

Colfax

County, *New Mexico*

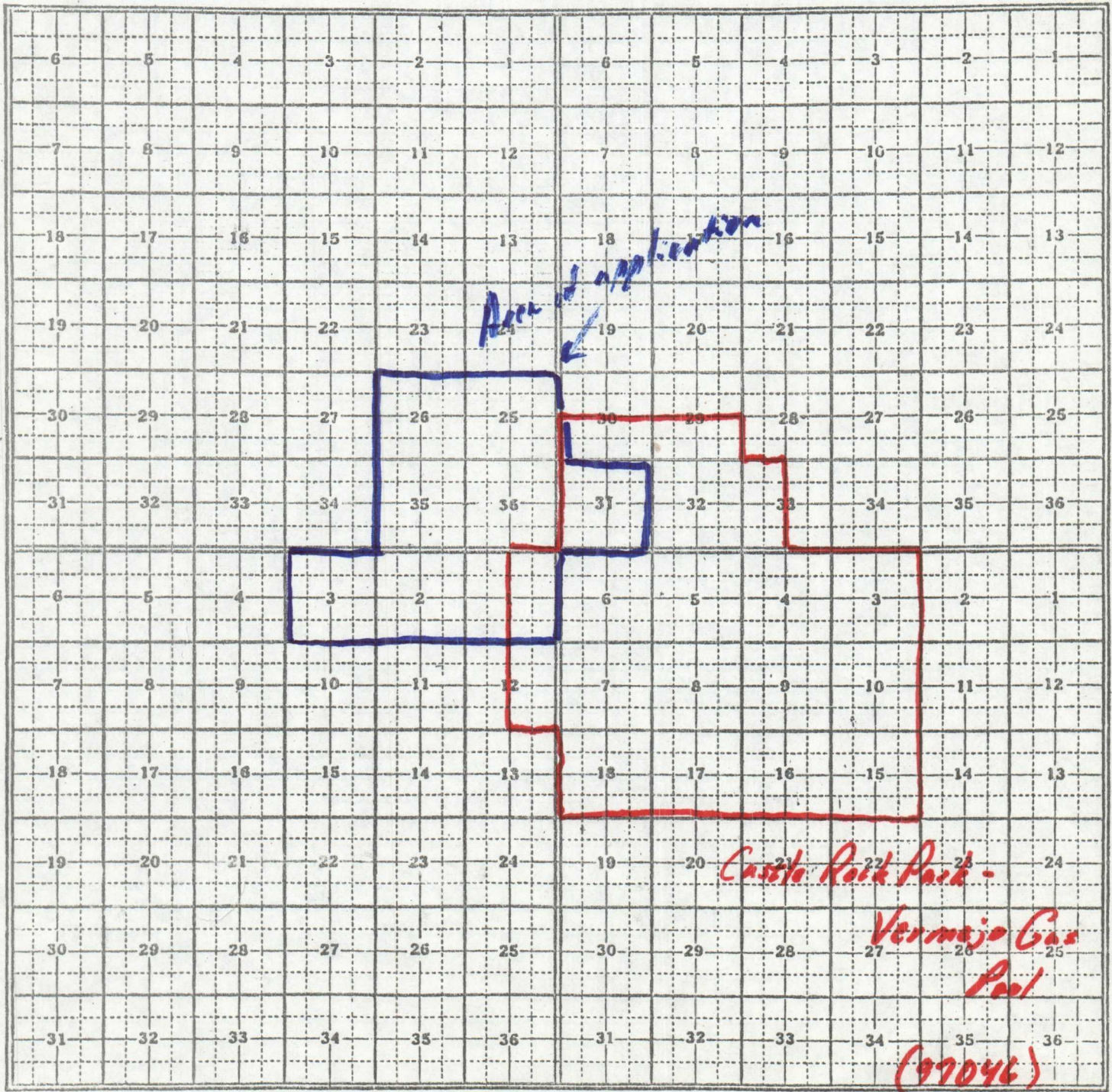
Township *31 North* Range *17 East*

Township *31 North* Range *18 East*

Township *30 North* Range *17 East*

Township *30 North* Range *18 East*

Form 104—(Four on Township)



County Colfax

Pool Castle Rock Park - Vermejo Gas

97046

TOWNSHIP 30 North

Range 17 East

NMPM

6	5	4	3	2	1	
7	8	9	10	11	12	
18	17	16	15	14	13	
19	20	21	22	23	24	
30	29	28	27	26	25	
31	32	33	34	35	36	

Desc: sec 1 - E/2, sec 12 - E/2 (R-11561, 4-9-01)

county Colfax

pool Castle Rock Park - Vermejo Gas

97046

TOWNSHIP 30 North

Range 18 East

NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Desc: Sections 3 thru 10 - All, sections 15 thru 18 - All (R-

County ColFax

Pool Castle Rock Park - Vermejo Gas

97046

TOWNSHIP 31 North

Range 18 East

NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
29	28	27	26	25	
31	32	33	34	35	36

Desc: sec 29 $\frac{5}{2}$, sec 30 $\frac{5}{2}$, sec 31-All, sec 32-All,
sec 33 $\frac{w}{2}$ (R-1156, 4-9-01)



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

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

April 5, 1999

**PennzEnergy Company
P. O. Box 4616
Houston, Texas 77210-4616
Attention: Don Lankford**

Administrative Order NSL-4251

Dear Mr. Lankford:

Reference is made to: (i) PennzEnergy Company's ("PennzEnergy") initial application filed with the New Mexico Oil Conservation Division's ("Division") office in Santa Fe on February 22, 1999 for two unorthodox gas well locations to be drilled to the coal interval of the Vermejo formation in Colfax County, New Mexico; (ii) PennzEnergy's amended application dated March 5, 1999 with attachments; and (iii) the records of the Division in Santa Fe.

The Division Director Finds That:

- (1) PennzEnergy is the owner and operator of the oil and gas mineral rights underlying an area in Colfax County, New Mexico, more commonly referred to as Vermejo Park Ranch, as further described in: (i) a map entitled "Vermejo Ranch" prepared by Pennzoil Exploration & Production Company dated February 19, 1999; and (ii) a legal description that is an attachment, depicted as Exhibit "A", to the "Nonparticipating Royalty Deed," dated September 20, 1996; both aforementioned documents should be incorporated by reference into this order;
- (2) All gas bearing intervals from the surface to the base of the Dakota formation, which includes the Vermejo formation, underlying this area are currently subject to the statewide rules and regulations for gas wells, as set forth in Division Rules 104.B(3)(b) and 104.D(3), which provides for: (i) 160-acre gas spacing and proration units, or drilling units; (ii) requires that wells be located no closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to the nearest well drilling to or capable of producing from the same pool; and (iii) limits the number of wells for each 160-acre drilling tract to only one;
- (3) Currently all mineral interests from the surface to the base of the Dakota formation are common throughout this lease;
- (4) The subject application has been duly filed under the provisions of Division Rule 104.F;

- (5) Approval of PennzEnergy's proposed: (i) VPR – Canadian River "3120" Well No. 62 (API No. 30-007-20111), to be drilled at an unorthodox gas well location 652 feet from the North line and 1717 feet from the West line (Unit C) of Section 6, Township 31 North, Range 20 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the NW/4 of Section 6; and (ii) VPR – Canadian River "3219" Well No. 361 (API No. 30-007-20112), to be drilled at an unorthodox gas well location 1356 feet from the South line and 1395 feet from the East line (Unit J) of Section 36, Township 32 North, Range 19 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the SE/4 of Section 36: is necessary for topographic reasons;
- (6) As gas exploration and development on the Vermejo Park Ranch lease progresses it is anticipated by PennzEnergy and the supervisor of the Division's District IV office in Santa Fe that additional unorthodox gas well locations will be necessary in order to: (i) minimize disturbance to wildlife habitat; (ii) preserve the scenic beauty; and (iii) minimize construction of wellpads by avoiding rugged terrain when practical;
- (7) A procedure allowing PennzEnergy to drill future gas wells to those gas bearing intervals from the surface to the base of the Dakota formation within the Vermejo Park Ranch lease at locations that are unorthodox based on the well location requirements of Division Rules 104.B(3)(b) and 104.C(4) without further administrative review by the Division Director should be adopted, provided that any such unorthodox location within the above-described Vermejo Park Ranch lease is no closer than the required minimum orthodox distance (660 feet) to: (i) the outer boundary of the lease; or (ii) the New Mexico/Colorado state-line, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (8) Approval of this application is in the best interest of conservation, will serve to prevent waste, protects correlative rights, exhibits sound engineering principles, and will allow PennzEnergy to develop its gas reserves within the Vermejo Park Ranch lease from the surface to the base of the Dakota formation in a prudent manner; and
- (9) The provisions of this order should be amended if oil and gas mineral interests are divided in any way within the Vermejo Park Ranch area.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104 F(2), PennzEnergy Company ("PennzEnergy") is hereby authorized to drill the following two described wells at unorthodox gas well locations in the Vermejo formation within its Vermejo Park Ranch lease in Colfax County, New Mexico, as follows:

- (i) VPR – Canadian River "3120" Well No. 62 (**API No. 30-007-20111**), to be drilled at an unorthodox gas well location 652 feet from the North line and 1717 feet from the West line (Unit C) of Section 6, Township 31 North, Range 20 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the NW/4 of Section 6; and
- (ii) VPR – Canadian River "3219" Well No. 361 (**API No. 30-007-20112**), to be drilled at an unorthodox gas well location 1356 feet from the South line and 1395 feet from the East line (Unit J) of Section 36, Township 32 North, Range 19 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico.

It Is Further Ordered That:

(2) Within the Vermejo Park Ranch lease in Colfax County, New Mexico, as further described in: (i) a map entitled "Vermejo Ranch" prepared by Pennzoil Exploration & Production Company dated February 19, 1999; and (ii) a legal description that is an attachment, depicted as Exhibit "A", to the "*Nonparticipating Royalty Deed*," dated September 20, 1996; both aforementioned documents herein incorporated by reference into this order; PennzEnergy is hereby authorized to drill gas wells to any formation from the surface to the base of the Dakota formation that are unorthodox; provided however, that any such unorthodox gas well location is no closer than the required minimum orthodox distance (660 feet) to: (i) the outer boundary of the Vermejo Park Ranch lease; or (ii) the New Mexico/Colorado state-line, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(3) Any unorthodox gas well location authorized by Ordering Paragraph No. (2) above shall require the submission of a Division Form C-102, in accordance with Division Rules 1101 and 1102, and the approval of the Supervisor of the Division's District Office in Santa Fe. The Form C-

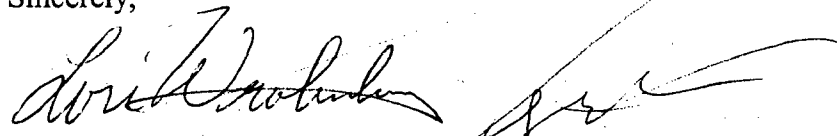
102 for any such well shall include the following additional information: (i) the designated 160 acres to be dedicated to the well is to be highlighted or outlined; (ii) show on the plat the boundary of the lease or the New Mexico/Colorado state-line, if applicable; and (iii) this administrative order (NSL-4251) must be referenced.

(4) The provisions of this order shall be amended if oil and gas mineral interests are divided in any way within the Vermejo Park Ranch area.

(5) The operator of the Vermejo Park Ranch lease is required to notify the supervisor of the Division's District IV office in Santa Fe of: (i) any changes that may effect the intent of this order; and (ii) seek such amendment to this order if the oil and gas mineral interests are changed.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: Roy Johnson, Supervisor District IV- New Mexico Oil Conservation Division, Santa Fe

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 12639
Order No. R-11561

APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER CREATING CERTAIN
POOLS IN COLFAX COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 5, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 9th day of April, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

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

(2) There is need for the creation of a new pool in Colfax County, New Mexico for the production of gas from the Vermejo formation, bearing the designation of Castle Rock Park-Vermejo Gas Pool. The Castle Rock Park-Vermejo Gas Pool was discovered by the El Paso Energy Raton, LLC VPR 'D' Well No. 18 located in Unit M of Section 31, Township 31 North, Range 18 East, NMPM, which was completed in the Vermejo formation on October 20, 2000. The top of the perforations is at 1,620 feet.

(3) There is need for the creation of a new pool in Colfax County, New Mexico for the production of gas from the Vermejo formation, bearing the designation of Stubblefield Canyon Raton-Vermejo Gas Pool. The Stubblefield Canyon Raton-Vermejo Gas Pool was discovered by the Sonat Raton LLC VPR 'A' Well No. 2 located in Unit C of Section 6, Township 31 North, Range 20 East, NMPM, which was completed in the Vermejo formation on September 30, 1999. The top of the perforations is at 1,978 feet.

(4) There is need for the creation of a new pool in Colfax County, New Mexico for the production of gas from the Vermejo formation, bearing the designation of Van Bremmer Canyon-Vermejo Gas Pool. The Van Bremmer Canyon-Vermejo Gas Pool was discovered by the El Paso Energy Raton, LLC VPR 'B' Well No. 10 located in Unit K of Section 32, Township 30 North, Range 19 East, NMPM, which was completed in the Vermejo formation on October 10, 2000. The top of the perforations is at 1,746 feet.

IT IS THEREFORE ORDERED THAT:

(a) A new pool in Colfax County, New Mexico, classified as a gas pool for Vermejo production is hereby created and designated as the Castle Rock Park-Vermejo Gas Pool, consisting of the following described area:

TOWNSHIP 30 NORTH, RANGE 17 EAST, NMPM

Section 1: E/2

Section 12: E/2

TOWNSHIP 30 NORTH, RANGE 18 EAST, NMPM

Sections 3 through 10: All

Sections 15 through 18: All

TOWNSHIP 31 NORTH, RANGE 18 EAST, NMPM

Section 29: S/2

Section 30: S/2

Sections 31 and 32: All

Section 33: W/2

(b) A new pool in Colfax County, New Mexico, classified as a gas pool for Vermejo production is hereby created and designated as the Stubblefield Canyon Raton-Vermejo Gas Pool, consisting of the following described area:

TOWNSHIP 31 NORTH, RANGE 19 EAST, NMPM

Sections 1 through 6: All

TOWNSHIP 31 NORTH, RANGE 20 EAST, NMPM

Section 6: All

TOWNSHIP 32 NORTH, RANGE 19 EAST, NMPM

Sections 31 through 36: All

TOWNSHIP 32 NORTH, RANGE 20 EAST, NMPM

Section 19: S/2
Section 20: S/2
Section 21: S/2
Section 22: S/2
Section 23: S/2
Section 24: S/2
Sections 26 through 32: All

(c) A new pool in Colfax County, New Mexico, classified as a gas pool for Vermejo production is hereby created and designated as the Van Bremmer Canyon-Vermejo Gas Pool, consisting of the following described area:

TOWNSHIP 29 NORTH, RANGE 18 EAST, NMPM

Sections 1 and 2: All

TOWNSHIP 29 NORTH, RANGE 19 EAST, NMPM

Section 6: All

TOWNSHIP 30 NORTH, RANGE 18 EAST, NMPM

Sections 25 and 26: All
Section 27: E/2
Section 34: E/2
Sections 35 and 36: All

TOWNSHIP 30 NORTH, RANGE 19 EAST, NMPM

Sections 30 through 32: All

IT IS FURTHER ORDERED THAT:

(1) The effective date of this order and all creations included herein shall be May 1, 2001.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

NOTICE

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

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

October 25, 1999

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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 12th 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.

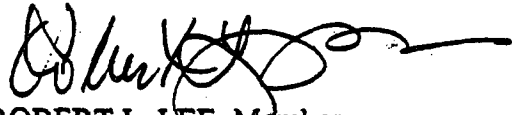
(3) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

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

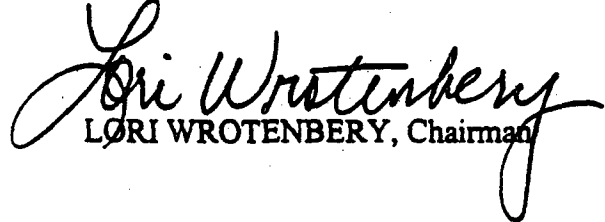
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



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.