

MERRION

OIL & GAS

April 3, 1997

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
2040 S. Pacheco St.
Santa Fe, New Mexico 87505

Fax (505) 827-8177

Re: PROPOSED REVISIONS TO RULE 111

Dear Mr. Stogner:

As you know, I have been one of the Industry Representatives on the committee that formulated the rule changes. Since I will not be able to attend the Commission Hearing on April 10, 1997, I am providing my support for the rule changes via this letter. I discuss my over all support for the revision plus comment on a few potentially controversial topics below.

- 1.) **GENERAL SUPPORT** - Merrion appreciates the NMOCD's proactive effort to simplify and streamline rules and regulations. Horizontal drilling has become a routine method of efficiently developing what may otherwise be marginal reserves. As long as other rules are followed (set back requirements, allowables, etc.), Operator's should have the flexibility to drill horizontal wells without a cumbersome and expensive regulatory approval process. By allowing that, these rule changes save the taxpayers money by reducing the burden on State agencies and make the State money by stimulating drilling.
- 2.) **NOTIFICATION** - It is our firm stance that as long as setback and allowable rules are followed, an Operator should have the unquestionable right to drill horizontal wells any place within a Drilling Unit (or Project Area). An offset operator should not be able to protest or impede this right in any manner. If an offset operator can't protest, there should be no burden on the well Operator to provide notification...the information is public and available in P.I. If the setback limit is violated with the horizontal well, then notification will occur under Rule 104.
- 3.) **FLEXIBILITY ON VERTICAL WELLS** - The current Rule 111 contains the flexibility for the operator a.) to have some minimum deviation on a vertical well (less than 5 degrees in any 500' interval) before being required to run a directional survey, and b.) once the survey is run, to have 50 foot of deviation in any direction before a well is

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considered unorthodox. Apparently there is some concern over the "50 foot rule" (part b.). However, if we eliminate part b.), we would have to also eliminate part a.), because many wells with less than 5 degree deviation could far exceed the 50 foot minimum, but because they aren't required to be surveyed, we never knew it. The bottom line is that we cannot drill perfectly straight holes and we must have the flexibility for some deviation... 5 degrees in any 500 feet and 50 feet of total deviation are conservative numbers that are more than reasonable.

Thank you for giving me the opportunity to have my comments made part of the record. Again, I support these rule changes as positive simplifications that will benefit the State, Industry, taxpayers, and mineral owners. I hope that efforts to streamline other rules and regulations will follow.

Sincerely,



George F. Sharpe
Manager - Oil & Gas Investments

xc: Donna Williams - Burlington	Fax (915) 688-6007
Wade Howard - Texaco	Fax (915) 688-4831
Rick Foppiano - Occidental	Fax (915) 685-5742

**MEMORANDUM**
OCCIDENTAL OIL AND GAS

April 3, 1997

TO: Donna Williams (Burlington Resources) Fax #: 688-6007
George Sharpe (Merrion) Fax #: 505-326-5900
C. Wade Howard (Texaco) Fax #: 688-4831
Mike Stogner (NMOCD) Fax #: 505-827-8177

FROM: Richard E. Foppiano *Rick*

SUBJECT: Notes from my meeting with ENRON

I met today with Randy Cate (Enron, Midland) to discuss his comments and concerns about the proposed revisions to Rule 111. We had a good discussion, and I think they will withdraw any objection to the elimination of notice provided we consider the following:

- Elimination of Paragraph D (1). In addition to the same concerns as EXXON, they wanted due process language so they wouldn't be the victim of abuse without the opportunity to argue their side of the dispute. Like us, they are unaware of any instance where one operator has complained about another, but they believe the possibility exists in the future.
- The insertion of language requiring all directional surveying companies to be pre-approved by the NMOCD, and that the directional survey company is charged with the responsibility to file any survey that is run on a well (not the operator).
- The insertion of some language requiring directional surveys to be multi-shot type surveys, and that the shot points be located at certain minimum intervals (they are going to check on this to make sure it doesn't cost more).

