

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1541
Order No. R-1306

APPLICATION OF CONTINENTAL OIL COMPANY
FOR A 320-ACRE NON-STANDARD GAS PRORATION
UNIT IN THE JALMAT GAS POOL, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on November 6, 1958, at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 17th day of December, 1958, the Commission, a quorum being present, having considered the application, the evidence adduced and the recommendations of the Examiner, Daniel S. Nutter, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Continental Oil Company, is the owner and operator of the S/2 of Section 33, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico.

(3) That the applicant proposes the establishment of a 320-acre non-standard gas proration unit consisting of the above-described acreage, said unit to be dedicated to the applicant's Meyer B-33 Well No. 1, located 660 feet from the South line and 660 feet from the West line of said Section 33.

(4) That the entire acreage in the proposed non-standard gas proration unit may reasonably be presumed to be productive of gas from the Jalmat Gas Pool.

(5) That approval of the subject application will not cause waste nor impair correlative rights.

(6) That the subject application should be approved.

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Case No. 1541

Order No. R-1306

IT IS THEREFORE ORDERED:

(1) That the application of Continental Oil Company for the establishment of a 320-acre non-standard gas proration unit in the Jalmat Gas Pool, consisting of the S/2 of Section 33, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, be and the same is hereby granted, said unit to be dedicated to the applicant's Meyer B-33 Well No. 1, located 660 feet from the South line and 660 feet from the West line of said Section 33.

(2) That the said Meyer B-33 Well No. 1 be designated as the unit well for said unit and that the same be granted an acreage factor for allowable purposes in the proportion that the above-described acreage bears to the standard gas proration unit for the Jalmat Gas Pool.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EDWIN L. MECHEM, Chairman

MURRAY E. MORGAN, Member

A. L. PORTER, Jr., Member & Secretary

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**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:**

**CASE NO. 12563
ORDER NO. R-8170-P**

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION FOR
TERMINATION OF GAS PRORATIONING IN THE JALMAT AND EUMONT
GAS POOLS AND TO AMEND THE SPECIAL RULES GOVERNING BOTH
POOLS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 12, and September 6, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 14th day of December, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

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

(2) The Jalmat Gas Pool and the Eumont Gas Pool are currently classified by the Division as "prorated" gas pools and are subject to the following special rules and procedures:

- (a) the "*Special Rules and Regulations for the Jalmat Gas Pool*" and the "*Special Rules and Regulations for the Eumont Gas Pool,*" as promulgated by Division Order No. R-8170, as amended;
- (b) the general rules for gas proration as contained in Division Rules 601 through 605;
- (c) Division Rule 104.F., revised by Division Order No. R-11231, issued by the New Mexico Oil

Conservation Commission in Case No. 12119 on
August 12, 1999; and

(d) Rule 1207.A.(2).

(3) The New Mexico Oil Conservation Division ("Division") seeks to terminate gas prorationing in the Jalmat and Eumont Gas Pools, thereby excluding both pools from the provisions of Division Rules No. 601 through 605. The Division further seeks to amend the special rules and regulations for the Jalmat and Eumont Gas Pools by whatever means necessary to prevent waste, maintain orderly development, and protect correlative rights.

(4) Doyle Hartman, Oil Operator ("Hartman"), Raptor Resources, Inc. ("Raptor"), BP Amoco ("BP Amoco"), and Chevron USA Inc. ("Chevron"), all operators within the Jalmat and/or Eumont Gas Pools, appeared at the hearing.

(5) The Eumont Gas Pool currently comprises all or portions of Township 18 South, Ranges 36 and 37 East, Township 19 South, Ranges 36 and 37 East, Township 20 South, Ranges 35 through 38 East, Township 21 South, Ranges 35 through 37 East, and Township 22 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico.

(6) The Jalmat Gas Pool currently comprises all or portions of Township 21 South, Ranges 35 and 36 East, Township 22 South, Ranges 35 through 37 East, Township 23 South, Ranges 35 through 37 East, Township 24 South, Ranges 36 and 37 East, Township 25 South, Ranges 36 and 37 East, and Township 26 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico.

