

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION TO CONSIDER REVISIONS TO
DIVISION ORDER NO. R-8170 AS
AMENDED.

CASE NO. 10009
Order R-8170-H

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on September 24, 1990, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 10th day of December, 1990, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The application in the instant case seeks to revise and amend Order No. R-8170, Exhibit "A", General Rules for the Prorated Gas Pools of New Mexico."

(3) The General Rules for Prorated Gas Pools of New Mexico in Order R-8170 have been amended by several subsequent Orders under R-8170, and those rules contain provisions which are redundant to rules found in the Rules and Regulations of the Oil Conservation Division, and it is appropriate to eliminate the redundancies and repromulgate the revised rules by this order.

(4) Order No. R-8170, entered March 28, 1986, and effective April 1, 1986, constituted an update of the extensively amended Order R-1670.

(5) As a response to profound changes the past four years in the way natural gas is gathered, transported and marketed, the Director of the Oil Conservation Division appointed an industry committee in early 1989 and charged that Committee with reviewing New Mexico's general rules for gas proration and recommending changes.

(6) The rule changes proposed by the committee were generally supported by Amoco, Oxy U.S.A., Doyle Hartman, Texaco, Marathon, Conoco, El Paso and the New Mexico Oil and Gas Association. Gas Company of New Mexico specifically objected to minimum allowables and requested direct authority to change allowables during the allocation period if there was evidence to show that total allowables substantially exceeded current market demand.

(7) The two main changes recommended by the committee were the establishment through hearing process of minimum gas allowables where these allowables were justified by economic and engineering factors; and a change in the allocation period from one (1) month to six (6) months with a corresponding change in the classification period from four (4) months to three (3) months.

(8) The longer allocation period will allow industry greater flexibility in managing their gas supplies and provide more stability in supplying gas to market by permitting and facilitating longer term contracts between buyer and seller.

(9) For purposes of determining whether a prorated gas well should be shut-in because of overproduction, current year's January allowable shall be used.

(10) The effective date of this order should coincide with the beginning of the next gas allocation period, April 1, 1991.

(11) The adoption of proration rule changes contained in Exhibit "A" to this order will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The General Rules for Prorated Gas Pools of New Mexico as enacted or amended by Orders R-8170 and Suffix orders A, B, C, D and F are hereby amended as shown by the changes shown on Exhibit "A" attached hereto and said amended rules are hereby compiled, restated and adopted as shown on Exhibit "B" attached to and made a part of this order.

(2) The effective date of this order shall be April 1, 1991.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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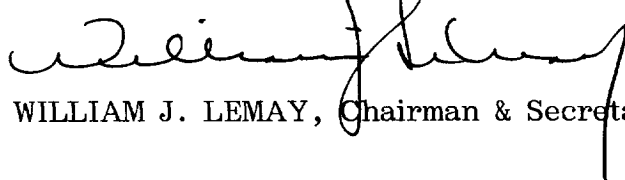
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



WILLIAM R. HUMPHRIES, Member

WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman & Secretary

S E A L

dr/

EXHIBIT "A"
Case No. 10009 - Order No. R-8170-H

RULE 1 DEFINITIONS

ACREAGE FACTOR: A GPU's acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the GPU by a number equal to the number of acres in a standard GPU for such pool. However, the acreage tolerance provided in Rule 2(a)2 shall apply.

AD FACTOR: Acreage times deliverability factor is calculated in pools where acreage and deliverability are proration factors. The product obtained by multiplying the acreage factor by the calculated deliverability (expressed as MCF per day) for that GPU shall be known as the AD factor for that GPU. The Ad Factor shall be computed to the nearest whole unit.

ALLOCATION HEARING: A hearing held by the Division twice each year to determine pool allocations for the ensuing allocation period.

ALLOCATION PERIOD: Six month period beginning at 7:00 a.m. April 1 and October 1 of each year shall be the allocation period.

~~**ALLOWABLE HEARING:** A hearing held by the Division to determine pool allowable for the ensuing allocation period.~~

BALANCING DATE: The date 7:00 a.m. April 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period.

BROKER: A third party who negotiates contracts for purchase and resale.

CLASSIFICATION PERIOD: A three month period beginning at 7:00 a.m. April 1, July 1, October 1, and January 1 of each year shall be the classification period.

GAS POOL: Any pool which has been designated as a gas pool by the Division after notice and hearing.

GAS PRORATION UNIT (GPU): The acreage allocated to a well, or in the case of an infill well or wells to a group of wells, for purposes of spacing and proration shall be known as the gas proration unit (GPU). GPUs may be either of a standard or non-standard size as provided in these rules. (GPUs means plural GPU).

GAS TRANSPORTER: The term Gas Transporter as used in these rules shall mean any taker of gas, ~~either at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than that necessary for maintaining the producing ability of the well).~~ The party servicing the well meter, or the party responsible for measurement of gas sold from the well or beneficially used off-lease. This could be at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than is necessary for maintaining the producing ability of the well). The Gas Transporter can be the gatherer, transporter, producer, or a delegate of one of those parties. The Gas Transporter shall be identified on Form C-104 and will be responsible for filing Form C-111 as required under the provisions of Rule 1111.

GAS PURCHASER: The term Gas Purchaser as used in these rules shall mean the purchaser (where ownership of the gas is first exchanged by the producer to the purchaser for an agreed value) of the gas from a gas well or GPU. ~~In the event that two or more purchasers purchase from a particular gas well or GPU, the Gas Purchaser shall be the purchaser of the largest percentage of interest in the gas well or GPU.~~

HARDSHIP GAS WELL: A gas well wherein underground waste will occur if the well should be shut-in or curtailed below its minimum sustainable flow rate. No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division.

INFILL WELL: An additional producing well on a GPU which serves as a companion well to an existing well on the GPU.

MARGINAL GPU: A proration unit which is incapable of producing or has not produced the a non-marginal allowable based on pool allocation factors. Marginal GPUs do not accrue over- or under-production.

NON-MARGINAL GPU: A proration unit receiving an allowable based upon pool allocation factors. Non-marginal proration units accrue over- or under-production.

