



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

November 10, 1987

Tom Kellahin, Esq.
Kellahin, Kellahin & Aubrey
P.O. Box 2265
Santa Fe, NM 87501-2265

Case 8498

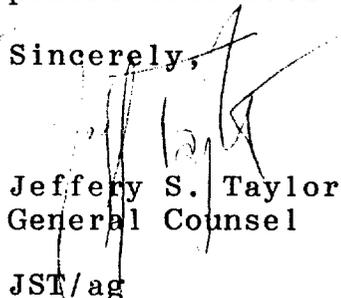
RE: Orders R-7951, 7952 and 8199

Dear Tom:

By letter of September 30, 1987 you inquired about the possibility that the above division orders had expired. This is to confirm my telephone call to you whereby I explained that these orders do not expire. It is possible, however, that the APD's for these wells have expired, since most are valid for only six months. I believe though, that the District will approve a new permit upon application.

If you have any further questions regarding this matter, please feel free to call.

Sincerely,


Jeffery S. Taylor
General Counsel

JST/ag

KELLAHIN, KELLAHIN AND AUBREY

Attorneys at Law

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Area Code 505

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

September 30, 1987

Mr. William J. LeMay
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Pennzoil Company
Order R-7951
Order R-7952
Order R-8199

Dear Mr. LeMay:

On behalf of Pennzoil Company, I am writing to obtain clarification on the status of the referenced orders. (Copies enclosed)

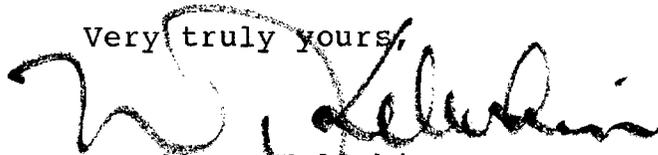
Our firm represented Pennzoil Company in obtaining from the Division, after notice and hearing, three unorthodox well location orders:

Order R-7951, Case 8498 issued June 13, 1985
Order R-7952, Case 8499 issued June 13, 1985
Order R-8199, Case 8860 issued March 31, 1986

None of the orders set a date by which the respective well must be commenced. In addition, we are unaware of any Division rule that sets an expiration date for such orders. However, because these orders are eighteen to twenty-seven months old and none of these wells have been drilled, Pennzoil has requested that I seek written verification from you that these orders remain valid and they may still file Applications for Permits to drill based upon these orders.

Please call me if you have any questions.

Very truly yours,


W. Thomas Kellahin

WTK:ca
Enc.

cc: Lonnie Whitfield

10-6

*To: Jeff
Check this and
a lot more documents
Friday Oct 10.*

SEP 30 1987

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8498
Order No. R-7951

APPLICATION OF PENNZOIL COMPANY
FOR AN UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 13th day of June, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Pennzoil Company, seeks approval of an unorthodox gas well location 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, to test all formations from the top of the Wolfcamp formation to the base of the Pennsylvanian formation, Lea County, New Mexico.
- (3) The E/2 of said Section 35 is to be dedicated to the well.
- (4) At the time of the hearing, Division Case No. 8499 was consolidated with this case for the purpose of testimony.
- (5) Exxon Corporation, an offset operator to the southeast, appeared at the hearing and objected to the proposed unorthodox gas well location in the Atcka formation only.

(6) A well at said unorthodox location will better enable the applicant to produce the gas underlying the proration unit, but an allowable penalty for Atoka production only, should be imposed on the subject well to protect the correlative rights of other operators in the area.

(7) The most southeasterly well site in the E/2 of said Section 35 which would constitute a legal gas well location would be 1980 feet from the South line and 660 feet from the East line of said Section 35.

(8) The subject well is 990 feet (50 percent) closer to the South line of said Section 35 and is within the required distance from the East line as permitted under Rule 104 of the New Mexico Oil Conservation Division General Rules and Regulations.

(9) Assuming 320-acre radial drainage in the Atoka formation the subject well would have a calculated theoretical drainage area of approximately 37 acres outside of its proration unit more than would a well located at the most southeasterly standard gas well location as described in Finding Paragraph No. (7) above.

(10) Based upon the said calculations, the subject well having approximately 37 acres increased drainage outside of its proration unit in the Atoka formation than permitted, the subject well has approximately 283 acres or 88 percent of its theoretical drainage within the area permitted.

