



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

NOTE TO FILE

FOR: The record in Division Case Nos. 11723 and 11755

FROM: Michael E. Stogner, Chief Hearing Officer/Engineer *MS.*

SUBJECT: Catclaw Draw-Morrow Gas Pool
production in Section 12, Township
21 South, Range 25 East, NMPM,
Eddy County, New Mexico

DATE: September 10, 1997

CC: William J. LeMay, Director - OCD, Santa Fe
Rand L. Carroll, Counsel - OCD, Santa Fe
William F. Carr, Counsel - Texaco Exploration &
Production Inc., Santa Fe

Texaco Exploration and Production Inc., a party appearing in this matter, operates the standard 632.36-acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool that comprises all of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, which is currently dedicated to the:

- (a) E. J. Levers Federal "NCT-1" Well No. 1 (API No. 30-015-20683) located at a previously approved unorthodox gas well location [approved by Decretory Paragraph No. (6) of Division Order No. R-4157-D, dated June 21, 1971] 660 feet from the South line and 1980 feet from the West line (Lot 14/Unit N) of said Section 12; and,
- (b) E. J. Levers Federal "NCT-1" Well No. 2 (API No. 30-015-28644) at a standard gas well location 2448 feet from the North line and 1980 feet from the West line (Lot 6/Unit F) of said Section 12.

The E. J. Levers Federal "NCT-1" Well No. 2 was spudded on October 29, 1995, reached a T.D. of 10,600 feet on November 11, 1995, completed on December 21, 1995, and began producing gas on March 1, 1996.

The Catclaw Draw-Morrow Gas Pool is governed by the "*General Rules and Regulations for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool*", as promulgated by Division Order No. R-8170, as amended, which requires

standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet from the outer boundary of a proration unit nor closer than 330 feet from any governmental quarter-quarter section or subdivision inner boundary. Although technically classified as a "Prorated Gas Pool", gas prorationing was suspended in the Catclaw Draw-Morrow Gas Pool by Division Order No. R-10328, issued by the New Mexico Oil Conservation Commission in Case No. 11211 on March 27, 1995, due to the fact that there were no "prorated wells" in the pool. The Catclaw Draw-Morrow Gas Pool is currently subject to the spacing and well location provisions of the *"Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool"*, as described above, as well as Rule 104.D(3) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996, which restricts the number of producing wells within a single gas spacing unit within non-prorated pools to only one. Prior to January 18, 1996 the policy, as described in Division Memorandums dated July 27, 1988 and August 3, 1990 were in effect, which also limited and initially established the "one-well rule" (see copies attached).

In reviewing this matter further, I was unable to find where Texaco had applied for and received an exception to this "one well rule" within its existing 632.36-acre gas spacing and proration unit comprising said Section 12 that was essentially put into effect on March 27, 1995 when prorationing was suspended in the Catclaw Draw-Morrow Gas Pool. I met with Rand Carroll, Bill Carr, and Jim Bruce (W. Thomas Kallahan was extended an invitation but was out of town) this morning and requested that Texaco shut-in one of its two producing Morrow gas wells within said Section 12 until such time as: (i) gas prorationing in the Catclaw Draw-Morrow Gas Pool is reestablished; (ii) the pool rules are amended to allow for an infill-well (this would be similar to the actions taken for the Indian Basin-Morrow Gas Pool when gas prorationing was suspended); (iii) an exception to the Rule 104.D(3) is obtained; or, (iv) proper documentation is provided showing that an exception was granted Texaco for the above-described E. J. Levers Federal "NCT-1" Well No. 2.



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: JULY 27, 1988

There has been some confusion about interpretation of the subject rule. In each paragraph of sections (a), (b) and (c) the rule states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a tract..."

My interpretation of this sentence is that each well is to be located on its own individual specified unit and an additional well is not authorized simply by meeting the set back requirements of the rule.

This interpretation is necessary to prevent waste from the drilling of unnecessary wells and to protect correlative rights of all parties in the pool. Since the prorated pools have special pool rules the subject rules have greater impact on unprorated gas. Unprorated does not mean unregulated. Allowables are not issued in unprorated pools and the only method available to protect correlative rights is the control of well density and locations. Added well density required because of special geological situations can be addressed by special pool rules after notice and hearing.

Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

dr/

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2068
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87504
505/827-5800

MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: AUGUST 3, 1990

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 20-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.

**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 11351
ORDER NO. R-10533**

**APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER TO AMEND RULE
104 OF ITS GENERAL RULES AND REGULATIONS
PERTAINING TO UNORTHODOX WELL LOCATIONS
AND NON-STANDARD UNITS.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on August 3, September 28, and November 9, 1995 and on January 18, 1996 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 18th day of January, 1996, the Commission, a quorum being present, having considered the record and being fully advised in the premises,

FINDS THAT:

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

(2) On August 3, 1995, the Commission commenced a public hearing to consider modifications to Division General Rule 104 and received suggestions from members of the oil and gas industry. At the conclusion of that hearing and at the request of the New Mexico Oil & Gas Association ("NMOGA") the Commission continued this case to the September 28, 1995 docket so that the industry representatives at the hearing could complete a revised draft of proposed changes to Rule 104.