OVERPRODUCTION: The volume of gas produced on a GPU in any month in excess of the assigned non-marginal allowable (does not include gas used in maintaining the producing ability of the well(s) of the GPU). Overproduction accumulates month to month during the proration period.

PRORATED GAS POOL: A prorated gas pool is a gas pool in which, after notice and hearing, the production is allocated by the Division in accordance with these General Rules and any applicable special pool rules.

PRORATION PERIOD: The twelve-month period beginning April 1 of each year shall be the gas proration period.

SHADOW ALLOWABLE: The gas volume calculated for a marginal GPU that is equal to the allowable assigned to a non-marginal GPU in the same pool of the same A (acreage) or A and AD (acreage deliverability) factors as the marginal GPU.

UNDERPRODUCTION: The volume of assigned non-marginal allowable not produced on a GPU. Underproduction accumulates month to month during the proration period.

A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2..... STANDARD GAS PRORATION UNIT SIZE AND WELL SPACING

(a) Unless otherwise provided for in applicable special pool rules gas wells in prorated gas pools shall be drilled in accordance with the well spacing and acreage requirements contained in the Rules and Regulations of the Oil Conservation Division, provided that wells drilled in pools with 640 acre spacing, a government section shall comprise the proration unit.

(b) Any GPU drilled in accordance with paragraph (a) and which contains acreage within the tolerances below shall be considered a standard GPU for the purpose of calculating allowables:

<u>STANDARD PRORATION UNIT</u>	<u>ACREAGE TOLERANCE</u>
160 acres	158-162 acres
320 acres	316-324 acres
640 acres	632-648 acres

(c) The District Supervisor of the appropriate district office of the Division has the authority to approve a non-standard GPU without notice and hearing when the unorthodox size and shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public

Land Surveys and the non-standard GPU is not less than 75 % nor more than 125% of a standard GPU by accepting a form C-102 land plat showing the proposed non-standard GPU with the number of acres contained therein, and shall assign an allowable to the non-standard GPU based upon the acreage factor for that acreage.

(d) Non-standard proration units and unorthodox locations may be approved by the Division in accordance with applicable special pool rules or Rules and Regulations of the Division.

~~RULE 2(a)1 STANDARD GAS PRORATION UNIT SPACING: (See Special Pool Rules for applicable size of proration units.) Unless otherwise specified by the special pool rules, 160-acre units shall comprise a single governmental quarter section; 320-acre units shall comprise two contiguous quarter sections being the N/2, S/2, E/2 or W/2 of a single governmental section; and a 640-acre unit shall comprise a single governmental section.~~

~~RULE 2(a)2 STANDARD GPU SIZE AND VARIANCE: A standard GPU shall consist of contiguous surface acreage and shall be substantially in the form of a square in pools having 160-acre or 640-acre standard GPUs, and in the form of a rectangle in pools having 320-acre standard GPUs, and shall be a legal subdivision of the U.S. Public Land Surveys (quarter section, half section, or section, as applicable). Any GPU containing acreage within the appropriate tolerance limit shown below shall be considered to contain the number of acres in a standard GPU for the purpose of computing allowables.~~

<u>STANDARD PRORATION UNIT</u>	<u>ACREAGE TOLERANCE FOR STANDARD UNIT</u>
160 Acres	158-162 Acres
320 Acres	316-324 Acres
640 Acres	632-648 Acres

~~RULE 2(a)3 NON-STANDARD PRORATION UNIT APPROVAL PROCEDURE AT DISTRICT LEVEL: The District Supervisor of the appropriate district office of the Division shall have the authority to approve a non-standard GPU as an exception to Rule 2(a)2 without notice and hearing when the unorthodox size or shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the non-standard GPU is not less than 75% nor more than 125% of a standard GPU.~~

~~The District Supervisor of the appropriate District office of the Division may approve the non-standard GPU by:~~

- 1) ~~Accepting a plat showing the proposed non-standard GPU and the acreage to be dedicated to the non-standard GPU and,~~
- 2) ~~Assigning an allowable to the non-standard GPU.~~

~~RULE 2(a)4 NON-STANDARD PRORATION UNIT APPROVAL PROCEDURE AT DIRECTOR LEVEL: The Director of the Division may grant an exception to the requirements of Rule 2(a)2 when the unorthodox size or shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the non-standard GPU is less than 75% or more than 125% of a standard GPU, or where the following facts exist and the following provisions are complied with:~~

- 1) ~~The non-standard GPU consists of quarter-quarter sections or lots that are contiguous by a common bordering side.~~
- 2) ~~The non-standard GPU lies wholly within a governmental subdivision or subdivisions which would be a standard GPU for the well (quarter-section, half-section or section) but contains less acreage than a standard GPU.~~
- 3) ~~The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the quarter-section, half-section or section (for 160-acres, 320-acres, 640-acre standard dedications respectively) in which the non-standard GPU is situated and which acreage is not included in said non-standard GPU.~~
- 4) ~~In lieu of Paragraph (3) of this rule, the applicant may furnish proof of the fact that all of the aforesaid offset operators were notified by registered or certified mail of his intent to form such non-standard GPU. The Director may approve the application if no such operator has entered an objection to the formation of such non-standard GPU within 20 days after Director has received the application.~~

~~RULE 2(b) WELL LOCATION: Each well drilled or completed on a spacing and proration unit governed by these rules, including approved non-standard GPUs shall be located as provided below:~~

(1) NORTHWEST NEW MEXICO	
STANDARD PRORATION UNIT	LOCATION REQUIREMENTS
160 acres	Not closer than 790 feet to the outer boundary of the tract, nor closer than 130 feet to any

~~quarter-quarter section or
subdivision inner boundary.~~

~~320 acres~~ ————— ~~Not closer than 790 feet to the
outer boundary of the
quarter-section upon which
the well is located and not
closer than 130 feet to any
quarter-quarter section line or
subdivision inner boundary.~~

~~(2) SOUTHEAST NEW MEXICO~~

STANDARD PRORATION UNIT	LOCATION REQUIREMENTS
160 acres	Not closer than 660 feet to any outer boundary of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.
320 acres	Not closer than 660 feet to any side boundary (long dimension) or 1980 feet to any end boundary (short dimension) of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.
640 acres	Not closer than 1650 feet to the outer boundary of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