(11) The penalty imposed for the Atoka production upon the subject well should be based upon the footage variation of the unorthodox location from a standard Atoka location as described in Finding Paragraph No. (7) above, and on the theoretical drainage encroachment described in Finding Paragraph No. (10) above.

(12) The allowable factor for Atoka production should be calculated as being equal to: (1.00 East footage factor + 0.50 South footage factor + 0.88 acreage encroachment factor, divided by 3) times 100, or 79 percent.

(13) An allowable factor for Atoka production of 0.79 for the subject well (a penalty of 21 percent) will prevent waste and protect the correlative rights of the applicant as well as other operators in the Atoka formation, and should be approved.

(14) In the absence of any special rules and regulations for the prorationing of production from the Atoka formation in which the subject well is or will be completed, the aforesaid

production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(15) The minimum calculated allowable for the subject well should be reasonable, and 500,000 cubic feet of gas per day is a reasonable figure for such minimum allowable.

(16) Approval of the subject application subject to the above provisions and limitations will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject Atoka reservoir, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

(17) If gas production should be encountered in the Wolfcamp, Cisco, Canyon, Strawn, or Morrow formations in subject well, said production should be produced with no penalty or limitation imposed.

IT IS THEREFORE ORDERED THAT:

(1) The application of Pennzoil Company for an unorthodox gas well location for all formations from the top of the Wolfcamp formation to the base of the Pennsylvanian formation is hereby approved for a well to be located at a point 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico.

(2) The E/2 of said Section 35 being a standard 320-acre Wolfcamp and Pennsylvanian gas spacing and proration unit shall be dedicated to the above-described well.

IT IS FURTHER ORDERED HOWEVER THAT:

(3) Said well is hereby assigned a Production Limitation Factor of 0.79 in the Atoka formation only.

(4) In the absence of any special rules and regulations prorating gas production in the Atoka formation, the special rules hereinafter promulgated shall apply.

(5) The following special rules and regulations for a non-prorated gas well at an unorthodox location shall apply to Atoka production from the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE
APPLICATION OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES:

RULE 1: These rules shall apply to the Pennzoil Company Atoka formation gas well to be located 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, which well's Production Limitation Factor of 0.79 shall be applied to the well's Atoka deliverability (as determined by the hereinafter set forth procedure) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD:

RULE 2: The allowable period for the subject well shall be six months.

RULE 3: The year shall be divided into two allowable periods commencing at 7:00 O'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY:

RULE 4: Immediately upon connection of Atoka production only, the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure in the manner described in the last paragraph on Page I-6 of said test manual.

RULE 5: The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its highest single day's production during the months of April and May or October and November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate District Office of the Division not later than June 15 and December 15 of each year.

RULE 6: The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent

deliverability determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7: The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial or special deliverability tests in order that the Division or any such operator may at their option witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES:

RULE 8: The well's Atoka allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9: The well's Atoka allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10: The well's Atoka allowable during all ensuing allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor. If the well shall not have been producing for at least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with RULE 9.

RULE 11: Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12: Revised Atoka allowables based on special well tests shall remain effective until the beginning of the next allowable period.

RULE 13: In no event shall the well receive an allowable of less than 500,000 cubic feet of gas per day.

BALANCING OF PRODUCTION:

RULE 14: January 1 and July 1 of each year shall be known as the balancing dates.

RULE 15: If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 16: Atoka production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 17: If the well has an overproduced status at the end of a six-month allowable period, it shall be shut-in until such overproduction is made up.

RULE 18: If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut-in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 19: The Director of the Division shall have authority to permit the well, if it is subject to shut-in pursuant to Rules 17 and 18 above, to produce up to 500 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 20: The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 17, 18, or 19 above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

GENERAL:

RULE 21: Failure to comply with the provisions of this order of the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of Atoka allowable assigned to the well. No further allowable shall be assigned to the Atoka production from

-7-

Case No. 8498
Order No. R-7951

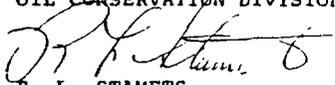
the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason thereof.

