

**BEFORE THE
OIL CONSERVATION COMMISSION**
Santa Fe, New Mexico

Case Nos. 11723 (De Novo); 11755 (De Novo)
and 11868 (Consolidated) Exhibit No. 7

Submitted by: Texaco Exploration and Production Inc.

Hearing Date: October 30, 1997

CHRONOLOGY
CATCLAW DRAW-MORROW GAS POOL
EDDY COUNTY, NEW MEXICO

1. June 21, 1971 Order No. R-4157. Catclaw Draw Morrow Gas Pool created and temporary special pool rules adopted authorizing 640-acre spacing and establishing 1650 foot set back requirements.
2. September 13, 1973 Order No. R-4157-A. Permanent Pool Rules Adopted.
3. January 15, 1974 Order No. R-4704. Catclaw Draw-Morrow Gas Pool Prorated.
4. October 22, 1974 Order No. R-4157-B. Pool Rules limited to Pool Boundary.
5. January 9, 1980 Order No. R-4157-C. 320-acre spacing adopted.
6. August 26, 1981 Order No. R-4157-D. 640-acre spacing with one optional second well is approved.
7. July 27, 1988 One well rule -- Memorandum from William J. LeMay -- development of non prorated pools with single well units.
8. August 3, 1990 One well rule -- Memorandum from William J. LeMay regarding continuous and concurrent development of multiple wells on non-prorated spacing units.
9. March 28, 1986 Order No. R-8170. New General Rules and Regulations for the prorated gas pools of New Mexico are adopted. This Order repealed prior prorating rules (Order No. R-1670) and contains special pool rules for individual pools. The rules for the Catclaw Draw-Morrow Gas Pool are silent on second wells on spacing units.

February, 1994 Additional well drilled in this pool as second well on a spacing unit.
10. March 27, 1995 Order No. R-10328. Prorating "suspended" in certain pools including the Catclaw Draw-Morrow Gas Pool.

11. October, 1995

Application for Permit to Drill

Texaco drilled the E.J. Levers Federal "NCT-1" Well No. 2 as the second well to the Morrow formation, Catclaw Draw-Morrow Gas Pool, on the 632.36-acre spacing and proration unit comprised of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico.

12. September 10, 1997

Stogner Memorandum

Meeting at the New Mexico Oil Conservation Division with Michael E. Stogner at which time Mr. Stogner advised Texaco that two Morrow wells in Section 12 violated Division rules and requested one well on this unit be shut-in until:

- A. Gas prorationing be reestablished in the Catclaw Draw-Morrow Gas Pool;
- B. The pool rules be amended to permit infill wells;
- C. An exception to Oil Conservation Division Rule 104.D(3) is obtained; or
- D. Documentation be submitted showing an exception to this rule has previously been obtained.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 4548
Order No. R-4157

NOMENCLATURE

APPLICATION OF HANAGAN
PETROLEUM CORPORATION FOR
A NEW GAS POOL AND FOR
SPECIAL POOL RULES, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 10:30 a.m. on June 16, 1971, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of June, 1971, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Hanagan Petroleum Corporation, seeks the creation of a new gas pool for Morrow production in Eddy County, New Mexico, and the promulgation of special rules and regulations governing said pool, including a provision for 640-acre spacing units.

(3) That the Hanagan Petroleum Corporation Catclaw Draw Unit Well No. 1-Y, located in Unit F of Section 26, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, having its top perforations at 10,202 feet, has discovered a separate common source of supply which should be designated the Catclaw

Draw-Morrow Gas Pool; that the vertical limits of said pool should be the Morrow formation as found in the interval from 10,186 feet to 10,570 feet on the log of the aforesaid Catclaw Draw Unit Well No. 1-Y; and that the horizontal limits of said pool should be all of said Section 26.

(4) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 640-acre spacing units should be promulgated for the Catclaw Draw-Morrow Gas Pool.

(5) That the temporary special rules and regulations should provide for limited well locations in order to assure orderly development of the pool and protect correlative rights.

(6) That special rules and regulations should be established for a temporary period to expire one year from the date that a pipeline connection is first obtained for a well in the pool; that during this temporary period all operators in the subject pool should gather all available information relative to drainage and recoverable reserves.

(7) That this case should be reopened at an examiner hearing one year from the date that a pipeline connection is first obtained for a well in the Catclaw Draw-Morrow Gas Pool, at which time the operators in the subject pool should appear and show cause why the Catclaw Draw-Morrow Gas Pool should not be developed on 320-acre spacing units.

(8) That the first operator to obtain a pipeline connection for a well in the Catclaw Draw-Morrow Gas Pool should notify the Commission in writing of such fact, and that the Commission should thereupon issue a supplemental order designating an exact date for reopening this case.

IT IS THEREFORE ORDERED:

(1) That a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production, is hereby created and designated the Catclaw Draw-Morrow Gas Pool, with vertical limits comprising the Morrow formation as found in the interval from

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10,186 feet to 10,570 feet on the log of the Hanagan Petroleum Corporation Catclaw Draw Well No. 1-Y, located in Unit F of Section 26, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, and horizontal limits comprising the following-described area:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM
Section 26: All

(2) That temporary Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico, are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
CATCLAW DRAW-MORROW GAS POOL

RULE 1. Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof, and not nearer to or within the limits of another designated Morrow gas pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

RULE 3. The Secretary-Director of the Commission 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 and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Land Surveys, or the following facts exist and the following provisions are complied with:

- (a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
- (b) The non-standard unit lies wholly within a governmental section and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Secretary-Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line.

RULE 5. The Secretary-Director may grant an exception to the requirements of Rule 4 without notice and 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 proration unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all operators offsetting the proration unit or if no objection to the unorthodox location has been entered within 20 days after the Secretary-Director has received the application.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Artesia District Office of the Commission in writing of the name and location of the well on or before July 15, 1971.

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(2) That, pursuant to Paragraph A. of Section 65-3-14.5, NMSA 1953, contained in Chapter 271, Laws of 1969, existing wells in the Catclaw Draw-Morrow Gas Pool shall have dedicated thereto 640 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 65-3-14.5, existing wells may have non-standard spacing or proration units established by the Commission and dedicated thereto.

Failure to file new Forms C-102 with the Commission dedicating 640 acres to a well or to obtain a non-standard unit approved by the Commission within 60 days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(3) That this case shall be reopened at an examiner hearing one year from the date that a pipeline connection is first obtained for a well in the Catclaw Draw-Morrow Gas Pool, at which time the operators in the subject pool may appear and show cause why the Catclaw Draw-Morrow Gas Pool should not be developed on 320-acre spacing units.

(4) That the first operator to obtain a pipeline connection for a well in the Catclaw Draw-Morrow Gas Pool shall notify the Commission in writing of such fact, and that the Commission will thereupon issue a supplemental order designating an exact date for reopening this case.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

ALEX J. ARMIJO, Member

S E A L

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 4548
Order No. R-4157

IN THE MATTER OF CASE NO. 4548 BEING
REOPENED PURSUANT TO THE PROVISIONS OF
ORDER NO. R-4157, WHICH ORDER ESTABLISHED
SPECIAL RULES AND REGULATIONS FOR THE
CATCLAW DRAW-MORROW GAS POOL, EDDY
COUNTY, NEW MEXICO, INCLUDING A PROVI-
SION FOR 640-ACRE PRORATION UNITS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 22, 1973 at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 13th day of September, 1973, the Commission a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That by Order No. R-4157, dated June 21, 1971, special rules and regulations were promulgated for the Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico, establishing 640-acre spacing units.

(3) That pursuant to the provisions of Order No. R-4157, this cause was reopened to allow the operators in the subject pool to appear and show cause why the Catclaw Draw-Morrow Gas Pool should not be developed on 320-acre spacing units.

(4) That the Catclaw Draw-Morrow Gas Pool is not now fully developed and defined.

(5) That at least two separate zones in the Morrow formation are productive from wells completed in said pool.

(6) That shut-in pressures tend to show communication between the majority of the wells in the pool but some pressures do not show such communication.

(7) That the special pool rules for the Catclaw Draw-Morrow Gas Pool should not be made permanent at this time but should be continued on a temporary basis for an additional period of one year.

(8) That this case should be reopened at an examiner hearing in September, 1974, at which time the operators in the subject pool should appear and show cause why the Catclaw Draw-Morrow Gas Pool should not be developed on 320-acre spacing.

IT IS THEREFORE ORDERED:

(1) That the temporary special pool rules for the Catclaw Draw-Morrow Gas Pool are hereby continued in full force and effect.

