



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

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— MEMORANDUM — EXAMINER'S RULE INTERPRETATION

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

TO: All Jalmat and Eumont Oil and Gas Operators.

FROM: Michael E. Stogner, Chief Hearing Examiner/Engineer (OCD). *MS.*

SUBJECT: The restoration of previously authorized/established non-standard gas spacing units within the Jalmat (79240) and Eumont (76480) Gas Pools under the provisions of Rules 4 (C) of the "*Special Pool Rules for the Jalmat Gas Pool*" and "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 4, 2001.

DATE: June 8, 2004.

Development of the Eumont and Jalmat Gas Pools commenced in the early 1950's under a gas prorationing system based on acreage and a considerable number of non-standard gas spacing and proration units were routinely approved under special rules governing both pools applicable at the time.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Jalmat and Eumont Gas Pools and promulgated special pool rules that provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rules 3 (C) and (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule (A) (2)]; and (iv) administrative exceptions, in most cases, to these rules (Rule 4) with notification, including the formation of non-standard gas spacing units [Rule 4 (C) (1)]. The special pool rules prohibit: (i) the simultaneous dedication of acreage committed to a gas well in either the Jalmat or Eumont Gas Pool to an oil well [Rule 2 (C)]; and (ii) a gas well density greater than one Jalmat or Eumont well per quarter-quarter section [Rule 3 (D)]. The special pool rules further provided that all existing rule exceptions, whether granted administratively or through hearing, in effect on the issuance date of Division Order No. R-8170-P, be "grandfathered" [Rule 6 (B)].

Earlier this year, the Division restored two previously authorized 160-acre non-standard spacing units in these pools that had not produced for some time and/or where the previous dedicated well or wells had been abandoned [see AMENDED Administrative Order NSP-1435, dated March 30, 2004, and Administrative Order NSP-1871 (Administrative Reinstatement of Division Order No. R-479) dated April 12, 2004]. In each case only one well was to be dedicated to the restored unit, which complied with the well density provisions in both pools and each well location was standard. Both restored units were at the request of the operator in the form of abbreviated applications and were issued Administrative Orders; however, notification under special Rule 4 (D) was not provided nor asked for by the Division's examiner.

After reassessing its practice for processing such request and the spirit in which the Division Order No. R-8170-P was issued, the Division has determined that in the best interest of conservation and to assure that correlative rights are protected, the same procedure required under special Rule 4 (C) in establishing non-standard spacing units within the Jalmat and Eumont Gas Pools must be followed when restoring previously established spacing and proration units that are no longer active.