IT IS ORDERED THAT:

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


R. L. STAMETS,
Director

S E A L



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
 OIL CONSERVATION DIVISION

TONY ANAYA
 GOVERNOR

June 13, 1985

POST OFFICE BOX 2088
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 SANTA FE, NEW MEXICO 87501
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Mr. Thomas Kellahin
 Kellahin & Kellahin
 Attorneys at Law
 Post Office Box 2265
 Santa Fe, New Mexico

Re: CASE NO. 3498
 ORDER NO. R-7951

Applicant:

Pennzoil Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

R. L. STAMETS
 Director

RLS/fd

Copy of order also sent to:

Hobbs OCD x
 Artesia OCD x
 Aztec OCD

Other James Bruce

Mike, What is the status on this one?

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Telephone 982-4285
Area Code 505

May 28, 1985

(HAND-DELIVERED)

Mr. Richard L. Stamets
Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

RECEIVED

MAY 28 1985

Re: Pennzoil Company
NMOCD Case 8498
NMOCD Case 8499

OIL CONSERVATION DIVISION

Dear Mr. Stamets:

The above referenced cases were heard by Examiner Stogner at the hearing on February 27, 1985. The cases were contested by Exxon. Both Exxon and Pennzoil have submitted proposed orders. The Pennzoil orders provide for the use of the Division's standard penalty against unorthodox well locations that are opposed.

Pennzoil is most anxious to commence these wells and would appreciate your assistance in issuing an order as soon as possible.

Very truly yours,



W. Thomas Kellahin

WTK:mh

cc: Mr. Kenneth Medlock
Pennzoil Oil Company
Post Office Drawer 1828
Midland, Texas 79702

James Bruce, Esq.
Hinkle Law Firm
Post Office Box 2068
Santa Fe, New Mexico 87504-2068

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

218 MONTEZUMA

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STUART D. SHANOR
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PAUL J. KELLY, JR.
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PAUL M. BOHANNON
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD*
JOHN S. NELSON
RICHARD E. OLSON
RICHARD A. SIMMS
DEBORAH R. NORWOOD*

JAMES H. ISBELL*
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JOHN C. HARRISON
JAMES J. WECHSLER

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MICHELE A. REYNOLDS
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THOMAS D. HAINES, JR.
THOMAS M. HNASKO
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GREGORY J. NIBERT
JUDY K. MOORE*
KELLY S. THOMAS*
DAVID T. MARKETTE*
RALPH O. DUNN
BRUCE R. ROGOFF
JAMES M. HUDSON
DONALD R. FENSTERMACHER
DAVID B. GROCE*
DEBORAH K. NORRIS*
ROBERT M. BRISTOL*
GARY M. LADEN*

March 12, 1985

OF COUNSEL
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ROY C. SNODGRASS
O. M. CALHOUN
MACK EASLEY

W. E. BONDURANT, JR. (1913-1973)
ROBERT A. STONE (1905-1981)

*NOT LICENSED IN NEW MEXICO

Mr. Michael E. Stogner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504

HAND DELIVERED

Re: Pennzoil Company
Case Nos. 8498 and 8499

Dear Mr. Stogner:

As you requested at the February 27, 1985 hearing, enclosed are two proposed orders in the above cases. (Please note that Exxon still believes that both Applications should be denied, for reasons stated at the hearing.)

These two orders contain a penalty factor based solely on the distance each well is unorthodox in the north/south direction. Exxon believes that penalty factors must be based on the facts of each case, rather than on any standard method. (See, for example, Order No. R-7636, which based the penalty factor upon recoverable reserves, distance, and productive acreage.) Because both Pennzoil wells, if productive, will drain Exxon acreage, Exxon believes its method of calculating a penalty factor is valid.

Furthermore, Exxon believes that Pennzoil's calculated F_1 factors (in its proposed Orders) are erroneous: Since the "double circles" yield a figure of 67 acres outside an orthodox radial drainage area, Exxon believes the F_1 factor should be $67/320 = 21\%$. Therefore, $(21 + 100 + 50)/73$ results in an allowable factor of 76% for each proposed well, if the three-part test is used. Again, Exxon believes its method, described above, is preferable.