(3) On September 28, and on November 9, 1995, the Commission held a public hearing to consider possible rule changes to Rule 104 at which time additional evidence and arguments were presented by the New Mexico Oil and Gas Association, Conoco Inc., Meridian Oil Inc., Amoco Producing Company, the Oil Conservation Division and others.

(4) Based upon the evidence and record presented at the various hearings of this matter, the Commission finds that Rule 104 should be amended as provided herein.

(5) Expanding the Scope of Administrative Approval for Unorthodox Well Locations and Changing the definition of a Wildcat Well in the San Juan Basin:

(a) Currently, General Rule 104 allows for the Division Director, without a hearing, to administratively approve an unorthodox gas well location ("NSL") on a spacing unit comprising 320 acres for geologic reasons provided the location is not closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the spacing unit.

(b) The Division staff recommended expanding the scope of Rule 104 so that an administrative NSL could be approved for geologic reasons at **any** unorthodox well location.

(c) While NMOGA supported the Division's recommendation, certain members of the industry actively involved with the deep gas wells in Southeastern New Mexico requested a minimum setback of 660 feet for pools with standard 320-acre spacing units.

(d) NMOGA also requested that archaeological conditions be added as a justification for an administratively approved NSL.

(e) The Commission recognizes that the Division has the expertise to make appropriate regulatory decisions to protect correlative rights and prevent waste concerning applications for unorthodox well locations regardless of whether those applications are set for hearing or processed administratively.

(f) The Commission recognizes the industry's desire to have the Division expedite the regulatory processing of unorthodox well locations, which in the absence of any objection may be accomplished by expanding the scope of administrative approval for such applications.

(g) Division staff recommended that the definition of a wildcat well in the San Juan Basin be changed from, "a well whose spacing unit is a distance of 1 mile or more from the outer boundary of a defined pool" to "a distance of 2 miles or more", because pool extensions are commonly drilled 1 mile from established production in the San Juan Basin and the 2 mile definition more accurately defined wildcat status. The Commission concurs.

(h) The Commission concludes the adoption of those changes to Rule 104 contained in Exhibit "A" attached to this order serves to expand the scope of administrative approvals for unorthodox well locations and provide for a more appropriate definition for a wildcat well in the San Juan Basin.

(6) The 10 Foot Interior Setback Rule:

(a) Because of the general uniformity of the reservoirs in the San Juan Basin, the Division staff has recommended to relax the current 130 foot interior setback rule applicable to the San Juan Basin and reduce that distance to 10 feet.

(b) The industry has generally supported the Division's proposed amendment but the Commission has concerns that, except for enhanced oil or gas recovery projects, correlative rights could be violated by reducing the minimum setback distance from 130 feet to 10 feet and surface trespass would probably occur prior to communitization because of the size of the well pad with only a 10 foot well set back.

(c) The Commission concludes that the proposed 10 feet minimum setback distance is reasonable for secondary recovery, tertiary recovery or pressure maintenance projects and creates additional flexibility for operators to locate wells within these projects.

(d) The Commission finds that this provision of Rule 104 should be amended as set forth in Exhibit "A" attached.

(7) Southeast- Deep Gas Setback Rules:

(a) The current Rule 104 has a restricted "standard location" for deep gas wells (below the top of the Wolfcamp) which are spaced on standard 320-acre spacing units of not closer than 1980 feet to the end nor closer than 660 feet to the side boundary.

(b) To provide the operators with greater flexibility in locating wells at their optimum locations for proper development of hydrocarbons within pools spaced on 320-gas spacing units in Southeastern New Mexico, NMOGA has recommended relaxing the current 1980 foot end boundary setback for 320-acre gas spacing to 1650 feet.

(c) Various members of the industry also have suggested that the current 320-acre spacing unit setbacks of 660 feet from the side and 1980 feet from the end boundaries be "standardized" to 660 feet from both the side and the end boundaries.

(d) The Commission concludes that the current 1980 feet end boundary setback limit for 320-acre spacing units in Southeastern New Mexico is too restrictive and can be relaxed to 1650 feet while still maintaining appropriate standard well locations for the proper development of 320-acre spacing units. A 660 foot setback for both end and side boundaries would be too severe an encroachment on offsetting gas spacing units.

(e) The Commission finds that this provision of Rule 104 should be amended as set forth in Exhibit "A" attached.

(8) Minimum Administrative Setback Requirements:

(a) The Commission considered adopting a minimum or default footage setback distances for any unorthodox well location which could not be exceeded without a hearing.

(b) The Commission finds that setback distances are best established by Division policy which can address site specific geological situations such as "3 D seismic highs."

(9) Non-Standard Units:

(a) The current rule for non-standard units requires the Division Director to approve certain types of non-standard units which have become a matter of routine which can and should be delegated to the supervisor of the appropriate district office of the Division.

(b) The Commission concludes for a matter of administrative efficiency that the non-standard unit portion of current Rule 104 should be modified as set forth in Exhibit "A" attached.

(10) Number of Wells Per Unit in Non-Prorated Pools:

(a) The Division staff has recommended that a provision be added to current Rule 104 so that operators will be aware of Division policy permitting only one well per spacing unit in non-prorated pools.

