

**PROPOSED
SPECIAL RULES AND REGULATIONS
FOR THE
EAST HAPPY VALLEY BONE SPRING POOL**

RULE 1. Each well completed or recompleted in the East Happy Valley Bone Spring Pool or in the Second Bone Spring limestone zone in the Bone Spring formation within one mile thereof between the depths of 6,312 feet and 6,452 feet as delineated by that open hole log for the Kaiser-Francis Oil Company Mesa Grande "11" Well No. 2 (API No. 30-015-33720) and not nearer to or within the limits of another designated Bone Spring oil pool, shall be spaced, drilled, operated and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 160 acres, more or less, consisting of the W/2 W/2, E/2 W/2, W/2 E/2, or E/2 E/2 of a governmental half-section being a legal subdivision of the United States Public Lands Survey, provided however, nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the unit.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Division", 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 comprising one or more governmental quarter-quarter sections or lots, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Land Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no closer than 660 feet to any outer boundary of the spacing and proration unit and no closer than 10 feet to any quarter-quarter section line of a subdivision inner boundary.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 382 barrels per day, and in the event there is more than one well on a 160-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

RULE 7. The limiting gas-oil ratio for the East Happy Valley Bone Spring Pool shall be 4,000 cubic feet of gas per barrel of oil produced.