RECEIVED

MAR 1 1985

OIL CONSERVATION DIVISION

Mr. Michael E. Stogner
March 12, 1985
Page 2

The Exxon proposed orders do not contain a minimum well allowable, as do the Pennzoil Orders, and believes that the penalty should be assessed against any production. Also, the Exxon subsequent deliverability determination differs from that of Pennzoil.

Finally, if the well is productive in a zone other than the Atoka, Exxon believes the 50% penalty should also be assessed against production from that zone (if the spacing unit is 320 acres).

Please call me if you have any questions.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

JGB:jr
Enclosures

cc: Mr. William Duncan
W. Thomas Kellahin, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8498
ORDER NO. R-

APPLICATION OF PENNZOIL COMPANY
FOR AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9:00 a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Pennzoil Company, seeks approval of an unorthodox gas well location for the Pennzoil State Well No. 1-35 to be located 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, to test the Atoka formation, in an Undesignated Gas Pool, Lea County, New Mexico.

(3) That the E/2 of said Section 35 is to be dedicated to the well.

(4) That a well at said unorthodox location will better enable applicant to produce the gas underlying the proration unit.

(5) That Exxon, an offset operator, has objected to the proposed location.

(6) That a well at the proposed location is at a standard location relative to the East and West lines of said Section 35.

(7) That a well at the proposed location is 50 percent closer to the South line of said Section 35 than permitted by Division Rules and Regulations.

(8) That the applicant, Pennzoil Company, also seeks approval (in Case 8499) of an unorthodox gas well location for the Pennzoil State Well No. 1-36 to be located 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico to test the Atoka formation in an Undesignated Gas Pool. Both of applicant's wells will drain offsetting acreage.

(9) That to offset any advantage gained over the protesting offset operator, production from the well at the proposed unorthodox location should be limited from the Atoka formation.

(10) That such limitation should be based upon the variation of the location from a standard location in a North/South direction, resulting in a 50% limitation factor.

(11) That in the absence of any special rules and regulations for the prorationing of production from said Undesignated Atoka Gas Pool, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(12) That approval of the subject application, subject to the above provisions and limitations, will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That an unorthodox gas well location for the Atoka formation is hereby approved for the Pennzoil Well No. 1 to be located at a point 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Undesignated Atoka Gas Pool, Lea County, New Mexico.

(2) That the E/2 of said Section 35 shall be dedicated to the above described well.

(3) That said well is hereby assigned a Production Limitation Factor of 0.50 in the Atoka formation.

(4) That in the absence of any Special Rules and Regulations prorating gas production in said Undesignated Atoka Gas pool, the special rules hereinafter promulgated shall apply.

(5) That the following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE
APPLICATION OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES:

RULE 1: These rules shall apply to the Pennzoil State Well No. 1-35, located 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, which well's Production Limitation Factor of 0.50 shall be applied to the well's deliverability (as determined by the hereinafter set forth procedure) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD:

RULE 2: The allowable period for the subject well shall be six months.

RULE 3: The year shall be divided into two allowable periods commencing at 7:00 o'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY:

RULE 4: Immediately upon connection of the well the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure.

RULE 5: The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its production during the last 24 hours of a 72 hour test period. This test period shall be conducted during the months of April or May, or October or November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate District

Office of the Division not later than June 15 and December 15 of each year.

RULE 6: The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent deliverability determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7: The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial, subsequent, or special deliverability tests in order that the Division, or any such operator may, at their option, witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES:

RULE 8: The well's allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9: The well's allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10: The well's allowable during all ensuing allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor. If the well shall not have been producing for at least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with RULE 9.

RULE 11: Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12: Revised allowables based on special well tests shall remain effective until the beginning of the next allowable period.

BALANCING OF PRODUCTION:

RULE 13: January 1 and July 1 of each year shall be known as the balancing dates.

RULE 14: If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period

and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 15: Production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 16: If the well has an overproduced status at the end of a six-month allowable period, it shall be shut in until such overproduction is made up.

RULE 17: If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 18: The Director of the Division shall have authority to permit the well, if it is subject to shut-in pursuant to Rules 17 and 18 above, to produce up to 500,000 cubic feet of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship; provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 19: The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 17, 18, or 19 above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

GENERAL:

RULE 20: Failure to comply with the provisions of this order or the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of allowable assigned to the well. No further allowable shall be assigned to the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, or the date of allowable cancellation and the reason thereof.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO

OIL CONSERVATION DIVISION

RICHARD L. STAMETS
Director

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8499
ORDER NO. R-

APPLICATION OF PENNZOIL COMPANY
FOR AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9:00 a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Pennzoil Company, seeks approval of an unorthodox gas well location for the Pennzoil State Well No. 1-36 to be located 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, to test the Atoka formation, in an Undesignated Gas Pool, Lea County, New Mexico.