(2) That this case shall be reopened at an examiner hearing in September, 1974, at which time the operators in the subject pool may appear and present additional testimony to show cause why the Catclaw Draw-Morrow Gas Pool should not be developed on 320-acre spacing units.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

s/ I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

s/ A. L. PORTER, Jr., Member & Secretary

S E A L

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5109
Order No. R-4704

IN THE MATTER OF THE HEARING CALLED BY THE
OIL CONSERVATION COMMISSION ON ITS OWN MOTION
TO CONSIDER EXTENDING THE POOL LIMITS OF THE
CATCLAW DRAW-MORROW GAS POOL, EDDY COUNTY,
NEW MEXICO, TO INCLUDE ALL OF SECTION 35,
TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMFM, TO CONSIDER
THE INSTITUTION OF GAS PRORATIONING IN SAID
POOL, AND TO CONSIDER THE ADOPTION OF SPECIAL
RULES AND REGULATIONS FOR SAID POOL.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 15, 1973, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 15th day of January, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That by Order No. R-4157 dated June 21, 1971, the Commission created the Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico, for the production of gas from the Morrow formation and at that time no objection to the formation of said pool was received.

(3) That the horizontal limits of said pool have been extended from time to time by order of the Commission.

(4) That the horizontal limits of the Catclaw Draw-Morrow Gas Pool as defined by the Commission at the time of hearing this case comprise the following described area:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMFM
Section 1: All
Sections 11 through 14: All
Sections 23 through 26: All
Section 36: All

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMFM
Sections 18 and 19: All
Section 30: All

(5) That the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico should be extended to include therein:

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM
Section 35: All

(6) That at the time of hearing of this case, there were thirteen wells producing from the subject pool.

(7) That at the time of the hearing of this case, gas was being taken from wells producing from the subject pool by two transporters, being Llano Pipeline Company and Southern Union Gas Company.

(8) That during the month of August, 1973, the latest month for which figures are available, the total tested delivery capacity of the eleven wells which had pipeline connections within the subject pool was at least 57,241 mcf per day.

(9) That during the month of August, 1973, the actual production from the aforesaid eleven wells within the subject pool was approximately 36,000 mcf per day.

(10) That since, during the month of August, 1973, no restrictions other than market demand were placed upon the production from wells within the subject pool, actual production should be considered as market demand for gas from the pool.

(11) That during the month of August, 1973, the total delivery capacity of the wells within the subject pool exceeded market demand for gas from the subject pool.

(12) That under the conditions that now exist in the subject pool, there is a potential for non-ratable taking by pipelines from the various wells in the pool.

(13) That non-ratable taking by pipelines from the various wells in the pool would constitute a violation of correlative rights.

(14) That unrestricted production creates a potential for drainage which is not equalized by counter-drainage and that such drainage constitutes a violation of correlative rights.

(15) That the protection of correlative rights is a necessary adjunct to the prevention of waste.

(16) That in order to prevent waste and ensure that all owners of property in the subject pool have the opportunity to produce without waste their fair share of the gas in the pool, the subject pool should be prorated to limit the amount of gas to be recovered from each tract to that tract's share of the reasonable market demand for gas from the pool.

(17) That to ensure that each owner of property in the subject pool has the opportunity to produce that amount of gas that can be practicably

obtained without waste substantially in the proportion that the recoverable gas under his tract bears to the total recoverable gas in the pool, the subject pool should be prorated in order to limit the amount of gas to be produced from the pool to the reasonable market demand and the capacity of the gas transportation facilities serving that pool.

(18) That the subject pool has not been completely developed.

(19) That production from the Morrow formation in the subject pool is from many separate stringers which vary greatly in areal extent and in porosity and thickness, both within individual stringers and between stringers.

(20) That the above-described stringers are not continuous across the pool but are interconnected by the perforations in the various completions in the pool.

(21) That due to the above-described variations in the stringers and the lack of continuity of the stringers, the effective feet of pay and the reserves underlying each developed tract cannot be practicably determined from the data obtained at the wellbore.

(22) That there are recoverable gas reserves underlying each of the developed 640-acre tracts within the horizontal limits of the subject pool; that there are 13 developed 640-acre tracts within the pool as described in Finding No. (4) above and as extended pursuant to Finding No. (5) above.

(23) That due to the nature of the reservoir, the amount of recoverable gas under each producer's tract cannot be practicably determined in the subject pool by a formula which considers effective feet of pay and pore volume.

(24) That due to the nature of the reservoir, the total amount of recoverable gas in the subject pool cannot be practicably determined by a formula which considers effective feet of pay and pore volume.

(25) That due to the nature of the reservoir, the proportion of recoverable gas underlying each tract to the total amount of recoverable gas in the subject pool cannot be practicably determined by a formula which considers effective feet of pay and pore volume.

(26) That the amount of recoverable gas under each producer's tract cannot be practicably determined in the subject pool by a formula which considers the deliverability of a well.

(27) That the total amount of recoverable gas in the subject pool cannot be practicably determined by a formula which considers the deliverability of the wells in the pool.

(28) That the proportion of recoverable gas underlying each tract to the total amount of recoverable gas in the subject pool cannot be practicably determined by a formula which considers the deliverability of the wells within the pool.

(29) That the amount of recoverable gas under each producer's tract cannot be practicably determined by a formula which considers previous production and pressure decline.

(30) That due to the early state of depletion of the subject pool, the total amount of recoverable gas in the pool cannot be practicably determined by a formula which considers previous production and pressure decline.

(31) That the proportion of recoverable gas underlying each tract to the total amount of recoverable gas in the subject pool cannot be practicably determined by a formula which considers previous production and pressure decline.

(32) That the amount of gas which can be practicably obtained without waste by the owner of each property in the subject pool substantially in the proportion that the recoverable gas under his tract bears to the total recoverable gas in the pool can be practicably determined best by allocating the allowable production among the wells on the basis of developed tract acreage compared to total developed tract acreage in the pool.

(33) That, considering the nature of the reservoir and the known extent of development, a proration formula based upon surface acreage will afford the owner of each property in the pool the opportunity to produce his just and equitable share of the gas in the pool so far as such can be practicably obtained without waste substantially in the proportion that the recoverable gas under such property bears to the total recoverable gas in the pool.

(34) That in order to prevent waste the total allowable production from each gas well producing from the subject pool should be limited to that well's share of the reasonable market demand for gas from the pool.

(35) That in order to prevent waste, the total allowable production from all gas wells producing from the subject pool should be limited to the total reasonable market demand for gas from the pool.

(36) That, considering the available reservoir information, a 100 percent surface acreage formula is the most reasonable basis for allocating the allowable production among the wells delivering to the gas transportation facilities.

(37) That, in order to prevent drainage between tracts that is not equalized by counter drainage, the allowable production from the pool should be prorated to the various producers on a just and equitable basis.

(38) That the adoption of a 100 percent surface acreage formula for allocating the allowable production in the subject pool will, insofar as is presently practicable, prevent drainage between producing tracts which is not equalized by counter drainage.

(39) That in order to ensure that each operator is afforded the opportunity to produce his property ratably with all other operators in the pool, allowable production from the pool should be prorated to the various producers upon a just and equitable basis.

(40) That the adoption of a 100 percent surface acreage formula for allocating the allowable production in the subject pool will insofar as is presently practicable allow each operator the opportunity to produce his property ratably with all other operators in the pool.

(41) That the subject pool should be governed by the general rules and regulations for the prorated gas pools of southeastern New Mexico promulgated by Order No. R-1670 as amended insofar as such general rules and regulations are not inconsistent with this order or the special rules and regulations for the subject pool promulgated by this order.

IT IS THEREFORE ORDERED:

(1) That the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico, as heretofore classified, defined and described, is hereby extended to include therein:

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM
Section 35: All

(2) That the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico is hereby prorated effective April 1, 1974.

(3) That the subject pool shall be governed by the general rules and regulations for the prorated gas pools of southeastern New Mexico promulgated by Order No. R-1670 as amended insofar as such general rules and regulations are not inconsistent with this order or the special rules and regulations for the subject pool as hereinafter set forth in which event the special rules shall apply.

SPECIAL RULES AND REGULATIONS
FOR THE
CATCLAW DRAW-MORROW GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 1. Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof and not nearer to nor within the boundaries of another pool producing from the Morrow formation shall be spaced, drilled, operated and prorated in accordance with the rules for the Catclaw Draw-Morrow Gas Pool as set forth herein.

RULE 2. Each well shall be located no nearer than 1650 feet to the outer boundary of the section nor nearer than 330 feet to any governmental quarter-quarter section line.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8. (A) The total allowable to be allocated to gas wells in the pool regulated by this order each month shall be equal to the sum of the "preliminary" or "supplemental" nominations (whichever is applicable) together with any adjustments which the Commission deems advisable. The allowable remaining each month after deducting the total

allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal gas wells in the pool.

RULE 8. (B) Allowables to newly completed gas wells shall commence on the day of connection to a gas transportation facility as determined from an affidavit furnished to the Commission (Drawer DD, Artesia, New Mexico 88210) by the purchaser or the date of filing of Form C-104 and a plat (Form C-102) whichever data is the latter.

RULE 9. (A) A standard unit consisting of 640 acres shall be assigned an acreage factor of 1.00, provided however, the acreage tolerances provided in Rule 5 (A) shall apply.

C. GENERAL

RULE 25. The vertical limits of the Catclaw Draw-Morrow Gas Pool shall be the Morrow formation.

RULE 26. The first proration period for the Catclaw Draw-Morrow Gas Pool shall commence on April 1, 1974.