(b) The Commission finds that the Division's recommendations should be adopted to insure that operators comply with Division policy concerning this matter.

(11) Revising the Notice Rules:

(a) The current rules for administrative NSL application require notice to all offset operators while the current rules for a hearing NSL application only require notice be sent to those operators, lessees or mineral owners towards whom the well encroaches.

(b) NMOGA has recommended revising Rule 104 to be compatible with the hearing notice rules and to provide for notification to offset interest owners based upon a pool's minimum setback distance. The Commission found this formula to be confusing and complicated and has adopted notification requirements based upon its own definition of affected offsets and Oxy's recommended changes. These changes provide:

- (i) notice to operators adjoining and the diagonal offset towards whom the well actually encroaches;
- (ii) in absence of an operator then to lessees of record of any diagonal offset or adjoining lessee owning interests in the same pool(s) as the proposed well; and
- (iii) in absence of a lessee then to the mineral owner(s) of record of any diagonal offset or adjoining lessee owning interests in the same pool(s) as the proposed well.

(c) Amoco Producing Company and other operators requested the adoption of Rule 1207 notice rules for administrative NSL applications.

(d) The Commission concludes that NMOGA's proposal as modified and including adopting Rule 1207(5)(a) notification requirements provides for an efficient and effective method for providing adequate notice and hereby adopts this notice concept as set forth in Exhibit "A".

(12) The Commission further FINDS that:

(a) the adoption of these amendments to Rule 104 as set forth in Exhibit "A" will provide to the oil and gas industry a more flexible method for the timely and efficient processing of these types of applications while still providing for the orderly and proper regulation of well locations and non-standard units thereby protecting correlative rights and preventing waste;

(b) the Commission's ultimate findings set forth in this order summarizes its reasons for its adoption of these changes to Rule 104 as set forth in Exhibit "A";

(c) the adoption of these amendments to Rule 104 will provide for workable, fair and efficient regulation of well locations and spacing units while preventing waste of valuable hydrocarbons and the protection of the correlative rights of the owners of that production; and

(d) for clarification, formatting purposes, and to correct minor errors, additional amendments throughout Rule 104 as set forth in Exhibit "A" should also be accepted and incorporated at this time.

IT IS THEREFORE ORDERED THAT:

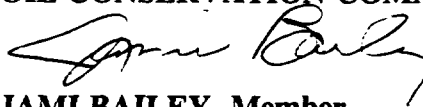
(1) Division Rule 104 is hereby amended as shown by the changes in Exhibit "A", attached hereto and made a part hereof, and said amended rules are hereby compiled, recodified, restated, and adopted as shown in Exhibit "B", attached hereto and made a part of this order.

(2) Rule 104 as amended shall be effective as of the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JAMI BAILEY, Member


WILLIAM W. WEISS, Member

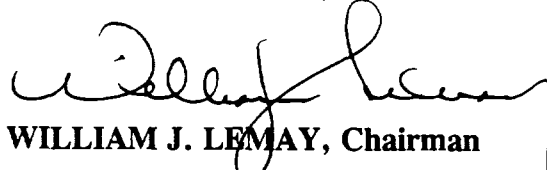

WILLIAM J. LEMAY, Chairman

Exhibit "A"
Case No. 11351
Order No. R-10533

RULE 104 - WELL SPACING: ACREAGE REQUIREMENTS
FOR DRILLING TRACTS

104.A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS

(1) San Juan, Rio Arriba, Sandoval, and McKinley Counties

(a) Any well which is to be drilled the spacing unit of which is a distance of 2 miles or more from:

(i) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and

(ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.

(2) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

~~(1)~~ (a) Any well which is to be drilled the spacing unit of which is a distance of one mile or more from:

~~(a)~~ (i) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and

~~(b)~~ (ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.

~~(2)~~ (3) Any well which is not a wildcat well as defined above shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Any such development well shall be spaced, drilled, operated, and produced in accordance with the rules and regulations in effect in such nearest pool, provided the well is completed in the formation to which it was projected.

- ~~(3)~~(4) Any well classified as a development well for a given pool but which is completed in a producing horizon not included in the vertical limits of said pool shall be operated and produced in accordance with the rules and regulations in effect in the nearest pool within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else which is producing from that horizon. If there is no designated pool for said producing horizon within the 2 mile limit 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. ACREAGE AND WELL LOCATION REQUIREMENTS FOR WILDCATS

(1) Lea, Chaves, Eddy and Roosevelt Counties

- (a) Wildcat Gas Wells. In Lea, Chaves, Eddy and Roosevelt Counties, a wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the engineer or supervisor approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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. Provided, however, that any such wildcat gas well which is projected to the Wolfcamp or older formations shall be located on a drilling tract consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Any such "deep" wildcat gas well to which is dedicated more than 160 acres shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than ~~1980~~ 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary

is defined as one of the outer boundaries running lengthwise to the tract's greatest overall dimensions; "end" boundary is defined as one of the outer boundaries perpendicular to a side boundary and closing the tract across its least overall dimension.)