(7) The "*Special Rules and Regulations for the Jalmat Gas Pool*" currently provide that:

- (a) the vertical limits of the pool extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation; however, in an area that encompasses portions of Township 24 South, Ranges 36 and 37 East, the vertical limits of the pool extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation;

- (b) a gas well shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil. An oil well shall be a well producing from the vertical limits of the pool with a gas-liquid ratio less than or equal to 100,000 cubic feet of gas per barrel of oil;
- (c) the limiting gas-oil ratio for oil wells in the Jalmat Gas Pool is 10,000 cubic feet of gas per barrel of oil;
- (d) a standard gas proration unit shall be 640 acres;
- (e) a standard oil proration unit shall be 40 acres;
- (f) a gas well to which 640 acres is dedicated shall be located no closer than 1650 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary;
- (g) an oil well shall be located no closer than 330 feet to the outer boundary of the proration unit;
- (h) for a non-standard gas proration unit, the location of the well with respect to the two nearest boundary lines of the unit shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration as follows:

<u>Location</u>	<u>Maximum Acreage</u>
660-660	160 acres
660-990	320 acres
990-990	600 acres

- (i) acreage dedicated to a gas well shall not be simultaneously dedicated to an oil well, and the dual completion of a well so as to produce oil from

the Yates formation and oil from the Seven Rivers or Queen formation is prohibited; and

- (j) for gas proration purposes, a 640-acre gas proration unit shall be assigned an Acreage Factor of 4.0, a 160-acre proration unit shall be assigned an Acreage Factor of 1.0, etc.

(8) The "*Special Rules and Regulations for the Eumont Gas Pool*" are the same as the "*Special Rules and Regulations for the Jalmat Gas Pool*," with the exception of the following:

- (a) the vertical limits of the Eumont Gas Pool extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers and Queen formations; and
- (b) the pool rules for the Eumont Gas Pool do not contain a provision prohibiting the simultaneous dedication of acreage to an oil well and a gas well.

(9) A minimum gas allowable of 600 MCF of gas per day (18,300 MCF/month) per Acreage Factor of 1.0 was established for the Eumont and Jalmat Gas Pools by Division Order No. R-8170-G dated November 8, 1990, and by Division Order No. R-8170-J dated January 8, 1991, respectively.

(10) In September, 2000, the Division hired a contractor to perform an analysis of the gas proration system in New Mexico's prorated gas pools, and in particular, the Eumont and Jalmat Gas Pools.

(11) On November 8, 2000, the contractor, Mr. Jim Morrow, presented the results of his study to the New Mexico Oil Conservation Commission.

(12) The Division presented Mr. Morrow's report titled "Analysis of Proration System, Southeast New Mexico" as evidence in this case. In addition, Mr. Morrow testified at the hearing by telephone.

(13) With respect to the Eumont Gas Pool, the results of Mr. Morrow's study demonstrate that:

- (a) in October, 1992, the non-marginal monthly gas allowable for the Eumont Gas Pool was increased to

24,730 MCF per Acreage Factor of 1.0. In April, 1993, this allowable was increased to 28,928 MCF, and in April, 1995, this allowable was increased to 38,000 MCF. The non-marginal monthly gas allowable of 38,000 MCF per Acreage Factor of 1.0 remains in place at the current time;

- (b) in March, 2000, 555 wells were producing from the Eumont Gas Pool at an average monthly producing rate of 3,054 MCF per month per well;
- (c) production data was analyzed for the period commencing January, 1997 and ending March, 2000. At some time during this production period, six gas proration units ("GPU's") produced in excess of their gas allowable for one or more months; however, all overproduction accrued by these six GPU's was made up by the end of 1999;
- (d) very few, if any, of the GPU's in the Eumont Gas Pool are currently capable of producing at or near the current gas allowable; and
- (e) no production in excess of the gas allowable was reported by any GPU in January, February or March, 2000.

(14) With respect to the Jalmat Gas Pool, the results of Mr. Morrow's study demonstrate that:

- (a) the current non-marginal monthly gas allowable for the Jalmat Gas Pool is 18,300 MCF per Acreage Factor of 1.0;
- (b) in March, 2000, 495 wells were producing from the Jalmat Gas Pool at an average monthly producing rate of 1,117 MCF per month per well;
- (c) production data was analyzed for the period commencing January, 1997 and ending June, 2000. At some time during this production period, five GPU's produced in excess of their gas allowable for

one or more months; however, all overproduction accrued by these five GPU's was made up by November, 1999; and

- (d) very few, if any, of the GPU's in the Jalmat Gas Pool are currently capable of producing at or near the current gas allowable.