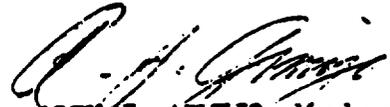
IT IS FURTHER ORDERED:

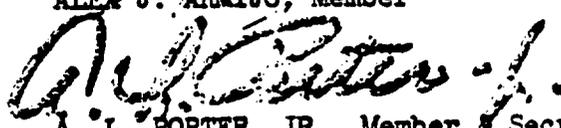
(1) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


I. R. TRUJILLO, Chairman


ALEX J. ARMILJO, Member


A. L. PORTER, JR., Member & Secretary

S E A L

Jr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

CASE NO. 4548
Order No. R-4157-B

IN THE MATTER OF CASE NO. 4548 BEING
REOPENED PURSUANT TO THE PROVISIONS
OF ORDER NO. R-4157-A WHICH ORDER
CONTINUED IN EFFECT FOR ONE YEAR THE
SPECIAL TEMPORARY SPECIAL RULES AND
REGULATIONS FOR THE CATCLAW DRAW-MORROW
GAS POOL, EDDY COUNTY, NEW MEXICO

AND:

IN THE MATTER OF CASE NO. 4548 BEING
REOPENED ON THE MOTION OF THE OIL
CONSERVATION COMMISSION TO CONSIDER THE
AMENDMENT OF THE SPECIAL POOL RULES FOR
THE CATCLAW DRAW-MORROW GAS POOL, EDDY
COUNTY, NEW MEXICO, TO LIMIT THE APPLI-
CABILITY OF SAID SPECIAL RULES TO THE
CONFINES OF THE POOL'S HORIZONTAL LIMITS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

These causes came on for hearing at 9 a.m. on September 4, 1974, and at 9 a.m. on October 2, 1974, respectively, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 22nd day of October, 1974, the Commission, a quorum being present, having considered the testimony, the records, 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 Commission has jurisdiction of these causes and the subject matter thereof.

(2) That by Order No. R-4157, dated June 21, 1971, temporary special rules and regulations were established for the Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico, establishing 640-acre spacing units.

(3) That by Order No. R-4157-A, dated September 13, 1973, said temporary special rules and regulations were extended for a period of one year.

(4) That by Order No. R-1670-0, dated January 15, 1974, the Special Pool Rules for the Catclaw Draw-Morrow Gas Pool were amended to provide for the prorationing of gas in said pool, and Special Rules 1, 2, 8(A), 8(B), 9, 25, and 26 were promulgated, the pool also being subject to the General Rules for Prorated Gas Pools in Southeast New Mexico, as promulgated by Order No. R-1670.

(5) That pursuant to the provisions of Order No. R-4157-A, this cause was reopened to allow the operators in the Catclaw Draw-Morrow Gas Pool to appear and show cause why said pool should not be developed on 320-acre spacing.

(6) That the available pressure and reservoir information tends to support the conclusion that effective drainage is occurring within the sand lenses of the Morrow formation on 640-acre spacing in the Catclaw Draw-Morrow Gas Pool, and that to prevent waste and protect correlative rights, 640-acre spacing and proration units should be continued for said pool, at least in the foreseeable future.

(7) That the engineering and geological information available indicates that the productive limits of the Catclaw Draw-Morrow Gas Pool have been effectively defined in practically all directions, with the possible exception being to the Southwest.

(8) That the drilling of Pennsylvanian gas wells on the standard Southeast New Mexico spacing of 320 acres is occurring in lands offsetting the established limits of the Catclaw Draw-Morrow Gas Pool but outside the productive limits of said pool.

(9) That to avoid conflicts of spacing patterns and violation of correlative rights, the pool rules for the Catclaw Draw-Morrow Gas Pool, including 640-acre spacing units and prorationing of gas, should be limited to the established productive limits of the pool, and not, as is often the case in other pools, to the pool limits and to lands outside said limits but within one mile thereof.

(10) That Rule 1 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool, as promulgated by Order No. R-4157, and as amended by Order No. R-1670-0, should be amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool, as defined by the Commission, shall be spaced, drilled, operated, and prorated in accordance with the rules for the Catclaw Draw-Morrow Gas Pool as set forth herein."

IT IS THEREFORE ORDERED:

(1) That the Special Rules and Regulations governing the Catclaw Draw-Morrow Gas Pool, as promulgated by Order No. R-4157, and as amended by Order No. R-1670-0, are hereby continued in full force and effect until further order of the Commission, provided however, that Rule 1 of said Special Rules is hereby amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool, as defined by the Commission, shall be spaced, drilled, operated, and prorated in accordance with the rules for the Catclaw Draw-Morrow Gas Pool as set forth herein."

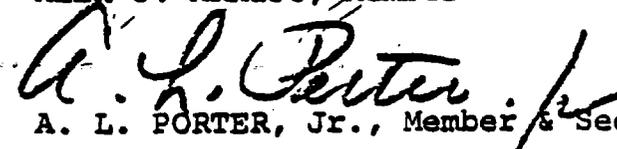
(2) That jurisdiction of this cause is hereby retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman


ALEX J. ARMIJO, Member


A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

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. 6751
Order No. R-4157-C

APPLICATION OF TENNECO OIL
COMPANY FOR THE RESCISSION
OF SPECIAL POOL RULES, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 12, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 9th day of January, 1980, 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 by Order No. R-4157, entered June 21, 1971, in Case No. 4548, the Division created and defined the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico, and promulgated special pool rules therefor, which included a provision for 640-acre well spacing and proration units and specified well locations.
- (3) That by Order No. R-4157-A, entered September 13, 1973, the Division extended said special pool rules, and by Order No. R-4157-B, entered October 22, 1974, continued said special pool rules in full force and effect until further order of the Division.
- (4) That the applicant in the instant case, Tenneco Oil Company, seeks the rescission of the special pool rules for the spacing and location of wells in the Catclaw Draw-Morrow Gas Pool, and seeks to have said pool governed by the provisions of Rule 104 C II(a) of the Division Rules and Regulations for gas pools of Pennsylvanian age.

(5) That the evidence in this case indicates that the wells in the Catclaw Draw-Morrow Gas Pool are not draining 640 acres as it had been thought that they would, but that they are in fact draining somewhere between 281 acres and 353 acres.

(6) That production from the Morrow formation in the subject pool is from many separate pay stringers which vary greatly in areal extent and in permeability, porosity, and thickness, both within individual stringers and between stringers.

(7) That due to the variation in the areal extent and in permeability, porosity, and thickness of the stringers, there is considerable variation in the amount of original gas in place tapped by the various wells completed in the subject pool, and also in the percent of such original gas in place under each well which may be expected to be recovered by the well.

(8) That due to the variation in the areal extent and in permeability, porosity, and thickness of the stringers in the Morrow formation in the subject pool, the existing wells (drilled on 640-acre spacing and proration units) are not believed to have encountered many of the smaller stringers in the reservoir, nor are they expected in all cases to effectively and efficiently drain the stringers which they have tapped.

(9) That to reduce the size of the spacing and proration units in the subject pool from 640 acres to 320 acres would result in numerous additional wells being drilled in the pool, and would greatly enhance the chances of tapping all of the productive stringers in the reservoir, and could also improve the drainage of gas from stringers previously tapped by existing wells.

(10) That the wells presently completed in the Catclaw Draw-Morrow Gas Pool are not effectively and efficiently draining the 640-acre spacing and proration units assigned to them, but if 320-acre spacing and proration units are adopted for said pool, the wells in the pool should effectively and efficiently drain the 320-acre spacing and proration units assigned to them.

(11) That according to the evidence submitted in this case, approximately 2 billion cubic feet of additional gas may be expected to be recovered by each additional well drilled as the result of rescinding the existing pool rules and developing the Catclaw Draw-Morrow Gas Pool on 320-acre well spacing and proration units.

(12) That the rescission of the Special Pool Rules for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Orders Nos. R-4157, R-4157-A, and R-4157-B is in the public interest and will not cause but will prevent waste, and will not impair but will protect correlative rights.

(13) That such rescission should take effect on March 1, 1980, and after that date the Catclaw Draw-Morrow Gas Pool should be governed by the provisions of Rule 104 C II(a) of the Division Rules and Regulations.

(14) That the location of any well completed in or drilling to the Catclaw Draw-Morrow Gas Pool on or before January 9, 1980, which location is not in compliance with the aforesaid Rule 104 C II(a) should be approved, and that each operator in the pool should have 30 days after January 9, 1980, in which to file new plats for each of his wells, showing the location of the well and dedicating thereto 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section.

(15) That the Texas Oil & Gas Corporation Catclaw Draw State Com Well No. 1, located 660 feet from the South line and 660 feet from the West line of Section 18, Township 21 South, Range 26 East, NMPM, approved as an unorthodox location and subject to an allowable factor of 0.35 for 640-acre spacing should receive an allowable factor of 0.70, if the W/2 of said Section 18 is dedicated to the well under the herein-approved 320-acre spacing. Any challenge to an allowable factor of 0.70 for said well should be the subject matter of a separate case and should not be considered as part of Case No. 6751 nor as an attack on any part of this Order No. R-4157-C except that part of this order that relates to such allowable factor.