~~RULE 2(e) UNORTHODOX WELL LOCATION: The Division director
shall have authority to grant an exception to the well location
requirements of Rule 2(b) above without notice and hearing when the
necessity for such unorthodox location is based upon topographic
conditions or 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.~~

~~Applications for administrative approval of unorthodox locations shall be filed in duplicate (original to Santa Fe and one copy to the appropriate Division district office) 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 on topography the plat shall also show and describe the existent topographic conditions.~~

~~The Division Director shall have authority to grant an exception to the well location requirement for wells in Southeast New Mexico on 320-acre spacing 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 GPU.~~

~~If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic maps, cross-sections, and/or logs, and discussion of the geologic conditions which result in the necessity for the unorthodox location.~~

~~All operators of proration or spacing units offsetting the unorthodox location on the two GPU boundaries and two GPU corners closest to the unorthodox well location shall be furnished a copy 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 such 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.~~

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

RULE 3(a) GAS PURCHASERS OR GAS TRANSPORTERS SHALL NOMINATE: ~~Each month~~ Each gas purchaser or each gas transporter as herein provided shall file with the Division its nomination for the amount of gas which it in good faith desires to purchase and/or expects to transport during the ensuing ~~proration month~~ allocation period from each gas pool regulated by this order. The purchaser may delegate the nomination responsibility to the transporter, operator, or broker by notifying the Division's Santa Fe office. One copy of such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider at its ~~allowable~~ allocation hearing, the nominations for the

succeeding ~~month~~ allocation period. The Division shall consider at its ~~monthly gas allowable~~ allocation hearing the nominations received. ~~A,~~ actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing ~~month~~ allocation period.

The Division Director may, at his discretion, suspend this rule at such time as it appears that the nominations are of little or no value.

RULE 3(b)1 SCHEDULE: The Division ~~will~~ shall issue a gas proration schedule for each allocation period showing ~~setting out the amount of gas which the monthly allowable for each GPU that may be produced during such ensuing month~~ each month of the ensuing allocation period, the current classification of each GPU, and ~~along with~~ such other information as is necessary to show the allowable-production status of each GPU on the schedule. The Division may issue supplemental proration schedules during an allocation period as necessary to show changes in GPU classification, adjustments to allowables due to changes in market conditions or to reflect any other changes as the Division deems necessary.

RULE 3(b)2 PRORATION OF ALL GAS WELLS WITHIN A POOL: The Division shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transporter, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 4 FILING OF FORM C-102 AND FORM C-104 REQUIRED: No GPU shall be assigned an allowable prior to receipt of Form C-102 (well location and acreage dedication plat) and the approval date of Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas).

RULE 5 HOW ALLOWABLES ARE CALCULATED: The total allowable to be allocated to each gas pool regulated by this order for each allocation period ~~each month~~ shall be equal to the ~~sum of all gas purchasers' nominations for that pool, together with any adjustment which the Division deems advisable. A monthly allowable shall be assigned to each GPU entitled to an allowable by allocating the pool allowable among all such GPUs in that pool in accordance with the procedure set forth in these rules.~~ estimated market demand as

determined by the Division, plus any adjustments the Director deems necessary to equate the total pool allowable to the estimated market demand, the Director may make such adjustments as he deems necessary to compensate for overproduction, underproduction, and other circumstances which may necessitate such adjustment so as to equate pool allowable to the anticipated market demand. The estimated market demand for each pool shall be established from any information the Director requires and can consist of nominations from purchasers, transporters or other parties having knowledge of market demand for gas from such pools, actual past production figures, seasonal trends, or any other factors deemed necessary to establish estimated market demand. The Director shall not be bound to use all the information requested and can establish market demand by any method so approved. A monthly allowable shall be assigned to each GPU entitled to an allowable for the ensuing allocation period by allocating the pool allowable among all such GPUs in that pool in accordance with the procedure set forth in the following paragraphs of this order. Should market conditions indicate a change is necessary, the Director may adjust allowables up or down during the 6-month allocation period using a maximum of 10% as a guideline.

RULE 5(a)1 MARGINAL GPU ALLOWABLE: The monthly allowable to be assigned to each marginal GPU shall be equal to its ~~latest available~~ average monthly production from its latest classification period.

RULE 5(a)2 NON-MARGINAL GPU ALLOWABLE: ~~The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner (see Special Pool Rules). Non-marginal GPU allowables shall be determined in conformance with the applicable special pool rules.~~

(1) In pools where acreage is the only proration factor, the ~~remaining~~ total non-marginal allowable shall be allocated to each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPUs.

(2) In pools where acreage and deliverability are proration factors:

- (a) A percentage as set forth in special pool rules, of the ~~pool non-marginal allowable remaining to be allocated to non-marginal GPUs~~ shall be allocated ~~among~~ to each GPU in the proportion that each GPU's AD factor bears to the total AD factor for all non-marginal GPUs in the pool; and

- (b) The ~~pool allowable~~ remaining non-marginal allowable to be assigned to non-marginal GPUs shall be allocated to non-marginal GPUs among each GPU in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 5(b)1 NEW CONNECTS ASSIGNMENT OF ALLOWABLES:
Allowables to newly completed gas wells shall commence:

(A) In pools where acreage is the only proration factor, on the date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office or the approval date of Form C-102 and Form C-104 whichever is later; or,

(B) In pools where acreage and deliverability are proration factors:

- 1) An acreage factor allowable will be assigned the later of:
 - a) The date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office.
 - b) The approval date of Form C-103 and Form C-104.
- 2) A deliverability factor allowable will be assigned the later of:
 - a) The date of first delivery.
 - b) 90 days prior to the date of receipt of the deliverability test report at the appropriate Division district office.
 - c) Allowables assigned to new connects completed within an allocation period shall be equal to the allowable assigned to a non-marginal GPU of similar acreage or acreage and deliverability factors as adjusted to the effective date of the allowable as herein provided.