Randy's strong concerns about quality control on directional surveys forms the basis for his recommendation that surveying companies be approved by the NMOCD and be responsible for filing the survey. I responded that I would need to visit with the group on these issues, but I thought that elimination of D (1) might be a problem given the fact that several companies have commented on it. Maybe I am wrong, because I personally don't care if D (1) is eliminated, because I think I still have the right to complain about any activity offsetting OXY if I feel that such activity is illegal and adversely affecting my correlative rights.

We also discussed the situation of developing two or more units with a horizontal wellbore, and the subsequent increase in allowables allowed under the current rule language and our proposed

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April 3, 1997

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changes. Randy was concerned that an operator only had to drill one foot into another unit to get the allowable credit for the additional unit. I advised him that the group had similar concerns, which was why we changed the language to reflect recent orders issued in these situations. He was thinking that ENRON might come back and ask to work group to consider a requirement that the producing interval penetrate a minimum distance into an adjacent unit before being eligible for multiple allowables. The minimum distance could be the same as the minimum setback applicable for a vertical well. We will hear more about this on Friday, so let's be prepared to talk about it. George, we really need some feedback from you on this issue, since you are the "multiple unit" expert.

Randy is planning to attend our run-through on Friday morning and stay over to visit with the group. I think we need to give serious consideration to his suggestions. At my urging, he is planning on coming to Santa Fe next week and "clarify" ENRON's position based on the work group's response to his concerns. Such clarification includes ENRON's support for the elimination of notice requirements.

All in all, we had a very good meeting, and I think we can get past this OK.

REF:ref

Mid-Continent Region
Production United States



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

April 3, 1997

New Mexico Oil Conservation Division
2040 S. Pacheco Street
Santa Fe, NM 87505

Attn: Mr. Michael Stogner

Re: Proposed Changes to SWR 111

Dear Mr. Stogner:

Marathon applauds your efforts to update Rule 111 and recommends that it be approved as proposed.

Marathon supports the elimination of notice requirements for orthodox directional or horizontal wells. We feel it is one of the key points of this proposal and, because it does not impact correlative rights, it is both logical and justifiable.

If I can be of further assistance on this or any other rule revision, please do not hesitate to request my participation.

Sincerely,

A handwritten signature in cursive script that reads 'R. E. Pollard'.

Richard E. Pollard
Senior Government Compliance Representative

cc: S. B. Hinchman

REP/dt
h:\pollard\swr111



PHILLIPS PETROLEUM COMPANY

4001 PENBROOK
ODESSA, TEXAS 79762

EXPLORATION AND PRODUCTION
Permian Profit Center

9 1997

April 3, 1997

Re: Proposed Rule III Changes

State of New Mexico
Energy, Minerals &
Natural Resources Department
Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87504

Attention: Bill LeMay,
Director

Gentlemen:

Phillips Petroleum Company has reviewed the proposed changes to Rule III being offered by the Oil Conservation Division and offers our support for the proposal as drafted. Phillips feels this change should have been adopted long ago.

Phillips especially supports the removal of the notification provisions from the current rule for wells at standard locations, either deviated or horizontal. Phillips believes there should only be notification in cases where unorthodox locations come into play.

Phillips sincerely apologizes we could not have a representative at the hearing on April 10, 1997, but other matters prevent our representation.

If we can be of any further service in this matter, please contact Larry M. Sanders at telephone (915) 368-1488.

