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ARTESIA OFFICE

APPLICATION FOR CLASSIFICATION AS HARDSHIP GAS WELL

Operator Belco Development Corp Contact Party Carl M. Houser O. C. D.
Address 10000 Old Katy Rd Suite 100 Phone No. (713) 992-4700
Houston, Texas 77055
Lease Union Mead Com. Well No. #3 UT J Sec. 5 TWP 22S RGE 27E
Pool Name S. Carlsbad Morrow Minimum Rate Requested 850 MCF/D
Transporter Name Llano Purchaser (if different) _____

Are you seeking emergency "hardship" classification for this well? XXX yes _____ no

Applicant must provide the following information to support his contention that the subject well qualifies as a hardship gas well.

- 1) Provide a statement of the problem that leads the applicant to believe that "underground waste" will occur if the subject well is shut-in or is curtailed below its ability to produce. (The definition of underground waste is shown on the reverse side of this form)
- 2) Document that you as applicant have done all you reasonably and economically can do to eliminate or prevent the problem(s) leading to this application.
 - a) Well history. Explain fully all attempts made to rectify the problem. If no attempts have been made, explain reasons for failure to do so.
 - b) Mechanical condition of the well (provide wellbore sketch). Explain fully mechanical attempts to rectify the problem, including but not limited to:
 - i) the use of "smallbore" tubing; ii) other de-watering devices, such as plunger lift, rod pumping units, etc.
- 3) Present historical data which demonstrates conditions that can lead to waste. Such data should include:
 - a) Permanent loss of productivity after shut-in periods (i.e., formation damage).
 - b) Frequency of swabbing required after the well is shut-in or curtailed.
 - c) Length of time swabbing is required to return well to production after being shut-in.
 - d) Actual cost figures showing inability to continue operations without special relief
- 4) If failure to obtain a hardship gas well classification would result in premature abandonment, calculate the quantity of gas reserves which would be lost
- 5) Show the minimum sustainable producing rate of the subject well. This rate can be determined by:
 - a) Minimum flow or "log off" test; and/or
 - b) Documentation of well production history (producing rates and pressures, as well as gas/water ratio, both before and after shut-in periods due to the well dying, and other appropriate production data).
- 6) Attach a plat and/or map showing the proration unit dedicated to the well and the ownership of all offsetting acreage.
- 7) Submit any other appropriate data which will support the need for a hardship classification.
- 8) If the well is in a prorated pool, please show its current under- or over-produced status.
- 9) Attach a signed statement certifying that all information submitted with this application is true and correct to the best of your knowledge; that one copy of the application has been submitted to the appropriate Division district office (give the name) and that notice of the application has been given to the transporter/purchaser and all offset operators.

GENERAL INFORMATION APPLICABLE TO HARDSHIP GAS WELL CLASSIFICATION

Definition of Underground Waste.

"Underground Waste as those words are generally understood in the oil and gas business, and in any event to embrace the inefficient, excessive, or improper use or dissipation of the reservoir energy, including gas energy and water drive, of any pool, and the locating, spacing, drilling, equipping, operating, or producing, of any well or wells in a manner to reduce or tend to reduce the total quantity of crude petroleum oil or natural gas ultimately recovered from any pool, and the use of inefficient underground storage of natural gas."

The only acceptable basis for obtaining a "hardship" classification is prevention of waste with the burden of proof solely on the applicant. The applicant must not only prove waste will occur without the "hardship" classification, but also that he has acted in a responsible and prudent manner to minimize or eliminate the problem prior to requesting this special consideration. If the subject well is classified as a "hardship" well, it will be permitted to produce at a specified minimum sustainable rate without being subject to shut-in by the purchaser due to low demand. The Division can rescind approval at any time without notice and require the operator to show cause why the classification should not be permanently rescinded if abuse of this special classification becomes apparent.

The minimum rate will be the minimum sustainable rate at which the well will flow. If data from historical production is insufficient to support this rate (in the opinion of the Director), or if an offset operator or purchaser objects to the requested rate, a minimum flow ("log off") test may be required. The operator may, if he desires, conduct the minimum flow test, and submit this information with his application.

If a minimum flow test is to be run, either at the operator's option or at the request of the Division, the offset operators, any protesting party, the purchaser and OCD will be notified of the date of the test and given the opportunity to witness, if they so desire.

Any interested party may review the data submitted at either the Santa Fe office or the appropriate OCD District Office.

The Director can approve uncontested applications administratively if, in his opinion, sufficient justification is furnished. Notice shall be given of intent to approve by attaching such notice to the regular examiner's hearing docket. Within 20 days following the date of such hearing, the affected parties will be permitted to file an objection. If no objection has been filed, the application may be approved.

Should a protest be filed in writing, the applicant will be permitted to either withdraw the application, or request it to be set for hearing.

An emergency approval, on a temporary basis for a period not to exceed 90 days, may be granted by the District Supervisor, pending filing of formal application and final action of the OCD Director. This temporary approval may be granted only if the District Supervisor is convinced waste will occur without immediate relief. If granted, the District Supervisor will notify the purchaser.

After a well receives a "hardship" classification, it will be retained for a period of one year unless rescinded sooner by the Division. The applicant will be required to certify annually that conditions have not changed substantially in order to continue to retain this classification.

Nothing here withstanding, the Division may, on its own motion, require any and all operators to show cause why approval(s) should not be rescinded if abuse is suspected or market conditions substantially change in the State of New Mexico.

A well classified as a "hardship well" will continue to accumulate over and under production (prorated pools). Should allowables exceed the hardship allowable assigned, the well will be permitted to produce at the higher rate, if capable of doing so, and would be treated as any other non-hardship well. Any cumulative overproduction accrued either before or after being classified "hardship" must, however, be balanced before the well can be allowed to produce at the higher rate.