(3) That the W/2 of said Section 36 is to be dedicated to the well.

(4) That a well at said unorthodox location will better enable applicant to produce the gas underlying the proration unit.

(5) That Exxon, an offset operator, has objected to the proposed location.

(6) That a well at the proposed location is at a standard location relative to the East and West lines of said Section 36.

(7) That a well at the proposed location is 50 percent closer to the South line of said Section 36 than permitted by Division Rules and Regulations.

(8) That the applicant, Pennzoil Company, also seeks approval (in Case 8499) of an unorthodox gas well location for the Pennzoil State Well No. 1-35 to be located 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico to test the Atoka formation in an Undesignated Gas Pool. Both of the applicant's wells will drain offsetting acreage.

(9) That to offset any advantage gained over the protesting offset operator, production from the well at the proposed unorthodox location should be limited from the Atoka formation.

(10) That such limitation should be based upon the variation of the location from a standard location in a North/South direction, resulting in a 50% limitation factor.

(11) That in the absence of any special rules and regulations for the prorating of production from said Undesignated Atoka Gas Pool, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(12) That approval of the subject application, subject to the above provisions and limitations, will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That an unorthodox gas well location for the Atoka formation is hereby approved for the Pennzoil Well No. 1 to be located at a point 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, Undesignated Atoka Gas Pool, Lea County, New Mexico.

(2) That the W/2 of said Section 36 shall be dedicated to the above described well.

(3) That said well is hereby assigned a Production Limitation Factor of 0.50 in the Atoka formation.

(4) That in the absence of any Special Rules and Regulations prorating gas production in said Undesignated Atoka Gas Pool, the special rules hereinafter promulgated shall apply.

(5) That the following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE
APPLICATION OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES:

RULE 1: These rules shall apply to the Pennzoil State Well No. 1-36, located 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, which well's Production Limitation Factor of 0.50 shall be applied to the well's deliverability (as determined by the hereinafter set forth procedure) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD:

RULE 2: The allowable period for the subject well shall be six months.

RULE 3: The year shall be divided into two allowable periods commencing at 7:00 o'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY:

RULE 4: Immediately upon connection of the well the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure.

RULE 5: The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its production during the last 24 hours of a 72 hour test period. This test period shall be conducted during the months of April or May, or October or November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate District

Office of the Division not later than June 15 and December 15 of each year.

RULE 6: The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent deliverability determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7: The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial, subsequent, or special deliverability tests in order that the Division or any such operator may at their option witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES:

RULE 8: The well's allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9: The well's allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10: The well's allowable during all ensuring allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor. If the well shall not have been producing for at least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with RULE 9.

RULE 11: Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12: Revised allowables based on special well tests shall remain effective until the beginning of the next allowable period.

BALANCING OF PRODUCTION:

RULE 13: January 1 and July 1 of each year shall be known as the balancing dates.

RULE 14: If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period

and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 15: Production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 16: If the well has an overproduced status at the end of a six-month allowable period, it shall be shut in until such overproduction is made up.

RULE 17: If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 18: The Director of the Division shall have authority to permit the well, if it is subject to shut-in pursuant to Rules 17 and 18 above, to produce up to 500,000 cubic feet of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 19: The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 1, 18, or 19 above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

GENERAL:

RULE 20: Failure to comply with the provisions of this order or the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of allowable assigned to the well. No further allowable shall be assigned to the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason thereof.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO

OIL CONSERVATION DIVISION

RICHARD L. STAMETS
Director

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Telephone 982-4285
Area Code 505

March 5, 1985

Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

"Hand Delivered"

Re: Pennzoil Oil Company
NMOCD Case 8498
NMOCD Case 8499

Dear Mr. Stogner:

In accordance with your direction at the hearing in the referenced case held on February 27, 1985, on behalf of Pennzoil Company, please find enclosed for your consideration two proposed orders.