Yours very truly,

J. B. Morgan
Director,
Operations Support

JBM:LMS/d

7/1/97

(1)

TO: Donna Williams (Burlington) FAX NO: 688-6007
 George Sharpe (Merrion) FAX NO: 505-326-5900
 Wade Howard (Texaco) FAX NO: 688-4831
 Mike Stogner (NMOCD) FAX NO: 505-827-8177

FROM: Rick Foppiano *Rick*

SUBJECT: Notes from my meeting with Rand Carroll, Dave Catanach, Mike Stogner & Chris Williams on April 1, 1997

I went through the PowerPoint presentation with the NMOCD group and a few minor changes were suggested, like changing the word "revision" to "draft" and "Bill Lemay" to "Division Director." We had a lot of discussion, and several concerns were identified:

1. The District Office may need authority to require a directional survey on vertical wells even though the maximum horizontal displacement doesn't exceed the distance to the nearest lease line.
2. A horizontal well may adversely affect correlative rights of offsets, more so than a vertical well. For this reason, should notice be given when someone proposes a horizontal well (Catanach)?

We also discussed the process at the Commission hearing next week:

1. Rand Carroll will call the docket. Mike Stogner will start with the introduction. Rand will swear all witnesses at once, and qualify each one before they start presenting their section.
2. The presentation will be directed to the commissioners. They are the only ones who can ask questions during the presentation. The audience will be allowed to ask questions of us after we have completed our presentation to the commissioners and answered their questions.
3. Rand will introduce into the record the following exhibits:
 1. A hardcopy of the presentation.
 2. A redlined and clean copy of our latest draft.
 3. Copies of any comments received to date.

Some other issues were brought up and discussed:

1. How do the other states handle this more thoroughly so we can be prepared for this question.

(2)

2. **Has anyone ever taken a Rule 111 project to a hearing? Mike provided us copies of administrative filings, but David Catanach thinks that some of these may have gone through a protested hearing.**
3. **Chris wanted an electronic copy of the Powerpoint presentation for internal use.**
4. **Rand advised that Will Wagner with the New Mexico IPAA called and inquired about these changes. Rick Foppiano will call Mr. Wagner and discuss the proposed changes with him.**
5. **The OCD group liked the idea of funneling the comments through the Rule 111 work group. I was given Enron's and Dugan Production Corporation's comments.**

Based on the feedback I got from the group, I think we have some unfinished tasks before us:

1. **Investigate the process employed by other states for Rule 111 projects.**
2. **Rick will call Will Wagner.**
3. **Call Enron and discuss their comments. Invite them to our Friday run-through? (Rick will call.)**
4. **Prepare a redlined version of our most recent draft. (Rick will take care of this.)**
5. **Wade & Donna should prepare a short list of their qualifications.**
6. **On Friday, discuss our response to Enron's & Dugan's comments.**

I have attached copies of the comments received to date. Please review and be prepared to discuss at our Friday morning meeting. Hopefully I will meet with Enron before then. All in all, it was a very good meeting, and our presentation will be better for it. Don't get bummed by Enron's comments, maybe I'll have some better news after I talk with them.

**REF:ref
attachments**

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ENRON
Oil & Gas Company

P. O. Box 2267 Midland, Texas 79702 (915) 686-3600

March 27, 1997

MAR 31 1997

CONSERVATION DIVISION

New Mexico Oil Conservation Division
2040 So. Pacheco St.
Santa Fe, NM 87505

Attn.: Michael E. Stogner

Re: Proposed Revisions to
Rule 111

Enron Oil & Gas appreciates and supports your efforts to streamline the requirements of Rule 111 - Deviation Tests and Directional Wells and hereby responds to your request for industry input.

We do disagree with two of the proposed changes and offer the following remedy:

1. EOG wishes to keep the notice requirement with some modification. Notice allows operators to police ourselves with the advance knowledge of a potential problem, thereby having the opportunity to rectify a situation before drilling monies have been spent. Horizontal wells' producing characteristics require different reservoir management and lease protection considerations.
2. EOG recommends dropping III.D (1); requirement to run a directional survey at the request of an offset operator. This portion of the rule is intrusive and the \$5,000 bond doesn't begin to cover the potential costs of the operation, liability from a mechanical failure or reservoir damage coincident with the survey operation.

