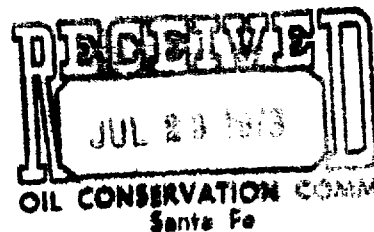


LAW OFFICES OF
JENNINGS, CHRISTY & COPPLE
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88201

JAMES T. JENNINGS
SIM B. CHRISTY IV
ROGER L. COPPLE
BRIAN W. COPPLE
ROBERT G. ARMSTRONG

TELEPHONE 622-8432
AREA CODE 505

July 18, 1973



New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: A. L. Porter, Jr.
Secretary-Director

5048

Gentlemen:

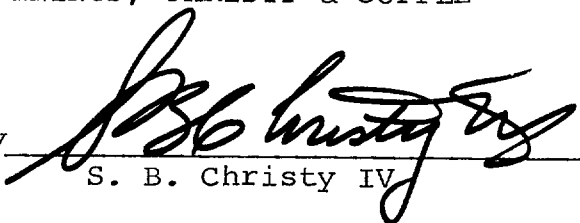
We enclose herewith in triplicate Application of Roger C. Hanks for designation of South Dagger Draw Pool and special rules therefor, Eddy County, New Mexico.

We understand that the next available examiner's docket is August 8, and we would appreciate it if the case could be heard at that time.

Respectfully,

JENNINGS, CHRISTY & COPPLE

By

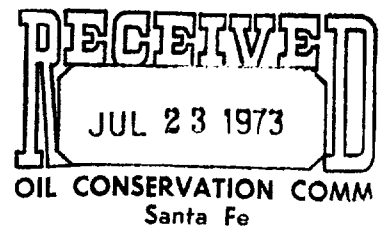

S. B. Christy IV

SBC/jy
Encl.

cc: Mr. Roger C. Hanks
2100 Wilco Building
Midland, Texas 79701

DOCKET MAILED
Date 8-9-73

*Called to Mr. Christy's Secretary - 8/1/73
& advised her that there would
be no hearing on Aug 8 - we have a
hearing Aug. 9th but his application arrived too
late - but will be put on for Aug. 22 - 73*



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

APPLICATION OF ROGER C. HANKS)
FOR DESIGNATION OF SOUTH DAGGER)
DRAW POOL AND SPECIAL RULES)
THEREFOR, EDDY COUNTY, NEW MEXICO.)
_____)

Case No. 5048

APPLICATION

COMES NOW Roger C. Hanks (Applicant), Operator of oil and gas leases covering the lands involved herein, and states: 8/1/73

1. That there exists in Eddy County, New Mexico, an area comprised of:

20
Township ~~20~~ South, Range 24 East, N.M.P.M.
Section 23: All
Section 26: All
Section 35: All

*Corrected in
accord with
conversation
Jim Jennings JKH*

containing 1,920 acres, more or less, which is a common geological area susceptible to the production of gas and associated hydrocarbons from a common formation, believed to be the Cisco Canyon member of the Upper Pennsylvanian formation which exists in Applicant's Preston Federal #1 well located 1900 feet from the South line and 850 feet from the West line of said Section 35 at a subsurface depth of 7433'-7720'. It is believed by Applicant that the productive characteristics of such gas and associated hydrocarbons will be substantially the same throughout said area.

2. That in order to prevent waste and to protect the correlative rights of all interested parties it is advisable that such gas and associated hydrocarbons from such formation within said area

be spaced, drilled and produced in a substantially uniform manner so that as to most efficiently and effectively produce the maximum recoverable gas and associated hydrocarbons from such formation within said area. That as a consequence special rules and regulations should be promulgated for the production of gas and associated hydrocarbons from such formation within said area; proposed rules and regulations are attached hereto as Exhibit 1.

3. In the opinion of the Applicant the proposed pool area is not in communication with any other pool heretofore designated by the Commission and constitutes a separate source of supply.

WHEREFORE, Applicant prays that, after notice and hearing, the Commission establish a new area in Eddy County, New Mexico, classified for the production of gas and associated hydrocarbons from the Cisco Canyon member of the Upper Pennsylvanian formation, and designated as the South Dagger Draw pool with vertical and horizontal limits as stated above; and for the promulgation of special rules and regulations for the South Dagger Draw pool.

ROGER C. HANKS

By



S. B. Christy IV, as a
Member of the Firm of
Jennings, Christy & Copple
P. O. Box 1180
Roswell, New Mexico 88201
(505) 622-8432

Attorneys for the Applicant

EXHIBIT 1

PROPOSED SPECIAL RULES AND REGULATIONS
FOR THE SOUTH DAGGER DRAW POOL

RULE 1. Each well completed or recompleted in the South Dagger Draw Pool, or within one mile thereof and not nearer to or within the limits of any other designated pool comprising the Cisco Canyon member of the Upper Pennsylvanian formation, shall be spaced, drilled, operated and produced in accordance with the special rules and regulations hereinafter set forth.

RULE 2. Each well, oil or gas, shall be located on a standard unit comprising 320 acres, more or less, comprising the $N\frac{1}{2}$, $S\frac{1}{2}$, $W\frac{1}{2}$ or $E\frac{1}{2}$ of a governmental section of the United States Public Lands Survey. For the purposes of this Rule, a unit consisting of between 316 and 324 surface contiguous acres shall be considered a standard unit.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and an unorthodox size or shape of the unit is necessitated by variations in the legal subdivisions of the United States Public Lands Surveys or the following facts exist and the following provisions have been complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a governmental half section and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) 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 Secretary-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 Secretary-Director has received the application.

