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STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

87504-2265 Wallace Oil & Gas Inc.

JOE D. RAMEY
Director

Other _____

Unorthodox Well Location 660'FS+WL
of Sec. 4, T-7S, R-33E, North Chavero
Canyon Pool, Roosevelt, Cty.

CASE #: 8158

DATE FILED April 2, 1984

APPLICANT

Name: Wallace Oil & Gas Inc.

1. Representative: W. Thomas Kellahin, Attorney

2. Position: Att Representative

3. Address: 50 Penn Place

Suite 850

Oklahoma City, Oklahoma 73118

4. Telephone: _____

5. ATTORNEY: W. Thomas Kellahin

6. Address: El Patio 117 North Guadalupe

P.O. Box 2265

Santa Fe, NM 87504-2265

7. Telephone: 982-4285

OPPOSITION

Name: _____

1. Representative: _____

2. Position: _____

3. Address: _____

4. Telephone: _____

5. ATTORNEY: _____

6. Address: _____

7. Telephone: _____

INTERVENOR (if any) :

or

INTERESTED PARTY (IES):

WITNESS LIST

Case No. 8158 Date of Hearing April 25, 1984

APPLICANT: Wallace Oil & Gas Co.

OPPOSITION:

No: Qualified Sworn

No. Qualified Sworn

1) Name : Jack Wallace ☐ ☒

Position : _____

: Geologist 73 C.S.M. employed from 11.04.

: _____

1) Name : _____ ☐ ☐

Position : _____

: _____

: _____

2) Name : _____ ☐ ☐

Position : _____

: _____

: _____

: _____

2) Name : _____ ☐ ☐

Position : _____

: _____

: _____

: _____

3) Name : _____ ☐ ☐

Position : _____

: _____

: _____

: _____

3) Name : _____ ☐ ☐

Position : _____

: _____

: _____

: _____

C - DRILLING

RULE 101. PLUGGING BOND

(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.

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

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

<u>Projected Depth of Proposed Well 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

All Other Counties in the State:

<u>Projected Depth of Proposed Well 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

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.

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

(c) 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.

(d) 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 request that the well be covered by the new owners's blanket bond, has been approved by the Santa Fe office of the Division.

Upon approval of the bond and the Form C-103 or C-104, the transferor 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.

(e) 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.

(f) 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.

RULE 102. NOTICE OF INTENTION TO DRILL

(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.

(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).

RULE 103. SIGN ON WELLS

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 leasee, 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

A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS

Any well which is to be drilled a distance of one mile or more from (1) the outerboundary of any defined pool which has produced oil or gas from the formation to which the well is projected, and (2) 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.

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.

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

I. 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 it 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.

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.

II. 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.

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.

(b) 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 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.

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.

III. All counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval

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 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.

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 ares, 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 other 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

I. Oil Wells, All Counties

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 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.

II. Gas Wells

(a) Lea, Chaves, Eddy, and Roosevelt Counties

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.

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.)

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

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.

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

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

I. 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.)

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.

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.

Failure of the operator to file the aforesaid tests within the specified time will also subject the well to such acreage reduction.

II. 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.

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:

- (a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
- (b) 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.
- (c) 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.
- (d) 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

I. 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.

II. 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.

III. 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 II 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.

IV. 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.

V. 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 $39\frac{1}{4}$ acres or more than $40\frac{1}{4}$ 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 by $\frac{1}{4}$ acres 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.

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.

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.

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.

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.

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

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.

RULE 106. SEALING OFF STRATA

(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.

RULE 107. CASING AND TUBING REQUIREMENTS

(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 all oil- and gas-bearing strata encountered in the well, including the one(s) to be produced.

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.

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

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.