EOG proposes that offset operators still be notified by certified letter, briefly outlining the wells' drilling plan. The notice would provide for any operator to elect to witness the final directional survey run at TD and to receive a copy of that survey. The offset operator then must file an objection within 10 business days if a problem is found. Otherwise, all subsequent remedies must be sought through normal OCD channels.

I have shared EOG's recommendations with Donna Williams of Burlington Resources and she plans to discuss them with the other industry representatives. I would appreciate a call or correspondence giving your thoughts on EOG's proposal and I would agree to represent this proposal at the formal hearing on April 10, 1997.

Respectfully yours,

ENRON OIL & GAS COMPANY



Randall S. Cate
Project Reservoir Engineer

RSC/krp

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dugan production corp.

P. O. BOX 420 • FARMINGTON, NM 87499-0420 • (505) 325-1821

Date 3-3-97

Subject Comments Re:

Revisions to General
Rule III.

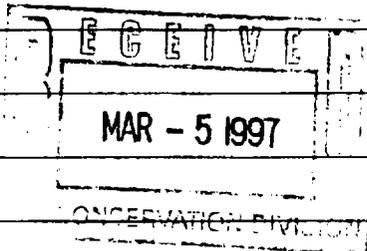
T
O

New Mexico Oil Conservation Div
Attn: Michael Stogner - New Rule III
2090 S. Pacheco St.
Santa Fe, NM 87505

M E S S A G E

Michael - Attached is a copy of proposed Rule III (dated 2-7-97) on which I've made a few suggested changes. Hope these help. Please call if you want to discuss or need clarification.

Regards
John Roe



Signed _____

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Proposed Changes to Rule 111: Directional Drilling

February 7, 1997

111 DEVIATION TESTS AND DIRECTIONAL WELLS

111.A. Definitions: the following definitions shall apply to this Rule only:

- (1) Azimuth - means the deviation in the horizontal plane of a wellbore expressed in terms of compass degrees.
- (2) Deviated Well - means any wellbore which is intentionally deviated from vertical but not with an intentional azimuth. Any deviated well is subject to Rule 111-B.
- (3) Directional Well - means a wellbore which is intentionally deviated from vertical with an intentional azimuth. Any directional well is subject to Rule 111-C.
- (4) Drilling Unit - means the surface acreage assigned to a ~~vertical~~ wellbore in accordance with NMOCD Rule 104. Included in this definition is a "unit of proration for oil or gas" as defined by the Division ~~and all such non-standard units previously approved by the Division~~
approved
- (5) Kick-off Point - means the point at which the wellbore is intentionally deviated from vertical.
- (6) Lateral - means any portion of a wellbore past the point where the wellbore has been intentionally ~~departed~~ from the vertical.
deviated
- (7) Penetration Point - means the point where the wellbore penetrates the top of the pool from which it is intended to produce.
- (8) Producing Area - means all points that lie ^{within} ~~along a rectangular or square~~ window formed by plotting the measured distance from the North, South, East and West boundaries of a project area, inside of which a vertical wellbore can be drilled and produced in conformity with the setback requirements from the outer boundary of a standard spacing and proration unit for the applicable pool(s).
- (9) Producing Interval - means that portion of the wellbore drilled inside the vertical limits of a pool, between its penetration point and its terminus.
- (10) Project Area - an area designated on Form C-102 that is enclosed by the outer boundaries of a drilling unit, a combination of complete drilling units, or an approved secondary, tertiary or pressure maintenance project.
- (11) Project Well - means any well drilled, completed, produced or injected into as either a deviated well or ~~an~~ directional well.
vertical,

(6)

within the pool intended to be produced

- (12) **Terminus** - means the farthest point attained along the wellbore
- (13) **Unorthodox** - means any part of the producing interval which is located outside of the producing area.
- (14) **Vertical Well** - means a well that does not have an intentional departure or course deviation from the vertical.
- (15) **Wellbore** - means the interior surface of a cased or open hole through which drilling, production, or injection operations are conducted.