RULE 4. Each well shall be located not closer than 660 feet to the nearest side boundary line of the designated tract nor closer than 1980 feet to the nearest end boundary line nor closer than 330 feet to any quarter-quarter section or subdivision interior 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 dimension; "end" boundary is defined as one of the outer boundaries perpendicular to a side boundary and closing the tract across its least overall dimension.)

RULE 5. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox well location which relates to any well drilled prior to the effective date of these rules or when the proposed unorthodox location is based upon topography.

Applications for administrative approval of unorthodox locations shall be filed in triplicate and shall be accompanied by plats 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. If the proposed unorthodox location is based upon topography, the plat shall also show and describe the existing topographical conditions.

All operators of proration or spacing units offsetting 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 Secretary-Director may approve the unorthodox location upon receipt of waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Secretary-Director has received the Application.

RULE 6. A well shall be classified as a gas well if it has a gas liquid ratio of 30,000 or more cubic feet of gas per barrel of liquid hydrocarbons.

A well shall be classified as an oil well if it has a gas liquid ratio of less than 30,000 cubic feet of gas per barrel of liquid hydrocarbons.

The simultaneous dedication of any acreage to an oil well and a gas well is prohibited.

RULE 7. The limiting gas-oil ratio shall be 8,000 cubic feet of gas for each barrel of oil produced.

RULE 8. That the depth bracket allowable for oil wells in the South Dagger Draw Pool should be 267 barrels of oil per day in accordance with Rule 505 of the Commission Rules and Regulations. In the event there is more than one oil well on a 320-acre oil proration unit, the operator may produce the amount of oil assigned from the unit from the wells on the unit in any proportion.

Subject to the provisions of Rule 9, a gas well shall be permitted to produce all amounts of oil which it may be capable of producing in association with the production of gas.

RULE 9. An oil or gas well shall be permitted to produce that amount of gas obtained by multiplying the top unit oil allowable for the pool by the limiting gas-liquid ratio for the pool and by a fraction, the numerator of which is the number of acres dedicated to the particular well and the denominator of which is 320. In the event there is more than one well on a 320-acre proration unit, the operator may produce the amount of gas assigned to the unit from the wells on the unit in any proportion.

RULE 10. The operator of each newly completed well shall cause a gas-liquid ratio test to be taken on the well upon completion of the well and in any event such test shall be commenced

not later than 30 days from the date of first production of the well; provided however, any well which is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. The initial gas-liquid ratio test shall be taken in the manner prescribed by Rule 11. If the gas-liquid ratio is 30,000 cubic feet of gas per barrel of liquid hydrocarbons, or more, the operator shall not produce the well until beneficial use can be made of the gas.

RULE 11. Gas-liquid ratio tests shall be taken on all wells during the months of March and September of each year. The initial gas-liquid ratio test shall suffice for the first semi-annual test. Tests shall be 24 hour tests, being the final 24 hours of a 72 hour period during which the well shall be produced at a constant normal rate of production. Results of such tests shall be filed on Commission Form C-116 on or before the 10th day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the appropriate district office of the Commission a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the test schedule shall also be furnished to all offset operators. Commission district supervisors may grant exceptions to the above test requirements where it is demonstrated that wells produce no liquids.

Special tests shall also be taken at the request of the Secretary-Director and may also be taken at the option of the operator. Such special tests shall be taken in accordance with the procedures outlined hereinabove, including notification to the Commission and offset operators.

RULE 12. Any well completed after the effective date of these rules shall receive an allowable only upon receipt by the appropriate district office of the Commission of Commission Forms C-104 and C-116, properly executed. The supervisor of the district office is also authorized to assign a temporary gas allowable to wells connected to a gas transportation facility during the recovery of load oil.

RULE 13. An initial shut-in pressure test shall be taken on each gas well and shall be reported to the Commission on Form C-125.

RULE 14. The monthly gas production from each gas well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas was produced. The operator shall show on such report what disposition has been made of the produced gas.

RULE 15. Each purchaser or taker of gas shall submit a report to the Commission so as to reach the Commission on or before the 15th day of the month next succeeding the month in which the gas was purchased or taken. Such report shall be filed on Form C-111 with the wells being listed in the same order as they are listed on the appropriate proration schedule.

RULE 16. All transporters or users of gas shall file gas well connection notices with the Commission as soon as possible after the date of connection.

RULE 17. Any well whose classification has changed from gas to oil as the result of a gas-liquid test or which has been so

reclassified by the Commission on the basis of production history shall have an oil allowable assigned in accordance with the Commission's statewide rules with respect to a 40-acre tract allowable for an oil well.

RULE 18. The date 7:00 A.M., January 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period.

RULE 19. Any gas well which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 20. Production during any one month of a gas proration period in excess of the allowable assigned to a well for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 21. Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period, provided that such overproduction shall be compensated for during such succeeding period. Any well which has not compensated for the overproduction carried into a gas proration period by the end of such proration period shall be shut in until such overproduction is compensated for. If, at any time, a well is overproduced an amount equalling three times

its current monthly allowable, it shall be shut in during that month and each succeeding month until the well is overproduced less than three times its current monthly allowable.

RULE 22. The allowable assigned to a well during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction carried into such period in determining the amount of overproduction, if any, which has not been compensated for.

RULE 23. The Commission may allow overproduction to be compensated for at a lesser rate than would be the case if the well were completely shut in upon a showing after notice and hearing that complete shut in of the well would result in material damage to the well or reservoir.