(15) Mr. Morrow's report further shows that of the eleven GPU's that overproduced in the Eumont and Jalmat Gas Pools during the period of production analysis, none would have been required to be shut-in pursuant to the provisions of Division Rule 605.E.(3), and none was ever six times overproduced, or overproduced at the end of two consecutive proration periods.

(16) The evidence presented further demonstrates that gas production from the Eumont and Jalmat Gas Pools has declined significantly over the past several years, and will continue to decline in the future.

(17) A reduction in the minimum gas allowable for the Eumont and Jalmat Gas Pools, thereby increasing the effectiveness of gas proration, would tend to discourage further drilling and workover activity in the pools, thereby reducing the ultimate recovery of gas from the Yates, Seven Rivers and Queen formations.

(18) At the conclusion of the hearing on July 12, 2001, the Examiner directed the Division to provide notice to all operators of wells within the Eumont and Jalmat Gas Pools of its proposal to: (i) terminate gas prorationing in the Eumont and Jalmat Gas Pools; and (ii) amend the special pool rules for the Eumont and Jalmat Gas Pools. This notice was sent to these operators on or about July 18, 2001.

(19) No operator appeared at the July 12 or September 6 hearing to oppose the Division's proposal to terminate gas prorationing and to amend the special pool rules for the Eumont and Jalmat Gas Pools. In addition, no operator submitted written correspondence or comments to the Division in opposition to the application.

(20) The evidence presented in this case demonstrates that gas prorationing currently serves no purpose in the Eumont and Jalmat Gas Pools.

(21) Gas prorationing in the Eumont and Jalmat Gas Pools should be terminated.

(22) The evidence presented further demonstrates that:

- (a) development of the Eumont and Jalmat Gas Pools commenced in the 1950's;
- (b) development within these pools has occurred over the years in a somewhat unconventional manner due to certain factors including, but not limited to: (i) the geology and drainage characteristics of the Yates, Seven Rivers and Queen formations; (ii) 640-acre gas spacing; and (iii) the pools being subject to gas proration;
- (c) within the Eumont and Jalmat Gas Pools, there are a considerable number of non-standard gas proration units that have been routinely approved by the Division over the years. These non-standard gas proration units vary in size and shape from 40 acres to 640 acres; and
- (d) within the Eumont and Jalmat Gas Pools, there are a considerable number of wells that have been drilled at non-standard locations.

(23) With termination of gas prorationing within the Eumont and Jalmat Gas Pools, it becomes necessary to amend the special pool rules in order to maintain orderly development, prevent waste, and protect correlative rights.

(24) The Division has proposed that the "*Special Rules and Regulations for the Jalmat Gas Pool*," and the "*Special Rules and Regulations for the Eumont Gas Pool*," be amended to contain provisions whereby:

- (a) a gas well shall be located no closer than: (i) 660 feet to any outer boundary of its assigned gas spacing unit; (ii) 660 feet to any governmental quarter section line; and (iii) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary;
- (b) no more than one well shall be permitted on a standard 40-acre, more or less, oil proration unit;

- (c) no more than one well shall be permitted per 160 acres within existing gas spacing and proration units, either standard or otherwise;
- (d) exceptions may be granted to the requirements of (a), (b) and (c); and
- (e) in no event shall any standard or non-standard gas spacing and prorating unit in the Eumont and Jalmat Gas Pools be allowed more than one well per quarter-quarter section.

(25) Hartman presented evidence and testimony at the hearing generally in agreement with the proposed rule amendments set forth by the Division. Hartman presented written comments and recommendations regarding the proposed rule amendments.

(26) BP Amoco and Raptor, which also expressed general agreement with the proposed rule amendments set forth by the Division, submitted written comments and recommendations regarding the proposed rule amendments.

(27) No other operator presented written comments or correspondence in this case.

(28) Due consideration has been given to the evidence presented in this case, including written comments and recommendations by Hartman, BP Amoco and Raptor in the development of special pool rules for the Eumont and Jalmat Gas Pools.

