

Cement squeeze existing Dakota perforations at 6692 feet to 7033 feet. Mill a section from 5660 feet to 5720 feet. Plug back to the kickoff point at 5700 feet. Kickoff in a northeasterly direction building angle to approximately 80 degrees. Penetrate the top of the Niobrara member of the Gallup formation at an estimated vertical depth of 6160 feet. Continue drilling horizontally a distance of approximately 1250 feet bottoming said wellbore no closer than 330 feet from the outer boundary of the project area.

(4) The applicant further seeks:

- a) the adoption of special operating provisions and rules within the pilot project area including the designation of a prescribed area limiting the horizontal displacement of said well's producing interval such that it can be no closer than 330 feet from the outer boundary of the project area.
- b) approval of a 160-acre non-standard oil proration unit comprising the SW/4 of Section 24.
- c) a special project allowable equal to four times the state-wide depth bracket allowable for an oil well in the Gallup formation.

(5) At the time of the hearing, the applicant requested that its proposal for a special gas-oil ratio limitation within the pilot project area be dismissed.

(6) The subject well is not located within the boundaries of any designated Gallup oil pool and is therefore subject to General Statewide Rules and Regulations, including 40-acre spacing with wells to be located no closer than 330 feet from the outer boundary of the proration unit, a gas-oil ratio limitation of 2,000 cubic feet of gas per barrel of oil, and a daily oil and gas allowable of 142 barrels and 284 MCF, respectively.

(7) The Niobrara member of the Gallup formation is the potentially productive zone within the pilot project area and is characterized by low permeability and interconnected fracture systems.

(8) Because vertical wells drilled to the Niobrara interval within a three mile radius of the USA Well No. 2 have not been commercially successful, the applicant is attempting to increase the probability of encountering several of these fractures.

(9) Past experience in this area has shown that unless a conventional vertical well intersects natural fractures, the chance of obtaining commercial production is severely curtailed.