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August 20, 2007

Via Fax

Richard Ezcanyim  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Re: Case No. 13,899  
Devon Energy Production Company, L.P.

Dear Mr. Ezcanyim:

I looked for the definition of "standard" and "non-standard" units for wells in the Basin-Dakota Gas Pool. Enclosed are the special pool rules, which merely state that "320 acres" is standard. Also attached are Rules 104.C and Rule 104.D, which used to state that "standard" well units were 316-324 acres for pools spaced on 320 acres. Apparently that has been changed, and the only reference is that units from 70%-130% of a standard unit size can be approved without any special application or notice. I hope this helps.

Very truly yours,



James Bruce

Attorney for Devon Energy Production Company, L.P.

**(GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOL OF NEW MEXICO - Cont'd.)**

during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU.

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

**F REPORTING OF PRODUCTION**

**RULE 15. Filing C-111 and C-115 Reports:** Transporters and operators shall file gas transportation and production reports pursuant to Rules 1111 and 1115 of the Rules and Regulations of the Division provided that upon approval by the Director of the Oil Conservation Division as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a chart-period basis, provided the following provisions shall be applicable to each gas well:

(1) Reports for a month shall include not less than 24 nor more than 32 reported days.

(2) Reported days may include as many as the last 7 days of the previous month but no days of the succeeding month.

(3) The total of the monthly reports for a year shall include not less than 360 nor more than 368 reported days.

(4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "Reporting Month" for those reporting on a chart-period basis in accordance with the exception provided in this rule.

*R-8170, as amended*  
**SPECIAL RULES FOR INDIVIDUAL PRORATED GAS POOLS**

**SPECIAL RULES AND REGULATIONS FOR THE BASIN-DAKOTA GAS POOL**

(As Amended by Order No. R-10987-B, effective June 30, 2000 and Superseded by Order No. R-10981-B (1), effective January 29, 2002.)

**I. VERTICAL LIMITS OF THE BLANCO-MESAVERDE POOL** shall be from the base of the Greenhorn Limestone to a point 400 feet below the base of the Greenhorn Limestone formation, consisting of the Graneros formation, the Dakota formation, the Burro Canyon formation and productive upper portion of the Morrison formation.

**II. ACREAGE AND WELL LOCATION REQUIREMENTS**

**A. Standard GPU (Gas Proration Unit):** A standard GPU in the Basin-Dakota Pool shall be 320 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.

**B. Well density:**

(1) Up to four (4) wells may be drilled on a standard GPU, as follows:

(a) the **FIRST OPTIONAL INFILL WELL** drilled on a GPU shall be located in the quarter section not containing the **INITIAL** Dakota well;

(b) the **SECOND OPTIONAL INFILL WELL** drilled on a GPU shall be located in a quarter-quarter section not containing a Dakota well and within a quarter section of the GPU not containing more than one (1) Dakota well;

(c) the **THIRD OPTIONAL INFILL WELL** drilled on a GPU shall be located in a quarter-quarter section of the GPU not containing a Dakota well and within a quarter section of the GPU not containing more than one (1) Dakota well;

(d) at the discretion of the operator, the second or third optional infill well may be drilled prior to the drilling of the first optional infill well;

(e) no more than two wells shall be located within either quarter section in a GPU; and

(f) any deviation from the above-described well density requirements shall be authorized only after hearing.

(2) the plat (form C-102) accompanying the "Application for Permit to Drill ("APD")" (Form C-101 or federal equivalent) for subsequent wells on a GPU shall have outline the boundaries of the GPU and shall show the location (well name, footage location, API number) of all existing Dakota wells on the GPU plus the proposed new well.

**C. Well locations:**

(1) Except as provided in subparagraph II.C(2) below, wells drilled on a GPU shall be located not closer than 660 feet to the outer boundary of the GPU and not closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

(2) Well locations inside federal exploratory units: Wells located within federal exploratory units are permitted an exception to the 660-foot setback requirement to the outer boundary of a GPU and shall be permitted to be no closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary, provided however:

(a) wells shall not be closer than 660 feet to the outer boundary of the federal exploratory unit;

(b) a well located within the unit area but adjacent to an existing or prospective GPU containing a non-committed tract or partially committed tract shall not be closer than 660 to the outer boundary of its GPU;

(c) a well located within a non-committed or partially committed GPU shall not be closer than 660 to the outer boundary of its GPU;

(d) a well located within a participating area but adjacent to an existing or prospective GPU that is not within the same participating area shall not be closer than 660 to the outer boundary of the participating area; and

(e) a well located within the unit area but an existing or prospective GPU that is a non-participating GPU shall not be closer than 660 to the outer boundary of its GPU.

(3) The operator filing an APD for any well within a unit area that is closer to the outer boundary of its assigned GPU than 660 feet shall provide proof in the form of a participating area plat that such well meets the requirements of II.C(2) above.

**III. ADMINISTRATIVE EXCEPTIONS:**

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well location requirements of II.C above upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see Division Rule 1207.A (2)].