(29) Approval of amended rules for the Eumont and Jalmat Gas Pools will promote orderly development within the pools, prevent waste and protect correlative rights.

(30) Amended pool rules for the Eumont and Jalmat Gas Pools should be established, and the "*Special Rules and Regulations for the Eumont Gas Pool*," and the "*Special Rules and Regulations for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170, as amended, should be superseded by the special pool rules set forth by this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of the Oil Conservation Division, gas prorationing in the Eumont Gas Pool, encompassing all or portions of Township 18 South, Ranges 36 and 37 East, Township 19 South, Ranges 36 and 37 East, Township 20 South, Ranges 35 through 38 East, Township 21 South, Ranges 35 through 37 East, and Township 22 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico, is hereby terminated.

(2) Pursuant to the application of the Oil Conservation Division, gas prorationing in the Jalmat Gas Pool, encompassing all or portions of Township 21 South, Ranges 35 and 36 East, Township 22 South, Ranges 35 through 37 East, Township 23 South, Ranges 35 through 37 East, Township 24 South, Ranges 36 and 37 East, Township 25 South, Ranges 36 and 37 East, and Township 26 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico, is hereby terminated.

(3) The "*Special Rules and Regulations for the Eumont Gas Pool*," and the "*Special Rules and Regulations for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170, as amended, are hereby superseded by the special pool rules for the Eumont and Jalmat Gas Pools hereinafter set forth.

(4) "*Special Pool Rules for the Eumont Gas Pool*" and "*Special Pool Rules for the Jalmat Gas Pool*" are hereby established as follows:

SPECIAL POOL RULES
FOR THE EUMONT GAS POOL

RULE 1. DEFINITIONS:

THE VERTICAL LIMITS of the Eumont Gas Pool shall extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers, and Queen formations.

A GAS WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Eumont Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) A standard gas spacing unit in the Eumont Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.

(B) A standard oil spacing and proration unit in the Eumont Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Eumont Gas Pool shall not be simultaneously dedicated to an oil well in the Eumont Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

(A) **Well Location:**

(1) An oil well in the Eumont Gas Pool shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(2) A gas well in the Eumont Gas Pool shall be located no closer than:
(a) 660 feet to any outer boundary of its assigned gas spacing unit; (b) 660 feet to any governmental quarter section line; and (c) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(B) For any 40-acre, more or less, oil spacing and proration unit within the Eumont Gas Pool, no more than one well shall be allowed. Only those 40-acre oil spacing and proration units committed to active secondary recovery projects shall be permitted more than one well. Otherwise, an exception to this rule will require a hearing.

(C) For any gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to no more than one well per 160 acres. For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed, provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit, a maximum of three wells, two wells, or one

well, respectively, shall be allowed, provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.

(D) In no event shall any Eumont gas spacing unit be allowed more than one well per quarter-quarter section.

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(A) The Division Director may grant an administrative exception to the well location requirements of Rule 3(A) above, without hearing, when the exception is necessary to prevent waste or protect correlative rights, so long as:

- (1) an application has been duly filed under the provisions of Division Rule 104.F; and
- (2) the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the gas spacing unit in which the well is located and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(B) The Division Director may grant an administrative exception to the gas well density provisions of Rule 3(C) above, or may administratively approve the formation of a non-standard gas spacing unit that will result in a well density of more than one well per 160 acres, so long as the operator presents sufficient engineering, geologic, reservoir drainage and other applicable evidence that demonstrates:

- (1) the proposed well is necessary (a) to effectively and efficiently drain a 160-acre quarter section that cannot be adequately drained by the existing well or wells, or (b) to adequately protect the subject unit from offsetting drainage, or (c) to prevent waste by utilizing an existing or previously abandoned wellbore, or (d) to recover additional reserves that would otherwise not be recovered from the reservoir;
- (2) the proposed well will not violate correlative rights; and
- (3) the applicant has obtained consent of or given notice to all operators of any unit or units adjacent to the gas spacing unit requiring the well density exception and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(C) Non-Standard Gas Spacing Units:

(1) The Director may establish non-standard gas spacing units in the Eumont Gas Pool as follows:

(a) Units that comprise complete quarter sections:

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a single 160-acre, more or less, non-standard spacing unit comprising a single quarter section, or a 320-acre, 480-acre, or 640-acre, more or less, non-standard gas spacing unit that consists of two, three, or four complete quarter sections that share a common bordering side, without a hearing, so long as the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4 (D).

