

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

J-00-15  
FORM APPROVED  
OMB No. 1004-0136  
Expires November 30, 2000

1a. Type of Work: ☒ DRILL ☐ REENTER  
1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☒ Multiple Zone

2. Name of Operator  
Read & Stevens, Inc. 18917

3a. Address P.O. Box 1518 Roswell, NM 88202  
3b. Phone No. (include area code) 505/622-3770

4. Location of Well (Report location clearly and in accordance with any State requirements. \*)  
At surface 2781' FNL & 660' FWL  
At proposed prod. zone same

14. Distance in miles and direction from nearest town or post office\*  
9 miles southeast of Lake Arthur, NM

15. Distance from proposed\* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'  
16. No. of Acres in lease 553

18. Distance from proposed location\* to nearest well, drilling, completed, applied for, on this lease, ft. N/A  
19. Proposed Depth 9,000'

21. Elevations (Show whether DF, KDB, RT, GL., etc.) 3497' GL  
22. Approximate date work will start\* September 10, 2006

23. Estimated duration 4 weeks

24. Attachments Roswell Controlled Water Basin

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

1. Well plat certified by a registered surveyor.
2. A Drilling Plan.
3. A Surface Use Plan (If the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification.
6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature George R. Smith Name (Printed/Typed) George R. Smith Date 7/20/06

Title

Agent for: Read & Stevens, Inc.

Approved by (Signature) /s/ Tony J. Herrell Name (Printed/Typed) /s/ Tony J. Herrell Date AUG 25 2006

Title FIELD MANAGER Office CARLSBAD FIELD OFFICE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

\*(Instructions on reverse)

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.

Lease Responsibility Statement: Read & Stevens, Inc. accepts all applicable terms concerning operations conducted on the leased land or portion thereof.

DECLARED WATER BASIN  
CEMENT BEHIND THE 88  
CASING MUST BE CIRCULATED

WITNESS  
NSA-

George R. Smith  
George R. Smith, agent

APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS  
ATTACHED  
Drill only

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1391 W. Grand Avenue, Artesia, NM 88210  
District III  
1000 Rio Bruma Rd., Aztec, NM 87410  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department  
**OIL CONSERVATION DIVISION**  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised June 10, 2003  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

☐ AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

<sup>1</sup> API Number	<sup>2</sup> Pool Code 79920	<sup>3</sup> Pool Name Undes. Lake Arthur Penn
<sup>4</sup> Property Code	<sup>5</sup> Property Name LAKE 4 FEDERAL	<sup>6</sup> Well Number 1
<sup>7</sup> OGRID No. 18917	<sup>8</sup> Operator Name READ & STEVENS, INC.	<sup>9</sup> Elevation 3497

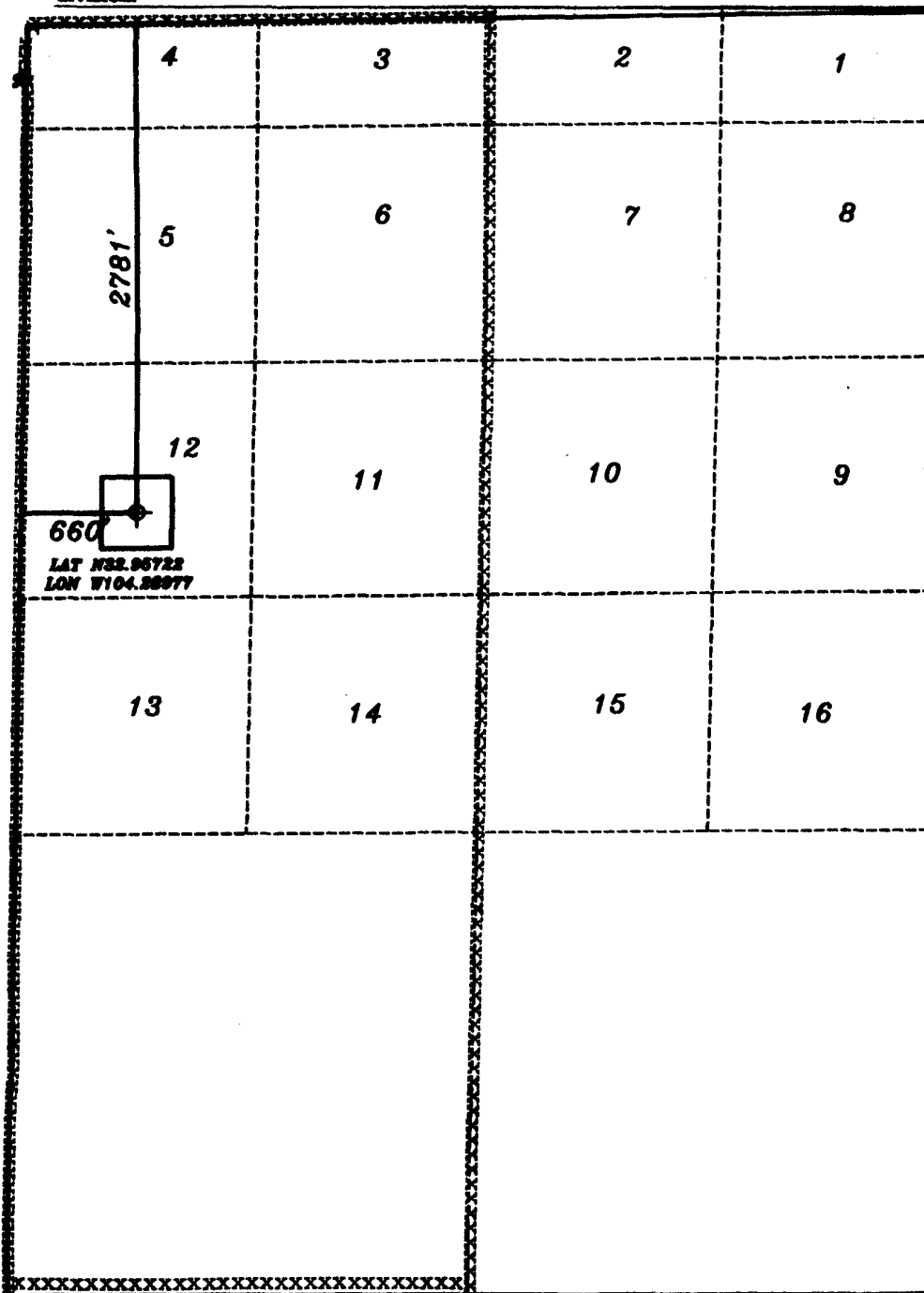
<sup>10</sup> Surface Location

UL or lot no. 12	Section 4	Township 16-S	Range 27-E	Lot 1/4	Feet from the 2781	North/South line NORTH	Feet from the 660	East/West line WEST	County EDDY
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<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
<sup>12</sup> Dedicated Acre 437	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code com	<sup>15</sup> Order No.						

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.



<sup>17</sup> OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature: George R. Smith Date: 7/20/06

George R. Smith, agent  
Printed Name

<sup>18</sup> SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

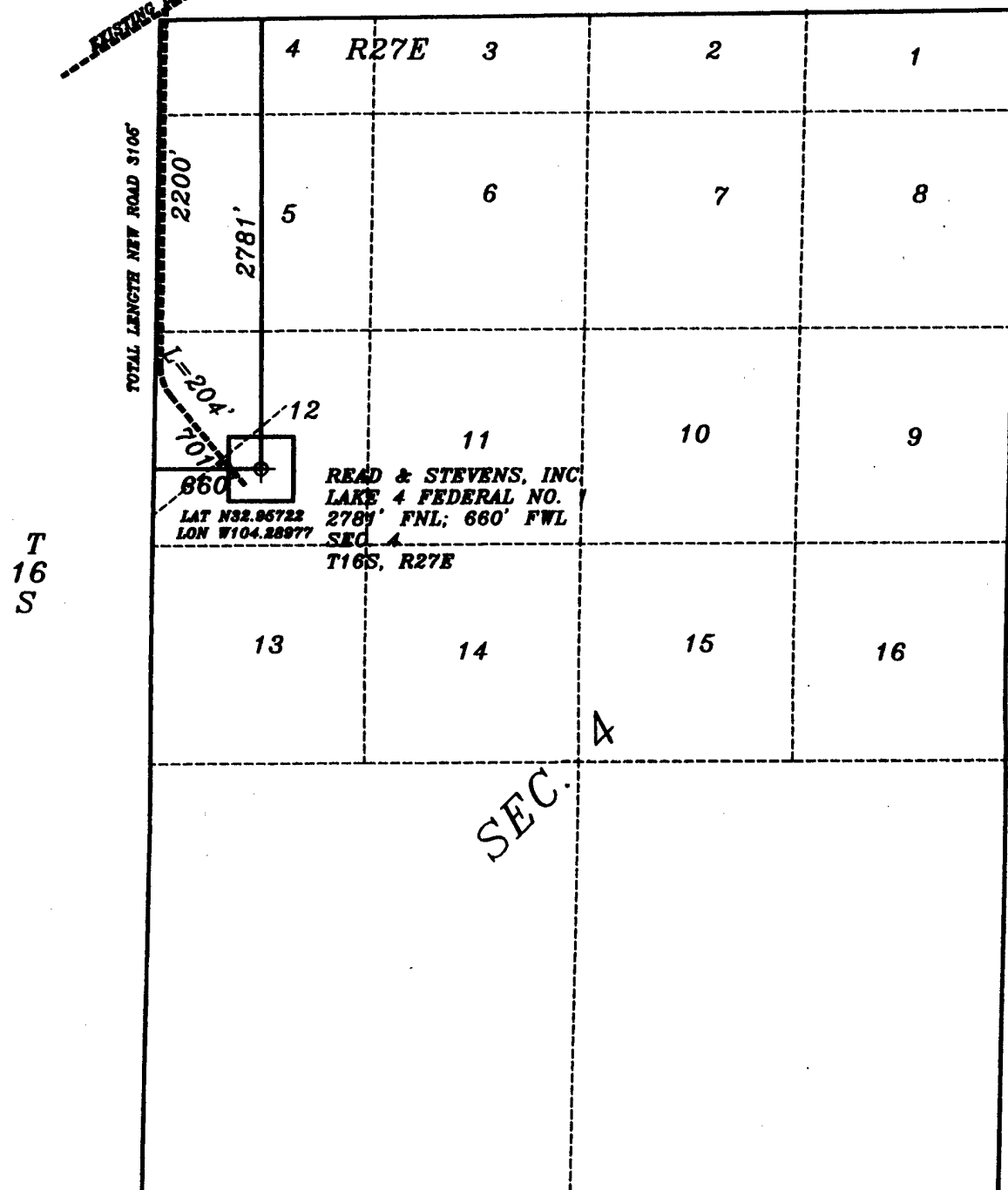
JUNE 8, 2006

Date of Survey

Signature and Seal of Registered Surveyor

DAN R. REDDY  
NEW MEXICO  
5412  
REGISTERED SURVEYOR  
PROFESSIONAL

EXISTING LEASE ROAD



Scale: 1" = 1000'

APPLICATION FOR DRILLING  
 READ & STEVENS, INC.  
 Lake 4 Federal Com., Well No. 1  
 2781' FNL & 660' FWL, Sec. 4-T16S-R27E  
 Eddy County, New Mexico  
 Lease No.: NM-97866  
 (Development Well)

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Read & Stevens, Inc. submits the following items of pertinent information in accordance with BLM requirements:

1. The geologic surface formation is recent Permian with quaternary alluvium and other surficial deposits.

2. The estimated tops of geologic markers are as follows:

Queen	378'	Atoka	7,850'
San Andres	1,192'	Mississippi	8,222'
Glorieta	2,690'	T.D.	9,000'
Abo	4,717'		

3. The estimated depths at which water, oil or gas formations are anticipated to be encountered:

Water: Surface water in the Triassic between 80' - 230'.  
 Oil: Possible in the San Andres & Premier below 1,192'.  
 Gas: In the Mississippi below 8,222'.