RULE 5(b)2 NEW CONNECT MAXIMUM PRODUCING PERIOD: No well located in a pool where deliverability is an allowable factor shall be permitted to produce more than 120 days after the date of first delivery without a deliverability test. Any well shut in for failure to file a deliverability test may be assigned producing authorization by the Division district office for purposes of conducting such test. Except as provided in Rule 9, all production following connection including the volume of test production shall be charged against the GPU's regular allowable when assigned. Any resulting allowable assigned shall be effective on the day that the delinquent deliverability test is received in the appropriate Division district office.

RULE 6 GAS CHARGED AGAINST GPU'S ALLOWABLE: Except as provided in the Special Pool Rules, the volume of produced gas sold or beneficially used other than lease fuel from each GPU shall be charged against the GPU's allowable; however, the gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 7 CHANGE IN ACREAGE: If, ~~during a proration month~~, the acreage assigned to a GPU is changed, the operator shall ~~during such month~~ notify the appropriate Division district office in writing of such change by filing a revised Plat (Form C-102). The revised allowable, as determined by the Division, assigned to the GPU shall be effective on the first day of the month following receipt of the notification.

RULE 8 MINIMUM ALLOWABLES: After notice and hearing, the Division may assign minimum allowables for prorated gas pools to avoid waste, encourage efficient operations, and ~~in order~~ to prevent the premature abandonment of wells. (See Special Pool Rules for minimum allowable amount.) In determining the volume of minimum allowable for a well with a standard proration unit, the Division shall take into account economic and engineering factors such as drilling and operating costs, anticipated revenues, taxes, and any other such data that will establish that the ultimate recovery of hydrocarbons will be increased from the pool as a result of the adoption of a minimum allowable for the pool. Once adopted, the minimum allowable for wells with non-standard proration units shall be proportionally adjusted.

RULE 9(a) DELIVERABILITY TESTS: In pools where both acreage and deliverability are proration factors, deliverability tests taken in accordance with Division Rules shall be used in calculating allowables for the succeeding proration period. Deliverability shall be determined in accordance with the provisions of the appropriate test manual (See ~~Manual Gas Well Testing Manual Rules and Procedure For Northwest New Mexico~~).

RULE 9(b) DELIVERABILITY RETEST: A change in a well's deliverability following a retest after any activity, other than routine maintenance, shall become effective the later of:

- 1) The date of redelivery after such activity, such date to be indicated on the sundry notice (if a sundry notice is required) and on the remarks portion of the Form C-122-A; or,
- 2) 90 days prior to the date of receipt of the appropriate deliverability test report at the appropriate Division district office, or
- 3) A change in a well's deliverability due to any other reason shall become effective on the first day of the month following the month during which the retest is approved in the appropriate Division district office.

RULE 9(c) EXCEPTIONS TO DELIVERABILITY TESTS: The Director of the Oil Conservation Division shall have authority to allow exceptions to the deliverability test requirement for wells on marginal GPUs where the deliverability of a well is of such volume as to have no significance in the determination of the GPU's allowable. Application for such exception may be submitted by the operator of the well and if granted may be revoked by the Director at any time by requesting the well to be scheduled and tested in accordance with the current "Gas Well Testing Rules and Procedures".

RULE 9(d) WELLS EXEMPT FROM TESTING - SAN JUAN BASIN: A well automatically becomes exempt from testing if the GPU's average monthly production does not exceed or the GPU is not capable of producing 250 MCF per month for Pictured Cliffs formation wells and 2,000 MCF per month for deeper formations. (See "Gas Well Testing Rules and Procedures".)

D. BALANCING OF PRODUCTION

RULE 10(a) UNDERPRODUCTION: Any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and

remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 10(b) BALANCING UNDERPRODUCTION: Production during any one month of a gas proration period in excess of the allowable assigned to a GPU for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 11(a) OVERPRODUCTION: Any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(b)(1) TWELVE-TIMES OVERPRODUCED, NORTHWEST: For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its ~~average monthly current year January allowable for the preceding twelve months~~ (or, in the case of a newly connected well, a marginal well. A ~~well in a newly prorated pool~~ or a well recently reclassified as non-marginal, twelve times its ~~average monthly non-marginal allowable for the months available~~ the January allowable assigned to a non-marginal GPU of similar acreage and deliverability factors), it shall be shut in until its overproduction is less than twelve times its ~~average monthly January~~ allowable, as determined hereinabove.

RULE 11(b)(2) SIX-TIMES OVERPRODUCED, SOUTHEAST: For the prorated gas pools of southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its ~~average monthly current year January allowable for the preceding twelve months~~ (or, in the case of a newly connected well, a marginal well, a ~~well in a newly prorated pool~~ or a well recently reclassified as non-marginal, six times its ~~average monthly non-marginal allowable for the months available~~ the January allowable assigned to a non-marginal GPU of a similar acreage factor), it shall be shut in until its overproduction is less than six times its ~~average January~~ allowable, as determined hereinabove.

RULE 11(c) EXCEPTION TO SHUT IN FOR OVERPRODUCTION: The Director of the Oil Conservation Division shall have authority to permit a GPU which is subject to shut-in, pursuant to Rules 11(a) or 11(b) above to produce up to 250 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue

hardship, provided however, such permission may be rescinded for any GPU produced in excess of the monthly rate authorized by the Director.

RULE 11(d) BALANCING OVERPRODUCTION: Allowable assigned to a GPU during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such GPU in determining the amount of overproduction which must be made up pursuant to the provision of Rules 11(a) or 11(b) above.

RULE 11(e) EXCEPTION TO BALANCING OVERPRODUCTION: The Director may allow overproduction to be made up at a lesser Rate than permitted under Rules 11(a), 11(b), or 11(d) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 11(f) HARDSHIP GAS WELLS: If a GPU containing a hardship gas well is overproduced, the operator must take the necessary steps to reduce production in order to reduce the overproduction.

Any overproduction existing at the time of designation of a well as a hardship gas well or accruing to the GPU thereafter shall be carried forward until such time as it is made up by underproduction.

No GPU containing a hardship gas well, which GPU is overproduced, shall be permitted to produce at a rate higher than the minimum producing rate authorized by the Division.