(16) That Rule 1 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Order No. R-1670-0, and as amended by Order No. R-4157-B, should be amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted or recompleted in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof and not nearer to nor within the boundaries of another pool producing from the Morrow formation shall be spaced, drilled, operated, and prorated in accordance with the rules for the Catclaw Draw-Morrow Gas Pool as set forth herein."

(17) That Rule 2 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Order No. R-1670-O should be amended to read in its entirety as follows:

"RULE 2. Each well shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1980 feet to the nearest end boundary nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary."

(18) That Rule 9 of the aforesaid special rules should be amended to read in its entirety as follows:

"RULE 9. A standard unit consisting of 320 acres shall be assigned an acreage factor of 1.00, provided however, the acreage tolerances provided in Rule 5(A) shall apply."

(19) That Division Orders Nos. R-4157, R-4157-A, and R-4157-B should be rescinded.

IT IS THEREFORE ORDERED:

(1) That the Catclaw Draw-Morrow Gas Pool is hereby defined as comprising the Morrow formation underlying the following described lands in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM

Section 1: All
Section 2: Lots 9 through 16 and S/2
Sections 11 through 14: All
Sections 23 through 28: All
Sections 34 through 36: All

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM

Sections 17 through 20: All
Section 30: All

(2) That Division Orders Nos. R-4157, R-4157-A, and R-4157-B are hereby rescinded.

(3) That the Catclaw Draw-Morrow Gas Pool shall hereinafter be governed by the provisions of Rule 104 C II(a) of the Division's Rules and Regulations.

(4) That Rule 1 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Order No. R-1670-O and amended by Division Order No. R-4571-B

is hereby amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted or recompleted in the Catclaw Draw-Morrow Gas Pool or in the Morrow formation within one mile thereof and not nearer to nor within the boundaries of another pool producing from the Morrow formation shall be spaced, drilled, operated, and prorated in accordance with the rules for the Catclaw Draw-Morrow Gas Pool as set forth herein."

(5) That Rule 2 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Order No. R-1670-O is hereby amended to read in its entirety as follows:

"RULE 2. Each well shall be located not closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1980 feet to the nearest end boundary nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary."

(6) That Rule 9 of the aforesaid special rules is hereby amended to read in its entirety as follows:

"RULE 9. A standard unit consisting of 320 acres shall be assigned an acreage factor of 1.00, provided however, the acreage tolerances provided in Rule 5(A) shall apply."

(7) That the locations of all wells drilled and completed in the Catclaw Draw-Morrow Gas Pool are hereby approved.

(8) That the operator of each well in the Catclaw Draw-Morrow Gas Pool shall have until February 9, 1980, to file with the Artesia District Office of the Division new Forms C-102, Well Location and Acreage Dedication Plat, for each of his wells, showing thereon the location of the well and the acreage dedicated thereto pursuant to this order. Failure to so file such plats will subject the well to cancellation of allowable.

(9) That the Texas Oil and Gas Corporation Catclaw Draw State Com Well No. 1, located 660 feet from the South line and 660 feet from the East line of Section 18, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico, shall receive an allowable factor of 0.70 effective March 1, 1980, provided Forms C-102 have been filed for said well dedicating thereto the W/2 of said Section 18.

-6-
Case No. 6751
Order No. R-4157-C

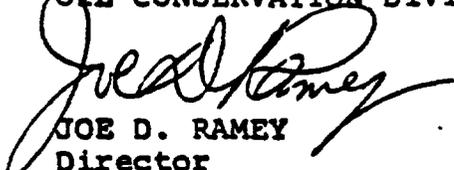
(10) That any challenge to the aforesaid allowable factor of 0.70 for said Catclaw Draw State Com Well No. 1 shall be considered as a separate case by the Division and not as an attack on any part of Division Order No. R-4157-C except Order No. (8) above relating to the allowable factor.

(11) That this order shall become effective at 7:00 o'clock a.m. March 1, 1980.

(12) 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


JOE D. RAMEY
Director

S E A L

fd/

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. 7326
Order No. R-4157-D

APPLICATION OF TENNECO OIL COMPANY
FOR AMENDMENT OF DIVISION ORDER
NO. R-4157-C, EDDY COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 12, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 26th day of August, 1981, 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 by Order No. R-4157, entered June 21, 1971, in Case No. 4548, the Division created and defined the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico, and promulgated special pool rules therefor, which included a provision for 640-acre well spacing and proration units and specified well locations.
- (3) That by Order No. R-4157-A, entered September 13, 1973, the Division extended said special pool rules, and by Order No. R-4157-B, entered October 22, 1974, continued said special pool rules in full force and effect until further order of the Division.
- (4) That by Order No. R-4157-C, entered January 9, 1980, the Division rescinded the aforesaid 640-acre special rules and provided for 320-acre spacing and proration units in the Catclaw Draw-Morrow Gas Pool, finding, among other things, that one well

would not drain 640 acres and that 320-acre spacing would prevent waste by permitting the recovery of gas which would otherwise remain unrecoverable.

(5) That the rescission of said special pool rules resulted from testimony and evidence in said case that the existing wells in said pool were not effectively and efficiently draining the 640-acre proration units dedicated to them.

(6) That such evidence is reflected in Findings Nos. (5), (6), (7), (8), (9), (10), and (11) of said Order No. R-4157-C, which are hereby incorporated herein by reference.

(7) That the applicant in the instant case, Tenneco Oil Company, seeks the amendment of the special pool rules for the Catclaw Draw-Morrow Gas Pool to rescind the previous 320-acre spacing order and revert back to 640-acre spacing, but to also provide for the infill drilling of a second well on the 640-acre tract.

(8) That subsequent to the entry of said Order No. R-4157-C it was determined that the change in spacing unit size would result in loss of some leases formerly dedicated to communitized 640-acre proration units and other disturbances of historical equities under the preexisting proration units within said Catclaw Draw-Morrow Gas Pool.

(9) That the net result of the conditions outlined in Finding No. (8) above would be to deprive owners of their correlative rights within said pool.

(10) That the correlative rights of the owners within said pool may be protected and effective and efficient drainage therefrom may be provided by permitting the infill drilling of additional wells on each 640-acre proration unit.

(11) That no more than two wells should be permitted to produce from any 640-acre proration unit within said pool.

(12) That the special pool rules for the Catclaw Draw-Morrow Gas Pool should apply only within the boundaries of said pool.

(13) That the location of any well drilling or approved to be drilled within the Catclaw Draw-Morrow Gas Pool which location corresponds to that provided by the special pool rules promulgated by Order No. R-4157-C should be approved.

(14) That approval of the proposed rescission of Order No. R-4157-C, provision for infill drilling, and limitation of special pool rules will prevent waste and will protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That these rules shall be applicable only to lands within the boundaries of the Catclaw Draw-Morrow Gas Pool as now defined or as hereafter contracted or extended by order of the Division.

(2) That Rule 1 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico, as promulgated by Division Order No. R-1670-0 is hereby amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool, as defined by the Division, shall be spaced, drilled, operated, and prorated in accordance with the Special Rules for the Catclaw Draw-Morrow Gas Pool as set forth herein."

(3) That Rule 2 of the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Division Order No. R-1670-0 is hereby amended to read in its entirety as follows:

"RULE 2(A). The initial well drilled on a proration unit shall be located no nearer than 1650 feet to the outer boundary of the section nor closer than 330 feet to any governmental quarter-quarter section line.

The initial well to be drilled on a proration unit may be drilled in any quarter section of the unit.

"RULE 2(B). The second well drilled on a proration unit shall be located on a quarter section not containing the first well and shall be located no nearer than 1650 feet to the outer boundary of the section, nor closer than 330 feet to any governmental quarter-quarter section line, nor closer than 990 feet to any existing Morrow well on the same proration unit.

The plats (OCD Form C-102) accompanying the Application for Permit to Drill (OCD Form C-101 or Federal

Form 9-331-C) for the second well on a proration unit shall have outlined thereon the boundaries of the unit and shall show the location of the first well on the unit as well as the second well.

"RULE 2(C). In the event a second well is drilled on any proration unit, each well shall be produced for so long as it is economically feasible to do so."

(4) That the Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool as promulgated by Order No. R-1670-0 are hereby amended by the addition of Special Rule 5(A) reading in its entirety as follows:

"RULE 5(A). A standard "gas" proration unit in the Catclaw Draw-Morrow Gas Pool shall be 640 acres."

(5) That Rule 9(A) of the aforesaid special rules is hereby amended to read in its entirety as follows:

"RULE 9(A). A standard unit consisting of 640 acres shall be assigned an acreage factor of 1.00, provided however, the acreage tolerances provided in General Rule 5(A) shall apply."

(6) That the locations of all wells drilled to and completed in the Catclaw Draw-Morrow Gas Pool, or which were drilling to said pool, or for which valid drilling permits had been issued, or for which the location had been approved by order of the Division as of August 12, 1981, are hereby approved.