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	8 5/8"	24.0#	J-55	ST&C	1,450'	Circ. 500 sx lite + 200 sx "C"
7 7/8"	5 1/2"	15.5#	J-55	ST&C	9,000'	400 sx lite cmt, tail 200 sx "C" TOC 1350'

5. Proposed Control Equipment: A 10" 3000 psi wp Shaffer Type "E" BOP will be installed on the 8 5/8" casing. Casing and BOP will be tested as per Onshore Oil & Gas Order No. 2 before drilling out with 7 7/8". See Exhibit "E".

MUD PROGRAM:	MUD WEIGHT	VIS.	W/L CONTROL
0' - 1,450': Fresh water mud:	8.4 ppg	35	No W/L control
1,450' - 8,000': Cut Brine mud:	9.5 ppg	28	No W/L control
8,000' - 9,000': Cut Brine mud:	9.5 ppg	32	W/L control 10 cc +/-

7. Auxiliary Equipment: Blowout Preventer, gas detector, Kelly cock, pit level monitor, flow sensors and stabbing valve.

8. Testing, Logging, and Coring Program:

Drill Stem Tests: As warranted.

Logging: T.D to Surface Casing: GR-CNL-LDT and GR-DLL-MSFL

T.D. to surface: G-R, CNL

Mud log w/10' samples out from under 8 5/8".

Coring: None planned.

9. No abnormal pressures or temperatures are anticipated. In the event abnormal pressures are encountered the proposed mud program will be modified to increase the mud weight. Estimated Surface Pressure = 1980 psi (evac. hole) and BHP of 3960 psi (evac) with temperature of 150°.

Read & Stevens, Inc.  
Lake 4 Federal Com., Well No. 1  
Page 2

10. H<sub>2</sub>S: None expected. None encountered in previously drilled wells. The Mud Log Unit will cautioned to use a gas trap to detect H<sub>2</sub>S and if any is detected the mud weight will be increased along with H<sub>2</sub>S inhibitors sufficient to control the gas.
11. Anticipated starting date: September 11, 2006.  
Anticipated completion of drilling operations: Approx. 4 weeks.

## **MULTI POINT SURFACE USE AND OPERATIONS PLAN**

**READ & STEVENS, INC.**  
Lake 4 Federal Com., Well No. 1  
2781' FNL & 660' FWL, Sec. 4-T16S-R27E  
Eddy County, New Mexico  
Lease No.: NM-97866  
(Development Well)

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan to be followed in rehabilitating the surface and environmental effects associated with the operations.

### **1. EXISTING ROADS:**

- A. Exhibit "A" is a portion of a BLM topo map showing the location of the proposed well as staked. The well site location is approximately 8 road miles southeast of Lake Arthur, NM. Traveling east of Lake Arthur on County Rd. 31, there will be approximately 5.25 miles of existing paved road and 4 miles of gravel county and oil field roads
- B. Directions: Travel east of Alternate U.S. Hwy 285 in Lake Arthur on County Rd 31 for 5.25 miles to Rat Camp Rd., a gravel County Rd. Travel southeast on Rat Camp Rd. for .6 mile and then turn right (south) on gravel road for 1.25 miles to southwest turnoff. Continue southwest for .6 mile, passing the Read & Stevens Banshee State #1 well site on the right (north), to the start of the proposed access road on the left. The proposed access road will run south for 2400 feet then southeast for 700 feet to the southwest corner of the proposed well pad.

### **2. PLANNED ACCESS ROAD:**

- A. Length and Width: The proposed new access road will be approximately 3100 feet long and 12 foot width. The proposed and existing roads are color coded on Exhibits "A".
- B. Construction: The proposed access road will be constructed by grading and topping with compacted caliche. The surface will be properly drained.
- C. Turnouts: Several turnouts on the proposed new access road will be required; increasing the width to 20 feet for passing.
- D. Culverts: None.
- E. Cuts and Fills: None required.
- F. Gates, Cattle guards: One cattle guard will be required.
- G. Off lease right of way: None required.

### **3. LOCATION OF EXISTING WELLS:**

- A. Existing wells within a two-mile radius are shown on Exhibit "C".

**4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES;**

- A. Read & Stevens, Inc. has no production facilities on the lease at this time.
- B. If the well proves to be commercial, the necessary production facilities, gas separation-process equipment and tank battery, if required, will be installed on the drilling pad.

**5. LOCATION AND TYPE OF WATER SUPPLY:**

- A. It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads

**6. SOURCE OF CONSTRUCTION MATERIALS:**

- A. Caliche for surfacing the proposed access road and well site pad will be obtained from the location, if available, or from the closest pit or source available. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access road.

**7. METHODS OF HANDLING WASTE DISPOSAL:**

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. Trash, waste paper, garbage and junk will be contained in trash bins to prevent scattering by the wind and will be removed for deposit in an approved sanitary landfill within 30 days after finishing drilling and/or completion operations.

**8. ANCILLARY FACILITIES:**

- A. None required.

**9. WELL SITE LAYOUT:**

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area has been staked and flagged, 500' X 500'.
- B. Mat Size: 255' X 160', plus 120' X 120' reserve pits on the north.
- C. Cut & Fill: The location is relatively level with no dune surface and will require very little cutting to prepare and level well pad.
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

**10. PLANS FOR RESTORATION OF THE SURFACE:**

- A. After completion of drilling and/or completion operations, all equipment and other material not required for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing condition as possible.
- B. Any unguarded pits containing fluids will be fenced until they are filled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to be worked.

**11. OTHER INFORMATION:**

- A. Topography: The proposed well site and access road are located on a relatively level terrain. The location has an elevation of 3497' GL.
- B. Soil: The topsoil at the well site is a light tan calcareous loam with some surface scatter of gypsum rock and occasional exposed bedrock outcrops. The soil is part of the Reeves-Reagan soil complex over gypsiferous soil and rock.
- C. Flora and Fauna: The location has a fair to poor grass cover of grama, three awn, sacaton, tobosa and muhly along with plants of mesquite, yucca, broomweed, creosote bush, cacti and miscellaneous weeds and wildflowers. The wildlife consists of rabbits, coyotes, antelope, deer, rattlesnakes, lizards, dove, quail and other wildlife typical of the semi-arid desert land.
- D. Ponds and Streams: None in immediate area.
- E. Residences and Other Structures: None in the immediate vicinity.
- F. Land Use: Cattle grazing.
- G. Surface Ownership: The proposed well site and access road is on Federal surface and minerals.



**11. OTHER INFORMATION: cont.**

- H. There may be some occasional evidence of archaeological, historical or cultural sites in the staked area. Southern New Mexico Archaeological Services, Inc., P. O. Box 1, Bent, NM 88314 is conducting an archaeological survey and their report will be submitted to the appropriate government agencies.

**12. OPERATOR'S REPRESENTATIVE:**

- A. The field representative for assuring compliance with the approved use and operations plan is as follows:

John Maxey  
READ & STEVENS, INC.  
P. O. Box 1518  
Roswell, NM 88202  
Office Phone: (505) 622-3770 (ext 224)

**13. CERTIFICATION:**

I hereby certify that I have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in the plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Read & Stevens, Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

July 20, 2006

  
George R. Smith  
Agent for: Read & Stevens, Inc.

RIG #

**BLOWOUT PREVENTOR ARRANGEMENT**

2M SYSTEM

10" SHAFFER TYPE "E", 3000 psi WP

80 GALLON, 4 STATION KOOMEY ACCUMULATOR

3000 psi WP CHOKE MANIFOLD

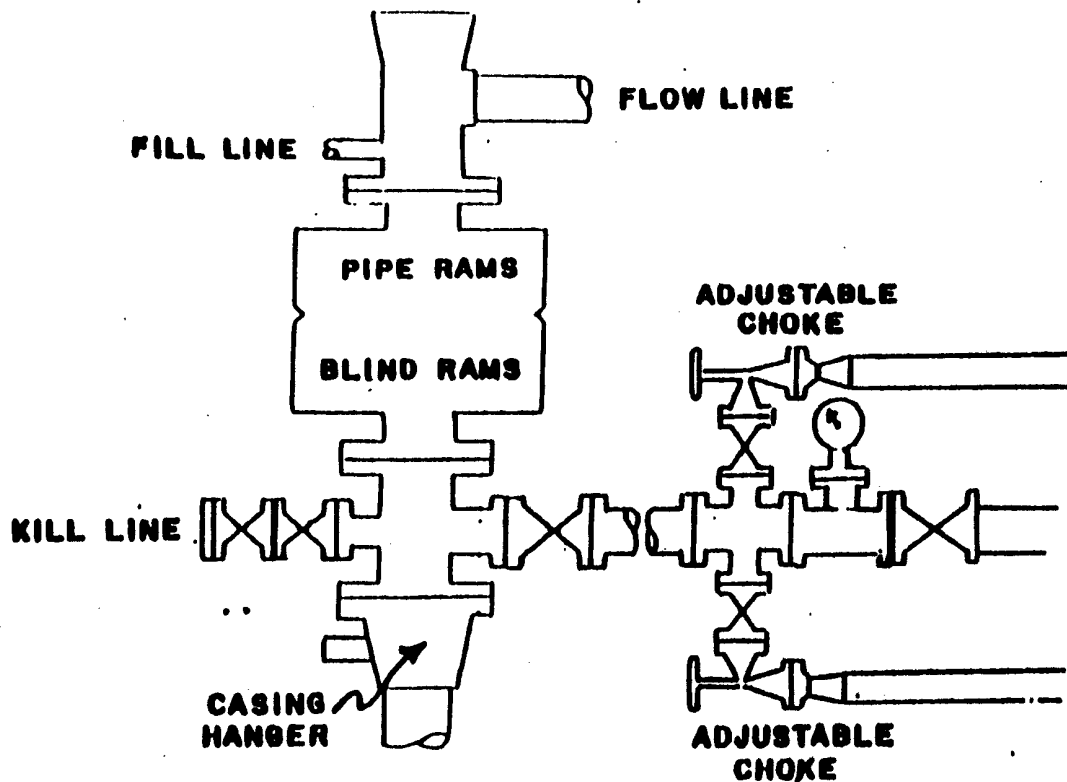


EXHIBIT "E"  
READ & STEVENS, INC.  
Lake 4 Federal Com., Well No. 1  
BOP Specifications

**CONDITIONS OF APPROVAL - DRILLING**

**Operator's Name:** Read & Stevens, Inc. **Well No.** 1 - Lake 4 Federal Com

**Location:** 2781' FNL & 660' FWL sec. 4, T. 16 S., R. 27 E.

**Lease:** NM-97866

.....

**I. DRILLING OPERATIONS REQUIREMENTS:**

1. The Bureau of Land Management (BLM) is to be notified at (505) 361-2822 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 8-5/8 inch 5-1/2 inch

C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval of this office.

3. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

4. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

**II. CASING:**

1. 8-5/8 inch surface casing string should be set **at approximately 1450 feet**, below usable water and circulate cement to the surface. If cement does not circulate to the surface, the Carlsbad Field Office shall be notified at (505) 361-2822 and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. Minimum required fill of cement behind the 5-1/2 inch production casing string is **sufficient to tie back 500 feet above the uppermost perforation in the pay zone.**

**III. PRESSURE CONTROL:**

1. Before drilling below the 8-5/8 inch surface casing string, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.

2. Before drilling below the 8-5/8 inch surface casing string, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **3000** psi.