RULE 11(g) MORATORIUM ON SHUT-INS: The Director shall have authority to grant a pool-wide moratorium of up to three months as to the shutting in of gas wells in a pool during periods of high demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 11(a), 11(b) or 11(f) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

RULE 11(h) The Director may reinstate allowable to wells which suffered cancellation of allowable under Rules 10(a) or 13(b), or loss of allowable due to reclassification of a well under Rule 13(a). If such cancellation or loss of allowable was caused by non-access or limited access to the average market demand in the pool rather than inability of the well to produce. Upon petition, together with a showing of circumstances which prevented production of the non-marginal allowable, and evidence that the well was capable of producing at allowable rates during the period for which reinstatement is requested. The allowable

may be reinstated in such amounts needed to avoid curtailment or shut-in of the well for excessive overproduction. Such petition shall be approved administratively or docketed for hearing within 30 days after receipt in the Division's Santa Fe office.

E. CLASSIFICATION OF GPUs

RULE 12(a) CLASSIFICATION PERIOD: The proration period shall be divided into ~~three~~ four classification periods of ~~four~~ three months each, commencing April 1, ~~August 1, and December 1.~~ July 1, October 1, and January 1.

RULE 12(b) RECLASSIFICATION BY THE DIRECTOR: The Director of the Oil Conservation Division may reclassify a marginal or non-marginal GPU at any time the GPU's producing ability justifies such reclassification.

The Director may suspend the reclassification of GPUs ~~which would be effective on August 1 and December 1~~ on his own initiative or upon proper showing by an interested party, should it appear that such suspension is necessary to permit underproduced GPUs which would otherwise be reclassified, a proper opportunity to make up such underproduction.

RULE 13(a) RECLASSIFICATION TO MARGINAL: A ~~non-marginal well may be reclassified as marginal in either of the following ways:~~

- 1) After the production data is available for the last month of each classification period, any GPU which had an underproduced status at the beginning of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; however, the operator of any GPU so classified, or other interested party, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified; or
- 2) ~~.... A GPU which is underproduced more than the overproduction limit as described in 11(b)(1) or 11(b)(2), whichever is applicable, shall be reclassified as marginal.~~

RULE 13(b) CANCELLATION OF UNDERPRODUCTION FOR MARGINAL GPU: A GPU which is classified as marginal shall not be

permitted to accumulate underproduction, and any underproduction accrued to a GPU prior to its classification as marginal shall be cancelled.

RULE 14(a) RECLASSIFICATION TO NON-MARGINAL: If, at the end of any month, classification period, a marginal GPU has produced more than the total allowable for the month which would have been assigned if such GPU had been classified non-marginal, the marginal gas during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU.

RULE 14(b) REINSTATEMENT OF STATUS: ~~An operator of a GPU being reclassified as to non-marginal which GPU was classified marginal at the end of the classification period may have eligible underage reinstated and its net status adjusted accordingly by demonstrating that the GPU could have produced a non-marginal allowable prior to its reclassification. (If the GPU had been classified as marginal for one proration period only, or a portion of one proration period only, any underproduction cancelled as the result of such classification shall be reinstated.)~~ under the provisions of Rule 14(a) shall have reinstated to it all underproduction which accrued or would have accrued as a non-marginal GPU from the current production period, underproduction from the prior proration period may be reinstated after notice and hearing. All uncompensated-for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal.

F. REPORTING OF PRODUCTION

RULE 15(a) C-111 REPORT (GAS TRANSPORTER'S MONTHLY REPORT): ~~Each gas transporter in each of the Designated gas pools regulated by this order and as identified on Form C-104 shall submit file Form C-111 Report. As required by general Rule 1111 to the Division. So as to reach the Division on or before the 15th day of the month next succeeding the month in which the gas was taken. Such a report shall be filed on Form C-111 as required by General Rule 1111, with the wells being listed in approximately the same order as they are listed on the proration schedule. Form C-111 referred to herein shall be filed submitted in triplicate with the original being sent to the Division's office in Santa Fe office, the one second copy to the Hobbs district office, and the one third copy to the appropriate if needed for wells in such district to either the Artesia or Aztec district office in which the lease is located if other than Hobbs and should be mailed in time to reach the Division office on or before the 15th day of the month next succeeding the month in which the gas was taken, as appropriate.~~

~~RULE 15(B) C-115 REPORT (OPERATOR'S MONTHLY REPORT):~~
~~All producers shall report gas well production in accordance with Rule 1115 of the Division's general rules.~~

~~RULE 15. . . . FILING C-11 AND C-115 REPORTS: Transporters and operators shall file gas transportation and production reports pursuant to Rules 1111 and 1115 of the Rules and Regulations of the Division provided that upon~~

~~RULE 15(c) REPORTING OF PRODUCTION (DAYS CRITERIA):~~
Upon approval by the Director of the Oil Conservation Division as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a chart-period basis; provided the following provisions shall be applicable to each gas well:

- 1) Reports for a month shall include not less than 24 nor more than 32 reported days.
- 2) Reported days may include as many as the last 7 days of the previous month but no days of the succeeding month.
- 3) The total of the monthly reports for a year shall include not less than 360 nor more than 368 reported days.
- 4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "Reporting Month" for those reporting on a chart-period basis in accordance with the exception provided in this rule.

~~G. GENERAL~~

~~RULE 16 FLARED OR VENTED GAS: No gas produced from the gas pools regulated by this order shall be flared or vented.~~

~~RULE 17 NON-COMPLIANCE OF RULES AND REGULATIONS: Failure to comply with the provisions of these rules shall result in the cancellation of allowable assigned to the affected GPU. No further allowable shall be assigned to the affected GPU until all rules and regulations are complied with. The Director shall send written notice to the operator of the GPU and to the purchaser of the date of allowable cancellation and the reason therefor.~~

~~RULE 18 GAS WELL DELIVERY NOTICES: All gas transporters, as designated on Form C-104 or users of gas shall file Form C-135 gas well delivery notices with the Division within 30 days after the date of first~~

~~delivery or redelivery in accordance with the provisions of Rule 4, 5(b)1 and General Rule 1135. The Form C-135 shall also be filed with the Division within 30 days of disconnection.~~

~~RULE 19 NOTICE OF MARGINAL WELL SHUT-IN: Transporters shall notify the Director any time it is necessary to shut in marginal wells. Such notice shall be made within 30 days following the end of such month and shall include data as may be required by the Director. This report shall not include wells shut in for required testing, connection of new wells or wells shut in by the operator.~~

EXHIBIT "B"
Case No. 10009 - Order No. R-8170-H

RULE 1 DEFINITIONS

ACREAGE FACTOR: A GPU's acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the GPU by a number equal to the number of acres in a standard GPU for such pool. However, the acreage tolerance provided in Rule 2(a)2 shall apply.