**IV. ALLOCATION AND GRANTING OF ALLOWABLES:**

**A. Non-Marginal GPU Allowable:** The pool allowable remaining each month after deducting the total allowable assigned to marginal GPU's shall be allocated among the non-marginal GPU's entitled to an allowable in the following manner:

(1) Forty percent (40%) of the pool allowable remaining to be allocated to the non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPU's in the pool.

When calculating the allowable for a GPU containing one or more infill wells, the deliverability of the wells shall be added in calculating the AD Factor and the allowable may be produced from all wells.

(2) Sixty percent (60%) of the pool allowable remaining to be allocated to non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool.

**B. Minimum Allowable:** A minimum allowable of 250 MCF per month per GPU is assigned to prevent the premature abandonment of wells.

**C. A GPU in the Basin-Dakota Pool shall be classified as marginal unless reclassified by the Director pursuant to Division Rule 605.F (2). Any operator in the Basin-Dakota Pool may request a reclassification of a GPU in that pool.**

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

**(SIGN ON WELLS - Cont'd.)**

making the changes, is granted.

F. Each sign shall show the:

- (1) number of well;
- (2) name of property;
- (3) name of operator;
- (4) location by footage, quarter-quarter section, township and range (or Unit Letter can be substituted for the quarter-quarter section); and
- (5) API number. [1-1-50, 2-1-96, 6-30-97, 3-31-00; 19.15.3.103 NMAC - Rn, 19 NMAC 15.C.103, 11-15-01; A, 01-31-03]

**19.15.3.104**

**WELL SPACING AND LOCATION** (As Amended by Order No. R-169, June 19, 1952; Order No. R-238, December 29, 1952; Order No. R-397, December 17, 1953; Order No. R-855, August 10, 1956; Order No. R-2707, May 25, 1964; Order No. R-2761, January 1, 1965; Order No. R-3038, February 9, 1966; Order No. R-4383, September 6, 1972; Order No. R-5113, November 1, 1975; Order No. R-6870, February 1, 1982; Order No. R-7451, March 2, 1984; Order No. R-10533, January 18, 1996; Order No. R-10534, February 1, 1996; Order No. R-11231, August 31, 1999; Order Dated November 15, 2001, and Order No. R-12303-A, Dated May 12, 2005.)

**A.**

**CLASSIFICATION OF WELLS: WILDCAT AND DEVELOPMENT WELLS** (As Amended by Order No. R-10533, January 18, 1996; Order No. R-10534, February 1, 1996; Order No. R-11231, August 31, 1999, and Order Dated November 15, 2001.)

**(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.

**B.**

**OIL WELL ACREAGE AND WELL LOCATION REQUIREMENTS** (As Amended by Order No. R-5113, November 1, 1975; Order No. R-10533, January 18, 1996; Order No. R-10534, February 1, 1996; Order No. R-10815, June 5, 1997; Order No. R-11231, August 31, 1999; Order Dated November 15, 2001; and Order No. R-12303-A, Dated May 12, 2005.)

(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.

**C.**

**GAS WELL ACREAGE AND WELL LOCATION REQUIREMENTS** (As Amended by Order No. R-4383, September 6, 1972; Order No. R-5113, November 1, 1975; Order No. R-10533, January 18, 1996; Order No. R-10534, February 1, 1996; Order No. R-10815, June 5, 1997; Order No. R-11231, August 31, 1999; Order Dated November 15, 2001, and Order No. R-12303-A, Dated May 12, 2005.)

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.

R. W. Byram &amp; Co., - Feb., 2007

## SECTION I

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## (WELL SPACING AND LOCATION - Cont'd.)

(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

(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.

## D.

**ACREAGE ASSIGNMENT** (As Amended by Order No. R-10533, January 18, 1996; Order No. R-10534, February 1, 1996; and Order No. R-11231, August 31, 1999, Order Dated November 15, 2001, and Order No. R-12303-A, Dated May 12, 2005.)

(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 appli-

cation 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 of (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 Subsection D, Paragraph (2), Subparagraph (b) of 19.15.3.104 NMAC 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 Subparagraph (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).

## E.

**SPECIAL RULES FOR MULTIPLE OPERATORS WITHIN A SPACING UNIT** (As Added by Order No. R-12303-A, Dated May 12, 2005.) (Formerly FORMS)

(1) Allowable production. If an operator completes a well in an oil pool or prorated gas pool, located within a proration unit containing an existing well or wells producing from that pool and operated by a different operator, unless otherwise agreed by all operators of wells producing from that proration unit, the allowable production from such newly completed well shall not exceed the difference between the allowable production for such proration unit and the actual production from such pool of the existing well or wells within such proration unit. The division may authorize exceptions to this provision after hearing following appropriate notice.

(2) Notice requirements. Any operator who intends to operate a well in a spacing or proration unit containing an existing well or wells operated by another operator shall, prior to filing the application for permit to drill, deepen or plug back for such well, furnish written notification of its intent to the operator of each such existing well, and, if the unit includes state or federal minerals, to the State Land Office or United States Bureau of Land Management, as applicable; provided that separate notification to the Bureau of Land Management shall not be required if the application will be filed with that agency pursuant to 19.15.1.14 NMAC. Such notices shall be sent by certified mail, return receipt requested, and shall specify the location and depth of the proposed