(b) Units that involve partial quarter sections regardless of size (up to 640 acres):

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a non-standard gas spacing unit containing legal subdivisions smaller than a quarter section [quarter-quarter section(s) or lots] without a hearing provided that:

(i) the non-standard spacing unit consists of quarter-quarter sections or lots that share a common bordering side; and

(ii) the applicant presents proof of consent of or notice to all offset operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(2) Applications for non-standard gas spacing units shall include:

(a) a detailed explanation of the necessity for requesting the proposed non-standard gas spacing unit;

- (b) a land plat that identifies the non-standard gas spacing unit being sought and identifies all existing Eumont gas wells contained within the acreage;
 - (c) information concerning any old well within the proposed unit that once had Eumont production, either oil or gas (well name and number, operator, last acreage dedication, plugging date and cumulative oil and gas production, and any applicable Division order granting an exception to any Eumont rule);
 - (d) a land plat that clearly shows all existing Eumont oil and gas spacing units that directly offset the proposed non-standard unit and, if available, reference to all orders approving such non-standard gas spacing units;
 - (e) for a non-standard Eumont gas spacing unit that contains partial quarter sections, a land plat must be submitted that clearly depicts the acreage and mineral interests that will be excluded from the unit within the quarter section and that are not committed to any other Eumont gas or oil spacing unit; the plat shall identify the owners of such mineral interests by name, address (if known) and percentage;
 - (f) geological and technical information required by Rule 4(B), if applicable; and
 - (g) proof of compliance with applicable consent or notice provisions of Rule 4.
- (D) With reference to any exception that may be granted administratively without hearing as provided by any provision of this Rule 4:
- (1) any required proof of consent shall be evidenced by written waivers setting forth the substance of the exception sought and expressly consenting thereto, and signed by the person whose consent is required by the applicable provision of this Rule;
 - (2) any required notice shall be given in the manner provided in Rule 1207 (B), except that in lieu of stating the time and place of hearing, such notice shall state that the exception sought may be granted without hearing unless a protest is filed with the Santa Fe office of the Division within

twenty (20) days after the filing of the application and proof of notice with the Division. An affidavit shall be filed with the application setting forth the information required by Rule 1207 (C) with respect to any persons required to be notified by the applicable provision of this Rule from whom written waivers are not furnished;

(3) if an application is supported by written waivers as provided in Rule 4(D) (1) from all persons whose consent is required and an affidavit attesting that the persons whose waivers are attached are all of the persons whose consent is required, the Director may grant the application without further notice or hearing; and

(4) if an application is supported by proof of notice as provided in Rule 4(D) (2), the Director may grant the application without hearing if no protest is filed with the Division within twenty (20) days after the date of filing of the application and proof of notice.

(E) The Division Director may set for hearing any application that was filed for administrative approval. If a protest is filed as to any such application as provided in Rule 4(D), such application shall be denied or set for hearing, in the discretion of the Director.

RULE 5. WELL TESTING:

(A) **Gas-liquid ratio tests:** The operator of each newly completed well shall conduct a gas-liquid ratio test on the well upon recovery of all load oil from the well, provided however, that in no event shall the test be commenced later than 30 days from the date of first production. Semi-annual gas-liquid ratio tests shall be conducted on all wells during each year in accordance with a test schedule prepared by the Hobbs district office of the Division. The initial gas-liquid ratio test shall suffice as the first semi-annual test. Any well that is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. Gas-liquid ratio tests shall be conducted for 24 hours, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of each test shall be filed on Division Form C-116 on or before the tenth day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the Hobbs district office of the Division a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the test schedule shall also be furnished to all offset operators. The supervisor of the Hobbs district office may grant an exception to the above well-test requirements where it is demonstrated that the well produces no liquids. Special gas-liquid ratio tests shall also be conducted at the request of the Division and may also be conducted at the option of the operator. Such special

gas-liquid ratio tests shall be conducted in accordance with the procedures outlined hereinabove, including notification to the Division and offset operators.

(B) An initial shut-in pressure test shall be conducted on each gas well and shall be reported to the Division on Form C-125.