111.B. Deviated Wellbores:

(1) **Deviation Tests Required.** Any vertical or deviated well which is drilled or deepened shall be tested at reasonably frequent intervals to determine the deviation from the vertical. Such tests shall be made at least once each 500 feet or at the first bit change succeeding 500 feet. A tabulation of all deviation tests run, sworn to and notarized, shall be filed with Form C-104, "Request for Allowable and Authorization to Transport Oil and Natural Gas".

(2) **Excessive Deviation.** When the deviation averages more than five degrees in any 500-foot interval, the operator shall include the calculations of the maximum possible horizontal displacement of the hole. When the maximum possible horizontal displacement exceeds the distance to the nearest outer boundary line of the appropriate unit, the District Supervisor shall require that a directional survey be run to establish the location of the producing interval(s). *allowable*

(3) **Unorthodox Locations.** If the results of the directional survey indicate that the producing interval is more than 50 feet from the approved surface location and less than the minimum setback requirements from the outer boundaries of the applicable unit, then the well shall be considered unorthodox. To obtain authority to produce such well, the operator shall file an application with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3) to obtain approval of the unorthodox location.

(4) **Directional Survey Requirements.** Upon request from the Division Director, any vertical or deviated well shall be directionally surveyed. The Supervisor of the appropriate Division District shall be notified of the approximate time any directional surveys are to be conducted. All directional surveys run on any well in any manner for any reason must be filed with the Division upon completion of the well. The Division shall not assign an allowable to the well until all such directional surveys have been filed.

111.C. Directional Wellbores:

(1) **Directional Drilling Within a Project Area.** A permit to directionally drill a wellbore may be granted by the Supervisor of the appropriate Division District if the producing interval is entirely within the producing area or at an unorthodox location previously approved by the Division.

(2) **Unorthodox Wellbores.** If all or part of the producing interval of any directional wellbore is projected to be outside of the producing area, the wellbore shall be considered unorthodox. To obtain approval for such wellbore, the applicant shall file a written application in duplicate

(7)

with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3).

not all pools are provided and subject to depth Board i.e. Gouillon

(3) Allowables for Project Areas With Multiple Proration Units. The maximum allowable assigned to the project area ~~when dealing with proration pools~~ shall be based upon the number of standard proration units (or approved non-standard proration and spacing units) that are developed or traversed by the producing interval of the directional wellbore or wellbores, plus any standard proration units that are developed by vertical wellbores within the project area.

(4) Directional Surveys Required. A directional survey shall be required on each well drilled under the provisions of this section. The Supervisor of the appropriate Division District shall be notified of the approximate time all directional surveys are to be conducted. All directional surveys run on any well in any manner for any reason must be filed with the Division upon completion of the well. The Division shall not assign an allowable to the well until all such directional surveys have been filed. If the directional survey indicates that any part of the producing interval is outside of the producing area, or, in the case of an approved unorthodox location, less than the approved setback requirements from the outer boundary of the applicable unit, then the operator shall file an application with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3) to obtain approval of the unorthodox location.

111.D. Additional Matters:

(1) The Division Director, at the request of an offset operator, may require any operator to make a directional survey of any well. The directional survey and all associated costs shall be at the expense of the requesting party and shall be secured in advance by a \$5,000 indemnity bond posted with and approved by the Division. The requesting party may designate the well survey company and the survey may be witnessed by the Division and the operator.

If the requested directional survey locates the producing interval to be unorthodox, all associated survey costs will be refunded to the requesting party by the wellbore operators

(2) The Division Director, may, at his discretion, set any application for administrative approval or public hearing.

(3) Permission to deviate or directionally drill any wellbore for any reason or in any manner not provided for in this rule shall be granted only after notice and opportunity for hearing.



