases served by such transporter.

N - RULES ON PROCEDURE

RULE 1201. - NECESSITY FOR HEARING

(as of 3-1-91)

Except as provided in some general rule herein, before any rule, regulation or order, including revocation, changes, renewal or extension thereof, shall be made by the Division, a public hearing before the Commission or a legally appointed Division Examiner shall be held at such time and place as may be prescribed by the Division.

RULE 1202. - EMERGENCY ORDERS

(as of 3-1-91)

Notwithstanding any other provision of these rules, in case an emergency is found to exist by the Division, which, in its judgement, requires the making of a rule, regulation, or order without a hearing having first been had or concluded, such emergency rule, regulation, or order when made by the Division shall have the same validity as if a hearing with respect to the same had been held before the Division after due notice. Such emergency rule, regulation, or order shall remain in force no longer than 15 days from its effective date, and in any event, it shall expire when the rule, regulation, or order made after due notice and hearing with respect to the subject matter of such emergency rule, regulation, or order becomes effective.

RULE 1203. - METHOD OF INITIATING A HEARING

(as of 3-1-91)

A. The Division upon its own motion, the Attorney General on behalf of the State, and any operator or producer, or any other person having a property interest may institute proceedings for a hearing. If the hearing is sought by the Division it shall be on motion of the Division and if by any other person it shall be by application. The application shall be in TRIPLICATE and shall state:

- (1) the name of the applicant;
- (2) the name or general description of the common source or sources of supply or the area affected by the order sought;
- (3) briefly the general nature of the order, rule, or regulation sought; and
- (4) any other matter required by a particular rule or rules, or order of the Division.

The application shall be signed by the person seeking the hearing or by his attorney.

B. When conditions are such as to require verbal application to place a matter for hearing on a given docket, the Division will accept such verbal application in order to meet publishing deadlines. However, if written application, filed in accordance with the procedures outlined above, has not been received by the Division's Santa Fe office at least ten days before the date of the hearing, the case will be dismissed.

RULE 1204. - METHOD OF GIVING LEGAL NOTICE FOR HEARING

(as of 3-1-91)

Notice of each hearing before the Commission and notice of each hearing before a Division Examiner shall be by publication once in a newspaper of general circulation published at Santa Fe, New Mexico, and once in a newspaper of general circulation published in the county or each of the counties, if there be more than one, in which any land, oil, or gas, or other property which may be affected is situated.

RULE 1205. - CONTENTS OF NOTICE OF HEARING

(as of 3-1-91)

A. Published notices shall be issued in the name of "The State of New Mexico" and shall be signed by the Director of the Division, and the seal of the Commission shall be impressed thereon.

B. The notice shall specify whether the case is set for hearing before the Commission or before a Division Examiner and shall state the number and style of the case and the time and place of hearing and shall briefly state the general nature of the order or orders, rule or rules, regulation or regulations to be promulgated or effected. The notice shall also state the name of the petitioner or applicant, if any, and unless the contemplated order, rule, or regulation is intended to apply to and affect the entire state, it shall specify or generally describe the common source or sources of supply which may be affected by such order, rule or regulation.

RULE 1206. - PERSONAL SERVICE OF NOTICE

(as of 3-1-91)

After a motion or application is filed with the Division, the notice required under Rule 1205 shall be prepared by the Division and publication thereof shall be taken care of by the Division without the cost to the applicant.

RULE 1207. - ADDITIONAL NOTICE REQUIREMENTS

(as of 3-1-91)

A. Each applicant for hearing before the Division or Commission shall give additional notice as set forth below:

(1) In cases of applications filed for compulsory pooling under Section 70-2-17 NMSA 1978, as amended, or statutory unitization under Section 70-7-1, et. seq. NMSA 1978, as amended: Actual notice shall be given to each known individual owning an uncommitted leasehold interest, an unleased and uncommitted mineral interest, or royalty interest not subject to a pooling or unitization clause in the lands affected by such application which interest must be committed and has not been voluntarily committed to the area proposed to be pooled or unitized. Such individual notice in compulsory pooling or statutory unitization cases shall be by certified mail (return receipt requested).