- (b) Wildcat Oil Wells. In Lea, Chaves, Eddy, and Roosevelt Counties, a wildcat well which is not a wildcat gas well as defined above shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract.
 - (c) In the event gas production is encountered in a well which was projected as an oil well and which is located accordingly but does not conform to the above gas well location rule, it shall be necessary for the operator to bring the matter to a hearing before approval for the production of gas can be given.
- (2) San Juan, Rio Arriba, ~~and~~ Sandoval, and McKinley Counties
- (a) Wildcat Gas Wells. In San Juan, Rio Arriba, ~~and~~ Sandoval, and McKinley Counties, a wildcat well which is projected to a gas-producing horizon shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land ~~as~~ Surveys, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section or subdivision inner boundary.
 - (b) In the event ~~oil production is encountered in~~ a well ~~which was projected to a gas-producing horizon~~ drilled as a gas well is completed as an oil well and ~~which~~ is located accordingly but does not conform to the oil well location rule below, it shall be necessary for the operator to ~~bring the matter to a hearing before approval~~

~~for the production of oil can be given~~ apply for administrative approval for a non-standard location before an oil allowable will be assigned. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production.

- (c) Wildcat Oil Wells. A wildcat well which is projected to an oil-producing horizon as recognized by the Division shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract.
- (d) In the event ~~gas production is encountered in a well which was projected to an oil producing horizon~~ drilled as an oil well is completed as a gas well and ~~which is~~ located accordingly but does not conform to the above gas well location rules, it shall be necessary for the operator to ~~bring the matter to a hearing before approval for the production of gas can be given~~ apply for administrative approval for a non-standard location before the well can produce. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production.

- (3) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval, and McKinley.

- (a) Any wildcat well which is projected as an oil well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, ~~and~~ Sandoval, and McKinley Counties shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land

Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract.

- (b) Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the Division representative approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.

104.C. ACREAGE AND WELL LOCATION REQUIREMENTS FOR DEVELOPMENT WELLS

(1) Oil Wells, All Counties.

- (a) Unless otherwise provided in special pool rules, each development well for a defined oil pool shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract nor closer than 330 feet to the nearest well drilling to or capable of producing from the same pool, provided however, only tracts committed to active secondary recovery projects shall be permitted more than four wells.

(2) Lea, Chaves, Eddy and Roosevelt Counties.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool in a formation younger than the Wolfcamp formation, or in the Wolfcamp formation which was created and defined by the Division prior to November 1, 1975, or in a Pennsylvanian age or older formation which was created and defined by

the Division prior to June 1, 1964, shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.

- (b) Unless otherwise provided in the special pool rules, each development well for a defined gas pool in the Wolfcamp formation which was created and defined by the Division after November 1, 1975, or of Pennsylvanian age or older which was created and defined by the Division after June 1, 1964, shall be located on a designated drilling tract consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Any such well having more than 160 acres dedicated to it shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than ~~1980~~ 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary and "end" boundary are as defined in ~~Section B-I(a) of this rule~~ Rule 104.B(1)(a), above.)

(3) San Juan, Rio Arriba, and Sandoval, and McKinley Counties.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

- (4) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval, and McKinley.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.

104.D. ACREAGE ASSIGNMENT, COMPLETED WELLS

- (1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat gas well 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 same with the Division within 10 days following completion of the tests. (See Rule 401.)
- (a) Date of completion for a gas well shall be the date a ~~Christmas-tree~~ wellhead is installed or 30 days following conclusion of active completion work on the well, whichever date comes first.
- (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage dedicated to the well.
- (c) Failure of the operator to file the aforesaid tests within the specified time will also subject the well to such acreage reduction.

- (2) Non-Standard Spacing Units. Any ~~completed gas~~ well which 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) The supervisor of the appropriate District Office of the Division shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein.
- ~~(a)~~ (b) The Division Director may grant administrative approval to non-standard ~~gas~~ spacing units without notice and hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the ~~unit~~ dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist and the following provisions are complied with:
- (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side-; and
- (ii) The non-standard spacing unit lies wholly within a single governmental 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, ~~or~~ wholly within a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size, or wholly within a single governmental section if

the well is completed in a pool or formation for which 640 acres is the standard spacing unit size.

~~(iii) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the quarter section (for 160 acre pools or formations) or the half section (for 320 acre pools or formations) in which the non standard unit is situated and which acreage is not included in said non standard unit.~~

~~(iv) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non standard unit. The Director may approve the application if no such operator has entered an objection to the formation of such non standard unit within 30 days after the Director has received the application.~~

(c) Applications for administrative approval of non-standard spacing units, pursuant to Section D(2) above, shall be accompanied by a plat showing the subject spacing unit and an applicable standard spacing unit for the applicable pool or formation, its proposed well dedications, all adjoining spacing units and/or leases (whichever is applicable), and a list of affected parties. Also to be included is a statement that discusses the necessity for the formation of the subject non-standard spacing unit and the reasons why a standard sized spacing unit is not feasible.