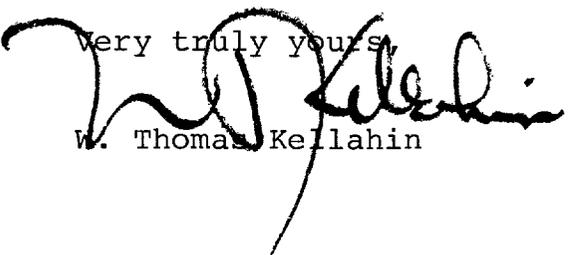
I have used the Division Order R-5832, entered in the Yates Petroleum Corporation case as a sample. The Yates order is based upon the standard three part Division formula and establishes a method for assessing a penalty in a non-prorated gas pool.

For Case 8498, my calculation of the F_1 factor is based upon the following: I took a radius of 2,106 feet for each of the two circles. The first circle is the area around the closest standard location and the second circle is around the unorthodox location. The area that the second circle exceeded the first circle outside of the Pennzoil acreage totalled 67 acres with 18 acres being controlled by Exxon. I then calculated the F_1 factor to be .944; F_2 is 1.0 and F_3 is 0.5. That totalled 2.444 divided by 3 results in .815 or an allowable of 81.5%.

I have also enclosed a proposed order for case 8499 which is based upon F_1 factor of .9125 which considers 28 acres controlled by Exxon out of 63 acres. The allowable for Case 8499 would then be 80.5%.

Should you desire more information, please call me.

Very truly yours,


W. Thomas Kellahin

WTK:ca
Enc.

KELLAHIN and KELLAHIN

Mr. Michael E. Stogner
March 5, 1985
Page 2

cc: Mr. Gregg Hair
Pennzoil Company
P. O. Drawer 1828
Midland, Texas 79702

James Bruce, Esq.
Hinkle Law Firm
P. O. Box 2068
Santa Fe, New Mexico 87501

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8499
ORDER NO. R-

APPLICATION OF PENNZOIL COMPANY
FOR AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9. a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Pennzoil Company, seeks approval of an unorthodox gas well location for the Pennzoil State Well No. 1-36 to be located 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, to test the Atoka formation, in an Undesignated Gas Pool, Lea County, New Mexico.

(3) That the W/2 of said Section 36 is to be dedicated to the well.

(4) That a well at said unorthodox location will better enable applicant to produce the gas underlying the proration unit.

(5) That Exxon, an offset operator has objected to the proposed location.

(6) That a well at the proposed location is at a standard location relative to the East and West lines of said Section 36.

(7) That a well at the proposed location is 50 percent closer to the South line of said Section 36 than permitted by Division Rules and Regulations.

(8) That a well at the proposed location will have an area of possible drainage in the Atoka formation which extends an additional 28 net acres outside Section 36 into Exxon's acreage, an amount of acreage equivalent to 8.75 percent of a standard proration unit in said pool.

(9) That to offset any advantage gained over the protesting offset operator, production from the well at the proposed unorthodox location should be limited from the Atoka formation.

(10) That such limitation should be based upon the variation of the location from a standard location and the 18 net-acre encroachment described in Finding No. (8) above, and may best be accomplished by assigning a well at the proposed location an allowable limitation factor of 0.805 (100 percent East/West factor plus 50 percent North/South factor plus 91.25 percent net-acre factor divided by 3).

(11) That in the absence of any special rules and regulations for the prorationing of production from said Undesignated Atoka Gas Pool, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(12) That the minimum calculated allowable for the subject well should be reasonable, and 1,000,000 cubic feet of gas per day is a reasonable figure for such minimum allowable.

(13) That approval of the subject application, subject to the above provisions and limitations, will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will

prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That an unorthodox gas well location for the Atoka formation is hereby approved for the Pennzoil Well No. 1 to be located at a point 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, Undesignated Atoka Gas Pool, Lea County, New Mexico.

(2) That the W/2 of said Section 36 shall be dedicated to the above described well.

(3) That said well is hereby assigned a Production Limitation Factor of 0.805 in the Atoka formation.

(4) That in the absence of any Special Rules and Regulations prorating gas production in said Undesignated Atoka Gas Pool, the special rules hereinafter promulgated shall apply.