(2) When an application for compulsory pooling is known to be unopposed, the applicant may file under the following alternate procedure:

(a) Actual notice shall be given as required in (1) above. The application for hearing shall state that no opposition for hearing is expected and shall include the following:

(i) a map outlining the spacing unit(s) to be pooled showing the nature and percentage of the ownership interests therein and location of the proposed well;

(ii) a listing showing the name and last known address of all parties to be pooled and the nature and percent of their interest;

(iii) the name of the formations and/or pools to be pooled (Note: The Division cannot pool a spacing unit larger in size than provided in the General Rules or appropriate special pool rules);

(iv) a statement as to whether the pooled unit is for gas and/or oil production as appropriate (see note under (iii) above);

(v) written evidence of attempts made to gain voluntary agreement including but not limited to copies of appropriate correspondence;

pooled

- (vi) appropriate geological map(s) of the formation(s) to be tested and a geological and/or engineering assessment of the risk involved in the drilling of the well and a proposed risk penalty to be assessed against any owner who chooses not to pay his share of estimated well costs;
- (vii) proposed overhead charges (combined fixed rates) to be applied during drilling and production operations along with a demonstration that such changes are reasonable;
- (viii) the location and proposed depth of the well to be drilled and the units(s); and,
- (ix) a copy of the AFE (Authorization for Expenditure) to be submitted to the interest owners in the well.

(3) All submittals required under this paragraph shall be accompanied by statements (sworn and notarized) by those persons who prepared the same attesting that the information is true and complete to the best of their knowledge and belief.

(4) All unopposed pooling applications will be set for hearing. If the Division review of such application finds them acceptable, the information submitted above will be incorporated as the record in the case and an order will be written thereon. At the request of any interested party or upon the Division's own initiative, any pooling application submitted under paragraph (2) of this rule shall be set for full hearing with oral testimony by the applicant.

(5) In cases of applications for approval of unorthodox well locations:

- (a) If the proposed location is unorthodox by virtue of being located closer to the outer boundary of the spacing unit, than permitted by rule, actual notice shall be given to any operator of a spacing unit or owner of an undrilled lease which adjoins the applicant's spacing unit on one or more of the two sides or the single corner closest to the proposed well.
- (b) If the proposed location is unorthodox by virtue of its proximity to another well or wells within the same spacing unit, actual notice shall be given to offsetting operators or owners of undrilled leases bordering applicant's spacing unit on a common boundary or unit corner.
- (c) If the proposed location is unorthodox by virtue of being located in a different quarter-quarter section or quarter section than provided in special pool rules, actual notice shall be given to offsetting operators or owners of undrilled leases bordering applicant's spacing unit on a common boundary or unit corner.
- (d) All such notices shall be given by certified mail (return receipt requested).

(6) In the case of applications for the approval of any non-standard proration unit:

- (a) Actual notice shall be given to all operators owning a leasehold interest to be excluded from the proration unit in the quarter-quarter section (for 40-acre pools or formations), the quarter section (for 160-acre pools or formations), the half section (for 320-acre pools or formations), or in the section (for 640-acre pools or formations) in which the non-standard unit is located and to each operator on any proration unit, or owner of an undrilled tract, which unit or tract adjoins or corners such quarter-quarter, quarter,

half, or whole section. Such notice shall be by certified mail (return receipt requested).

(7) In the case of applications for adoption of, or amendment of, special pool rules:

(a) Actual notice shall be given to all operators of wells and each unleased mineral owner within the existing or proposed pool boundaries and all operators of wells within one (1) mile of such boundaries. Such notice may be provided by regular mail.

(8) In the case of applications to amend special rules of any Division designated potash area, actual notice shall be given to each potash owner, each oil or gas operator, and each unleased mineral owner within the designated area. Such notice shall be provided by certified mail (return receipt requested).