(i) Affected parties in this instance shall be defined as those parties who own interests in the applicable half quarter section (80-acre spacing), quarter section (160-acre spacing), half section (320-acre spacing), or section (640-acre spacing) in which the non-standard spacing unit is situated and which acreage is not included in said non-standard spacing unit;

- (ii) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed non-standard spacing unit;
 - (iii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed non-standard spacing unit; and
 - (iv) in the absence of an operator or lessee, then to all owners of record of unleased mineral interests.
- (d) The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Subpart (c) above by certified or registered mail-return receipt in accordance with Rule 1207(6)(a) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the non-standard spacing unit upon receipt of waivers from all said parties or if no said party has entered an objection to the non-standard spacing unit within 20 days after the Director has received the application.
- (e) The Division Director may set any application for administrative approval for a non-standard spacing unit for public hearing.
- (3) Number of Wells Per Spacing Unit in Non-Prorated Gas Pools:
Unless otherwise permitted by special pool rules or authorized after notice and hearing, only one (1) well per spacing unit is permitted in non-prorated pools.

104.E. ~~Form C-101, Application for Permit to Drill, Deepen, or Plug Back~~ C-102, "Well Location and Acreage Dedication Plat", for any well shall designate the exact legal subdivision allotted to the well and ~~no~~ Form C-101, "Application for Permit to Drill, Deepen, or Plug Back", will not be approved by the Division ~~or any of its agents~~ without such proper designation of acreage.

- (1) ~~The Division Director shall have authority to grant an exception to the well location requirements of Sections B and C above without notice and hearing when the necessity for such unorthodox location is based upon topographical conditions, the recompletion of a well previously drilled to a deeper horizon, provided said well was drilled at an orthodox or approved unorthodox location for such original horizon, or~~ Well locations for producing wells and/or injection wells which are unorthodox based on the well location requirements of Rule 104.C(1)(a) above and which are necessary to permit the completion of an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that any such unorthodox location within such project is no closer than ~~330 feet~~ the required minimum orthodox distance to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. Such locations shall only require such prior approval as is necessary for an orthodox location.
- (2) The Division Director shall have authority to grant an exception to the well location requirements of ~~Rule 104 B.I. (a) and Rule 104 C.II. (a)~~ Sections 104.B and 104.C above or to the well location requirements of special pool rules without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions ~~provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the proration unit,~~ archaeological conditions, topographical conditions, or the recompletion of a well previously drilled to a deeper horizon provided said well was drilled at an orthodox or approved unorthodox location for such original horizon.
- (3) Applications for administrative approval of unorthodox locations pursuant to Rule 104.F(2), above, shall be ~~filed in TRIPPLICATE and shall be~~ accompanied by ~~plate, showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon~~ a plat showing the subject spacing

unit, its proposed unorthodox well location, the diagonal and adjoining spacing units and/or leases (whichever is applicable) and wells, and a list of affected parties. If the proposed unorthodox location is based upon topography or archaeology, the plat shall also show and describe the existent topographical or archaeological conditions. ~~If the proposed unorthodox location is based upon completion of an efficient production and injection pattern, the plat shall also show the project outline identifying all producing and injection wells therein, and the applicant shall further include a statement setting forth the necessity for such location.~~ If the proposed unorthodox location is based upon geology ~~as provided in Paragraph (2) above,~~ the application shall include appropriate geologic ~~maps, cross sections, and/or logs,~~ exhibits and a discussion of the geologic conditions which result in the necessity for the unorthodox location.

- (a) Adjoining and diagonal spacing units shall be defined as those immediately adjacent existing spacing units in the same pool(s) as the proposed unorthodox well and towards which the unorthodox well location encroaches.
- (b) Affected parties shall be defined as those parties who own interests in leases or operate wells on adjoining or diagonal spacing units and include:
 - (i) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed well;
 - (ii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed well; and
 - (iii) in the absence of an operator or lessee, all owners of record of unleased mineral interests in the same pool(s) as the proposed well.

- (4) ~~All operators of proration or spacing units effecting the unit for which the unorthodox location is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given~~ The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Rule 104.F(3) above by certified or registered mail-return receipt in accordance with Rule 1207(A) (5) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the unorthodox location upon receipt of waivers from all ~~offset operators~~ said parties or if no ~~offset operator~~ said party has entered an objection to the unorthodox location within 20 days after the Director has received the application.
- (5) The Division Director may, ~~at his discretion,~~ set any application for administrative approval of an unorthodox location for public hearing, and may require that a directional survey be run in the unorthodox well to establish the actual location of the producing interval(s).

104.G. Whenever an exception is granted, the Division may take such action as will offset any advantage which the person securing the exception may obtain over other producers by reason of the unorthodox location.

104.H. If the drilling tract is within an allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 1/2 acres or more than 40 1/2 acres, the top unit allowable for such well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40.

104.I. If the drilling tract is within an allocated gas pool or is subsequently placed within an allocated gas 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, the top allowable for such 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.

104.J. In computing acreage under Rules 104.H and 104.I above, minor fractions of an acre shall not be counted but 1/2 acre or more shall count as 1 acre.

104.K. The provisions of Rules 104.H and 104.I above shall apply only to wells completed after January 1, 1950. Nothing herein contained shall affect in any manner any well completed prior to the effective date of this rule and no adjustments shall be made in the allowable production for any such wells by reason of these rules.

104.L. In order to prevent waste the Division may, after notice and hearing, fix different spacing requirements and require greater acreage for drilling tracts in any defined oil pool or in any defined gas pool notwithstanding the provisions of Rules 104.B and 104.C above.

104.M. The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with another oil ~~operation~~ spacing unit when:

- (1) The ~~units~~ tracts involved are contiguous;
- (2) They are part of the same basic lease, carrying the same royalty interest; and
- (3) The ownership of the ~~units~~ tracts involved is common.

104.N. Application to the Division for pooling shall be accompanied by three (3) copies of a certified plat showing the dimensions and acreage involved in the pooling, the ownership of all leases and royalty interests involved, and the location of any proposed wells.

104.O. ~~Applicant shall furnish all operators who directly and diagonally offset the units involved a copy of the application to the Division and shall include with his application a written statement that all offset operators have been properly notified. Offset operators shall include only those operators who have offset properties within the State of New Mexico.~~ The Division shall wait at least ten days before approving any such pooling, and shall approve such pooling only in the absence of objection from any ~~offset operator~~ party entitled to notice. In the event that ~~an operator~~ a party entitled to notice objects to the pooling, the Division shall consider the matter only after proper notice and hearing.

104.P. The Division may waive the ten-day waiting period requirement if the applicant furnishes the Division with the written consent to the pooling by all offset operators involved.

104.Q. The Division may consider that the requirements of ~~subparagraphs 2 and 3 of paragraph M of this rule~~ Rules 104.M(2) and (3) have been fulfilled if the applicant furnishes with each copy of each application to the Division a copy of executed pooling agreement communitizing the ~~units~~ tracts involved.

104.R. ~~Each well drilled on any communitized tract shall be located in the approximate geographical center of the combined units with a tolerance of 150 feet for topographical conditions, but in any event shall not be located closer than 330 feet to the outer boundaries of the proposed proration unit or communitized tract.~~ REPEALED

Exhibit "B"
Case No. 11351
Order No. R-10533

**RULE 104. - WELL SPACING:
ACREAGE REQUIREMENTS FOR DRILLING TRACTS**

104.A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS

(1) San Juan, Rio Arriba, Sandoval, and McKinley Counties

- (a) Any well which is to be drilled the spacing unit of which is a distance of 2 miles or more from:**
 - (i) the outer boundary of any defined pool which has produced oil or gas from the formation to which the well is projected; and**
 - (ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.**

(2) All Counties Except San Juan, Rio Arriba, Sandoval, and McKinley

- (a) Any well which is 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 which has produced oil or gas from the formation to which the well is projected; and**
 - (ii) any other well which has produced oil or gas from the formation to which the proposed well is projected, shall be classified as a wildcat well.**
- (3) Any well which is not a wildcat well as defined above shall be classified as a development well for the nearest pool which has produced oil or gas from the formation to which the well is projected. Any such development well shall be spaced, drilled, operated, and produced in accordance with the rules and regulations in effect in such nearest pool, provided the well is completed in the formation to which it was projected.**

- (4) Any well classified as a development well for a given pool but which is completed in a producing horizon not included in the vertical limits of said pool shall be operated and produced in accordance with the rules and regulations in effect in the nearest pool within the 2 mile limit in San Juan, Rio Arriba, Sandoval, and McKinley Counties or within one mile everywhere else which is producing from that horizon. If there is no designated pool for said producing horizon within the 2 mile limit 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. ACREAGE AND WELL LOCATION REQUIREMENTS FOR WILDCATS

- (1) Lea, Chaves, Eddy and Roosevelt Counties
- (a) Wildcat Gas Wells. In Lea, Chaves, Eddy and Roosevelt Counties, a wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the engineer or supervisor approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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. Provided, however, that any such wildcat gas well which is projected to the Wolfcamp or older formations shall be located on a drilling tract consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Any such "deep" wildcat gas well to which is dedicated more than 160 acres shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary is defined as one of the outer boundaries running lengthwise to the tract's greatest overall dimensions; "end" boundary is defined as one of the outer boundaries perpendicular to a side boundary and

closing the tract across its least overall dimension.)

- (b) Wildcat Oil Wells. In Lea, Chaves, Eddy, and Roosevelt Counties, a wildcat well which is not a wildcat gas well as defined above shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract.
- (c) In the event gas production is encountered in a well which was projected as an oil well and which is located accordingly but does not conform to the above gas well location rule, it shall be necessary for the operator to bring the matter to a hearing before approval for the production of gas can be given.

(2) San Juan, Rio Arriba, Sandoval, and McKinley Counties

- (a) Wildcat Gas Wells. In San Juan, Rio Arriba, Sandoval, and McKinley Counties, a wildcat well which is projected to a gas-producing horizon shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section or subdivision inner boundary.
- (b) In the event a well drilled as a gas well is completed as an oil well and is located accordingly but does not conform to the oil well location rule below, it shall be necessary for the operator to apply for administrative approval for a non-standard location before an oil allowable will be assigned. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production.