(7) That the operator of each well in the Catclaw Draw-Morrow Gas Pool shall have until September 15, 1981, to file with the Artesia District Office of the Division new Forms C-102, Well Location and Acreage Dedication Plat, for each of his wells, showing thereon the location of the well and the acreage dedicated thereto pursuant to this order. Failure to so file such plats will subject the well to cancellation of allowable.

(8) That the Texas Oil and Gas Corporation Catclaw Draw State Com Well No. 1, located 660 feet from the South line and 660 feet from the East line of Section 18, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico, shall receive an allowable factor of 0.35 effective October 1, 1981.

-5-
Case No. 7326
Order No. R-4157-0

(9) That the Catclaw Draw-Morrow Gas Pool is hereby defined as comprising the Morrow formation underlying the following described lands in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM

Section 1: All
Section 2: Lots 9 through 16 and S/2
Sections 11 through 14: All
Sections 23 through 28: All
Sections 34 through 36: All

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM

Sections 17 through 20: All
Section 30: All

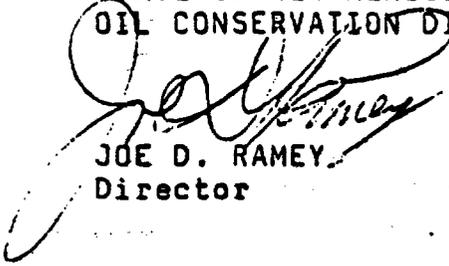
(10) That Division Orders Nos. R-4157, R-4157-A, R-4157-B, and R-4157-C are hereby rescinded.

(11) That the effective date of this Order shall be September 1, 1981.

(12) 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


JOE D. RAMEY
Director

S E A L

fd/



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 20
STATE LAND OFFICE BLDG
SANTA FE, NEW MEXICO
(505) 827-5800

MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: JULY 27, 1988

There has been some confusion about interpretation of the subject rule. In each paragraph of sections (a), (b) and (c) the rule states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a tract..."

My interpretation of this sentence is that each well is to be located on its own individual specified unit and an additional well is not authorized simply by meeting the set back requirements of the rule.

This interpretation is necessary to prevent waste from the drilling of unnecessary wells and to protect correlative rights of all parties in the pool. Since the prorated pools have special pool rules the subject rules have greater impact on unprorated gas. Unprorated does not mean unregulated. Allowables are not issued in unprorated pools and the only method available to protect correlative rights is the control of well density and locations. Added well density required because of special geological situations can be addressed by special pool rules after notice and hearing.

Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

dr/

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

JARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
505/827-1900

MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: AUGUST 3, 1988

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 30-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.

**GENERAL RULES AND REGULATIONS FOR THE
PRORATED GAS POOLS OF NEW MEXICO**

Order No. R-8170, Rescinding Order No. R-1670, Recodifying and Amending the General and Special Rules for Prorated Gas Pools in Northwestern and Southeastern New Mexico, April 1, 1986.

Order No. R-8170 supersedes Order No. R-1670, May 20, 1960, adopting rules for prorated gas pools in Northwestern and Southeastern New Mexico, as amended by Order No. R-2086, October 13, 1961, Order No. R-2404-A, March 11, 1963, Order No. R-2761, January 1, 1965, Order No. R-3168, December 22, 1966, Order No. R-3233, May 8, 1967, Order No. R-4085, January 1, 1971, Order No. R-1670-K, May 11, 1972, Order No. R-4569, July 1, 1973, Order No. R-4583, August 1, 1973 and January 1, 1974, Order No. R-4583-A, January 1, 1974, Order No. R-1670-S, August 1, 1974, Order No. R-1670-X, January 1, 1984, Order No. R-8170-B, December 23, 1986, Order No. R-8170-C, May 7, 1987, Order No. R-8170-G, December 1, 1990, Order No. R-8170-H, April 1, 1991, Order No. R-8170-L, December 1, 1992, Order No. R-8170-M, April 1, 1993, Order No. R-8170-N, November 10, 1993, Order No. R-8170-G-1, March 11, 1994, Order No. R-8170-J-1, March 15, 1994, Order No. R-8170-L-1, March 15, 1994, and Order No. R-8170-O, Effective November 27, 1995, and Superseded by Order No. R-8170-O-1/R-2441-B, August 1, 1996.

See separate Order No. R-8170-A, December 4, 1986, temporarily adopting amendments to Rules 10(a), 11(a) and 11(b).

Order No. R-8170-C, May 7, 1987, rescinds temporary amendments to Rules 10(a) and 11(a) which were adopted in Order No. R-8170-A, and restores those rules as stated in Order No. R-8170.

Order No. R-8170-H, April 1, 1991, amends the General Rules and Regulations for the Prorated Gas Pools of New Mexico.

In the Matter of the Hearing Called by the Oil Conservation Commission on its Own Motion to Rescind Order No. R-1670, to Recodify and Amend the General Rules for Prorated Gas Pools, and Amend the Special Rules for Prorated Gas Pools.

CASE NO. 8749

Order No. R-8170

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on November 19, 1986, and January 7 and February 26, 1986, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 28th day of March, 1986, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises.

FINDS THAT:

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

(2) The application in the instant case seeks to rescind Order No. R-1670, as amended, to recodify and amend the General Rules and Regulations for the Prorated Gas Pools contained therein and to amend the special gas proration rules for the Atoka-Pennsylvanian, Blinbry, Buffalo Valley-Pennsylvanian, Burton Flat-Morrow, Burton Flat-Strawn, South Carlsbad-Morrow, Catclaw Draw-Morrow, Crosby-Devonian, Eumont, Indian Basin-Morrow, Indian Basin-Upper Pennsylvanian, Jalmat, Justia-Glorieta, Monument McKee-Ellenburger, and Tubb Gas Pools of Lea, Eddy and Chaves Counties, and the special gas proration rules for the Basin-Dakota, Blanco-Mesaverde, South Blanco-Pictured Cliffs, and Tapacito-Pictured Cliffs Gas Pools of San Juan, Sandoval and Rio Arriba Counties.

(3) Order No. R-1670, entered May 20, 1960, consolidated special gas proration rules for thirteen prorated pools in Northwest and Southeast New Mexico, into a set of general rules for prorated gas pools in each geographic area and established special rules for individual pools.

(4) From time to time, said Order No. R-1670 has been amended, at least 28 times, adding or deleting pools from prorationing and amending general and special rules.

(5) The multiple changes made since 1960 are difficult to follow in reading said amended order.

(6) The original order and most of the amendments were written at a time when demand for gas from prorated gas pools was increasing.

(7) Since 1982, demand for gas from such pools has declined often precipitously.

(8) To make said general and special rules more readable, more responsive to changing market conditions, and more uniform, the Director of the Oil Conservation Division (Division) established a State/Industry Gas Proration Rules Study Committee in early 1984.

(9) Said study committee and various ancillary committees met from time to time and formed recommendations which were received at public hearing on November 19, 1986, and January and February 26, 1986.

(10) Based upon the report of the Committee and other evidence received at said hearings recodified and new general rules and special rules for prorated gas pools in New Mexico should be adopted as shown on Exhibit "A" and Exhibit "B" respectively, attached to this order.

(11) Division Form C-121-A, Purchasers Gas Nomination should be revised as shown on Exhibit "C", attached to this order, in order to reflect changes in said general rules.

(12) Order No. R-1670, as amended, should be rescinded.

(13) The effective date of this order should coincide with the beginning of the next gas proration period, April 1, 1986.

(14) Adoption of said revised and new rules and rescission of Order No. R-1670, as amended, and revision of Form C-121-A, will serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) General Rules for the Prorated Gas Pools of New Mexico are hereby adopted as shown on Exhibit "A" attached to and made a part of this order.

(2) The General Rules for the prorated gas pools of New Mexico contained in said Exhibit "A" shall be applicable to the following gas pools:

Northwest New Mexico

Basin-Dakota Gas Pool
Blanco-Mesaverde Gas Pool
South Blanco-Pictured Cliffs Gas Pool
Tapacito-Pictured Cliffs Gas Pool
Southeast New Mexico

Atoka-Pennsylvanian Gas Pool
Blinbry Oil and Gas Pool
Buffalo Valley-Pennsylvanian Gas Pool
Burton Flat-Morrow Gas Pool
Burton Flat-Strawn Gas Pool
South Carlsbad-Morrow Gas Pool
Catclaw Draw-Morrow Gas Pool
Crosby-Devonian Gas Pool
Eumont Gas Pool
Indian Basin-Morrow Gas Pool
Indian Basin-Upper Pennsylvanian Gas Pool
Jalmat Gas Pool
Justia Gas Pool
Monument McKee-Ellenburger Gas Pool
Tubb Oil & Gas Pool

(3) Special rules for individual prorated gas pools in New Mexico are hereby adopted as shown on Exhibit "B" attached to and made a part of this order.

(4) Order No. R-1670, as amended, is hereby rescinded.