**CONDITIONS OF APPROVAL - DRILLING (CONTINUED)**

Operator's Name: Read & Stevens, Inc. Well No. 1 - Lake 4 Federal Com

Location: 2781' FNL & 660' FWL sec. 4, T. 16 S., R. 27 E.

Lease: NM-97866

.....

**III. PRESSURE CONTROL:**

3. After setting the 8-5/8 inch surface casing string and before drilling into the **Wolfcamp** formation, the BOPE shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

A. The Carlsbad Field Office shall be notified at (505) 361-2822 in sufficient time for a representative to witness the tests.

B. The tests shall be done by an independent service company.

C. The results of the test shall be reported to the BLM Carlsbad Field Office at 620 East Greene Street, Carlsbad, New Mexico 88220-6292.

D. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

E. Testing must be done in a safe workman like manner. Hard line connections shall be required.

**IV. DRILLING MUD:**

1. Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the **Wolfcamp** formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

A. Recording pit level indicator to indicate volume gains and losses.

B. Flow-sensor on the flow-line to warn of abnormal mud returns from the well.



OLD-Artesia  
NEW MEXICO ENERGY, MINERALS and  
NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 22, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Read & Stevens, Inc.  
P. O. Box 1518  
Roswell, New Mexico 88202

Attention: John C. Maxey, Jr.  
Operations Manager

RECEIVED  
SEP - 2006  
OCD - ARTESIA

**RE:** Administrative application filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on September 5, 2006 (**administrative application reference No. pTDS0-624934010**) to establish a grossly oversized non-standard 435.96-acre deep Pennsylvanian gas spacing and unit comprising Lots 3 through 6 and 11 through 14 and the SW/4 of Irregular Section 4, Township 16 South, Range 27 East, NMPM, Undesignated Lake Arthur-Pennsylvanian Gas Pool (79920), Eddy County, New Mexico, for its proposed Lake "4" Federal Well No. 1 to be drilled 2781 feet from the North line and 660 feet from the East line Lot 12/Unit L) of Irregular Section 4.

Dear Mr. Maxey:

This application is hereby **denied** and is being returned to you. There are two reasons the Division will not consider this application.

First, the Lake Arthur-Pennsylvanian Gas Pool and that area within one-mile of its boundary is currently governed under Division Rule 104.C (3), see the Division Director's memorandum dated October 25, 1999 concerning older deep gas pools established prior to June 1, 1964, which requires 160-acre spacing units comprising a single governmental quarter section.

Secondly, the section in question is of irregular size and shape due to the convergence of meridians and in this instance is one mile in width and is approximately one and three-eighths of a mile in length and comprises a total area of 872.64 acres. See Division Order No. R-10803 issued in consolidated Case Nos. 11716, 11717, 11739, 11740, 11741, and 11753 that describes this anomaly in greater detail. Lake Arthur-Pennsylvanian gas development in this irregular section is expected to follow the established system of survey rules in dividing sections into its various standard aliquot parts or regular subdivisions and not simply subdividing such sections on paper which can and will surely result in a chaotic and disorderly pattern for the spacing units.

In this instance where development and standard spacing is on 160 acres with each unit comprising a single governmental quarter section; Irregular Section 4 comprises a standard 320-acre S/2 aliquot part, which can be further divided into two quarter sections, being the SW/4 and SE/4. North of the S/2 of Irregular Section 4 the next two rows of lots or quarter-quarter section equivalents, being Lots 9 through 16, are considered by the Division as a separate and independent 1/2 section subdivision whereby Lots 9, 10, 15, and 16 and Lots 11, 12, 13, and 14 are grouped together in order to form two quarter section equivalents. The northern most two rows of Lots, being 1 through 8, is also considered a 1/2 section and is to be treated in the same manner.

Read & Stevens, Inc.

Division Administrative Reference No. pTDS0-624934010

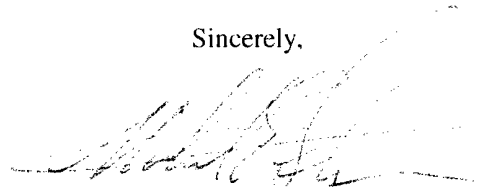
September 22, 2006

Page 2

Even if this pool were spaced on 320 acres, operator's are expected to abide by this rule and form three 320-acre, more or less, deep gas spacing units; three staked lay-downs, two stand-ups and one lay-down either on the top or bottom of the irregular section.

Should you have any questions concerning this matter, please contact Read & Stevens, Inc.'s legal counsel for Division matters here in Santa Fe, New Mexico, Mr. James Bruce at (505) 982-2043. Thank you.

Sincerely,



Michael E. Stogner  
Engineer

cc: New Mexico Oil Conservation Division – Artesia  
U. S. Bureau of Land Management – Carlsbad  
James Bruce, Legal Counsel for Read & Stevens, Inc. – Santa Fe



OLD-ARTESIA  
NEW MEXICO ENERGY, MINERALS and  
NATURAL RESOURCES DEPARTMENT

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Cabinet Secretary

September 22, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Read & Stevens, Inc.  
P. O. Box 1518  
Roswell, New Mexico 88202

Attention: John C. Maxey, Jr.  
Operations Manager



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DATE IN 9/5/06	SUSPENSE 9/25/06	ENGINEER M. S. [Signature]	LOGGED IN 9/6/06	TYPE NSP	APP NO. 624934010
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ABOVE THIS LINE FOR DIVISION USE ONLY

## NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



### ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

#### Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]  
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]  
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]  
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]  
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]  
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

#### [1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Simultaneous Dedication  
☐ NSL ☒ NSP ☐ SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement  
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery  
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

[D] Other: Specify \_\_\_\_\_

#### [2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

[A] ☒ Working, Royalty or Overriding Royalty Interest Owners

[B] ☒ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO  
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

#### [3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is accurate and complete to the best of my knowledge. I also understand that no action will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

John C. Maxey  
 Print or Type Name

[Signature]  
 Signature

Operations Manager  
 Title

8-31-06  
 Date

read@trailnet.com  
 e-mail Address

**DENIED**  
 9/22/2006

**RECEIVED**  
 SEP 5 2006  
 Oil Conservation Division  
 1220 S. St. Francis Drive  
 Santa Fe, NM 87505



Read & Stevens, Inc.  
Administrative Application for a  
Non-Standard Spacing Unit  
W/2 Section 4 T16S R27E  
Eddy County, New Mexico  
August 31, 2006

Read & Stevens makes administrative application for a non-standard proration unit in the W/2 Sec 4 T16S R27E, Eddy County, New Mexico. A BLM APD for drilling the Morrow in the Lake 4 Federal Com #1 at 2,781 FNL & 660' FWL of Section 4 has been approved. In support of this application, please find attached the following exhibits:

- |             |  |
|-------------|--|
| Exhibit I   | An OCD form C-102.   |
| Exhibit II  | A land plat showing adjoining spacing units.               |
| Exhibit III | A list of affected persons as described in Rule 1207.A(2). |
| Exhibit IV  | BLM form 3160-3 for the Lake 4 Fed Com #1.                 |

The requested non-standard spacing unit is necessary because of the unorthodox size and shape of section 4 due to a variation in the legal subdivision of the U. S. public land survey. The dimensions of section 4 are approximately 7,193' from north to south, 5,280 from east to west, containing 872 acres, more or less. Read & Stevens has dedicated a west half gas proration unit that includes 436 acres. A standard proration unit would include 320 acres. There are 2 federal leases included in the non-standard proration unit. A Communitization Agreement covering lots 3,4,5,6,11,12,13,14 and the SW/4 of Section 4, contract number NMNM-116271, between Read & Stevens, Inc., BP America Production Company, and all associated parties was executed and ratified April 1, 2006.

The applicant has sent notification to the affected persons by submitting a copy of the application and attachments, by certified mail return receipt requested, advising them that if they have an objection it must be filed in writing within 20 days from the date the division receives the application.

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 79920	Pool Name Lake Arthur Penn
Property Code	Property Name LAKE 4 FEDERAL	Well Number 1
OGRID No. 18917	Operator Name READ & STEVENS, INC.	Elevation 3497

Surface Location

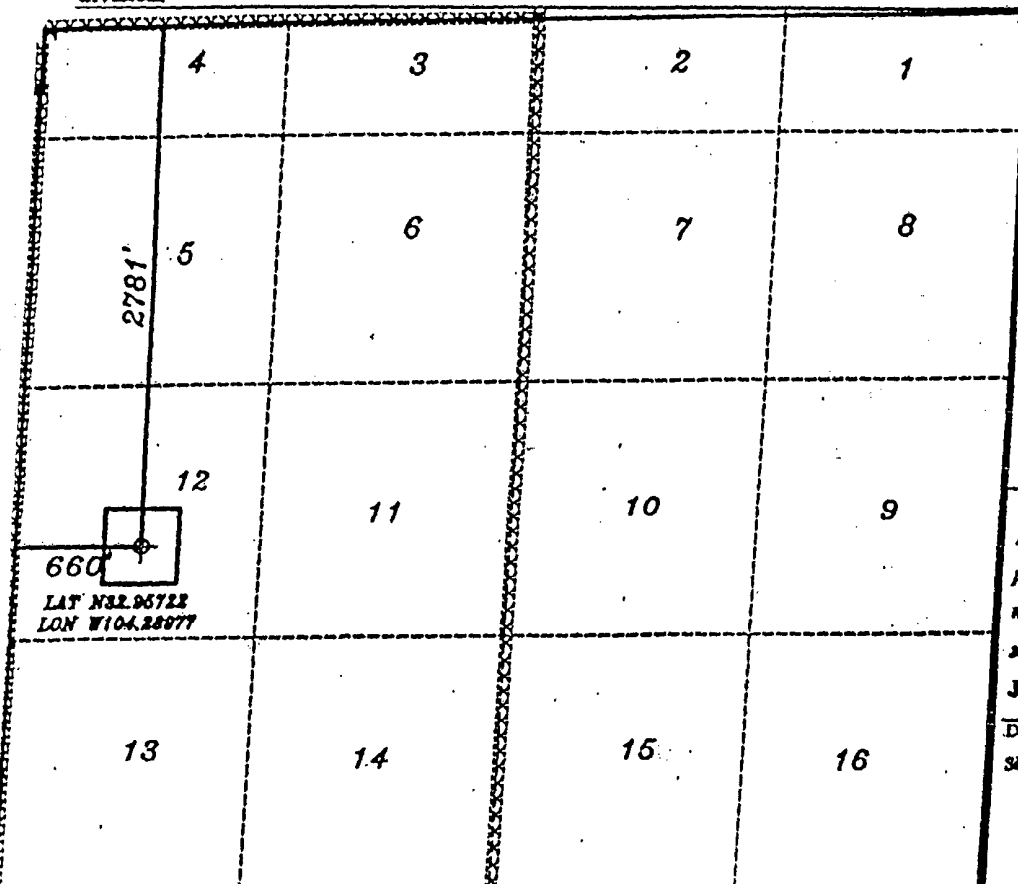
UL or lot no. 12	Section 4	Township 16-S	Range 27-E	Lot Idn	Feet from the 2781	North/South line NORTH	Feet from the 660	East/West line WEST	County EDDY
---------------------	--------------	------------------	---------------	---------	-----------------------	---------------------------	----------------------	------------------------	----------------

Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
---------------	---------	----------	-------	---------	---------------	------------------	---------------	----------------	--------

Dedicated Acre 437	Joint or Infill	Consolidation Code com	Order No.
-----------------------	-----------------	---------------------------	-----------