- (c) Wildcat Oil Wells. A wildcat well which is projected to an oil-producing horizon as recognized by the Division shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract.
 - (d) In the event a well drilled as an oil well is completed as a gas well and is located accordingly but does not conform to the above gas well location rules, it shall be necessary for the operator to apply for administrative approval for a non-standard location before the well can produce. An application may be set for hearing by the Director. If the operator is uncertain as to whether a proposed wildcat well will be an oil well or a gas well, the well should be staked so that it is in a standard location for both oil and gas production.
- (3) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley.
- (a) Any wildcat well which is projected as an oil well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley Counties shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract.
 - (b) Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the Division representative approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.

104.C. **ACREAGE AND WELL LOCATION REQUIREMENTS FOR DEVELOPMENT WELLS**

(1) **Oil Wells. All Counties.**

- (a) Unless otherwise provided in special pool rules, each development well for a defined oil pool shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot, and shall be located not closer than 330 feet to any boundary of such tract nor closer than 330 feet to the nearest well drilling to or capable of producing from the same pool, provided however, only tracts committed to active secondary recovery projects shall be permitted more than four wells.

(2) **Lea, Chaves, Eddy and Roosevelt Counties.**

- (a) **Gas Wells.** Unless otherwise provided in special pool rules, each development well for a defined gas pool in a formation younger than the Wolfcamp formation, or in the Wolfcamp formation which was created and defined by the Division prior to November 1, 1975, or in a Pennsylvanian age or older formation which was created and defined by the Division prior to June 1, 1964, shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.
- (b) Unless otherwise provided in the special pool rules, each development well for a defined gas pool in the Wolfcamp formation which was created and defined by the Division after November 1, 1975, or of Pennsylvanian age or older which was created and defined by the Division after June 1, 1964, shall be located on a designated drilling tract consisting of 320 surface contiguous acres, more or less,

comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Any such well having more than 160 acres dedicated to it shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1650 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary and "end" boundary are as defined in Rule 104.B(1)(a), above.)

(3) San Juan, Rio Arriba, Sandoval, and McKinley Counties.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

(4) All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, Sandoval, and McKinley.

- (a) Gas Wells. Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not 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.

104.D. ACREAGE ASSIGNMENT

- (1) Well Tests and Classification. It shall be the responsibility of the operator of any wildcat gas well 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 same with the Division within 10 days following completion of the tests. (See Rule 401.)
 - (a) Date of completion for a gas well shall be the date a wellhead is installed or 30 days following conclusion of active completion work on the well, whichever date comes first.
 - (b) Upon making a determination that the well should not properly be classified as a gas well, the Division will reduce the acreage dedicated to the well.
 - (c) Failure of the operator to file the aforesaid tests within the specified time will also subject the well to such acreage reduction.
- (2) Non-Standard Spacing Units. Any well which 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) The supervisor of the appropriate District Office of the Division shall have the authority to approve non-standard spacing units without notice when the unorthodox size and shape is necessitated by a variation in the legal subdivision of the United States Public Land Surveys and/or consists of an entire governmental section and the non-standard spacing unit is not less than 70% nor more than 130% of a standard spacing unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard spacing unit and the acreage contained therein.

- (b) The Division Director may grant administrative approval to non-standard spacing units without notice and hearing when an application has been filed for a non-standard spacing unit and the unorthodox size or shape of the dedicated tract is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys, or the following facts exist and the following provisions are complied with:
 - (i) The non-standard spacing unit consists of a single quarter-quarter section or lot or the non-standard spacing unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side; and
 - (ii) The non-standard spacing unit lies wholly within a single governmental 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, wholly within a single governmental half section if the well is completed in a pool or formation for which 320 acres is the standard spacing unit size, or wholly within a single governmental 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 Section D(2) above, shall be accompanied by a plat showing the subject spacing unit and an applicable standard spacing unit for the applicable pool or formation, its proposed well dedications, all adjoining spacing units and/or leases (whichever is applicable), and a list of affected parties. Also to be included is a statement that discusses the necessity for the formation of the subject non-standard spacing unit and the reasons why a standard sized spacing unit is not feasible.
 - (i) Affected parties in this instance shall be defined as those parties who own interests in the applicable half quarter section (80-acre spacing), quarter section (160-acre spacing), half section (320-acre spacing), or section (640-acre spacing) in which the non-standard spacing unit is situated and which acreage is not included in said non-standard spacing unit;

Exhibit "B"

Case No. 11351

Order No. R-10533

Page No. 8

- (ii) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed non-standard spacing unit;
 - (iii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed non-standard spacing unit; and
 - (iv) in the absence of an operator or lessee, then to all owners of record of unleased mineral interests.
- (d) The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Subpart (c) above by certified or registered mail-return receipt in accordance with Rule 1207(6)(a) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the non-standard spacing unit upon receipt of waivers from all said parties or if no said party has entered an objection to the non-standard spacing unit within 20 days after the Director has received the application.
- (e) The Division Director may set any application for administrative approval for a non-standard spacing unit for public hearing.
- (3) Number of Wells Per Spacing Unit in Non-Prorated Gas Pools: Unless otherwise permitted by special pool rules or authorized after notice and hearing, only one (1) well per spacing unit is permitted in non-prorated pools.