AD FACTOR: Acreage times deliverability factor is calculated in pools where acreage and deliverability are proration factors. The product obtained by multiplying the acreage factor by the calculated deliverability (expressed as MCF per day) for that GPU shall be known as the AD factor for that GPU. The Ad Factor shall be computed to the nearest whole unit.

ALLOCATION HEARING: A hearing held by the Division twice each year to determine pool allocations for the ensuing allocation period.

ALLOCATION PERIOD: Six month period beginning at 7:00 a.m. April 1 and October 1 of each year shall be the allocation period.

BALANCING DATE: The date 7:00 a.m. April 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period.

BROKER: A third party who negotiates contracts for purchase and resale.

CLASSIFICATION PERIOD: A three month period beginning at 7:00 a.m. April 1, July 1, October 1, and January 1 of each year shall be the classification period.

GAS POOL: Any pool which has been designated as a gas pool by the Division after notice and hearing.

GAS PRORATION UNIT (GPU): The acreage allocated to a well, or in the case of an infill well or wells to a group of wells, for purposes of spacing and proration shall be known as the gas proration unit (GPU). GPUs may be either of a standard or non-standard size as provided in these rules. (GPUs means plural GPU).

GAS TRANSPORTER: The term Gas Transporter as used in these rules shall mean any taker of gas, The party servicing the well meter, or the party responsible for measurement of gas sold from the well or beneficially used off-lease. This could be at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than is

necessary for maintaining the producing ability of the well). The Gas Transporter can be the gatherer, transporter, producer, or a delegate of one of those parties. The Gas Transporter shall be identified on Form C-104 and will be responsible for filing Form C-111 as required under the provisions of Rule 1111.

GAS PURCHASER: The term Gas Purchaser as used in these rules shall mean the purchaser (where ownership of the gas is first exchanged by the producer to the purchaser for an agreed value) of the gas from a gas well or GPU.

HARDSHIP GAS WELL: A gas well wherein underground waste will occur if the well should be shut-in or curtailed below its minimum sustainable flow rate. No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division.

INFILL WELL: An additional producing well on a GPU which serves as a companion well to an existing well on the GPU.

MARGINAL GPU: A proration unit which is incapable of producing or has not produced the non-marginal allowable based on pool allocation factors. Marginal GPUs do not accrue over- or under-production.

NON-MARGINAL GPU: A proration unit receiving an allowable based upon pool allocation factors. Non-marginal proration units accrue over- or under-production.

OVERPRODUCTION: The volume of gas produced on a GPU in any month in excess of the assigned non-marginal allowable (does not include gas used in maintaining the producing ability of the well(s) of the GPU). Overproduction accumulates month to month during the proration period.

PRORATED GAS POOL: A prorated gas pool is a gas pool in which, after notice and hearing, the production is allocated by the Division in accordance with these General Rules and any applicable special pool rules.

PRORATION PERIOD: The twelve-month period beginning April 1 of each year shall be the gas proration period.

SHADOW ALLOWABLE: The gas volume calculated for a marginal GPU that is equal to the allowable assigned to a non-marginal GPU in the same pool of the same A (acreage) or A and AD (acreage deliverability) factors as the marginal GPU.

UNDERPRODUCTION: The volume of assigned non-marginal

allowable not produced on a GPU. Underproduction accumulates month to month during the proration period.

A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2 STANDARD GAS PRORATION UNIT SIZE AND WELL SPACING

(a) Unless otherwise provided for in applicable special pool rules gas wells in prorated gas pools shall be drilled in accordance with the well spacing and acreage requirements contained in the Rules and Regulations of the Oil Conservation Division, provided that wells drilled in pools with 640 acre spacing, a government section shall comprise the proration unit.

(b) Any GPU drilled in accordance with paragraph (a) and which contains acreage within the tolerances below shall be considered a standard GPU for the purpose of calculating allowables:

<u>STANDARD PRORATION UNIT</u>	<u>ACREAGE TOLERANCE</u>
160 acres	158-162 acres
320 acres	316-324 acres
640 acres	632-648 acres

(c) The District Supervisor of the appropriate district office of the Division has the authority to approve a non-standard GPU without notice and hearing when the unorthodox size and shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the non-standard GPU is not less than 75 % nor more than 125% of a standard GPU by accepting a form C-102 land plat showing the proposed non-standard GPU with the number of acres contained therein, and shall assign an allowable to the non-standard GPU based upon the acreage factor for that acreage.

(d) Non-standard proration units and unorthodox locations may be approved by the Division in accordance with applicable special pool rules or Rules and Regulations of the Division.

RULE 3(a) GAS PURCHASERS OR GAS TRANSPORTERS SHALL NOMINATE: Each gas purchaser or each gas transporter as herein provided shall file with the Division its nomination for the amount of gas which it in good faith desires to purchase and/or expects to transport

during the ensuing allocation period from each gas pool regulated by this order. The purchaser may delegate the nomination responsibility to the transporter, operator, or broker by notifying the Division's Santa Fe office. One copy of such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider at its allocation hearing, the nominations for the succeeding allocation period. The Division shall consider at its allocation hearing the nominations received, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing allocation period.

The Division Director may, at his discretion, suspend this rule at such time as it appears that the nominations are of little or no value.

RULE 3(b)1 SCHEDULE: The Division shall issue a gas proration schedule for each allocation period showing the monthly allowable for each GPU that may be produced during each month of the ensuing allocation period, the current classification of each GPU, and such other information as is necessary to show the allowable-production status of each GPU on the schedule. The Division may issue supplemental proration schedules during an allocation period as necessary to show changes in GPU classification, adjustments to allowables due to changes in market conditions or to reflect any other changes as the Division deems necessary.