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

*George R. Smith* 7/20/06  
Signature Date

George R. Smith, agent  
Printed Name

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

JUNE 8, 2006

Date of Survey

Signature and Seal of Professional Surveyor

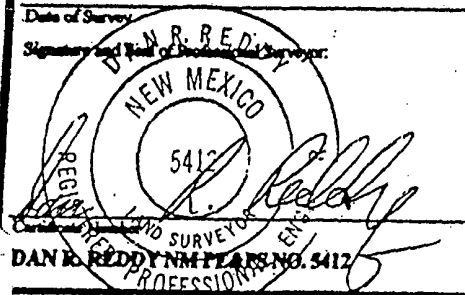
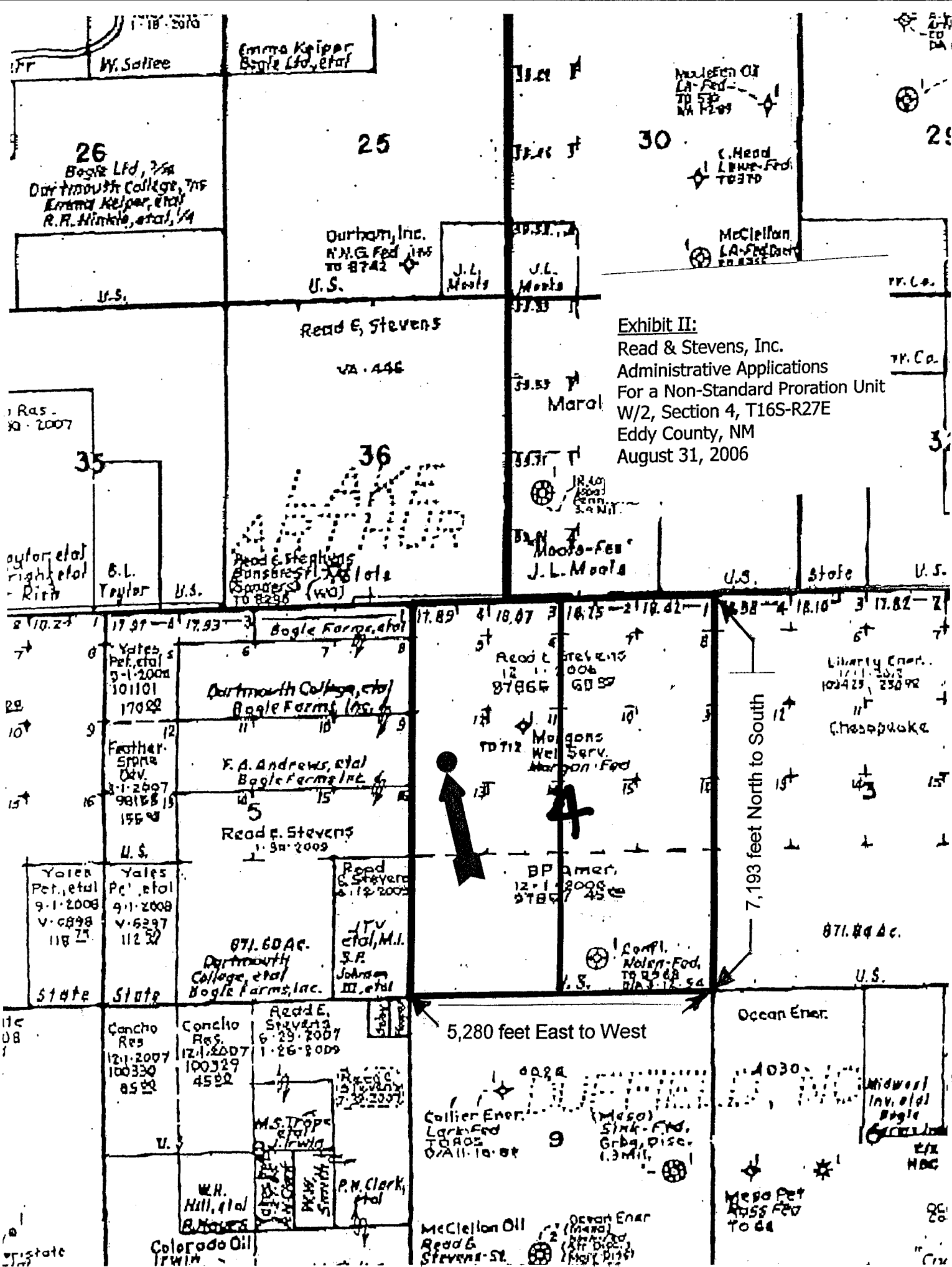


Exhibit I:

Read & Stevens, Inc.  
Administrative Applications  
For a Non-Standard Proration Unit  
W/2, Section 4, T16S-R27E  
Eddy County, NM  
August 31, 2006



**NOTIFICATION LIST OF AFFECTED WORKING INTEREST OWNERS**

Application of Read & Stevens, Inc. for administrative approval of a  
Non-standard Spacing Unit covering Lots 4, 5, 11-14, SW/4 of  
Section 4, T16S-R27E, Eddy County, NM for the  
Lake 4 Federal Com. No. 1 Well

**E/2 SECTION 8, T16S-R27E**

Stella J. Kane  
15440 Dickens Street  
Sherman Oaks, CA 91403

Frances H. Riggs  
15440 Dickens Street  
Sherman Oaks, CA 91403

Mahony - Killian, Inc.  
C/o Mr. Mitch Hallren  
P.O. Box 428  
Fairview, OK 73737

Edward Clark, Inc.  
C/o Mr. Mitch Hallren  
P.O. Box 428  
Fairview, OK 73737

Mike Nail  
4785 Elks Drive  
Las Cruces, NM 88007-5836

Cathy Nail Richardson  
P.O. Box 36  
Organ, NM 88052

Thomas Ridgway  
Address unknown

Delaware Oil Company (1926)  
Address unknown

John Arthur Bryan  
Address unknown

Mary Mildred McKenney  
C/o George McKenney  
904 NW Laird Ave.  
Lawton, OK 73507-5216

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**Exhibit III:**

Read & Stevens, Inc.  
Administrative Applications  
For a Non-Standard Proration Unit  
W/2, Section 4, T16S-R27E  
Eddy County, NM  
August 31, 2006

ALL SECTION 9 & W/2 SECTION 10, T16S-R27E, EDDY COUNTY, NM

Devon Energy Production Company, LP  
20 N. Broadway  
Oklahoma City, OK 73102-8260  
Attn: Mr. Meg Muhlinghausen  
Fax: 405-552-8113

E/2 SECTION 4, T16S-R27E, CHAVES COUNTY, NM

Read & Stevens, Inc. - Lessor & Operator

W/2 SECTION 31, T15S-R27E, CHAVES COUNTY, NM

COG Operating, LLC  
550 W. Texas - Suite 1300  
Midland, TX 79701-4210  
Attn: Mr. Brent Robertson

ALL SECTION 36, T15S-R26E, CHAVES COUNTY, NM

First Century Oil, Inc  
P.O. Box 1518  
Roswell, NM 88202-1518

Bernhardt Oil Corporation  
9413 Nawassa  
Midwest City, OK 73130

Canyon Exploration Company  
P.O. Box 15205  
Amarillo, TX 79105

Robert H. Watson  
3905 Futura  
Roswell, NM 88201

HHB Limited Partnership  
6823 S. Florence Ave.  
Tulsa, OK 74136

Lincoln Oil & Gas, LLC  
701 Three Cross  
Roswell, NM 88201

CLM Production Company  
P.O. Box 881  
Roswell, NM 88202

William V. Palmer  
3226 Anderson Drive  
Lovington, NM 88260

LOTS 1-16, SE/4, E/2SW/4 SECTION 5, T16S-R27E, CHAVES COUNTY, NM

Read & Stevens, Inc. - Lessee & Operator

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

**OPERATOR'S COPY**

FORM APPROVED  
OMB No. 1004-0136  
Expires November 30, 2000

**APPLICATION FOR PERMIT TO DRILL OR REENTER**

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. <b>NM-97866</b>
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator <b>Read &amp; Stevens, Inc.</b>		7. If Unit or CA Agreement, Name and No.
3a. Address <b>P.O. Box 1518 Roswell, NM 88202</b>		8. Lease Name and Well No. <b>Lake 4 Federal Com., Well No.</b>
3b. Phone No. (include area code) <b>505/622-3770</b>		9. API Well No.
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface <b>2781' FNL &amp; 660' FWL</b> At proposed prod. zone same		10. Field and Pool, or Exploratory <b>Lake Arthur Penn</b>
14. Distance in miles and direction from nearest town or post office* <b>9 miles southeast of Lake Arthur, NM</b>		11. Sec., T., R., M., or Blk. and Survey or Area <b>Sec. 4-T16S-R27E</b>
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) <b>660'</b>	16. No. of Acres in lease <b>553</b>	17. Spacing Unit dedicated to this well <b>437</b>
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. <b>N/A</b>	19. Proposed Depth <b>9,000'</b>	20. BLM/BIA Bond No. on file <b>NM-2310</b>
21. Elevations (Show whether DFL, KDB, RT, GL, etc.) <b>3497' GL</b>	22. Approximate date work will start* <b>September 11, 2006</b>	23. Estimated duration <b>4 weeks</b>
24. Attachments <b>Roswell Controlled Water Basin</b>		

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

- |   |  |
|---|--|
| 1. Well plat certified by a registered surveyor.  | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).    |
| 2. A Drilling Plan.   | 5. Operator certification.   |
| 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office). | 6. Such other site specific information and/or plans as may be required by the authorized officer. |

25. Signature <i>George R. Smith</i>	Name (Printed/Typed) <b>George R. Smith</b>	Date <b>7/20/06</b>
Title <b>Agent for: Read &amp; Stevens, Inc.</b>		
Approved by (Signature) <i>Tony J. Herrell</i>	Name (Printed/Typed) <b>/s/ Tony J. Herrell</b>	Date <b>8-25-06</b>
Title <b>FIELD MANAGER</b>		
Office <b>CARLSBAD FIELD OFFICE</b>		

Application approval does not warrant or certify operations thereon.

Conditions of approval, if any, are attached.

Title 18 U.S.C. Section 1001 and Title 43 U.S. States any false, fictitious or fraudulent statement.

\*(Instructions on reverse)

**Exhibit IV:**  
**Read & Stevens, Inc.**  
**Administrative Applications**  
**For a Non-Standard Proration Unit**  
**W/2, Section 4, T16S-R27E**  
**Eddy County, NM**  
**August 31, 2006**

Lease Responsibility Statement concerning operations conducted

**DECLARED WATER BASIN**  
**CEMENT BEHIND THE 8" CASING MUST BE CIRCULATED**

**WITNESS**

*RIG Well File*  
*21 R.D. (2) Mailed 8/29/06*

is in the subject lease which would entitle the applicant to conduct

**APPROVAL FOR 1 YEAR**

ly and willfully to make to any department or agency of the United

terms, conditions, stipulations, and restrictions

*George R. Smith*  
George R. Smith, agent

**APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS  
ATTACHED**

CMD :  
0G5SECT

ONGARD  
INQUIRE LAND BY SECTION

09/22/06 11:23:42  
OGOFEM -TQI4  
PAGE NO: 1

Sec : 04 Twp : 16S Rng : 27E Section Type : NORMAL

12 40.00	4 17.89	5 40.00	11 40.00	3 18.07	6 40.00	10 40.00	2 18.25	7 40.00	1 18.43	8 40.00	9 40.00
Federal owned			Federal owned			Federal owned			Federal owned		
13 40.00			14 40.00			15 40.00			16 40.00		
Federal owned			Federal owned			Federal owned			Federal owned		
L 40.00			K 40.00			J 40.00			I 40.00		
Federal owned			Federal owned A			Federal owned			Federal owned		
M 40.00			N 40.00			O 40.00			P 40.00		
Federal owned			Federal owned			Federal owned			Federal owned		





NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

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NOTICE

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TO: All Oil and Gas Operators, Mineral Interest Owners,  
and Interested Parties

FROM: Lori Wrotenbery, Director *LW*

SUBJECT: Implementation of Amended Division Rule 104

DATE: October 25, 1999

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Amendments to Division Rule 104 "Well Spacing and Location," adopted by the New Mexico Oil Conservation Commission in Order R-11231 (Case 12119) on August 12, 1999, became effective August 31, 1999. Attached to this notice are copies of Order No. R-11232, with the amended Rule 104 attached, and the recently amended Rule 1207 concerning notice requirements.

