

PAUL BACA PROFESSIONAL COURT REPORTERS

**OIL CONSERVATION
DIVISION**

CASE #: 14287

EXHIBIT

3

500 4TH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

(BASIN-FRUITLAND COAL GAS POOL - Cont'd.)

SPECIAL RULES AND REGULATIONS
FOR THE
BASIN-FRUITLAND COAL GAS POOL

RULE 1. Each well completed or recompleted in the Basin-Fruitland Coal Gas Pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. A gas well within the Basin-Fruitland Coal Gas Pool shall be defined by the Division Director as a well that is producing from the Fruitland coal seams as demonstrated by a preponderance of data which could include the following:

- a. Electric Log Data
- b. Drilling Time
- c. Drill Cuttings of Log Cores
- d. Mud Logs
- e. Completion Data
- f. Gas Analysis
- g. Water Analysis
- h. Reservoir Performance
- i. Other evidence which may be utilized in making such determination.

RULE 3. (As Amended by Order No. R-8768-A, July 16, 1991) The Division Director may require the operator of a proposed or existing Basin-Fruitland Coal Gas well, Fruitland Sandstone well, or Pictured Cliffs Sandstone well, to submit certain data as described in Rule (2) above, which would not otherwise be required by Division Rules and Regulations, in order to demonstrate to the satisfaction of the Division that said well will be or is currently producing from the appropriate common source of supply. The confirmation that a well is producing exclusively from the Basin-Fruitland Coal Gas Pool shall consist of approval of Division Form C-104, provided however that such approval shall be for Division purposes only, and shall not preclude any other governmental jurisdictional agency from making its own determination of production origination utilizing its own criteria.

RULE 4. (As Amended by Order No. R-8768-A, July 16, 1991, Order No. R-8768-C, October 15, 200, and Order No. R-8768-F, July 17, 2003.) Each standard gas spacing unit will consist of 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

RULE 5. (As Amended by Order No. R-8768-A, July 16, 1991) The Supervisor of the Aztec district office of the Division shall have the authority to approve a non-standard gas proration unit within the Basin-Fruitland Coal Gas Pool without notice and hearing when the unorthodox size or shape is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and/or consists of an entire governmental section and the non-standard unit in not less than 70% nor more than 130% of a standard as proration unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard unit and the acreage contained therein.

RULE 6. (As Amended by Order No. R-8768-A, July 16, 1991) The Division Director may grant an exception to the requirements of Rule (4) when the unorthodox size or shape of the gas proration unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and the non-standard gas proration unit is less than 70% or more than 130% of a standard gas proration unit, or where the following facts exist and the following provisions are complied with:

- (a) the non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
- (b) The non-standard unit lies wholly within a governmental half section, except as provided in paragraph (c) following.
- (c) The non-standard unit conforms to a previously approved Blanco-Mesaverde or Basin-Dakota Gas Pool non-standard unit as evidenced by applicant's reference to the Division's order number creating said unit.
- (d) The applicant presents written consent in the form of waivers from all offset operators or owners of undrilled tracts and from all operators owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.
- (e) In lieu of paragraph (d) of this rule, the applicant may furnish proof of the fact that all of the aforesaid parties were notified by

certified or registered mail or overnight express mail with certificate of delivery of his intent to form such non-standard unit. The Division Director may approve the application if no such party has entered an objection to the formation of such non-standard unit within 30 days after the Division Director has received the application.

(f) The Division Director, at his discretion, may set any application under Rule (6) for public hearing.

RULE 7. (a) (As Amended by Order No. R-8768-B, Effective February 10, 2000, Order No. R-8768-C, October 15, 2002, and Order No. R-8768-F, July 17, 2003.) WELL LOCATION:

(1) A well drilled or recompleted on a standard or non-standard spacing unit in the Basin-Fruitland Coal (Gas) Pool shall be located no closer than 660 feet from the outer boundary of the spacing unit and no closer than 10 feet to any interior quarter-quarter section line or subdivision inner boundary.

(2) A well drilled or recompleted within a federal exploratory unit is not subject to the 660-foot setback requirement to the outer boundary of the spacing unit, provided however:

(i) the well shall not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary;

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

(iii) if the well is located within the federal exploratory unit area but adjacent to an existing or prospective spacing unit containing a non-committed tract or partially committed tract, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(iv) if the well is located within a non-committed or partially committed spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(v) if the well is located within a participating area but adjacent to an existing or prospective spacing unit that is not within the same participating area, it shall not be closer than 660 feet to the outer boundary of the participating area; and

(v) if the well is located within an exploratory unit area but in an existing or prospective spacing unit that is a non-participating spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit.

(3) The operator filing an Application for Permit to Drill ("APD") for any well within a federal exploratory unit area that is closer to the outer boundary of its assigned spacing unit than 660 feet shall provide proof in the form of a participating area plat that such well meets the requirements of Rule 7(a).

RULE 7(b). (As Amended by Order No. R-8768-F, July 17, 2003.) ADMINISTRATIVE EXCEPTIONS:

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well location requirements of Rule 7(a) upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see Division Rule 1207.A(2)].

RULE 7(c). (As Amended by Order No. R-8768-F, July 17, 2003.) ESTABLISHMENT OF THE "HIGH PRODUCTIVITY AREA" AND "LOW PRODUCTIVITY AREA":

(1) High Productivity Area: There is established within the consolidated boundaries of the Basin Fruitland Coal (Gas) Pool a "High Productivity Area" consisting of the following-described acreage in San Juan and Rio Arriba Counties, New Mexico:

Township 29 North, Range 6 West, NMPM
Sections 2 through 8: All
Sections 11 and 12: All
Sections 17 and 18: All
Township 29 North, Range 7 West, NMPM
Section 1: All
Sections 12 and 13: All
Township 30 North, Range 5 West, NMPM
Sections 19 through 21: All
Sections 29 through 31: All
Township 30 North, Range 6 West, NMPM
Sections 5 through 35: All
Township 30 North, Range 7 West, NMPM
Sections 1 through 18: All
Sections 22 through 26: All
Section 36: All
Township 30 North, Range 8 West, NMPM
Sections 1 through 4: All