(9) In the case of applications for approval of downhole commingling of the product of multiple formations:

(a) Actual notice shall be given to all offset operators. Such notice shall be provided by regular mail.

(10) In cases of applications for exceptions to rules or orders controlling surface disposition of produced water or other fluids:

(a) Actual notice shall be given to any surface owner within one-half mile of the site for which the exception is sought. Such notice shall be provided by certified mail (return receipt requested).

(11) In cases of applications not listed above, the outcome of which may affect a property interest of other individuals or entities:

(a) Actual notice shall be given to such individuals or entities by certified mail (return receipt requested).

B. Any notice required by this rule shall be to the last known address of the party to whom notice is to be given at least 20 days prior to the date of hearing of the application and shall apprise such party of the nature and pendency of such action and the means by which protests may be made.

C. At each hearing, the applicant shall cause to be made a record, either by testimony at the hearing or by an affidavit signed by the applicant or its authorized representative, that the notice provisions of this Rule 1207 have been complied with, that applicant has conducted a good-faith diligent effort to find the correct address of all interested persons entitled to receive notice, and that pursuant to Rule 1207, notice has been given at that correct address as provided by rule. In addition, such certificate shall contain the name and address of each interested person to whom such notice was sent and, where proof of receipt is available, a copy of same.

D. Evidence of failure to provide notice as provided in this rule may, upon a proper showing be considered cause for reopening the case.

RULE 1208. - FILING PLEADINGS: COPY DELIVERED TO ADVERSE  
PARTY OR PARTIES

(as of 3-1-91)

When any party to a hearing files any pleading, plea, or motion of any character (other than application for hearing) which is not by law or by these rules required to be served upon the adverse party or parties, he shall at the same time either deliver or mail to the adverse party or parties who have entered their appearance therein, or their respective attorneys of record, a copy of such pleading, plea, or motion. For the purposes of these rules, an appearance of any interested party shall be made either by letter addressed to the

Division or in person at any proceeding before the Commission or before an Examiner, with notice of such appearance to the parties from whom such pleadings, pleas, or motions are desired.

RULE 1209. - CONTINUANCE OF HEARING WITHOUT NEW SERVICE (as of 3-1-91)

Any hearing before the Commission or an Examiner held after due notice may be continued by the person presiding at such hearing to a specified time and place without the necessity of notice of the same being again served or published. In the event of any continuance, a statement thereof shall be made in the record of the hearing which is continued.

RULE 1210. - CONDUCT OF HEARINGS (as of 3-1-91)

Hearings before the Commission or Examiner shall be conducted without rigid formality. A transcript of testimony shall be taken and preserved as a part of the permanent record of the Division. Any person testifying in response to a subpoena issued by the Commission or any member thereof, or the authorized representative of the Division Director, and any person seeking to testify in support of an application or motion or in opposition thereto shall be required to do so under oath. However, relevant unsworn comments and observations by any interested party will be designated as such and included in the record. Comments and observations by representatives of operators' committees, the United States Geological Survey, the United States Bureau of Mines, the New Mexico Bureau of Mines, and other competent persons are welcomed. Any Examiner legally appointed by the Division Director may conduct such hearings as may be referred to such Examiners by the Director.

RULE 1211. - POWER TO REQUIRE ATTENDANCE OF WITNESSES AND PRODUCTION OF EVIDENCE (as of 3-1-91)

The Commission or any member thereof, or the authorized representative of the Division Director has statutory power to subpoena witnesses and to require the production of books, papers, and records in any proceeding before the Commission or Division. A subpoena will be issued for attendance at a hearing upon the written request of any person interested in the subject matter of the hearing. In case of the failure of a person to comply with the subpoena issued, an attachment of the person may be issued by the district court of any district in the state, and such court has powers to punish for contempt. Any person found guilty of swearing falsely at any hearing may be punished for contempt.