**Summary of Changes**

The amendments made five main changes in Rule 104:

- (1) the rule has been shortened and reorganized;
- (2) well location setbacks for all gas development on 160-acre spacing throughout the State are now standardized at 660 feet from the outer boundary of the quarter section line;
- (3) well location setbacks for deep gas development on 320-acre spacing in Southeast New Mexico have been relaxed from 1650 feet from an end boundary to 660 feet;
- (4) one optional infill well is now allowed within 320-acre deep gas units in Southeast New Mexico; and
- (5) interior 330-foot setbacks from quarter-quarter section lines for both 160-acre and 320-acre gas units governed by Rule 104 have been reduced to 10 feet.

**Effect of Changes**

Since the primary objectives of the rule changes were to grant operators increased flexibility in locating wells and decrease the number of applications for unorthodox locations, all future location

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October 25, 1999

Page 2

exceptions will require substantial justification, *i.e.*, unusual circumstances. Please also note the recent changes made to the notice requirements for unorthodox locations found in Division Rule 1207.A(2).

Furthermore, the well location requirement for oil wells on 40-acre spacing **has not** changed and remains 330 feet from the quarter-quarter section. Operators need to be wary if a well's main objective is a deeper gas-producing interval but there is the possibility of oil production and the location is closer to an interior quarter-quarter section line than 330 feet. In order to complete the well in a shallower oil-producing horizon, the operator will be required to obtain an exception for the unorthodox oil well location. Location exceptions in this situation will not be granted unless unusual circumstances justify the location, and the closer a well is to a neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet off a neighboring property, it is highly unlikely an exception will be granted.

Regarding the new provision authorizing one infill well in a 320-acre deep gas unit in Southeast New Mexico, application can be made to adopt or amend special pool rules to limit the number of wells per spacing unit in any pool where infill wells are not justified. The notice requirements for special pool rules were also recently amended to accommodate this type of action. See Division Rule 1207.A(4).

Unless otherwise provided by special pool rules or amended Rule 104 (*e.g.*, the infill provision for deep gas pools in Southeast New Mexico), only **one** well per spacing unit is permitted in non-prorated pools. The Division Director, however, may grant administrative exceptions in appropriate circumstances.

#### **Effect on Existing Orders**

Any existing special pool rule or other order specific to well locations (*e.g.*, a production penalty on an unorthodox well location now standard under amended Rule 104) shall remain in full force and effect until the order is amended. Operators should review these orders to determine whether to file applications to conform the orders to amended Rule 104.

In the near future, a hearing will be held before a Division Hearing Examiner addressing the few deep gas pools in Southeast New Mexico still spaced on 160 acres. At the hearing, the Division will consider whether to issue an order listing these pools and setting forth setback requirements mirroring, if applicable, the setbacks for shallow gas wells in Southeast New Mexico.

Division Memoranda dated July 27, 1988 and August 3, 1990 concerning the interpretation of old Rule 104 are hereby withdrawn.

Attachments

**1207 NOTICE REQUIREMENTS FOR SPECIFIC ADJUDICATIONS [1-1-86...2-1-96; A. 7-15-99]**

1207.A. Applicants for the following adjudicatory hearings before the Division or Commission shall give notice in addition to that required by Rule 1204 as set forth below: [1-1-86...2-1-96; A. 7-15-99]

**(1) Compulsory Pooling and Statutory Unitization: [1-1-86...2-1-96; A. 7-15-99]**

(a) Notice shall be given to any owner of an interest in the mineral estate whose interest is evidenced by a written document of conveyance either of record or known to the applicant at the time of filing the application and whose interest has not been voluntarily committed to the area proposed to be pooled or unitized (other than a royalty interest subject to a pooling or unitization clause). [Rn. 19 NMAC 15.N.1207.A.(1), 7-15-99, A. 7-15-99]

(b) When an applicant is unable to locate all the owners of interests to be pooled and the application is unopposed by those located, the applicant may file under the following alternate procedure if notice is given as required in (a) above. The application shall include the following:

(i) a statement that no opposition for hearing is expected and why;

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

(iii) the names and last known addresses of the interest owners to be pooled and the nature and percent of their interests and an attestation that a diligent search has been conducted of all public records in the county where the well is located and of phone directories, including computer searches;

(iv) the names of the formations and pools to be pooled (Note: The Division cannot pool a spacing unit larger in size than provided in these rules or applicable special pool orders);

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

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

(vii) geological map(s) of the formation(s) to be tested and a geological and engineering assessment of the risk involved in the drilling of the well and a proposed risk penalty to be assessed against any working interest owner who does not pay its share of

estimated well costs;

(viii) proposed overhead charges (combined fixed rates) to be applied during drilling and production operations along with the basis for such charges;

(ix) the location and proposed depth of the well to be drilled on the pooled units; and

(x) a copy of the Authorization for Expenditure (AFE) to be submitted to the interest owners in the well.

[Rn, 19 NMAC 15.N.1207.A.(2), 7-15-99, A, 7-15-99]

(c) All submittals required shall be accompanied by sworn and notarized statements by those persons who prepared the submittals attesting that the information is correct and complete to the best of their knowledge and belief. [Rn, 19 NMAC 15.N.1207.A.(3), 7-15-99, A, 7-15-99]

(d) All unopposed pooling applications will be set for hearing. If the Division finds the application complete, the information submitted with the application will constitute the record in the case and an order will be issued based on the record. [Rn, 19 NMAC 15.N.1207.A.(4), 7-15-99, A, 7-15-99]

(e) At the request of any interested person or upon the Division's own initiative, any pooling application submitted shall be set for full hearing with oral testimony by the applicant. [Rn, 19 NMAC 15.N.1207.A.(4), 7-15-99; A, 7-15-99]

**(2) Unorthodox Well Locations:** [1-1-87...2-1-96; Rn. 19 NMAC 15.N.1207.A.(5), 7-15-99; A, 7-15-99]

(a) Definition: "Affected persons" are the following persons owning interests in the adjoining spacing units:

1. the Division-designated operator;
2. in the absence of an operator, any lessee whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application is filed; and
3. in the absence of an operator or lessee, any mineral interest owner whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application was filed.

In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit. [1-1-87...2-1-96; N, 7-15-99]

**19 NMAC 15.N**

(b) If the proposed location is unorthodox by being located closer to the outer boundary of the spacing unit than permitted by rule, notice shall be given to the affected persons in the adjoining spacing units towards which the unorthodox location encroaches. [Rn, 19 NMAC 15.N.1207.A.(5).(a), 7-15-99, A, 7-15-99]

(c) If the proposed location is unorthodox by being located in a different quarter-quarter section or quarter section than provided in special pool orders, notice shall be given to all affected persons. [Rn, 19 NMAC 15.N.1207.A.(5).(a), A, 7-15-99]

**(3) Non-Standard Proration Unit:**

Notice shall be given to all owners of interests in the mineral estate to be excluded from the proration unit in the quarter-quarter section (for 40-acre pools or formations), the one-half quarter section (for 80-acre pools or formations), the quarter section (for 160-acre pools or formations), the half section (for 320-acre pools or formations), or section (for 640-acre pools or formations) in which the non-standard unit is located and to such other persons as required by the Division. [1-1-87...2-1-96; Rn, 19 NMAC 15.N.1207.A.(6), 7-15-99, A, 7-15-99]

**(4) Special Pool Orders Regulating or Affecting a Specific Pool:**

(a) Except for non-standard proration unit applications, if the application involves changing the amount of acreage to be dedicated to a well, notice shall be given to:

- (i) all Division-designated operators in the pool; and
- (ii) all owners of interests in the mineral estate in existing spacing units with producing wells.

(b) If the application involves other matters, notice shall be given to:

- (i) all Division-designated operators in the pool; and
- (ii) all Division-designated operators of wells within the same formation as the pool and within one (1) mile of the outer boundary of the pool which have not been assigned to another pool. [1-1-87...2-1-96; Rn, 19 NMAC 15.N.1207.A.(7), 7-15-99, A, 7-15-99]

**(5) Special Orders Regarding any Division-Designated Potash Area:**

Notice shall be given to all potash lessees, oil and gas operators, oil and gas lessees and unleased mineral interest owners within the designated potash area. [1-1-86...2-1-96; Rn, 19 NMAC 15.N.1207.A.(8); A, 7-15-99]

(a) through (d). The material on unorthodox locations was moved to 19 NMAC N.1207.A.(2). [1-1-86...2-1-96; A, 7-15-99]

**(6) Downhole Commingling:**

Notice shall be given to all owners of interests in the mineral estate in the spacing unit if ownership is not common for all commingled zones within the spacing unit. [1-1-86...2-1-96; Rn, 19 NMAC 15.N.1207.A.(9), 7-15-99, A, 7-15-99]

**(7) Surface Disposal of Produced Water or Other Fluids:**

Notice shall be given to any surface owner within one-half mile of the site. [1-1-86...2-1-96; Rn, 19 NMAC 15.N.1207.A.(10), 7-15-99, A, 7-15-99]

**(8) Adjudications not listed above:**

Notice shall be given as required by the Division. [1-1-86...2-1-96; Rn, 19 NMAC 15.N.1207.A.(11), 7-15-99, A, 7-15-99]

(9) This paragraph has been moved and renumbered to 19 NMAC 15.N.1207.A.(6). [1-1-86...2-1-96; A, 7-15-99]

(10) This paragraph has been moved and renumbered to 19 NMAC 15.N.1207.A.(7). [1-1-86...2-1-96; A, 7-15-99]

(11) This paragraph has been moved and renumbered to 19 NMAC 15.N.1207.A.(8). [1-1-86...2-1-96; A, 7-15-99]

1207.B. Type and Content of Notice. Any notice required by this rule shall be sent by certified mail, return receipt requested, to the last known address of the person to whom notice is to be given at least 20 days prior to the date of hearing of the application and shall include: a copy of the application; the date, time and place of the hearing; and the means by which protests may be made. [1-1-86...2-1-96; A, 7-15-99]

1207.C. At the hearing, the applicant shall make a record, either by testimony or affidavit signed by the applicant or its authorized representative, that: (a) the notice provisions of this rule have been complied with; (b) the applicant has conducted a good-faith diligent effort to find the correct address of all persons entitled to notice; and (c) pursuant to this rule, notice has been given at that correct address as required by this rule. In addition, the record shall contain the name and address of each person to whom notice was sent and, where proof of receipt is available, a copy of the proof. [1-1-86...2-1-96; A, 7-15-99]

1207.D. Evidence of failure to provide notice as required in this rule may, upon proper showing, be considered cause for reopening the case. [1-1-86...2-1-96; A, 7-15-99]

1207.E. In the case of an administrative application where the required notice was sent and a timely filed protest was made, the Division shall notify the applicant and the protesting party in writing that the case has been set for hearing and the date of the hearing. No further notice is required. [7-15-99]

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

**IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION FOR THE PURPOSE OF  
CONSIDERING:**

*Case No. 12119  
Order No. R-11231*

**APPLICATION OF OIL CONSERVATION DIVISION TO AMEND DIVISION  
RULE 104 (19 NMAC 15.C.104) PERTAINING TO WELL SPACING.**

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:**

This case came on for hearing at 9 o'clock a.m. on August 12, 1999, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 12<sup>th</sup> day of August, 1999, the Commission, a quorum being present, having considered the record,

**FINDS THAT:**

(1) Due public notice has been given and the Commission has jurisdiction of this case and its subject matter.