RULE 6. MISCELLANEOUS:

(A) Oil wells in the Eumont Gas Pool shall receive oil and casinghead gas allowables as provided in Division Rules 503, 505, and 506.

(B) All existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice.

**SPECIAL POOL RULES
FOR THE JALMAT GAS POOL**

RULE 1. DEFINITIONS:

THE VERTICAL LIMITS of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation, except as provided below.

In the area described immediately below, the vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 13:	SE/4 NE/4, SE/4
Section 23:	E/2 E/2
Section 24:	All
Section 25:	N/2
Section 26:	E/2 NE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 18:	SW/4 NW/4, W/2 SW/4
Section 19:	W/2
Section 30:	NW/4

A GAS WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Jalmat Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) A standard gas spacing unit in the Jalmat Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.

(B) A standard oil spacing and proration unit in the Jalmat Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

(A) **Well Location:**

(1) An oil well in the Jalmat Gas Pool shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(2) A gas well in the Jalmat Gas Pool shall be located no closer than:
(a) 660 feet to any outer boundary of its assigned gas spacing unit; (b) 660 feet to any governmental quarter section line; and (c) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(B) For any 40-acre, more or less, oil spacing and proration unit within the Jalmat Gas Pool, no more than one well shall be allowed. Only those 40-acre oil spacing and proration units committed to active secondary recovery projects shall be permitted more than one well. Otherwise, an exception to this rule will require a hearing.

(C) For any gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to no more than one well per 160 acres. For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed, provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit, a maximum of three wells, two wells, or one well, respectively, shall be allowed, provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.

(D) In no event shall any Jalmat gas spacing unit be allowed more than one well per quarter-quarter section.

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(A) The Division Director may grant an administrative exception to the well location requirements of Rule 3(A) above, without hearing, when the exception is necessary to prevent waste or protect correlative rights, so long as:

- (1) an application has been duly filed under the provisions of Division Rule 104.F; and
- (2) the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the gas spacing unit in which the well is located and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(B) The Division Director may grant an administrative exception to the gas well density provisions of Rule 3(C) above, or may administratively approve the formation of a non-standard gas spacing unit that will result in a well density of more than one well per 160 acres, so long as the operator presents sufficient engineering, geologic, reservoir drainage and other applicable evidence that demonstrates:

- (1) the proposed well is necessary (a) to effectively and efficiently drain a 160-acre quarter section that cannot be adequately drained by the existing well or wells, or (b) to adequately protect the subject unit from offsetting drainage, or (c) to prevent waste by utilizing an existing or previously abandoned wellbore, or (d) to recover additional reserves that would otherwise not be recovered from the reservoir;
- (2) the proposed well will not violate correlative rights; and

(3) the applicant has obtained consent of or given notice to all operators of any unit or units adjacent to the gas spacing unit requiring the well density exception and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(C) **Non-Standard Gas Spacing Units:**

(1) The Director may establish non-standard gas spacing units in the Jalmat Gas Pool as follows:

(a) **Units that comprise complete quarter sections:**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a single 160-acre, more or less, non-standard spacing unit comprising a single quarter section, or a 320-acre, 480-acre, or 640-acre, more or less, non-standard gas spacing unit that consists of two, three, or four complete quarter sections that share a common bordering side, without a hearing, so long as the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4 (D).

(b) **Units that involve partial quarter sections regardless of size (up to 640 acres):**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a non-standard gas spacing unit containing legal subdivisions smaller than a quarter section [quarter-quarter section(s) or lots] without a hearing provided that:

(i) the non-standard spacing unit consists of quarter-quarter sections or lots that share a common bordering side; and

(ii) the applicant presents proof of consent of or notice to all offset operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(2) Applications for non-standard gas spacing units shall include:

(a) a detailed explanation of the necessity for requesting the proposed non-standard gas spacing unit;

(b) a land plat that identifies the non-standard gas spacing unit being sought and identifies all existing Jalmat gas wells contained within the acreage;

(c) information concerning any old well within the proposed unit that once had Jalmat production, either oil or gas (well name and number, operator, last acreage dedication, plugging date and cumulative oil and gas production, and any applicable Division order granting an exception to any Jalmat rule);

(d) a land plat that clearly shows all existing Jalmat oil and gas spacing units that directly offset the proposed non-standard unit and, if available, reference to all orders approving such non-standard gas spacing units;

(e) for a non-standard Jalmat gas spacing unit that contains partial quarter sections, a land plat must be submitted that clearly depicts the acreage and mineral interests that will be excluded from the unit within the quarter section and that are not committed to any other Jalmat gas or oil spacing unit; the plat shall identify the owners of such mineral interests by name, address (if known) and percentage;

(f) geological and technical information required by Rule 4(B), if applicable; and

(g) proof of compliance with applicable consent or notice provisions of Rule 4.