(5) Division Form C-121-A is hereby revised as shown on Exhibit "C" attached to this order.

(6) The effective date of this order and of the general and special rules and the order rescission contained herein shall be April 1, 1986.

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

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

GENERAL RULES FOR THE PRORATED GAS POOLS OF NEW MEXICO

(See Special Pool Rules in each pool for rules applicable to those pools only. Special Pool Rules will be found in the same sequence as in the General Section, and unless the special rules conflict with the general rule, the general rule is applicable.)

APPLICATION OF THESE RULES: Any well drilled to the producing formation of a gas pool regulated by this order and within said pool or within one mile outside the boundary of that designated pool producing from the same formation, shall be spaced, drilled, operated, and prorated in accordance with these rules or the special rules in effect in that pool.

(General Rules for the Prorated Gas Pools of New Mexico, as Amended by Order No. R-8170-H, April 1, 1991:)

RULE 1. Definitions

Acreege Factor: A GPU's acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the GPU by a number equal to the number of acres in a standard GPU for such pool. However, the acreage tolerance provided in Rule 2(a)2 shall apply.

Ad Factor: Acreege times deliverability factor is calculated in pools where acreage and deliverability are prorated factors. The product obtained by multiplying the acreage factor by the calculated deliverability (expressed as MCF per day) for that GPU shall be known as that AD factor for that GPU. The Ad Factor shall be computed to the nearest whole unit.

Allocation Hearing: A hearing held by the Division twice each year to determine pool allocations for the ensuing allocation period.

Allocation Period: Six month period beginning at 7:00 a.m. April 1 and October 1 of each year shall be the allocation period.

Balancing Date: The date 7:00 a.m. April 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas prorated period.

Broker: A third party who negotiates contracts for purchase and resale.

Classification Period: A three month period beginning at 7:00 a.m. April 1, July 1, October 1, and January 1 of each year shall be the classification period.

Gas Pool: Any pool which has been designated as a gas pool by the Division after notice and hearing.

Gas Production Unit (GPU): The acreage allocated to a well, or in the case of an infill well or wells to a group of wells, for purposes of spacing and prorated shall be known as the gas prorated unit (GPU). GPUs may be either of a standard or non-standard size as provided in these rules. (GPUs means plural GPU).

Gas Transporter: The term Gas Transporter as used in these rules shall mean any taker of gas. The party servicing the well meter, or the party responsible for measurement of gas sold from the well or beneficially used off-lease. This could be at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than is necessary for maintaining the producing ability of the well). The Gas Transporter can be the gatherer, transporter, producer, or a delegate of one of those parties. The Gas Transporter shall be identified on Form C-104 and will be responsible for filing Form C-111 as required under the provisions of Rule 1111.

Gas Purchaser: The term Gas Purchaser as used in these rules shall mean the purchaser (where ownership of the gas is first exchanged by the producer to the purchaser for an agreed value) of the gas from a gas well or GPU.

Hardship Gas Wells: A gas well wherein underground water will occur if the well should be shut-in or curtailed below its minimum sustainable flow rate. No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division.

Infill Well: An additional producing well on a GPU which serves as a companion well to an existing well on the GPU.

Marginal GPU: A prorated unit which is incapable of producing or has not produced the non-marginal allowable based on pool allocation factors. Marginal GPUs do not accrue over- or under-production.

Non-Marginal GPU: A prorated unit reserving an allowable based upon pool allocation factors. Non-marginal prorated units accrue over- or under-production.

Overproduction: The volume of gas produced on a GPU in any month excess of the assigned non-marginal allowable (does not include gas used in maintaining the producing ability of the well(s) of the GPU). Overproduction accumulates month to month during the prorated period.

Prorated Gas Pool: A prorated gas pool is a gas pool in which, after notice and hearing, the production is allocated by the Division in accordance with these General Rules and any applicable special pool rules.

Proration Period: The twelve-month period beginning April 1 of each year shall be the gas prorated period.

Shadow Allowable: The gas volume calculated for a marginal GPU that is equal to the allowable assigned to a non-marginal GPU in the same pool of the same A (acreage) or A and AD (acreage deliverability) factors as the marginal GPU.

Underproduction: The volume of assigned non-marginal allowable not produced on a GPU. Underproduction accumulates month to month during the prorated period.

A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2. Standard Gas Proration Unit Size and Well Spacing

(a) Unless otherwise provided for in applicable special pool rules gas wells in prorated gas pools shall be drilled in accordance with the well spacing and acreage requirements contained in the Rules and Regulations of the Oil Conservation Division, provided that wells drilled in pools with 640 acre spacing, a government section shall comprise the prorated unit.

(b) Any GPU drilled in accordance with paragraph (a) and which contains acreage within the tolerances below shall be considered a standard GPU for the purpose of calculating allowables:

STANDARD PRORATION UNIT	ACREAGE TOLERANCE
160 acres	158-162 acres
320 acres	316-324 acres
640 acres	632-648 acres

(c) The District Supervisor of the appropriate district office of the Division has the authority to approve a non-standard GPU without notice and hearing when the unorthodox size and shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the non-standard GPU is not less than 75% nor more than 15% of a standard GPU by accepting a form C-102 land plat showing the proposed non-standard GPU with the number of acres contained therein, and shall assign an allowable to the non-standard GPU based upon the acreage factor for that acreage.

(d) Non-standard prorated units and unorthodox locations may be approved by the Division in accordance with applicable special pool rules or Rules and Regulations of the Division.

RULE 3(a). Gas Purchasers or Gas Transporters Shall Nominate: Each gas purchaser or each gas transporter as herein provided shall file with the Division its nomination for the amount of gas which it in good faith desires to purchase and/or expects to transport during the ensuing allocation period from each gas pool regulated by this order. The purchaser may delegate the nomination responsibility to the transporter, operator, or broker by notifying the Division's Santa Fe office. One copy of such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider at its allocation hearing, the nominations for the succeeding allocation period. The Division shall consider at its allocation hearing the nominations received, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing allocation period.

The Division Director may, at his discretion, suspend this rule at such time as it appears that the nominations are of little or no value.

RULE 3(b)1. Schedule: The Division shall issue a gas prorated schedule for each allocation period showing the monthly allowable for each GPU that may be produced during each month of the ensuing allocation period, the current classification of each GPU, and such other information as is necessary to show the allowable-production status of each GPU on the schedule. The Division may issue supplemental prorated schedules during an allocation period as necessary to show changes in GPU classi-

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

fication, adjustments to allowables due to changes in market conditions or to reflect any other changes as the Division deems necessary.

RULE 3(b)a. Proration of All Gas Wells Within a Pool: The Division shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transporter, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 4. Filing of Form C-102 and Form C-104 Required: No GPU shall be assigned an allowable prior to receipt of Form C-102 (well location and acreage dedication plat) and the approval date of Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas).

RULE 5. How Allowables Are Calculated: The total allowable to be allocated to each gas pool regulated by this order for each allocation period shall be equal to the estimated market demand as determined by the Division, plus any adjustments the Director deems necessary to equate the total pool allowable to the estimated market demand, the Director may make such adjustments as he deems necessary to compensate for overproduction, underproduction, and other circumstances which may necessitate such adjustment so as to equate pool allowable to the anticipated market demand. The estimated market demand for each pool shall be established from any information the Director requires and can consist of nominations from purchasers, transporters or other parties having knowledge of market demand for gas from such pools, actual past production figures, seasonal trends, or any other factors deemed necessary to establish estimated market demand. The Director shall not be bound to use all the information requested and can establish market demand by any method so approved. A monthly allowable shall be assigned to each GPU entitled to an allowable for the ensuing allocation period by allocating the pool allowable among all such GPUs in that pool in accordance with the procedure set forth in the following paragraphs of this order. Should market conditions indicate a change is necessary, the Director may adjust allowables up or down during the 6-month allocation period using a maximum of 10% as a guideline.

RULE 5(a)1. Marginal GPU Allowable: The monthly allowable to be assigned to each marginal GPU shall be equal to its average monthly production from its latest classification period.

RULE 5(a)2. Non-Marginal GPU Allowable: Non-marginal GPU allowables shall be determined in conformance with the applicable special pool rules.

(1) In pools where acreage is the only proration factor, the total non-marginal allowable shall be allocated to each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPUs.

(2) In pools where acreage and deliverability are proration factors

(a) A percentage as set forth in special pool rules, of the non-marginal allowable shall be allocated to each GPU in the proportion that each GPU AD factor bears to the total AD factor for all non-marginal GPUs in pool; and

(b) The remaining non-marginal allowable shall be allocated to non-marginal GPUs among each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 5(b)1. New Connects Assignment of Allowables: Allowables to newly completed gas wells shall commence factors:

(A) In pools where acreage is the only proration factor, on the date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office, the approval date of Form C-102 and Form C-104 whichever is later;

(B) In pools where acreage and deliverability are proration factors

(1) An acreage factor allowable will be assigned the later of:

(a) The date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office.

(b) The approval date of Form C-103 and Form C-104.

(2) A deliverability factor allowable will be assigned the later of:

(a) The date of first delivery.