RULE 1212. - RULES OF EVIDENCE (as of 3-1-91)

Full opportunity shall be afforded all interested parties at a hearing to present evidence and to cross-examine witnesses. In general, the rules of evidence applicable in a trial before a court without a jury shall be applicable, provided that such rules may be relaxed, where, by so doing, the ends of justice will be better served. No order shall be made which is not supported by competent legal evidence.

RULE 1213. - EXAMINERS' QUALIFICATIONS AND APPOINTMENT (as of 3-1-91)

The Division Director shall, by ex parte order, designate and appoint not more than four individuals to be examiners. Each Examiner so appointed shall be a member of the staff of the Division, but no Examiner need to be a full time employee of the Division. The Director may, by ex parte order, designate and appoint a successor to any person whose status as an Examiner is terminated for any reason. Each individual designated and appointed as an Examiner must have at least six years of such experience as a geologist, petroleum engineer or licensed lawyer, or at least two years of such experience and a college degree in geology, engineering, or law; provided however, that nothing herein contained shall prevent any member of the Commission from being designated as, or serving as, an Examiner.

RULE 1214. - REFERRAL OF CASES TO EXAMINERS

(as of 3-1-91)

The Division Director may refer any matter or proceeding to any legally designated and appointed Examiner for hearing in accordance with these rules. The Examiner appointed to hear any specific case shall be designated by name.

RULE 1215. - EXAMINER'S POWER AND AUTHORITY

(as of 3-1-91)

The Division Director may, by ex parte order, limit the powers and duties of the Examiner in any particular case to such issues or to the performance of such acts as the Director deems expedient; however, subject only to such limitations as may be ordered by the Director, the Examiner to whom any matter or proceedings is referred under these rules shall have full authority to hold hearings on such matter or proceeding in accordance with and pursuant to these rules. The Examiner shall have the power to regulate all proceedings before him and to perform all acts and take all measures necessary or proper for the efficient and orderly conduct of such hearing, including the swearing of witnesses, receiving of testimony and exhibits offered in evidence subject to such objections as may be imposed, and shall cause a complete record of the proceedings to be made and transcribed and shall certify same to the Director as hereinafter provided.

RULE 1216. - HEARINGS WHICH MUST BE HELD BEFORE COMMISSION

(as of 3-1-91)

A. Notwithstanding any other provisions of these rules, the hearing on any matter shall be held before the Commission:

- (1) if it is a hearing de novo, or
- (2) if the Division Director in his discretion desires the Commission to hear the matter.

RULE 1217. - EXAMINER'S MANNER OF CONDUCTING HEARING

(as of 3-1-91)

An Examiner conducting a hearing under these rules shall conduct himself as a disinterested umpire.

RULE 1218. - REPORT AND RECOMMENDATIONS, EXAMINER'S HEARING

(as of 3-1-91)

Upon the conclusion of any hearing before an Examiner, the Examiner shall promptly consider the proceedings in such hearing, and based upon the record of such hearing the Examiner shall prepare his written report and recommendations for the disposition of the matter or proceeding by the Division. Such report and recommendations shall either be accompanied by a proposed order or shall be in the form of a proposed order, and shall be submitted to the Division Director with the certified record of the hearing.

RULE 1219. - DISPOSITION OF CASES HEARD BY EXAMINERS

(as of 3-1-91)

After receipt of the report and recommendations of the Examiner, the Division Director shall enter the Division's order disposing of the matter or proceeding.

RULE 1220. - DE NOVO HEARING BEFORE COMMISSION

(as of 3-1-91)

When any order has been entered by the Division pursuant to any hearing held by an Examiner, any party of record adversely affected by such order shall have the right to have such matter or proceeding heard de

now before the Commission, provided that within thirty (30) days from the date such order is rendered such party files with the Division a written application for such hearing before the Commission. If such application is filed, the matter or proceeding shall be set for hearing before the Commission at the first available hearing date following the expiration of fifteen days from the date such application is filed with the Division. Any party to the proceeding adversely affected by the order or decision rendered by the Commission after hearing before the Commission may apply for rehearing pursuant to and in accordance with the provisions of Rule 1222 and said Rule 1222 together with the law applicable to rehearings and appeals in matters and proceedings before the Commission shall thereafter apply.