(D) With reference to any exception that may be granted administratively without hearing as provided by any provision of this Rule 4:

(1) any required proof of consent shall be evidenced by written waivers setting forth the substance of the exception sought and expressly consenting thereto, and signed by the person whose consent is required by the applicable provision of this Rule;

(2) any required notice shall be given in the manner provided in Rule 1207 (B), except that in lieu of stating the time and place of hearing, such notice shall state that the exception sought may be granted without hearing unless a protest is filed with the Santa Fe office of the Division within twenty (20) days after the filing of the application and proof of notice with the Division. An affidavit shall be filed with the application setting forth the information required by Rule 1207 (C) with respect to any persons required to be notified by the applicable provision of this Rule from whom written waivers are not furnished;

(3) if an application is supported by written waivers as provided in Rule 4(D) (1) from all persons whose consent is required and an affidavit attesting that the persons whose waivers are attached are all of the persons whose consent is required, the Director may grant the application without further notice or hearing; and

(4) if an application is supported by proof of notice as provided in Rule 4(D) (2), the Director may grant the application without hearing if no protest is filed with the Division within twenty (20) days after the date of filing of the application and proof of notice.

(E) The Division Director may set for hearing any application that was filed for administrative approval. If a protest is filed as to any such application as provided in Rule 4(D), such application shall be denied or set for hearing, in the discretion of the Director.

RULE 5. WELL TESTING:

(A) **Gas-liquid ratio tests:** The operator of each newly completed well shall conduct a gas-liquid ratio test on the well upon recovery of all load oil from the well, provided however, that in no event shall the test be commenced later than 30 days from the date of first production. Semi-annual gas-liquid ratio tests shall be conducted on all wells during each year in accordance with a test schedule prepared by the Hobbs district office of the Division. The initial gas-liquid ratio test shall suffice as the first semi-annual test. Any well that is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. Gas-liquid ratio tests shall be conducted for 24 hours, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of each test shall be filed on Division Form C-116 on or before the tenth day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the Hobbs district office of the Division a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the

test schedule shall also be furnished to all offset operators. The supervisor of the Hobbs district office may grant an exception to the above well-test requirements where it is demonstrated that the well produces no liquids. Special gas-liquid ratio tests shall also be conducted at the request of the Division and may also be conducted at the option of the operator. Such special gas-liquid ratio tests shall be conducted in accordance with the procedures outlined hereinabove, including notification to the Division and offset operators.

(B) An initial shut-in pressure test shall be conducted on each gas well and shall be reported to the Division on Form C-125.

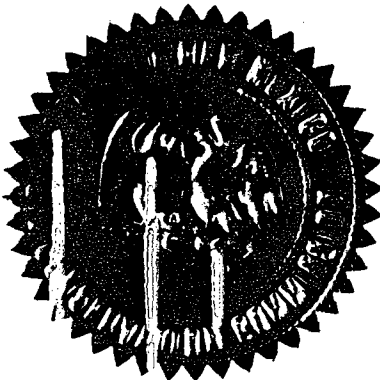
RULE 6. MISCELLANEOUS:

(A) Oil wells in the Jalmat Gas Pool shall receive oil and casinghead gas allowables as provided in Division Rules 503, 505, and 506.

(B) All existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice.

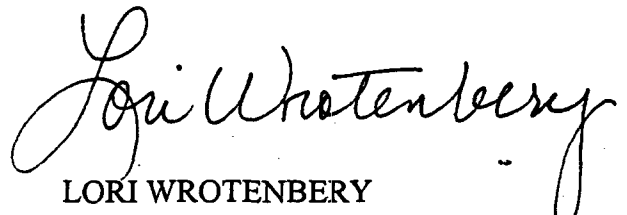
(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director