MEMORANDUM
OCCIDENTAL OIL AND GAS

REGULATORY AFFAIRS AREA
TECHNICAL SERVICES TEAM
MIDLAND, TEXAS

March 5, 1997

TO: Donna Williams (Burlington) FAX NO: 688-6007
George Sharpe (Merrion) FAX NO: 505-326-5900
Wade Howard (Texaco) FAX NO: 688-4831
Mike Stogner (NMOCD) FAX NO: 505-827-8177

FROM: Rick Foppiano *Rick*

SUBJECT: Notes from our meeting on March 3, 1997

Attached is the latest version of Rule 111. It includes the changes made based on our discussion of the comments from Frank Chavez, Mike Stogner and Rand Carroll at the NMOCD. **PLEASE KEEP THIS VERSION FOR YOURSELF!** We are still getting comments and it will likely change again in the near future. Along those lines, attached are some comments that NMOGA received from EXXON. Why they didn't send them to Stogner, I don't know. I reviewed them, and I don't share their concern based on the few (if any) times that has been a problem in the past. We can discuss it more the next time we meet, along with any more comments that come in. Below is the rough outline that we worked on for our presentation before the Commissioners:

- ▶ Introduction (Rick)
 - What's wrong with current Rule 111? (include pictures)
 - What can be improved?
 - What were we trying to accomplish?
 - How we did it: the Rule 111 Work Group (Who, when, the process, etc.)

- ▶ The old Rule 111 (Mike S.)
 - Section by section
 - Unnecessary applications
 - What happens when deviation is excessive?

- ▶ The New and Improved Rule 111 (Rick F.)
 - Section by section
 - Use pictures to show when directional survey is required
 - Use pictures to show when a directional well is unorthodox
 - Use pictures to show how a horizontal well is treated

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Rick Foppiano
March 5, 1997
Page 2

- ▶ Comparison: What changed and why? (Wade)
 - Use a table:

Process	Old	Now
---------	-----	-----

- ▶ Summary & Conclusions (Rick and Donna)
 - Show applications of new Rule 111, give examples
 - Two year review period?

In the next several weeks I will be refining the computer picture show along the outline as described above. When I get something to show you, I'll set up preview and practice session in Midland. Till then.....

REF:ref
attachments

③

Proposed Changes to Rule 111:
Directional Drilling

March 5, 1997

(Changes from 2/7/97 version are shown in bold italics)

111 DEVIATION TESTS AND DIRECTIONAL WELLS

111.A. Definitions: the following definitions shall apply to this Rule only:

(1) Azimuth - the deviation in the horizontal plane of a wellbore expressed in terms of compass degrees.

(2) Deviated Well - any wellbore which is intentionally deviated from vertical but not with an intentional azimuth. Any deviated well is subject to Rule 111.B.

(3) Directional Well - a wellbore which is intentionally deviated from vertical with an intentional azimuth. Any directional well is subject to Rule 111.C.

(4) Drilling Unit - surface acreage assigned to a vertical wellbore in accordance with Rule 104. Included in this definition is a "unit of proration for oil or gas" as defined by the Division and all such non-standard units previously approved by the Division.

(5) Kick-off Point - the point at which the wellbore is intentionally deviated from vertical.

(6) Lateral - any portion of a wellbore past the point where the wellbore has been intentionally departed from the vertical.

(7) Penetration Point - the point where the wellbore penetrates the top of the pool from which it is intended to produce.

(8) Producing Area - all points that lie *within a* window formed by plotting the measured distance from the North, South, East and West boundaries of a project area, inside of which a vertical wellbore can be drilled and produced in conformity with the setback requirements from the outer boundary of a standard spacing and proration unit for the applicable pool(s).

(9) Producing Interval - that portion of the wellbore drilled inside the vertical limits of a pool, between its penetration point and its terminus.

(10) Project Area - an area designated on Form C-102 enclosed by the outer boundaries of a drilling unit, a combination of complete drilling units, or an approved secondary, tertiary or pressure maintenance project.

(11) Project Well - any well drilled, completed, produced or injected into as either a deviated well or a directional well.