104.E. Form C-102, "Well Location and Acreage Dedication Plat", for any well shall designate the exact legal subdivision allotted to the well and Form C-101, "Application for Permit to Drill, Deepen, or Plug Back", will not be approved by the Division without such proper designation of acreage.

104.F. UNORTHODOX LOCATIONS

- (1) Well locations for producing wells and/or injection wells which are unorthodox based on the well location requirements of Rule 104.C(1)(a) above and which are necessary to permit the completion of an efficient production and injection pattern within a secondary recovery, tertiary recovery, or pressure maintenance project are hereby authorized, provided that any such unorthodox location within such project is no closer than the required minimum orthodox distance to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. Such locations shall only require such prior approval as is necessary for an orthodox location.
- (2) The Division Director shall have authority to grant an exception to the well location requirements of Sections 104.B and 104.C above or to the well location requirements of special pool rules without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions, archaeological conditions, topographical conditions, or the recompletion of a well previously drilled to a deeper horizon provided said well was drilled at an orthodox or approved unorthodox location for such original horizon.
- (3) Applications for administrative approval of unorthodox locations pursuant to Rule 104.F(2), above, shall be accompanied by a plat showing the subject spacing unit, its proposed unorthodox well location, the diagonal and adjoining spacing units and/or leases (whichever is applicable) and wells, and a list of affected parties. If the proposed unorthodox location is based upon topography or archaeology, the plat shall also show and describe the existent topographical or archaeological conditions. If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic exhibits and a discussion of the geologic conditions which result in the necessity for the unorthodox location.
 - (a) Adjoining and diagonal spacing units shall be defined as those immediately adjacent existing spacing units in the same pool(s) as the proposed unorthodox well and towards which the unorthodox well location encroaches.

- (b) Affected parties shall be defined as those parties who own interests in leases or operate wells on adjoining or diagonal spacing units and include:
 - (i) the designated operator of any adjoining or diagonal spacing unit producing from the same pool(s) as the proposed well;
 - (ii) in the absence of an operator, all lessees of record of any diagonal or adjoining lease owning interests in the same pool(s) as the proposed well; and
 - (iii) in the absence of an operator or lessee, all owners of record of unleased mineral interests in the same pool(s) as the proposed well.
- (4) The applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division, has sent notification to the affected parties by submitting a copy of the application, including a copy of the plat described in Rule 104.F(3) above by certified or registered mail-return receipt in accordance with Rule 1207(A)(5) advising them that if they have an objection it must be filed in writing within twenty days from the date notice was sent. The Division Director may approve the unorthodox location upon receipt of waivers from all said parties or if no said party has entered an objection to the unorthodox location within 20 days after the Director has received the application.
- (5) The Division Director may set any application for administrative approval of an unorthodox location for public hearing, and may require that a directional survey be run in the unorthodox well to establish the actual location of the producing interval(s).

104.G. Whenever an exception is granted, the Division may take such action as will offset any advantage which the person securing the exception may obtain over other producers by reason of the unorthodox location.

104.H. If the drilling tract is within an allocated oil pool or is placed within such allocated pool at any time after completion of the well and the drilling tract consists of less than 39 1/2 acres or more than 40 1/2 acres, the top unit allowable for such well shall be increased or decreased in the proportion that the number of acres in the drilling tract bears to 40.

104.I. If the drilling tract is within an allocated gas pool or is subsequently placed within an allocated gas 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, the top allowable for such 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.

104.J. In computing acreage under Rules 104.H and 104.I above, minor fractions of an acre shall not be counted but 1/2 acre or more shall count as 1 acre.

104.K. The provisions of Rules 104.H and 104.I above shall apply only to wells completed after January 1, 1950. Nothing herein contained shall affect in any manner any well completed prior to the effective date of this rule and no adjustments shall be made in the allowable production for any such wells by reason of these rules.

104.L. In order to prevent waste the Division may, after notice and hearing, fix different spacing requirements and require greater acreage for drilling tracts in any defined oil pool or in any defined gas pool notwithstanding the provisions of Rules 104.B and 104.C above.

104.M. The Division may approve the pooling or communitization of fractional lots of 20.49 acres or less with another oil spacing unit when:

- (1) The tracts involved are contiguous;
- (2) They are part of the same basic lease, carrying the same royalty interest; and
- (3) The ownership of the tracts involved is common.

104.N. Application to the Division for pooling shall be accompanied by three (3) copies of a certified plat showing the dimensions and acreage involved in the pooling, the ownership of all leases and royalty interests involved, and the location of any proposed wells.

104.O. The Division shall wait at least ten days before approving any such pooling, and shall approve such pooling only in the absence of objection from any party entitled to notice. In the event that a party entitled to notice objects to the pooling, the Division shall consider the matter only after proper notice and hearing.

104.P. The Division may waive the ten-day waiting period requirement if the applicant furnishes the Division with the written consent to the pooling by all offset operators involved.

104.Q. The Division may consider that the requirements of Rules 104.M(2) and (3) have been fulfilled if the applicant furnishes with each copy of each application to the Division a copy of executed pooling agreement communitizing the tracts involved.

104.R. REPEALED