RULE 3(b)2 PRORATION OF ALL GAS WELLS WITHIN A POOL: The Division shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transporter, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 4 FILING OF FORM C-102 AND FORM C-104 REQUIRED: No GPU shall be assigned an allowable prior to receipt of Form C-102 (well location and acreage dedication plat) and the approval date of Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas).

RULE 5 HOW ALLOWABLES ARE CALCULATED: The total allowable to be allocated to each gas pool regulated by this order for each allocation period shall be equal to the estimated market demand as determined by the Division, plus any adjustments the Director deems

necessary to equate the total pool allowable to the estimated market demand, the Director may make such adjustments as he deems necessary to compensate for overproduction, underproduction, and other circumstances which may necessitate such adjustment so as to equate pool allowable to the anticipated market demand. The estimated market demand for each pool shall be established from any information the Director requires and can consist of nominations from purchasers, transporters or other parties having knowledge of market demand for gas from such pools, actual past production figures, seasonal trends, or any other factors deemed necessary to establish estimated market demand. The Director shall not be bound to use all the information requested and can establish market demand by any method so approved. A monthly allowable shall be assigned to each GPU entitled to an allowable for the ensuing allocation period by allocating the pool allowable among all such GPUs in that pool in accordance with the procedure set forth in the following paragraphs of this order. Should market conditions indicate a change is necessary, the Director may adjust allowables up or down during the 6-month allocation period using a maximum of 10% as a guideline.

RULE 5(a)1 MARGINAL GPU ALLOWABLE: The monthly allowable to be assigned to each marginal GPU shall be equal to its average monthly production from its latest classification period.

RULE 5(a)2 NON-MARGINAL GPU ALLOWABLE: Non-marginal GPU allowables shall be determined in conformance with the applicable special pool rules.

(1) In pools where acreage is the only proration factor, the total non-marginal allowable shall be allocated to each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPUs.

(2) In pools where acreage and deliverability are proration factors:

- (a) A percentage as set forth in special pool rules, of the non-marginal allowable shall be allocated to each GPU in the proportion that each GPU's AD factor bears to the total AD factor for all non-marginal GPUs in the pool; and
- (b) The remaining non-marginal allowable shall be allocated to non-marginal GPUs among each GPU in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 5(b)1 NEW CONNECTS ASSIGNMENT OF ALLOWABLES:
Allowables to newly completed gas wells shall commence:

(A) In pools where acreage is the only proration factor, on the date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office or the approval date of Form C-102 and Form C-104 whichever is later; or,

(B) In pools where acreage and deliverability are proration factors:

- 1) An acreage factor allowable will be assigned the later of:
 - a) The date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office.
 - b) The approval date of Form C-103 and Form C-104.
- 2) A deliverability factor allowable will be assigned the later of:
 - a) The date of first delivery.
 - b) 90 days prior to the date of receipt of the deliverability test report at the appropriate Division district office.
 - c. Allowables assigned to new connects completed within an allocation period shall be equal to the allowable assigned to a non-marginal GPU of similar acreage or acreage and deliverability factors as adjusted to the effective date of the allowable as herein provided.

RULE 5(b)2 NEW CONNECT MAXIMUM PRODUCING PERIOD: No well located in a pool where deliverability is an allowable factor shall be permitted to produce more than 120 days after the date of first delivery without a deliverability test. Any well shut in for failure to file a deliverability test may be assigned producing authorization by the Division district office for purposes of conducting such test. Except as provided in Rule 9, all production following connection including the

volume of test production shall be charged against the GPU's regular allowable when assigned. Any resulting allowable assigned shall be effective on the day that the delinquent deliverability test is received in the appropriate Division district office.

RULE 6 GAS CHARGED AGAINST GPU's ALLOWABLE: Except as provided in the Special Pool Rules, the volume of produced gas sold or beneficially used other than lease fuel from each GPU shall be charged against the GPU's allowable; however, the gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 7 CHANGE IN ACREAGE: If the acreage assigned to a GPU is changed, the operator shall notify the appropriate Division district office in writing of such change by filing a revised Plat (Form C-102). The revised allowable, as determined by the Division, assigned to the GPU shall be effective on the first day of the month following receipt of the notification.

RULE 8 MINIMUM ALLOWABLES: After notice and hearing, the Division may assign minimum allowables for prorated gas pools to avoid waste, encourage efficient operations, and to prevent the premature abandonment of wells. (See Special Pool Rules for minimum allowable amount.) In determining the volume of minimum allowable for a well with a standard proration unit, the Division shall take into account economic and engineering factors such as drilling and operating costs, anticipated revenues, taxes, and any other such data that will establish that the ultimate recovery of hydrocarbons will be increased from the pool as a result of the adoption of a minimum allowable for the pool. Once adopted, the minimum allowable for wells with non-standard proration units shall be proportionally adjusted.

RULE 9(a) DELIVERABILITY TESTS: In pools where both acreage and deliverability are proration factors, deliverability tests taken in accordance with Division Rules shall be used in calculating allowables for the succeeding proration period. Deliverability shall be determined in accordance with the provisions of the appropriate test manual (See Gas Well Testing Manual For Northwest New Mexico).

RULE 9(b) DELIVERABILITY RETEST: A change in a well's deliverability following a retest after any activity, other than routine maintenance, shall become effective the later of:

- 1) The date of redelivery after such activity, such date to be indicated on the sundry notice (if a sundry notice is required) and on the remarks portion of the Form C-122-A; or,

- 2) 90 days prior to the date of receipt of the appropriate deliverability test report at the appropriate Division district office, or
- 3) A change in a well's deliverability due to any other reason shall become effective on the first day of the month following the month during which the retest is approved in the appropriate Division district office.

RULE 9(c) EXCEPTIONS TO DELIVERABILITY TESTS: The Director of the Oil Conservation Division shall have authority to allow exceptions to the deliverability test requirement for wells on marginal GPUs where the deliverability of a well is of such volume as to have no significance in the determination of the GPU's allowable. Application for such exception may be submitted by the operator of the well and if granted may be revoked by the Director at any time by requesting the well to be scheduled and tested in accordance with the current "Gas Well Testing Rules and Procedures".