(b) 90 days prior to the date of receipt of the deliverability test report to the appropriate Division district office.

(c) Allowables assigned to new connects completed within an allocation period shall be equal to the allowable assigned to a non-marginal GPU of similar acreage or acreage and deliverability factors as adjusted to effective date of the allowable as herein provided.

RULE 5(b)2. New Connect Maximum Producing Period: No well located in a pool where deliverability is an allowable factor shall be permitted to produce more than 120 days after the date of first delivery without a deliverability test. Any well shut in for failure to file a deliverability test may be assigned producing authorization by the Division district office for purposes of conducting such test. Except as provided in Rule 5(b)2, all production following connection including the volume of test production shall be charged against the GPU's regular allowable when assigned. Any resulting allowable assigned shall be effective on the day that delinquent deliverability test is received in the appropriate Division district office.

GENERAL RULES AND REGULATIONS FOR THE PRORATED
GAS POOLS OF NEW MEXICO - Cont'd.)

RULE 6. Gas Charged Against GPU's Allowable: Except as provided in the Special Pool Rules, the volume of produced gas sold or beneficially used other than lease fuel from each GPU shall be charged against the GPU's allowable; however, the gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 7. Change in Acreage: If the acreage assigned to a GPU is changed, the operator shall notify the appropriate Division district office in writing of such change by filing a revised Plat (Form C-102). The revised allowable, as determined by the Division, assigned to the GPU shall be effective on the first day of the month following receipt of the notification.

RULE 8. Minimum Allowables: After notice and hearing, the Division may assign minimum allowables for prorated gas pools to avoid waste, encourage efficient operations, and to prevent the premature abandonment of wells. (See Special Pool Rules for minimum allowable amount.) In determining the volume of minimum allowable for a well with a standard proration unit, the Division shall take into account economic and engineering factors such as drilling and operating costs, anticipated revenues, taxes, and any other such data that will establish that the ultimate recovery of hydrocarbons will be increased from the pool as a result of the adoption of a minimum allowable for the pool. Once adopted, the minimum allowable for wells with non-standard proration units shall be proportionally adjusted.

RULE 9(a). Deliverability Tests: In pools where both acreage and deliverability are proration factors, deliverability tests taken in accordance with Division Rules shall be used in calculating allowables for the succeeding proration period. Deliverability shall be determined in accordance with the provisions of the appropriate test manual (See Gas Well Testing Manual For Northwest New Mexico).

RULE 9(b). Deliverability Retest: A change in a well's deliverability following a retest after any activity, other than routine maintenance, shall become effective the later of:

- (1) The date of redelivery after such activity, such date to be indicated on the sundry notice (if a sundry notice is required) and on the remarks portion of the Form C-122-A; or,
- (2) 90 days prior to the date of receipt of the appropriate deliverability test report at the appropriate Division district office; or
- (3) A change in a well's deliverability due to any other reason shall become effective on the first day of the month following the month during which the retest is approved in the appropriate Division district office.

RULE 9(c). Exceptions to Deliverability Tests: The Director of the Oil Conservation Division shall have authority to allow exceptions to the deliverability test requirement for wells on marginal GPUs where the deliverability of a well is of such volume as to have no significance in the determination of the GPU's allowable. Application for such exception may be submitted by the operator of the well and if granted may be revoked by the Director at any time by requesting the well to be scheduled and tested in accordance with the current "Gas Well Testing Rules and Procedures".

RULE 9(d). (As Amended by Order No. R-8170-N, November 10, 1993.) Wells Exempt from Testing - San Juan Basin: A well automatically becomes exempt from testing if the GPU's average monthly production does not exceed or the GPU is not capable of producing an average volume equal to the larger of 1) the pool's current (April-September) Monthly Acreage Allocate Factor, F1, times the GPU Acreage Factor, A, or 2) 250 MCF per month for Pictured Cliffs formation wells and 2000 MCF per month for deeper formations. (See "Gas Well Testing Rules and Procedures.")

D. BALANCING OF PRODUCTION

RULE 10(a). Underproduction: Any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 10(b). Balancing Underproduction: Production during any one month of a gas proration period in excess of the allowable assigned to a GPU for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 11(a). Overproduction: Any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(b)(1). Twelve-Times Overproduced, Northwest: For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its current year January allowable (or, in the case of a newly connected well, a marginal well, or a well recently reclassified as non-marginal, twelve times the January allowable assigned to a non-marginal GPU of similar acreage and deliverability factors), it shall be shut in until its overproduction is less than twelve times its January allowable, as determined hereinabove.

RULE 11(b)(2). Six-Times Overproduced, Southeast: For the prorated gas pools of southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its current year January allowable (or, in the case of a newly connected well, a marginal well, or a well recently reclassified as non-marginal, six times the January allowable assigned to a non-marginal GPU of a similar acreage factor), it shall be shut in until its overproduction is less than six times its January allowable, as determined hereinabove.

RULE 11(c). Exception to Shut In for Overproduction: The Director of the Oil Conservation Division shall have authority to permit a GPU which is subject to shut-in, pursuant to Rules 11(a) or 11(b) above to produce up to 250 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission may be rescinded for any GPU produced in excess of the monthly rate authorized by the Director.

RULE 11(d). Balancing Overproduction: Allowable assigned to a GPU during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such GPU in determining the amount of overproduction which must be made up pursuant to the provision of Rules 11(a) or 11(b) above.

RULE 11(e). Exception to Balancing Overproduction: The Director may allow overproduction to be made up at a lesser rate than permitted under Rules 11(a), 11(b), or 11(d) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 11(f). Hardship Gas Wells: If a GPU containing a hardship gas well is overproduced, the operator must take the necessary steps to reduce production in order to reduce the overproduction.

(GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOL OF NEW MEXICO - Cont'd.)

Any overproduction existing at the time of designation of a well as a hardship gas well or accruing to the GPU thereafter shall be carried forward until such time as it is made up by underproduction.

No GPU containing a hardship gas well, which GPU is overproduced, shall be permitted to produce at a rate higher than the minimum producing rate authorized by the Division.

RULE 11(g). Moratorium on Shut-Ins: The Director shall have authority to grant a pool-wide moratorium of up to three months as to the shutting in of gas wells in a pool during periods of high demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 11(a), 11(b) or 11(f) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

RULE 11(h). (As Added by Order No. R-8170-C, May 7, 1987, and Amended by Order No. R-8170-H, April 1, 1991.) The Director may reinstate allowable to wells which suffered cancellation of allowable under Rules 10(a) or 13(b), or loss of allowable due to reclassification of a well under Rule 13(a). If such cancellation or loss of allowable was caused by non-access or limited access to the average market demand in the pool rather than inability of the well to produce. Upon petition, together with a showing of circumstances which prevented production of the non-marginal allowable, and evidence that the well was capable of producing at allowable rates during the period for which reinstatement is requested. The allowable may be reinstated in such amounts needed to avoid curtailment or shut-in of the well for excessive overproduction. Such petition shall be approved administratively or docketed for hearing within 30 days after receipt in the Division's Santa Fe office.

E. CLASSIFICATION OF GPUs

RULE 12(a). Classification Periods: The proration period shall be divided into four classification periods of three months each, commencing April 1, July 1, October 1, and January 1.

RULE 12(b). Reclassification by the Director: The Director of the Oil Conservation Division may reclassify a marginal or non-marginal GPU at any time the GPU's producing ability justifies such reclassification.

The Director may suspend the reclassification of GPUs on his own initiative or upon proper showing by an interested party, should it appear that such suspension is necessary to permit underproduced GPUs which would otherwise be reclassified, a proper opportunity to make up such underproduction.

RULE 13(a). Reclassification to Marginal: A non-marginal well may be reclassified as marginal in either of the following ways:

(1) After the production data is available for the last month of a classification period, any GPU which had an underproduced status at the beginning of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; however, the operator of any GPU so classified, or other interested party, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified; or

(2) A GPU which is underproduced more than the overproduction limit as described in 11(b)(1) or 11(b)(2), whichever is applicable, shall be reclassified as marginal.

RULE 13(b). Cancellation of Underproduction for Marginal GPU: A GPU which is classified as marginal shall not be permitted to accrue underproduction, and any underproduction accrued to a GPU prior to its classification as marginal shall be cancelled.

RULE 14(a). Reclassification to Non-Marginal: If, at the end of a classification period, a marginal GPU has produced more gas during the proration period to that time than its shadow allowable for that period, the GPU shall be reclassified as a non-marginal GPU.

RULE 14(b). Reinstatement of Status: A GPU reclassified to marginal under the provisions of Rule 14(a) shall have reinstated to its original status any underproduction which accrued or would have accrued as a non-marginal GPU from the current production period, underproduction from the proration period may be reinstated after notice and hearing. Uncompensated for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal.

F. REPORTING OF PRODUCTION

RULE 15. Filing C-111 and C-115 Reports: Transporters and operators shall file gas transportation and production reports pursuant to Rules 1111 and 1115 of the Rules and Regulations of the Division provided that upon approval by the Director of the Oil Conservation Division as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a calendar month basis; provided the following provisions shall be applicable to each gas well:

(1) Reports for a month shall include not less than 24 nor more than 30 reported days.