(2) Evidence presented indicated developments in 3-D technology and the increasing need of operators to drill/exploit smaller and smaller reservoirs has resulted in the need for an expansion of allowable areas in which to drill.

(3) The evidence indicated that Division Rule 104 is in need of amendment to relax the external and internal well setback requirements to allow operators greater latitude in locating wells so that additional oil and gas reserves can be accessed, thereby preventing waste.

(4) Evidence also indicated that allowing an optional infill well on a 320-acre unit will substantially improve gas recovery by allowing operators to locate wells at more optimum locations, thereby preventing waste.

(5) Using statewide 660-setbacks to any quarter section line for both 160 and 320 acre spacing provides operators a uniform setback for their well location decisions. This will also eliminate the "standup/laydown" orientation decision sometimes encountered when locating wells, which can pose a problem for operators and result in unnecessary gamesmanship. Since 660 feet is already allowed in cases where the side boundary of a 320-acre unit is the relevant boundary, changing the end boundary setback from 1650 feet to 660 feet should not, in effect, result in any increase in the impairment of correlative rights and will eliminate the 320-acre unit orientation decision.

(6) The relaxed internal setbacks will also aid in the recovery of additional oil and gas reserves, thereby preventing waste, but will still require compliance with any rule for a formation different than the primary targeted formation.

(7) The relaxed setback and infill requirements should not impair the correlative rights of offset operators since evidence indicated that the drainage areas of gas wells seldom exceed 160 acres.

(8) Notice of intent to drill an infill well to offset operators and/or interest owners in the unit is not necessary since the rule change allows such a well. There thus would be no basis for objecting to the well.

(9) Opportunity is available to adopt or amend special pool orders to limit the number of wells per unit and/or require different setbacks to prevent waste and/or protect correlative rights. The Division's notice provisions in Rule 1207.A(4) for amending special pool orders was recently amended to facilitate such changes. Therefor, if an interest owner believes that the drainage areas for wells in a particular pool justify different well densities and/or setbacks, an action can be brought to institute such provisions.

(10) Actions can be brought before the Division to amend special pool orders and/or other orders to take into account any of the changes made to Rule 104 by this order.

(11) Compulsory pooling orders do not directly address the issue of subsequent wells on a unit. This is a separate issue being addressed by the Division.

(12) Notice of administrative applications for and opportunity for objecting to (i) non-standard proration units---104.D(2)(d), (ii) unorthodox locations---104.F(4), and (iii) pooling and communitization of small oil lots---104.I(1)(b) should be given to affected parties as defined in 1207.A(2).

(13) Due to the extensive changes being made to Rule 104, Rule 104 should be reformatted and rearranged. The language in Rule 104 should also be cleaned up and clarified.

(14) It is necessary to adopt Rule 104 as amended and set forth in the attached Exhibit "A".

**IT IS THEREFORE ORDERED**

(1) Division Rule 104 is hereby amended and adopted as set forth in the attached Exhibit "A".



(2) Rule 104 shall be effective as of the date of its publication in the New Mexico Register.

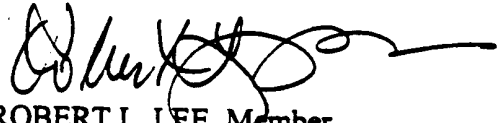
(3) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

(4) Done at Santa Fe, New Mexico, on the day and year hereinabove designated.

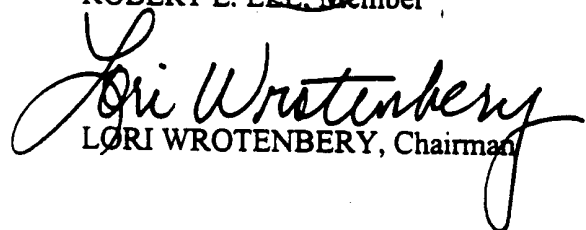
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



JAMI BAILEY, Member



ROBERT L. LEE, Member



LORI WROTENBERY, Chairman



S E A L

**EXHIBIT "A"**  
**CASE NO. 12119**  
**ORDER NO. R-11231**

**104 WELL SPACING AND LOCATION**

**104.A. CLASSIFICATION OF WELLS: WILDCAT AND DEVELOPMENT WELLS**

**(1) WILDCAT WELL**

- (a) In San Juan, Rio Arriba, Sandoval, and McKinley Counties a wildcat well is any well to be drilled the spacing unit of which is a distance of two miles or more from:

  - (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected to be drilled; and
  - (ii) any well that has produced oil or gas from the formation to which the proposed well is projected to be drilled.
- (b) In all counties except San Juan, Rio Arriba, Sandoval, and McKinley, a wildcat well is any well to be drilled the spacing unit of which is a distance of one mile or more from:

  - (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected to be drilled; and
  - (ii) any well that has produced oil or gas from the formation to which the proposed well is projected.

**(2) DEVELOPMENT WELL**

- (a) Any well that is not a wildcat well shall be classified as a development well for the nearest pool that has produced oil or gas from the formation to which the well is projected to be drilled. Such development well shall be spaced, drilled, operated, and produced in accordance with the rules in effect for that pool, provided the well is completed in that pool.

- (b) Any well classified as a development well for a pool but completed in a producing formation not included in the vertical limits of that pool shall be operated and produced in accordance with the rules in effect for the nearest pool that is producing from that formation within the two miles in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else. If there is no designated pool for that producing formation within the two miles in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else, the well shall be re-classified as a wildcat well.

#### 104.B. OIL WELL ACREAGE AND WELL LOCATION REQUIREMENTS

(1) Any wildcat well that is projected to be drilled as an oil well to a formation and in an area that in the opinion of the Division may reasonably be presumed to be productive of oil rather than gas and each development well for a defined oil pool, unless otherwise provided in special pool orders, shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, which is a governmental quarter-quarter section or lot, and shall be located no closer than 330 feet to any boundary of such unit. Only those 40-acre spacing units committed to active secondary recovery projects shall be permitted more than four wells.

(2) If a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well location rules, the operator must apply for administrative approval for a non-standard location before the well can produce. The Director may set any such application for hearing.

#### 104.C. GAS WELLS ACREAGE AND WELL LOCATION REQUIREMENTS

Any wildcat well that is projected to be drilled as a gas well to a formation and in an area that in the opinion of the Division may reasonably be presumed to be productive of gas rather than oil and each development well for a defined gas pool, unless otherwise provided in special pool orders, shall be spaced and located as follows:

(1) 640-ACRE SPACING applies to any deep gas well in Rio Arriba, San Juan, Sandoval or McKinley County that is projected to be drilled to a gas producing formation older than the Dakota formation or is a development well within a gas pool created and defined by the Division after June 1, 1997 in a formation older than the Dakota formation, which formation or pool is located within the surface outcrop of the Pictured Cliffs formation (i.e., the San Juan Basin). Such well shall be located on a spacing unit consisting of 640 contiguous surface acres, more or less, substantially in the form of a square which is a section and legal subdivision of the U.S. Public Land Surveys and shall be located no closer than: 1200 feet to any outer boundary of the spacing unit, 130 feet to any quarter section line, and 10 feet to any quarter-quarter section line or subdivision inner boundary.

(2) 320-ACRE SPACING applies to any deep gas well in Lea, Chaves, Eddy or Roosevelt County, defined as a well that is projected to be drilled to a gas producing formation or is within a defined gas pool in the Wolfcamp or an older formation. Such well shall be located on a spacing unit consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U.S. Public Land Surveys provided that:

- (a) the initial well on a 320-acre unit is located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (b) only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and
- (c) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(3) 160-ACRE SPACING applies to any other gas well not covered above. Such well shall be located in a spacing unit consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and shall be located no closer than 660 feet to any outer boundary of such unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

#### 104.D. ACREAGE ASSIGNMENT

(1) Well Tests and Classification. It is the responsibility of the operator of any wildcat 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 test with the Division within 10 days following completion of the test. (See Rule 401)

- (a) The date of completion for a gas well is the date of the conclusion of active completion work on the well.
- (b) If the Division determines that a well should not be classified as a gas well, the Division will reduce the acreage dedicated to the well to the standard acreage for an oil well.
- (c) Failure of the operator to file the test within the specified time will also subject the well to such acreage reduction.

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

- (a) Division District Offices have the authority to approve non-standard spacing units without notice when the unorthodox size or shape is necessitated by a variation in the legal subdivision of the U. S. Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% or more than 130% of a standard spacing unit. The operator must obtain Division approval of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein.
- (b) The Director may grant administrative approval to non-standard spacing units after notice and opportunity for hearing when an application has been filed and the unorthodox size or shape is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys or the following facts exist:
  - (i) the non-standard spacing unit consists of: (A) a single quarter-quarter section or lot or (B) quarter-quarter sections or lots joined by a common side; and
  - (ii) the non-standard spacing unit lies wholly within: a single quarter section if the well is completed in a pool or formation for which 40, 80, or 160 acres is the standard spacing unit size; a single half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size; or a single section if the well is completed in a pool or formation for which 640 acres is the standard spacing unit size.
- (c) Applications for administrative approval of non-standard spacing units pursuant to D(2)(b) shall be submitted to the Division's Santa Fe Office and accompanied by: (i) a plat showing the spacing unit and an applicable standard spacing unit for that pool or formation, the proposed well dedications and all adjoining spacing units; (ii) a list of affected persons as defined in Rule 1207.A(2); and (iii) a statement discussing the reasons for the formation of the non-standard spacing unit.

(d) The applicant shall submit a statement attesting that the applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in (c) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within 20 days from the date the Division receives the application. The Director may approve the application upon receipt of waivers from all the notified persons or if no person has filed an objection within the 20-day period.

(e) The Director may set for hearing any application for administrative approval.

(3) Number of Wells Per Spacing Unit. Exceptions to the provisions of statewide rules or special pool orders concerning the number of wells allowed per spacing unit may be permitted by the Director only after notice and opportunity for hearing. Notice shall be given to those affected persons defined in Rule 1207.A.(2).

#### 104.E. FORMS

Form C-102 "Well Location and Acreage Dedication Plat" for any well shall designate the exact legal subdivision dedicated to the well. Form C-101 "Application for Permit to Drill, Deepen, or Plug Back" will not be approved without an acreage designation on Form C-102.

#### 104.F. UNORTHODOX LOCATIONS

(1) Well locations for producing wells and/or injection wells that are unorthodox based on the requirements of B above and are necessary for an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that the unorthodox location within the project is no closer than the required minimum distance to the outer boundary of the lease or unitized area, and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. These locations shall only require such prior approvals as are necessary for an unorthodox location.

(2) The Director may grant an exception to the well location requirements of B and C above or special pool orders after notice and opportunity for hearing when the exception is necessary to prevent waste or protect correlative rights.

(3) Applications for administrative approval pursuant to F(2) above shall be submitted to the Division's Santa Fe Office accompanied by (a) a plat showing the spacing unit, the proposed unorthodox well location and the adjoining spacing units and wells; (b) a list of affected persons as defined in Rule 1207.A(2); and (c) information evidencing the need for the exception. Notice shall be given as required in Rule 1207.A(2).