RULE 9(d) WELLS EXEMPT FROM TESTING - SAN JUAN BASIN: A well automatically becomes exempt from testing if the GPU's average monthly production does not exceed or the GPU is not capable of producing 250 MCF per month for Pictured Cliffs formation wells and 2,000 MCF per month for deeper formations. (See "Gas Well Testing Rules and Procedures".)

D. BALANCING OF PRODUCTION

RULE 10(a) UNDERPRODUCTION: Any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 10(b) BALANCING UNDERPRODUCTION: Production during any one month of a gas proration period in excess of the allowable assigned to a GPU for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 11(a) OVERPRODUCTION: Any GPU which has an overproduced status as of the end of a gas proration period shall carry

such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(b)(1) TWELVE-TIMES OVERPRODUCED, NORTHWEST: For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its current year January allowable (or, in the case of a newly connected well, a marginal well. or a well recently reclassified as non-marginal, twelve times the January allowable assigned to a non-marginal GPU of similar acreage and deliverability factors), it shall be shut in until its overproduction is less than twelve times its January allowable, as determined hereinabove.

RULE 11(b)(2) SIX-TIMES OVERPRODUCED, SOUTHEAST: For the prorated gas pools of southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its current year January allowable (or, in the case of a newly connected well, a marginal well, or a well recently reclassified as non-marginal, six times the January allowable assigned to a non-marginal GPU of a similar acreage factor), it shall be shut in until its overproduction is less than six times its January allowable, as determined hereinabove.

RULE 11(c) EXCEPTION TO SHUT IN FOR OVERPRODUCTION: The Director of the Oil Conservation Division shall have authority to permit a GPU which is subject to shut-in, pursuant to Rules 11(a) or 11(b) above to produce up to 250 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission may be rescinded for any GPU produced in excess of the monthly rate authorized by the Director.

RULE 11(d) BALANCING OVERPRODUCTION: Allowable assigned to a GPU during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such GPU in determining the amount of overproduction which must be made up pursuant to the provision of Rules 11(a) or 11(b) above.

RULE 11(e) EXCEPTION TO BALANCING OVERPRODUCTION: The Director may allow overproduction to be made up at a lesser Rate than permitted under Rules 11(a), 11(b), or 11(d) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 11(f) HARDSHIP GAS WELLS: If a GPU containing a

hardship gas well is overproduced, the operator must take the necessary steps to reduce production in order to reduce the overproduction.

Any overproduction existing at the time of designation of a well as a hardship gas well or accruing to the GPU thereafter shall be carried forward until such time as it is made up by underproduction.

No GPU containing a hardship gas well, which GPU is overproduced, shall be permitted to produce at a rate higher than the minimum producing rate authorized by the Division.

RULE 11(g) MORATORIUM ON SHUT-INS: The Director shall have authority to grant a pool-wide moratorium of up to three months as to the shutting in of gas wells in a pool during periods of high demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 11(a), 11(b) or 11(f) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

RULE 11(h) The Director may reinstate allowable to wells which suffered cancellation of allowable under Rules 10(a) or 13(b), or loss of allowable due to reclassification of a well under Rule 13(a). If such cancellation or loss of allowable was caused by non-access or limited access to the average market demand in the pool rather than inability of the well to produce. Upon petition, together with a showing of circumstances which prevented production of the non-marginal allowable, and evidence that the well was capable of producing at allowable rates during the period for which reinstatement is requested. The allowable may be reinstated in such amounts needed to avoid curtailment or shut-in of the well for excessive overproduction. Such petition shall be approved administratively or docketed for hearing within 30 days after receipt in the Division's Santa Fe office.

E. CLASSIFICATION OF GPUS

RULE 12(a) CLASSIFICATION PERIOD: The proration period shall be divided into four classification periods of three months each, commencing April 1, July 1, October 1, and January 1.

RULE 12(b) RECLASSIFICATION BY THE DIRECTOR: The Director of the Oil Conservation Division may reclassify a marginal or non-marginal GPU at any time the GPU's producing ability justifies such reclassification.

The Director may suspend the reclassification of GPUS on his own

initiative or upon proper showing by an interested party, should it appear that such suspension is necessary to permit underproduced GPUs which would otherwise be reclassified, a proper opportunity to make up such underproduction.

RULE 13(a) RECLASSIFICATION TO MARGINAL: A non-marginal well may be reclassified as marginal in either of the following ways:

- 1) After the production data is available for the last month of each classification period, any GPU which had an underproduced status at the beginning of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; however, the operator of any GPU so classified, or other interested party, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified; or
- 2) A GPU which is underproduced more than the overproduction limit as described in 11(b)(1) or 11(b)(2), whichever is applicable, shall be reclassified as marginal.

RULE 13(b) CANCELLATION OF UNDERPRODUCTION FOR MARGINAL GPU: A GPU which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to a GPU prior to its classification as marginal shall be cancelled.

RULE 14(a) RECLASSIFICATION TO NON-MARGINAL: If, at the end of any classification period, a marginal GPU has produced more gas during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU.

RULE 14(b) REINSTATEMENT OF STATUS: a GPU reclassified to non-marginal under the provisions of Rule 14(a) shall have reinstated to it all underproduction which accrued or would have accrued as a non-marginal GPU from the current production period, underproduction from the prior proration period may be reinstated after notice and hearing. All uncompensated-for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal.

F. REPORTING OF PRODUCTION

RULE 15 FILING C-111 AND C-115 REPORTS: Transporters and

operators shall file gas transportation and production reports pursuant to Rules 1111 and 1115 of the Rules and Regulations of the Division provided that upon approval by the Director of the Oil Conservation Division as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a chart-period basis; provided the following provisions shall be applicable to each gas well:

- 1) Reports for a month shall include not less than 24 nor more than 32 reported days.
- 2) Reported days may include as many as the last 7 days of the previous month but no days of the succeeding month.
- 3) The total of the monthly reports for a year shall include not less than 360 nor more than 368 reported days.
- 4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "Reporting Month" for those reporting on a chart-period basis in accordance with the exception provided in this rule.