RULE 1221. - NOTICE OF COMMISSION AND DIVISION ORDERS

(as of 3-1-91)

Within ten days after any order, including any order granting or refusing rehearing, or order following rehearing, has been rendered, a copy of such order shall be mailed by the Division to each person or his attorney of record who has entered his appearance of record in the matter of proceeding pursuant to which such order is rendered.

RULE 1222. - REHEARINGS

(as of 3-1-91)

Within 20 days after entry of any order or decision of the Commission any person affected thereby may file with the Division an application for rehearing in respect of any matter determined by such order or decision, setting forth the respect in which such order or decision is believed to be erroneous. The Commission shall grant or refuse any such application in whole or in part within 10 days after the same is filed and failure to act thereon within such period shall be deemed a refusal thereof and a final disposition of such application. In the event the rehearing is granted, the Commission may enter such new order or decision after rehearing as may be required under the circumstances.

C - RULES ON ADMINISTRATION

RULE 1301. - DISTRICT OFFICES

(as of 3-1-91)

A. To expedite administration of the work of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department and the enforcement of its rules and regulations, the state shall be divided into four districts as follows:

DISTRICT 1            Lea, Roosevelt, and Curry Counties, and that portion of Chaves County lying east of the North-South line dividing Ranges 29 and 30 East, NMPH.

The District office shall be in Hobbs, New Mexico.

DISTRICT 2            Eddy, Otero, Dona Ana, Luna, Hidalgo, Grant, Sierra, Lincoln, and De Baca Counties, and that portion of Chaves County lying west of the North-South line dividing Ranges 29 and 30 East, NMPH.

The District office shall be in Artesia, New Mexico.

DISTRICT 3            San Juan, Rio Arriba, McKinley, and Sandoval Counties.

The District office shall be in Aztec, New Mexico.

DISTRICT 4            Remainder of State.

The District office shall be in Santa Fe, New Mexico.

B. Each district office shall be under the charge of a district supervisor, an oil and gas inspector, or a deputy oil and gas inspector. Unless otherwise specifically required, all matters pertaining to the Division shall be taken care of through the district office of the district in which the affected land is located.

RULE 1302. WHERE TO FILE REPORTS AND FORMS

All reports and forms required by the rules to be filed with the Division shall be filed in the number and at the time specified on the form or report or by the applicable rules in Section M, Reports, of these rules. Unless otherwise specified, all such reports and forms shall be filed at the district office of the district in which the land that is the subject matter of the report is located. All plugging bonds shall be filed directly with the Santa Fe Office of the Division. A list of all plugging bonds approved and in force shall be kept in each district office.

RULE 1303. DUTIES AND AUTHORITY OF FIELD PERSONNEL

Oil and gas inspectors, deputy oil and gas inspectors, scouts, engineers and geologists duly appointed by the Division have the authority and duty to enforce the rules and regulations of the Division. Only oil and gas inspectors and their deputies shall have discretion to allow minor deviations from requirements of the rules as to field practices where, by so doing, waste will be prevented or burdensome delay or expenses on the part of the operator will be avoided.

RULE 1304. NUMBERING OF DIVISION ORDERS

A. All orders of the Division made after January 1, 1950, pertaining to the allocation of production of oil and gas are prefixed with the letter "A" or "AG" in the case of gas pools and are numbered consecutively, commencing with the number 1, i.e., the first allocation order issued after January 1, 1950, is No. A-1, the next A-1, etc or AG-1 and AG-2.

B. All other orders of the Division made after January 1, 1950, are prefixed with the letter "R" and are numbered consecutively, commencing with the number 1, i.e., the first such order issued after January 1, 1950, is No. R-1, the next R-2, etc.