(4) The applicant shall submit a statement attesting that applicant, on or before the date that the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in F(3) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within 20 days from the date the Division receives the application. The Director may approve the unorthodox location upon receipt of waivers from all the affected persons or if no affected person has filed an objection within the 20-day period.

(5) The Director may set for hearing any application for administrative approval of an unorthodox location.

(6) Whenever an unorthodox location is approved, the Division may order any action necessary to offset any advantage of the unorthodox location.

#### 104.G. EFFECT ON ALLOWABLES

(1) If the drilling tract is within a prorated/allocated oil pool or is subsequently placed within such pool and the drilling tract consists of less than  $39\frac{1}{2}$  acres or more than  $40\frac{1}{2}$  acres, the top unit allowable for the well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40.

(2) If the drilling tract is within a prorated/allocated gas pool or is subsequently placed within such 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, or less than 632 acres or more than 648 acres in 640-acre pools, the top allowable for the well shall be decreased or increased in the proportion that the number of acres in the drilling tract bears to a standard spacing unit for the pool.

(3) In computing acreage under (1) and (2) above, less than  $\frac{1}{2}$  acre shall not be counted but  $\frac{1}{2}$  acre or more shall count as one acre.

(4) The provisions of (1) and (2) above shall apply only to wells completed after January 1, 1950.

#### 104.H. DIVISION-INITATED EXCEPTIONS

In order to prevent waste, the Division may, after hearing, set different spacing requirements and require different acreage for drilling tracts in any defined oil or gas pool.

#### 104.I. POOLING OR COMMUNITIZATION OF SMALL OIL LOTS

(1) The Division may approve the pooling or communitization of fractional oil lots of 20.49 acres or less with a contiguous oil spacing unit when the ownership is common and the tracts are part of the same lease with the same royalty interests if the following requirements are satisfied:

- (a) Applications for administrative approval shall be submitted to the Division's Santa Fe Office and accompanied by: (i) a plat showing the dimensions and acreage involved, the ownership of such acreage, the location of all existing and proposed wells and all adjoining spacing units; (ii) a list of affected persons as defined in Rule 1207.A(2); and (iii) a statement discussing the reasons for the pooling or communitization.
- (b) The applicant shall submit a statement attesting that the applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by submitting a copy of the application, including a copy of the plat described in (a) above, by certified mail, return receipt requested, advising them that if they have an objection it must be filed in writing within 20 days from the date the Division receives the application. The Director may approve the application upon receipt of waivers from all the notified persons or if no person has filed an objection within the 20-day period.
- (c) The Director may set for hearing any application for administrative approval.

(2) The Division may consider the common ownership and common lease requirements met if the applicant furnishes with the application a copy of an executed pooling agreement communitizing the tracts involved.

[1-1-50...2-1-96; A, 6-30-97; A, 8-31-99]



## **DEFINATIONS**

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

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

- (a) Underground Waste as those words are generally understood in the oil and gas business, and in any event to embrace the inefficient, excessive, or improper use or dissipation of the reservoir energy, including gas energy and water drive, of any pool, and the locating, spacing, drilling, equipping, operating, or producing, of any well or wells in a manner to reduce or tend to reduce the total quantity of crude petroleum oil or natural gas ultimately recovered from any pool, and the use of inefficient underground storage of natural gas.
- (b) Surface Waste as those words are generally understood in the oil and gas business, and in any event to embrace the unnecessary or excessive surface loss or destruction without beneficial use, however caused, of natural gas of any type or in any form, or crude petroleum oil, or any product thereof, but including the loss or destruction, without beneficial use, resulting from evaporation, seepage, leakage, or fire, especially such loss or destruction incident to or resulting from the manner of spacing, equipping, operating or producing a well or wells, or incident to or resulting from the use of inefficient storage or from the production of crude petroleum oil or natural gas, in excess of the reasonable market demand.

## **TO SUMMARIZE:**

***Owners may not use their land in such a manner as to injure the properties of others.***

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

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

APPLICATION OF AMERIND OIL COMPANY  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

Case No. 11716

APPLICATION OF AMERIND OIL COMPANY  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

Case No. 11717

APPLICATION OF YATES PETROLEUM  
CORPORATION FOR COMPULSORY POOLING  
AND A NON-STANDARD OIL PRORATION UNIT,  
LEA COUNTY, NEW MEXICO.

Case No. 11739

APPLICATION OF AMERIND OIL COMPANY,  
LTD. AND MICHAEL SHEARN FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

Case No. 11740

APPLICATION OF UMC PETROLEUM  
CORPORATION FOR A NON-STANDARD OIL  
PRORATION UNIT, LEA COUNTY, NEW MEXICO.

Case No. 11741

APPLICATION OF AMERIND OIL COMPANY,  
LTD. FOR COMPULSORY POOLING, LEA COUNTY  
NEW MEXICO.

Case No. 11753

Order No. R-10803

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

The subject cases came on for hearing at 8:15 a.m. on February 6, March 6, and/or April 3, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 1997, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS THAT:**

(1) Due public notice having been given as required by law, the Division has jurisdiction of these causes and the subject matter thereof.

(2) Each of the six following cases involves acreage in irregular Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico and is within the governing limits of the South Big Dog-Strawn Pool; therefore, due to the similarity, close proximity, and nature of each, a single order issued by the Division is deemed appropriate:

(a) in Case No. 11716 the applicant, Amerind Oil Company, Ltd. ("Amerind"), seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 8 and 9 of said Section 2, forming an 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 1 to be drilled and completed at a standard oil well location in Lot 9 (Unit I) of said Section 2;

(b) in Case No. 11717, Amerind, seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 7 and 10 of said Section 2, forming an 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the designated and Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 2 to be drilled and completed at a standard oil well location in Lot 10 (Unit J) of said Section 2;

(c) in Case No. 11739 the applicant, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 8 and 9 of said Section 2, to form a non-standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed Field "APK" State Com Well No. 2 to be drilled and completed at a standard oil well location 2390 feet from

the North line and 640 feet from the East line (Unit H/Lot 8) of said Section 2;

(d) in Case No. 11740, Amerind Oil Company, Ltd. and Michael Shearn seek an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 9 and 16 of said Section 2, forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to the UMC Petroleum Corporation Townsend State Well No. 1 (API No. 30-025-33713) being drilled at the time of the hearing at a standard oil well location 3526 feet from the South line and 727 feet from the East line (Unit P/Lot 16) of said Section 2;

(e) in Case No. 11741 the applicant, UMC Petroleum Corporation ("UMC"), seeks approval of an 80-acre non-standard oil spacing and proration unit in the Undesignated South Big Dog-Strawn Pool comprising Lots 16 and the NE/4 SE/4 of said Section 2 for its Townsend State Well No. 1 (API No. 30-025-33713) being drilled at the time of the hearing at a standard oil well location 3526 feet from the South line and 727 feet from the East line (Unit P/Lot 16) of said Section 2; and,

(f) in Case No. 11753 Amerind seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 8 and 9 of said Section 2, to form an 80-acre oil spacing and proration unit (that is non-standard) for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 1 to be drilled and completed at a standard oil well location in Lot 9 (Unit I) of said Section 2.

(3) By Division Order No. R-9722, issued in Case No. 10530 and dated September 23, 1992, as amended by Order Nos. R-9722-A and R-9722-B, the West Lovington-Strawn Pool (originally designated the East Big Dog-Strawn Pool) was created and designated as an oil pool for the production of oil from the Strawn formation in Lea County, New Mexico. Said orders also promulgated special rules and regulations for said pool including provisions for standard 80-acre oil spacing and proration units subject to a depth bracket oil allowable of 445 barrels of oil per day and designated well location requirements. The extent of said West Lovington-Strawn Pool, prior to February 26, 1997, included the following described acreage in Lea County, New Mexico:

**TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM**

Section 28: SE/4  
Section 32: SE/4  
Section 33: NE/4 and S/2  
Section 34: S/2

**TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM**

Section 1: Lots 1 through 8  
Section 2: Lots 1 through 8

**TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM**

Section 6: Lots 1, 2, 7, and 8.

(4) By Division Order No. R-9722-C/R-10448-A, issued in Case No. 11599 and dated February 26, 1997, the West Lovington-Strawn Pool was contracted by the deletion of the following described area in Lea County, New Mexico:


**TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM**

Section 32: W/2 SE/4

**TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM**

Section 2: Lots 2 through 7.

(5) Said Order No. R-9722-C/R-10448-A further provided for the concomitant creation of the South Big Dog-Strawn Pool for the production of oil from the Strawn formation underlying the above-described area and promulgated "*Special Pool Rules and Regulations for the South Big Dog-Strawn Pool*", which included provisions for: (i) 80-acre spacing and proration units each comprising of the N/2, S/2, E/2, or W/2 of a governmental Quarter section; (ii) designated well location requirements such that each well drilled within the pool is to be no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well drilling to or capable of producing from the same pool; (iii) each standard 80-acre unit within said pool be subject to a depth bracket oil allowable of 445 barrels of oil per day.

 (6) The subdivision of the public lands within the State of New Mexico is surveyed under the United States System of Rectangular Surveys or township and range grid system. The primary unit of subdivision for this system is the *township*, bounded by meridional (north/south) and latitudinal (east/west) lines and, as nearly as may be, comprises an area of 6 square miles with the south and east boundaries being the governing lines. The township is divided further into 36 secondary units or *sections*, each being approximately one square mile in area. These section boundaries are established by

meridional and latitudinal section lines at intervals of one mile, again, from the eastern and southern boundaries of the township. This method of establishing sections allows for errors in measurement and to accommodate deficiencies due to the convergence of meridians and is such that all sections of the township are as nearly as may be one mile square except for the eleven sections that lie next to the townships north and west boundaries (Sections 1, 2, 3, 4, 5, 6, 7, 18, 19, 30, and 31).

Thus the layout of a typical township consist of six rows of six sections and that presumably each section is one mile square with any excess or deficiency in the measured distance between the south and north boundaries of the township is placed in the most northern half mile and any deficiency due to the convergency of meridians and any excess or deficiency in the measured distance between the east and west boundaries of the township is placed in the most western half mile.

A regular section contains 640 acres and can be subdivided further into half sections containing 320 acres ( $\frac{1}{2}$  by one mile), quarter sections containing 160 acres ( $\frac{1}{2}$  mile square), half-quarter sections containing 80 acres ( $\frac{1}{4}$  by  $\frac{1}{2}$  mile), and quarter-quarter sections containing 40 acres ( $\frac{1}{4}$  mile square). When a section does not contain the regular 640 acres, as in the west tier and north row in a township, the odd areas are assigned lot numbers.

Section 2 of Township 16 South, Range 35 East, NMPM, Lea County, New Mexico comprises a total area of 901.16 acres and represents an extreme example whereby a difference in excess of  $\frac{1}{2}$  mile exists within a northern row of sections. Said Section 2 consists of: Lot 1 with 50.78 acres; Lot 2 with 50.45 acres; Lot 3 with 50.13 acres; Lot 4 with 49.80 acres; Lots 5 through 16 each with 40 acres; and, the S/2, considered to be a regular subdivision or aliquot part of this section and can be further divided into two quarter sections (SW/4 and SE/4) or eight quarter-quarter sections (NE/4 SW/4, SE/4 SE/4, NW/4 SE/4, etc.).

In forming spacing and proration units within the State of New Mexico it is the New Mexico Oil Conservation Division's policy to follow the established system of survey rules in dividing sections, especially for those that are irregular, into its various standard aliquot parts or regular subdivisions and not simply subdividing such sections on paper which can and will surely result in a chaotic and disorderly pattern for the spacing and proration units.