(5) That the following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE
APPLICATION OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES:

RULE 1: These rules shall apply to the Pennzoil State Well No. 1-36, located 990 feet from the South line and 660 feet from the West line of Section 36, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, which well's Production Limitation Factor of 0.805 shall be applied to the well's deliverability (as determined by the hereinafter set forth procedure) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD:

RULE 2: The allowable period for the subject well shall be six months.

RULE 3: The year shall be divided into two allowable periods commencing at 7:00 o'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY:

RULE 4: Immediately upon connection of the well the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure.

RULE 5: The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its highest single day's production during the months of April and May or October and November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate District Office of the Division not later than June 15 and December 15 of each year.

RULE 6: The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent deliverability determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7: The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial or special deliverability tests in order that the Division or any such operator may at their option witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES:

RULE 8: The well's allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9: The well's allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10: The well's allowable during all ensuing allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor.

If the well shall not have been producing for a least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with RULE 9.

RULE 11: Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12: Revised allowables based on special well tests shall remain effective until the beginning of the next allowable period.

RULE 13: In no event shall the well receive an allowable of less than one million cubic feet of gas per day.

BALANCING OF PRODUCTION:

RULE 14: January 1 and July 1 of each year shall be known as the balancing dates.

RULE 15: If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 16: Production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 17: If the well has an overproduced status at the end of a six-month allowable period, it shall be shut in until such overproduction is made up.

RULE 18: If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 19: The Director of the Division shall have authority to permit the well, if it is subject to shut-in pursuant to Rules 17 and 18 above, to produce up to 500 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 20: The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 17, 18, or 19 above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

GENERAL:

RULE 21: Failure to comply with the provisions of this order or the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of allowable assigned to the well. No further allowable shall be assigned to the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason thereof.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

RICHARD L. STAMETS
Director

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8498
ORDER NO. R-

APPLICATION OF PENNZOIL COMPANY
FOR AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9. a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Pennzoil Company, seeks approval of an unorthodox gas well location for the Pennzoil State Well No. 1-36 to be located 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, to test the Atoka formation, in an Undesignated Gas Pool, Lea County, New Mexico.

(3) That the E/2 of said Section 35 is to be dedicated to the well.

(4) That a well at said unorthodox location will better enable applicant to produce the gas underlying the proration unit.

(5) That Exxon, an offset operator has objected to the proposed location.

(6) That a well at the proposed location is at a standard location relative to the East and West lines of said Section 35.

(7) That a well at the proposed location is 50 percent closer to the South line of said Section 35 than permitted by Division Rules and Regulations.

(8) That a well at the proposed location will have an area of drainage in the Atoka formation which extends an additional 18 net acres outside Section 35 into Exxon's acreage, an amount of acreage equivalent to 5.625 percent of a standard proration unit in said pool.

(9) That to offset any advantage gained over the protesting offset operator, production from the well at the proposed unorthodox location should be limited from the Atoka formation.

(10) That such limitation should be based upon the variation of the location from a standard location and the 18 net-acre encroachment described in Finding No. (8) above, and may best be accomplished by assigning a well at the proposed location an allowable limitation factor of 0.815 (100 percent East/West factor plus 50 percent North/South factor plus 94.4 percent net-acre factor divided by 3).

(11) That in the absence of any special rules and regulations for the prorationing of production from said Undesignated Atoka Gas Pool, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(12) That the minimum calculated allowable for the subject well should be reasonable, and 1,000,000 cubic feet of gas per day is a reasonable figure for such minimum allowable.

(13) That approval of the subject application, subject to the above provisions and limitations, will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will

prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That an unorthodox gas well location for the Atoka formation is hereby approved for the Pennzoil Well No. 1 to be located at a point 990 feet from the South line and 660 feet from the East line of Section 35, Township 16 South, Range 34 East, NMPM, Undesignated Atoka Gas Pool, Lea County, New Mexico.

(2) That the E/2 of said Section 35 shall be dedicated to the above described well.

(3) That said well is hereby assigned a Production Limitation Factor of 0.815 in the Atoka formation.

(4) That in the absence of any Special Rules and Regulations prorating gas production in said Undesignated Atoka Gas Pool, the special rules hereinafter promulgated shall apply.

(5) That the following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:
