

OCD EXHIBIT 2

indicates that there is communication between the separate strata, the operator, shall immediately notify the Division and commence remedial action on the well.

- (d) The well shall be so equipped that reservoir pressure may be determined for each of the separate strata and further be so equipped that meters may be installed and the gas, oil and gas and oil produced from each of the separate strata may be accurately measured, and the gas-oil ratio or the gas-liquid ratio thereof determined.
- (e) Within 20 days after the completion of the well, the operator shall furnish the Division with a diagrammatic sketch of the mechanical installation which was actually used in completing the well together with a report of the gravity, gas-oil ratio or gas-liquid ratio, and surface or bottomhole pressure for each of the separate zones, and the log of the well if the same has not been previously submitted.
- (f) No multiple completion may continue to produce in a manner which is unnecessarily wasteful of reservoir energy.
- (g) The Division may require the proper plugging of any abandoned zone of a multiply completed well if such plugging appears necessary to prevent waste or protect correlative rights.

RULE 112-B. - BRADENHEAD GAS WELLS

(as of 3-1-91)

A. The production of gas from a bradenhead gas well may be permitted only by order of the Division upon hearing, except as noted by the provisions of paragraph C. of this rule.

B. The application for such hearings shall be submitted in TRIPLICATE and shall include an exhibit showing the location of all wells on applicant's lease and all offset wells on offset leases, together with a diagrammatic sketch showing the casing program, formation tops, estimated top of cement on each casing string run and any other pertinent data, including drill stem tests.

C. The Division Director shall have authority to grant an exception to the requirements of paragraph A. above without notice and hearing where application has been filed in due form, and when the lowermost producing zone involved in the completion is an oil or gas producing zone within the defined limits of an oil or gas pool and the producing zone to be produced through the bradenhead connection is a gas producing zone within the defined limits of a gas pool.

D. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Division, and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Division Director shall wait at least 10 days before approving the production of gas from the bradenhead gas well, and shall approve such production only in the absence of objection from any offset operator. In the event an operator objects to the completion the Division Director shall consider the matter only after proper notice and hearing.

E. The Division may waive the 10-day waiting period requirement if the applicant furnishes the Division with the written consent to the production of gas from the bradenhead connection by all offset operators involved.

F. This rule shall apply only to wells hereinafter completed as bradenhead gas wells.

RULE 113. - SHOOTING AND CHEMICAL TREATMENT OF WELLS

(as of 3-1-91)

If injury results to the producing formation, injection interval, casing or casing seat from shooting, fracturing, or treating a well and which injury may create underground waste or contamination of fresh water, the operator shall give written notice to the Division within five (5) working days and proceed with diligence to use the appropriate method and means for rectifying such damage. If shooting, fracturing, or chemical treating results in irreparable injury to the well the Division may require the operator to properly plug and abandon the well.

RULE 114. - SAFETY REGULATIONS

(as of 3-1-91)

A. All oil wells shall be cleaned into a pit or tank, not less than 40 feet from the derrick floor and 150 feet from any fire hazard. All flowing oil wells must be produced through an oil and gas separator of ample capacity and in good working order. No boiler or portable electric lighting generator shall be placed or remain nearer than 150 feet to any producing well or oil tank. Any rubbish or debris that might constitute a fire hazard shall be removed to a distance of at least 150 feet from the vicinity of wells and tanks. All waste shall be burned or disposed of in such manner as to avoid creating a fire hazard.

B. When coming out of the hole with drill pipe, drilling fluid shall be circulated until equalized and subsequently drilling fluid level shall be maintained at a height sufficient to control subsurface pressures. During course of drilling blowout preventers shall be tested at least once each 24-hour period.

RULE 115. - WELL AND LEASE EQUIPMENT

(as of 3-1-91)

A. Christmas tree fittings or wellhead connections shall be installed and maintained in first class condition so that all necessary pressure tests may easily be made on flowing wells. On oil wells the Christmas tree fittings shall have a test pressure rating at least equivalent to the calculated or known pressure in the reservoir from which production is expected. On gas wells the Christmas tree fittings shall have a test pressure equivalent to at least 150 percent of the calculated or known pressure in the reservoir from which production is expected.

B. Valves shall be installed and maintained in good working order to permit pressures to be obtained on both casing and tubing. Each flowing well shall be equipped to control properly the flowing of each well, and in case of an oil well, shall be produced into an oil and gas separator of a type generally used in the industry.

RULE 116. - NOTIFICATION OF FIRE, BREAKS, LEAKS, SPILLS
AND BLOWOUTS

(as of 3-1-91)

A. The Division shall be notified of any fire, break, leak, spill, or blowout occurring at any injection or disposal facility or at any oil or gas drilling, producing, transporting, or processing facility in the State of New Mexico by the person operating or controlling such facility.

B. "Facility," for the purpose of this rule, shall include any oil or gas well, any injection or disposal well, and any drilling or workover well; any pipe line through which crude oil, condensate, casinghead or natural gas, or injection or disposal fluid (gaseous or liquid) is gathered, piped, or transported (including field flow-lines and lead-lines but not including natural gas distribution systems); any receiving tank, holding tank, or storage tank, or receiving and storing receptacle into which crude oil, condensate, injection or disposal fluid, or casinghead or natural gas is produced, received, or stored; any injection or disposal pumping or compression station including related equipment; any processing or refining plant in which crude oil, condensate, or casinghead or natural gas is processed or refined; and any tank or drilling pit or slush pit associated with

oil or gas well or injection or disposal well drilling operations or any tank, storage pit, or pond associated with oil or gas production or processing operations or with injection or disposal operations and containing hydrocarbons or hydrocarbon waste or residue, salt water, strong caustics or strong acids, or other deleterious chemicals or harmful contaminants.

C. Notification of such fire, break, leak, spill, or blowout shall be in accordance with the provisions set forth below:

(1) Well Blowouts. Notification of well blowouts and/or fires shall be "immediate notification" described below. ("Well blowout" is defined as being loss of control over and subsequent eruption of any drilling or workover well, or the rupture of the casing, casinghead, or wellhead or any oil or gas well or injection or disposal well, whether active or inactive, accompanied by the sudden emission of fluids, gaseous or liquid, from the well.)

(2) "Major" Breaks, Spills, or Leaks. Notification of breaks, spills, or leaks of 25 or more barrels of crude oil or condensate, or 100 barrels or more of salt water, none of which reaches a watercourse or enters a stream or lake; breaks, spills, or leaks in which one or more barrels of crude oil or condensate or 25 barrels or more of salt water does reach a watercourse or enters a stream or lake; and breaks, spills, or leaks of hydrocarbons or hydrocarbon waste or residue, salt water, strong caustics or strong acids, gases, or other deleterious chemicals or harmful contaminants of any magnitude which may with reasonable probability endanger human health or result in substantial damage to property, shall be "immediate notification" described below.

(3) "Minor" Breaks, Spills, or Leaks. Notification of breaks, spills, or leaks of 5 barrels or more but less than 25 barrels of crude oil or condensate, or 25 barrels or more but less than 100 barrels of salt water, none of which reaches a watercourse or enters a stream or lake, shall be "subsequent notification" described below.

(4) "Gas Leaks and Gas Line Breaks. Notification of gas leaks from any source or of gas pipe line breaks in which natural or casinghead gas of any quantity has escaped or is escaping which may with reasonable probability endanger human health or result in substantial damage to property shall be "immediate notification" described below. Notification of gas pipe line breaks or leaks in which the loss is estimated to be 1000 or more MCF of natural or casinghead gas but in which there is no danger to human health nor of substantial damage to property shall be "subsequent notification" described below.

(5) Tank Fires. Notification of fires in tanks or other receptacles caused by lightning or any other cause, if the loss is, or it appears that the loss will be, 25 or more barrels of crude oil or condensate, or fires which may with reasonable probability endanger human health or result in substantial damage to property, shall be "immediate notification" as described below. If the loss is, or it appears that the loss will be at least 5 barrels but less than 25 barrels, notification shall be "subsequent notification" described below.

(6) Drilling Pits, Slush Pits, and Storage Pits and Ponds. Notification of breaks and spills from any drilling pit, slush pit, or storage pit or pond in which any hydrocarbon or hydrocarbon waste or residue, strong caustic or strong acid, or other deleterious chemical or harmful contaminant endangers human health or does substantial surface damage, or reaches a watercourse or enters a stream or lake in such quantity as may with reasonable probability endanger human health or result in substantial damage to such watercourse, stream, or lake, or the contents thereof, shall be "immediate notification" as described below. Notification of breaks or spills of such magnitude as to not endanger human health, cause substantial surface damage, or result in substantial damage to any watercourse, stream, or lake, or the contents thereof, shall be "subsequent notification" described below, provided however, no notification shall be required where there is no threat of any damage resulting from the break or spill.

(7) IMMEDIATE NOTIFICATION. "Immediate Notification" shall be as soon as possible after discovery and shall be either in person or by telephone to the district office of the Division district in which the incident occurs, or if the incident occurs after normal business hours, to the District Supervisor, the Oil and Gas Inspector, or the Deputy Oil and Gas Inspector. A complete written report ("Subsequent Notification") of

the incident shall also be submitted in **DUPLICATE** to the appropriate district office of the Division within ten days after discovery of the incident.

(8) **SUBSEQUENT NOTIFICATION.** "Subsequent Notification" shall be a complete written report of the incident and shall be submitted in duplicate to the district office of the Division district in which the incident occurred within ten days after discovery of the incident.

(9) **CONTENT OF NOTIFICATION.** All reports of fires, breaks, leaks, spills, or blowouts, whether verbal or written, shall identify the location of the incident by quarter-quarter, section, township, and range, and by distance and direction from the nearest town or prominent landmark so that the exact site of the incident can be readily located on the ground. The report shall specify the nature and quantity of the loss and also the general conditions prevailing in the area, including precipitation, temperature, and soil conditions. The report shall also detail the measures that have been taken and are being taken to remedy the situation reported.

(10) **WATERCOURSE,** for the purpose of this rule, is defined as any lake-bed or gully, draw, stream bed, wash, arroyo, or natural or man-made channel through which water flows or has flowed.

RULE 117. - WELL LOG, COMPLETION AND WORKOVER REPORTS

(as of 3-1-91)

Within 20 days after the completion of a well drilled for oil or gas, or the recompletion of a well into a different common source of supply, a completion report shall be filed with the Division on Form C-105. For the purpose of this rule, any hole drilled or cored below fresh water or which penetrates oil- or gas-bearing formations or which is drilled by an "owner" as defined herein shall be presumed to be a well drilled for oil or gas.

RULE 118. - HYDROGEN SULFIDE GAS - PUBLIC SAFETY

(as of 3-1-91)

A. The intent of this rule is to provide for the protection of the public's safety in areas where hydrogen sulfide (H_2S) gas in concentrations greater than 100 parts per million (PPM) may be encountered.

B. Producing operations should be conducted with due consideration and guidance from American Petroleum Institute (API) publication "Conducting Oil and Gas Production Operations Involving Hydrogen Sulfide" (RP-55). The operator of a lease producing, or a gas processing plant handling H_2S or any other related facility where H_2S gas is present in concentrations of 100 PPM or more shall take reasonable measures to forewarn and safeguard persons having occasion to be on or near the property. In addition to training operator's employees in H_2S safety such measures may include, but are not necessarily limited to, posting of warning signs, fencing of surface installations, installation of safety devices and wind direction indicators, and maintaining tanks, thief hatches and gaskets, valves and piping in condition so as to prevent avoidable loss of vapors. Where release of hydrogen sulfide is unavoidable, the operator shall burn or vent the gas stream in such a manner as to avoid endangering human life.

C. Wells drilled in known H_2S gas producing areas, or where there is substantial probability of encountering H_2S gas in concentrations of 100 PPM or more, should be planned and drilled with due regard to and guidance from API RP-49 "Recommended Practices for Safe Drilling of Wells Containing Hydrogen Sulfide", latest edition. Wells completed and serviced by well servicing units where there is substantial probability of encountering H_2S gas in concentrations of 100 PPM or more should be worked on with due regard to the latest industry accepted practices. These practices may include, but are not necessarily limited to, the proper training of personnel in H_2S safety and the use of H_2S safety equipment as listed for safe operations by the American Petroleum Institute draft report for "Land, Oil and Gas Well Servicing and Workover Operations Involving Hydrogen Sulfide."*

D. Within ninety (90) days after completion of the first well on a lease, or within ninety (90) days after H₂S is discovered in a gas stream, each operator shall submit in writing to the Division's district office having jurisdiction, on a form acceptable to the Division, for each lease in each pool in production at that time, the H₂S concentration from an analysis of a representative sample of the gas stream. The analysis shall be performed by an industry-recognized method and procedure. The measurement report shall specify the name of the operator, lease or facility name, pool, testing point, tester, test method, and the measured H₂S concentration. Tests within the past three (3) years and which are still representative may be utilized for submittal from previously producing leases. NOTE: Owners or operators of existing wells and facilities shall have until July 1, 1987, to come into compliance with this paragraph of these rules.

E. (1) Any well, lease, processing plant or related facility handling H₂S gas with concentration of 500 PPM (0.05%) or more shall have a warning sign at the entrance. The sign, as a minimum, shall be legible from at least fifty (50) feet, and contain the words "poison gas." The use of existing signs will meet the requirements of this section providing they convey the intended safety message.

(2) Any lease producing gas or related facility having storage tanks containing gas with a H₂S concentration of 1,000 PPM (0.1%) or more shall have, in addition to the sign required in subparagraph E. (1), a sign at the foot of the battery stairway that shall accomplish the requirements of E. (1), plus specify any protective measures that may be necessary. This paragraph does not apply to gas processing plants.

(3) Any well, lease or processing plant handling gas with H₂S concentration and volume such that the H₂S fraction equates to 10 MCF per day or more of H₂S and which is located within one-fourth (1/4) mile of a dwelling, public place or highway shall install safety devices and maintain them in operable condition or shall establish safety procedures designed to prevent the undetected continuing escape of H₂S. Wind direction indicators shall be installed at at least one strategic location at or near the site and shall be readily visible throughout the site. Also, unattended surface facilities or plants within one-fourth (1/4) mile of a dwelling or public meeting place shall be protected from public access by fencing and locking, or other equivalent security means. In addition, the operator shall prepare a contingency plan to be carried out should the public be threatened by a release. The plan shall provide for notification of endangered parties, as well as public safety personnel, for evacuation of threatened parties as warranted, and institution of measures for closing in the flow of gas. Contingency plans shall be available for Division inspection and shall be retained at the location which lends itself best to activation of any such plan. The operator, as an alternative, may utilize Figure 4.1 of API (RP-55) Revised March, 1983 and if the 100 PPM radius of exposure includes a dwelling, public place or highway, the operator must meet the public safety requirements as specified in this section.

(4) The provisions of this section shall be applicable within 30 days after the filing of sample data showing the existence and concentration of H₂S gas described in Paragraphs E. (1) through E. (3) above. In unusual circumstances guidance on placement and content of signs may be obtained from the supervisor of the appropriate Division District Office.

F. The Director of the Division may administratively grant exceptions or extensions to the requirements of this rule for good cause shown and where such exception will not result in a threat to human life.

*At such time as the American Petroleum Institute adopts the "Recommended Practice for Land Oil and Gas Well Servicing and Workover Operations on Involving Hydrogen Sulfide", it shall take the place of any previous draft reports.