④

- (12) Terminus - the farthest point attained along the wellbore.
- (13) Unorthodox - any part of the producing interval which is located outside of the producing area.
- (14) Vertical Well - a well that does not have an intentional departure or course deviation from the vertical.
- (15) Wellbore - the interior surface of a cased or open hole through which drilling, production, or injection operations are conducted.

111.B. Deviated Wellbores:

(1) **Deviation Tests Required.** Any vertical or deviated well which is drilled or deepened shall be tested at reasonably frequent intervals to determine the deviation from the vertical. Such tests shall be made at least once each 500 feet or at the first bit change succeeding 500 feet. A tabulation of all deviation tests run, sworn to and notarized, shall be filed with Form C-104, "Request for Allowable and Authorization to Transport Oil and Natural Gas".

(2) **Excessive Deviation.** When the deviation averages more than five degrees in any 500-foot interval, the operator shall include the calculations of the maximum possible horizontal displacement of the hole. When the maximum possible horizontal displacement exceeds the distance to the nearest outer boundary line of the appropriate unit, the *operator* shall *run* a directional survey to establish the location of the producing interval(s).

(3) **Unorthodox Locations.** If the results of the directional survey indicate that the producing interval is more than 50 feet from the approved surface location and *closer* than the minimum setback requirements to the outer boundaries of the applicable unit, then the well shall be considered unorthodox. To obtain authority to produce such well, the operator shall file an application with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3) to obtain approval of the unorthodox location.

(4) **Directional Survey Requirements.** Upon request from the Division Director, any vertical or deviated well shall be directionally surveyed. The Supervisor of the appropriate Division District shall be notified of the approximate time any directional surveys are to be conducted. All directional surveys run on any well in any manner for any reason must be filed with the Division upon completion of the well. The Division shall not assign an allowable to the well until all such directional surveys have been filed.

111.C. Directional Wellbores:

(1) **Directional Drilling Within a Project Area.** A permit to directionally drill a wellbore may be granted by the Supervisor of the appropriate Division District if the producing interval is entirely within the producing area or at an unorthodox location previously approved by the Division.

(2) **Unorthodox Wellbores.** If all or part of the producing interval of any directional wellbore is projected to be outside of the producing area, the wellbore shall be considered unorthodox. To obtain approval for such wellbore, the applicant shall file a written application in duplicate with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3).

(5)

(3) Allowables for Project Areas With Multiple Proration Units. The maximum allowable assigned to the project area when dealing with prorated pools shall be based upon the number of standard proration units (or approved non-standard proration and spacing units) that are developed or traversed by the producing interval of the directional wellbore or wellbores. ***Such maximum allowable shall be applicable to all production from the project area, including any vertical wellbores on standard proration units inside the project area.***

(4) Directional Surveys Required. A directional survey shall be required on each well drilled under the provisions of this section. The Supervisor of the appropriate Division District shall be notified of the approximate time all directional surveys are to be conducted. All directional surveys run on any well in any manner for any reason must be filed with the Division upon completion of the well. The Division shall not assign an allowable to the well until all such directional surveys have been filed. If the directional survey indicates that any part of the producing interval is outside of the producing area, or, in the case of an approved unorthodox location, less than the approved setback requirements from the outer boundary of the applicable unit, then the operator shall file an application with the Division Director, copy to the appropriate OCD District Supervisor, and shall otherwise follow the normal process outlined in Rule 104.F(3) to obtain approval of the unorthodox location.

111.D. Additional Matters:

(1) The Division Director, at the request of an offset operator, may require any operator to make a directional survey of any well. The directional survey and all associated costs shall be at the expense of the requesting party and shall be secured in advance by a \$5,000 indemnity bond posted with and approved by the Division. The requesting party may designate the well survey company and the survey may be witnessed by the Division and the operator.

(2) The Division Director, may, at his discretion, set any application for administrative approval ***whereby the operator shall submit appropriate information and give notice as requested by the Division Director. Unprotected applications may be approved administratively within 20 days of receipt of the application and supporting information. If the application is protested, or the Division Director decides that a public hearing in appropriate, the application may be set for public hearing.***

(3) Permission to deviate or directionally drill any wellbore for any reason or in any manner not provided for in this rule shall be granted only after notice and opportunity for hearing.