In this instance where development and standard spacing is on 80-acres with each unit comprising the N/2, S/2, E/2, or W/2 of a governmental quarter section said Section 2 comprises a standard 320-acre S/2 aliquot part, which can be further divided into two quarter sections, being the SW/4 and SE/4, whereby each quarter section can be divided

into two half-quarters (either stand-up, E/2 and W/2, or lay down, N/2 and S/2). North of the S/2 of said Section 2 the next two rows of lots or quarter-quarter section equivalents, being Lots 9 through 16, are considered by the New Mexico Oil Conservation Division as a separate and independent  $\frac{1}{2}$  section subdivision whereby Lots 9, 10, 15, and 16 and Lots 11, 12, 13, and 14 are grouped together in order to form two quarter section equivalents. The northern most two rows of Lots, being 1 through 8, is also considered a  $\frac{1}{2}$  section and is to be treated in the same manner.

(7) The two cases on the February 6, 1997 examiner's hearing docket, being Case Nos. 11716 and 11717, involved two areas, comprising 80 acres apiece, within said Section 2 that does not conform to the aforementioned subdivision rules; therefore, both proposed 80-acre proration units are considered to be non-standard. Prior to the February 6th hearing date Yates, a working interest owner in Lots 8, 10, and 11 of said Section 2 sought to dismiss Case 11717 for the reason that Amerind failed to request in its application the formation of a non-standard 80-acre unit pursuant to the governing pool rules applicable in this area and that Yates would combine Lots 10 and 15 in order to form a standard 80-acre spacing and proration unit for its Field "APK" State Com Well No. 1 (API No. 30-025-33563) located 3500 feet from the North line and 1880 feet from the East line (Lot 10/Unit J) of said Section 2. By letter from the New Mexico Oil Conservation Division dated February 5, 1997 Yates' motion for dismissal of said Case 11717 was granted.

(8) At the February 6th hearing Amerind requested dismissal of Case 11716.

(9) Both Amerind Cases 11716 and 11717 should therefore be dismissed.

(10) Prior to the March 6, 1997 hearing the applicants in Case 11740, Amerind Oil Company, Ltd. and Michael Shearn requested that their application for the compulsory pooling of Lots 9 and 16 of said Section 2 be dismissed.

(11) Case 11740 should therefore be dismissed.

(12) At the March 6, 1997 hearing UMC presented evidence and testimony in support of its application in Case 11741, which indicate:

(a) UMC commenced the drilling of its Townsend State Well No. 1 (API No. 30-025-33713), located at a standard oil well location 3526 feet from the South line and 727 feet from the East line (Unit P/Lot 16) of said Section 2, on December 19, 1996, and by the time of the March 6th hearing the well had reached total depth at a costs to date of approximately \$600,000.00;

(b) prior to the commencement of this well, UMC submitted a Form C-101 (Application for Permit to Drill) to the Division's Hobbs District Office with Form C-102 (Well Location and Acreage Dedication Plat) attached thereto outlined a well unit comprised of Lots 16 and 17 of said Section 2; the Form C-101 was approved December 9, 1996; UMC filed the Forms C-101 and C-102 upon the belief that its proposed spacing and proration unit was standard in accordance with the applicable rules;

(c) referencing the Division's decision on the Yates motion to dismiss Case 11717, the proposed UMC spacing and proration unit is non-standard; standard spacing and proration units for the UMC well drilled in Unit "P" or Lot "16" would either comprise Lots 9 and 16 or Lots 15 and 16;

(d) Lot 15 is unavailable to form a standard 80-acre unit for the applicant's well because Lots 10 and 15 of said Section 2 are committed to a Joint Operating Agreement between Yates and UMC, signed in December 1996, under which Yates' Field "APK" State Well No. 1 is currently being drilled [see Finding No. (7) above];

(e) Lots 8 and 9 of said Section 2 are the subject of competing compulsory pooling applications filed by Yates (Case No. 11739) and Amerind (Case No. 11753);

(f) neither Yates nor Amerind, nor any other interested offset operator or lessee, oppose UMC's request; and,

(g) UMC is the lessee of Lots 14 through 16 and the SE/4 of said Section 2, which are subject to State of New Mexico oil and gas lease No. E07720; UMC is willing to form a 40-acre non-standard Strawn oil spacing and proration unit within the remaining 120 acre area comprising the W/2 SE/4 and SE/4 SE/4 of said Section 2 in the future in order to remedy the Strawn well development patterns with said State of New Mexico lease;

(h) because UMC assumed the sole risk of drilling the Townsend State Well No. 1, and the well was commenced in the good faith belief that the proposed well unit was standard, and because of the willingness of applicant to use its remaining leasehold acreage in Section 2 to remedy any disruption of standard spacing and proration units in Section 2, the applicant's request for a non-standard spacing and proration unit should be granted; further, the granting of the application in Case 11741 is in the best



interests of conservation, serves in the prevention of waste, and protects correlative rights.

(13) At the April 3, 1997 hearing both Division Case Nos. 11739 and 11753 were consolidated for the purpose of presenting testimony. Since both applications encompass the same acreage (Lots 8 and 9 of said Section 2 being a non-standard 80-acre oil spacing and proration unit) and subject matter and the approval of one application would necessarily require denial of the other, one order should therefore be entered for both cases:

- (a) the applicant in Case 11739, Yates, who is seeking to be named the operator of the proposed 80-acre non-standard oil spacing and proration unit is proposing to drill its Field "APK" State Com Well No. 2 (API No. 30-025-33792) at a standard oil well location 2390 feet from the North line and 640 feet from the East line in Lot 8 (Unit H) of said Section 2;
- (b) the applicant in Case 11753, Amerind is also seeking to be named the operator of the proposed 80-acre non-standard oil spacing and proration unit is proposing to drill its State "AY" Com Well No. 1 at a standard oil well location 3661 feet from the North line and 660 feet from the East line in Lot 9 (Unit I) of said Section 2;
- (c) Yates owns and represents 100 percent of the working interests in the oil and gas minerals from the surface to the base of the Strawn formation underlying Lot 8 of said Section 2;
- (d) Amerind has control of 100 percent working interest ownership in the oil and gas minerals from the surface to the base of the Strawn formation underlying Lot 9 of said Section 2;
- (e) at the time of the hearing Yates offered to resolve this matter by offering to split the proposed 80-acre unit into two non-standard 40-acre oil spacing and proration units in order to allow both Amerind and Yates the opportunity to drill their respective wells and develop its acreage accordingly;
- (f) Amerind opposed Yates' suggestion for resolution in that such proposal would only lead to the drilling of unnecessary wells and the possible overdevelopment of the relatively small reservoir, which could result in waste; and,

(g) the geological evidence and testimony presented by both parties supports Amerind's position in the possible overdevelopment of the subject reservoir with unnecessary wells; further, with the current drilling and completion activities for the Strawn formation in Lot 10 (directly offsetting Lot 9 to the west) and in Lot 16 (directly offsetting Lot 9 to the south), the development of the subject 80-acre tract with a well in Lot 9 would result in the grouping of three Strawn oil wells within a relatively small area; such concentration of wells would serve to promote overdevelopment of the reservoir; a well drilled in Lot 8 would serve to space these wells in a more orderly fashion with an adequate distance separating these wells; such spacing and placement of wells within this reservoir would serve to promote conservation, exhibits sound reservoir engineering principles, serves to avoid the drilling of unnecessary wells, prevents waste, and protects correlative rights;

(14) Therefore, the application of Yates in Case No. 11739 should be granted and the application of Amerind in Case No. 11753 should be denied.

(15) In order to afford to the owner of each interest within said 80-acre non-standard oil spacing and proration unit the opportunity to recover or receive without unnecessary expense his just and fair share of oil production in the Undesignated South Big Dog-Strawn Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(16) Yates should be designated the operator of the subject unit and the proposed Field "APK" State Com Well No. 2 (API No. 30-025-33792) to be drilled at a standard oil well location 2390 feet from the North line and 640 feet from the East line in Lot 8 (Unit H) of said Section 2.

(17) Any non-consenting working interest owner should be afforded the opportunity to pay his share of the estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(18) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(19) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(20) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(21) \$5,400.00 per month while drilling and \$540.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(22) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(23) Upon the failure of the operator of said pooled unit to commence drilling of the subject well to which said unit is dedicated on or before August 20, 1997, that portion of this order pooling Lots 8 and 9 of said Section 2 should become null and void and of no effect whatsoever.

(24) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order should thereafter be of no further effect.

(25) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

**IT IS THEREFORE ORDERED THAT:**

(1) Case No. 11716, being the application of Amerind Oil Company, Ltd. ("Amerind"), for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 8 and 9 of Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, thereby forming a non-standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 1 to be

drilled and completed at a standard oil well location in Lot 9 (Unit I) of said Section 2, is hereby dismissed.

(2) Case No. 11717, being the application of Amerind, for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 7 and 10 of said Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, thereby forming a non-standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the designated and Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 2 to be drilled and completed at a standard oil well location in Lot 10 (Unit J) of said Section 2, is hereby dismissed.

(3) UMC Petroleum Corporation ("UMC"), the applicant in Case No. 11741, is hereby authorized to establish an 80-acre non-standard oil spacing and proration unit in the Undesignated South Big Dog-Strawn Pool comprising Lots 16 and the NE/4 SE/4 of said Section 2 for its Townsend State Well No. 1 (API No. 30-025-33713), located at a standard oil well location 3526 feet from the South line and 727 feet from the East line (Unit P/Lot 16) of said Section 2.

(4) Case No. 11740, being the application of Amerind Oil Company, Ltd. and Michael Shearn, for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 9 and 16 of said Section 2, forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to the UMC Petroleum Corporation Townsend State Well No. 1 (API No. 30-025-33713) being drilled at the time of the hearing at a standard oil well location 3526 feet from the South line and 727 feet from the East line (Unit P/Lot 16) of said Section 2, is hereby dismissed.

(5) The application of Amerind in Case No. 11753 for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lots 8 and 9 of said Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, to form an 80-acre oil spacing and proration unit (that is non-standard) for any and all formations and/or pools developed on 80-acre spacing, which at the time of the hearing included only the Undesignated South Big Dog-Strawn Pool and dedicating said unit to its proposed State "AY" Com Well No. 1 to be drilled and completed at a standard oil well location in Lot 9 (Unit I) of said Section 2, is hereby denied.

IN CASE NO. 11739:

(6) All mineral interests, whatever they may be, from the surface to the base of the Strawn formation, underlying Lots 8 and 9 of said Section 2, are hereby pooled to form a non-standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing, which currently includes only the Undesignated South Big Dog-Strawn Pool. Said unit is to be dedicated to Yates Petroleum Corporation's ("Yates") proposed Field "APK" State Com Well No. 2 to be drilled and completed at a standard oil well location 2390 feet from the North line and 640 feet from the East line (Unit H/Lot 8) of said Section 2.

FURTHER, Yates is hereby designated the operator of the subject well and 80-acre non-standard oil spacing and proration unit

PROVIDED HOWEVER THAT, Yates shall commence the drilling of said Field "APK" State Com Well No. 2 on or before the twentieth day of August, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event Yates does not commence drilling operations on the Field "APK" State Com Well No. 2 on or before the twentieth day of August, 1997, Decretory Paragraph No. (6) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (6) of this order should not be rescinded.

(7) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(8) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(9) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(12) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(13) \$5,400.00 per month while drilling and \$540.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate

share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(15) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(17) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, the force pooling provisions of this order shall thereafter be of no further effect.

(18) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
WILLIAM J. LEMAY  
Director

SEAL