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NMOGA FAX

To: Rick Foppiano - Oxy USA
From: John McKay
Date: March3, 1997
Subject: Rule 111

Attached is a copy of the comments submitted to me by Fernando Blackgoat of Exxon.

I am sending him a fax that summarizes our conversation.

John McKay
New Mexico Oil & Gas Association
POB 1864 Santa Fe, NM 87504-1864
PH: 505-982-2898 or 505-982-2568
FAX: 505-986-1094 or 982-0811
e-mail:johnmck@nmoga.org
<http://www.nmoga.org>

Feb. 28. 1997 9:49AM EXXON CO USA

No. 1808 P. 1/2



Facsimile Cover Sheet

To: John McKay/Perry Pearce
Company: NMOGA/BR
Phone:
Fax:

From: F Blackgoat
Company: Exxon Environmental & Safety
Department
Phone: 713-656-0205
Fax: 713-656-6594

Date: 02/28/97
Pages including this cover page: 2

Comments: John—Our Midland office has identified a concern about proposed changes to Rule 111, specifically at 111.D., adjacent operators' ability to require directional surveys to be run. NMOCD's proposed language provides too much latitude to adjacent operators and \$5,000 bond may be inadequate in certain cases.

Exxon believes language from TX Railroad Commission's O&G Statewide Rules (1995 edition), with a minor deletion as shown on accompanying page, is preferable to NMOCD's proposal. Texas language requires complaining operators to show probable cause and allows the Commission to set bonds commensurate with cost and risk. Exxon recommends this language be incorporated in NMOGA comments that are submitted to NMOCD.

Please call me at above number if you have any questions. Thanks, Fernando

Feb. 28. 1997 9:50AM EXXON CO USA

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(B) If the necessity for directional deviation arises unexpectedly after drilling has begun, the operator shall give written notice by letter or telegram of such necessity to the appropriate District Office and to the Commission office in Austin, and upon giving such notice, the operator may proceed with the directional deviation. If the operator proceeds with the drilling of a deviated well under such circumstances, he proceeds at his own risk. Before any allowable shall be assigned to such well, a permit for the subsurface location of each completion interval shall be obtained from the Commission under the provisions set out in the Commission rules. However, should the operator fail to show good and sufficient cause for such deviation, no permit will be granted for the well.

(C) If the necessity for random deviation arises unexpectedly after the drilling has begun, the operator shall give written notice by letter or telegram of such necessity to the appropriate District Office and to the Commission office in Austin, and, upon giving such notice, the operator may proceed with the random deviation, subject to compliance with the provisions of this section on inclination surveys.

(e) Surveys on request of other operators. The Commission, at the written request of any operator in a field, shall determine whether a directional survey, an inclination survey, or any other type of survey approved by the Commission for the purpose of determining bottom hole location of wells shall be made in regard to a well complained of in the same field.

(1) The complaining party must show probable cause to suspect that the well complained of is not bottomed within its own lease lines.

(2) The complaining party must agree to pay all costs and expenses of such survey, shall assume all liability, and shall be required to post bond in a sufficient sum as determined by the Commission as security against all costs and risks associated with the survey.

(3) The complaining party and the Commission shall agree upon the selection of the well surveying company to conduct the survey, ~~which shall be a surveying company on the Commission's approved list.~~

(4) The survey shall be witnessed by the Commission, and may be witnessed by any party, or his agent, who has an interest in the field.

(5) Nothing in these rules shall be construed to prevent or limit the Commission, acting on its own authority, from conducting spot checks and surveys at any time and place for the purpose of determining compliance with the Commission rules and regulations.

(f) Penalties.

(1) False reports. The filing of a false or incorrect directional survey shall be grounds for cancellation of the well permit, for pipeline severance of the lease on which the well