(2) Reported days may include as many as the last 7 days of the previous month but no days of the succeeding month.

(3) The total of the monthly reports for a year shall include not less than 300 nor more than 368 reported days.

(4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "Reporting Month" for those reporting on a chart-period basis in accordance with the exception provided in this rule.

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

SPECIAL RULES FOR INDIVIDUAL PRORATED GAS POOLS

SPECIAL RULES AND REGULATIONS FOR THE BASIN-DAKOTA GAS POOL

THE VERTICAL LIMITS for the Basin-Dakota Gas Pool shall be from the base of the Greenhorn Limestone to a point 400 feet below the base of the said formation and consisting of the Graneros formation, the Dakota formation and the productive upper portion of the Morrison formation.

The Basin-Dakota Gas Pool was created February 1, 1961 and gas proration became effective February 1, 1961.

A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a). Standard GPU (Gas Proration Unit) in the Basin-Dakota Gas Pool shall be 320 acres.

RULE 2(b). Well Location:

1. THE INITIAL WELL drilled on a GPU shall be located not closer than 790 feet to any outer boundary of the quarter section on which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

2. THE INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Dakota well, and shall be located with respect to the GPU boundaries as described in the preceding paragraph.

No Dakota infill well shall be drilled nearer than 920 feet to an existing Dakota well on the same GPU.

The plat (Form C-102) accompanying the Application for Permit to Drill (OCD Form C-101 or the Federal form) for the subsequent well on a GPU shall have outlined thereon the boundaries of the GPU and shall show the location of all existing Dakota wells on the GPU as well as the proposed new well.

In the event an infill well is drilled on any GPU, both wells shall be produced for so long as it is economically feasible to do so.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5(a)2. Non-Marginal GPU Allowable: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner:

(A) Forty percent (40%) of the pool allowable remaining to be allocated to the non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPUs in the pool.

When calculating the allowable for a GPU containing an infill well, the deliverability of both wells shall be added in calculating the AD Factor and the allowable may be produced from both wells.

(B) Sixty percent (60%) of the pool allowable remaining to be allocated to non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 8. Minimum Allowables: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent the premature abandonment of wells.

RULE 9(a). Deliverability Tests: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Manual for San Juan Basin."

Within 90 days after a well first delivers gas to a gas transportation facility, the well shall have been tested as required in the preceding paragraph, and the results of the test shall be filed in the appropriate form in triplicate with the Division's

Aztec office and one copy filed with the gas transportation facility to which the well is connected. Failure to file said test within the above-specified 90-day period will subject the well to the loss of one day's allowable for each day the test is late.

1. If the newly first-delivered well is an infill well on a GPU, the old well on the GPU is not required to be tested concurrently with the new well provided it has a valid test on file for the current proration period. Testing of the old well shall continue to follow the regularly assigned test schedule for the pool in which the well is located. The new well is required to be tested annually until at least three annual tests are on file; and then, the well is to be tested biennially with other wells in the pool.

2. If the old well on the GPU is "Exempt", the old well is to be tested along with the new well for the Initial and Annual Deliverability and Shut-In Pressure Test. The old well will lose its "Exempt" classification and must be tested biennially along with other wells in the pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

SPECIAL RULES AND REGULATIONS FOR THE BLANCO-MESAVERDE GAS POOL

The VERTICAL LIMITS for the Blanco-Mesaverde Gas Pool shall be as follows:

North and east of a line generally running from the northwest corner of Township 31 North, Range 13 West, San Juan County, New Mexico, to the southwest corner of Township 24 North, Range 1 East, NMPM, Rio Arriba County, New Mexico, (as fully described on Exhibit "A" of Order R-5458, August 1, 1977, as amended, and in Rule 25 of this order), the vertical limits shall be from the Huerfano Bentonite marker to a point 500 feet below the top of the Point Lookout Sandstone.

South and west of the line described in (a) above, the vertical limits shall be from a point 750 feet below said Huerfano Bentonite marker to a point 500 feet below the top of the Point Lookout Sandstone.

The Blanco-Mesaverde Gas Pool was created February 25, 1949 and gas proration became effective March 1, 1955.

A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a). Standard GPU (Gas Proration Unit) in the Blanco-Mesaverde Gas Pool shall be 320 acres.

RULE 2(b). Well Location:

1. THE INITIAL WELL drilled on a GPU shall be located not closer than 790 feet to any outer boundary of the quarter section on which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

2. THE INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Mesaverde well, and shall be located with respect to the GPU boundaries as described in the preceding paragraph.

The plat (Form C-102) accompanying the Application for Permit to Drill (OCD Form C-101 or the Federal form) for the subsequent well on a GPU shall have outlined thereon the boundaries of the GPU and shall show the location of all existing Mesaverde wells on the GPU as well as the proposed new well.

In the event an infill well is drilled on any GPU, both wells shall be produced for so long as it is economically feasible to do so.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5(a)2. Non-Marginal GPU Allowable: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner:

(A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPUs in the pool.

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

When calculating the allowable for a GPU containing an infill well, the deliverability of both wells shall be added in calculating the AD Factor and the allowable may be produced from both wells.

(B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 8. Minimum Allowables: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent the premature abandonment of wells.

RULE 9(a). Deliverability Tests: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Manual for San Juan Basin."

Within 90 days after a well first delivers gas to a gas transportation facility, the well shall have been tested as required in the preceding paragraph, and the result of the test filed on the appropriate form in triplicate with the Division's Aztec office and one copy filed with the gas transportation facility to which the well is connected. Failure to file said test within the above-specified 90-day period will subject the well to the loss of one day's allowable for each day the test is late.

1. If the newly first-delivered well is an infill well on a GPU, the old well on the GPU is not required to be tested concurrently with the new well provided it has a valid test on file for the current proration period. Testing of the old well shall continue to follow the regularly assigned test schedule for the pool in which the well is located. The new well is required to be tested annually until at least three annual tests are on file; and then, the well is to be tested biennially with other wells in the pool.

2. If the old well on the GPU is "Exempt", the old well is to be tested along with the new well for the Initial and Annual Deliverability and Shut-In Pressure Test. The old well will lose its "Exempt" classification and must be tested biennially along with other wells in the pool.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25. Vertical Limit Boundary: Exhibit "A" of Order R-5459 which defines a dividing line across the Blanco-Mesaverde Pool reads as follows:

EXHIBIT "A"

This Exhibit defines the Northwest-Southeast trending line established by Order R-5459, as amended, that divides the Blanco-Mesaverde Pool for defining the vertical limits of the pool. Said line traverses the South side or West side of the sections listed below:

TOWNSHIP 24 NORTH, RANGE 1 EAST, NMPM
Section 31: West
TOWNSHIP 24 NORTH, RANGE 1 WEST, NMPM
Section 3: West
Section 10: West and South
Section 14: West and South
Section 24: West
Section 25: West and South
TOWNSHIP 25 NORTH, RANGE 1 WEST, NMPM
Section 7: West
Section 18: West and South
Section 20: West and South
Section 28: West
Section 33: West and South
TOWNSHIP 25 NORTH, RANGE 2 WEST, NMPM
Section 1: West and South
TOWNSHIP 26 NORTH, RANGE 2 WEST, NMPM
Sections 7 and 8: South
Section 16: West and South
Section 22: West and South
Section 26: West
Section 35: West and South

TOWNSHIP 26 NORTH, RANGE 3 WEST, NMPM
Sections 2 and 3: South
Section 4: West and South
Section 12: West and South
TOWNSHIP 27 NORTH, RANGE 3 WEST, NMPM
Sections 31 and 32: South
TOWNSHIP 27 NORTH, RANGE 4 WEST, NMPM
Sections 31 through 36: South
TOWNSHIP 27 NORTH, RANGE 5 WEST, NMPM
Section 31: West and South
Sections 32 through 36: South
TOWNSHIP 27 NORTH, RANGE 6 WEST, NMPM
Section 6: West
Section 7: West and South
Sections 8 and 9: South
Section 14: South
Section 15: West and South
Section 24: West
Section 25: West and South
TOWNSHIP 28 NORTH, RANGE 6 WEST, NMPM
Sections 7, 18, 19, 30, and 31: West
TOWNSHIP 29 NORTH, RANGE 7 WEST, NMPM
Section 31: West and South
Sections 32 through 36: South
TOWNSHIP 29 NORTH, RANGE 8 WEST, NMPM
Section 17: South
Section 18: West and South
Section 21: West and South
Section 22: South
Section 25: South
Section 26: West and South
TOWNSHIP 29 NORTH, RANGE 9 WEST, NMPM
Section 3: South
Section 4: West and South
Section 11: West and South
Section 12: South
TOWNSHIP 30 NORTH, RANGE 9 WEST, NMPM
Section 31: West and South
Section 32: South
TOWNSHIP 30 NORTH, RANGE 10 WEST, NMPM
Section 18: South
Section 20: West and South
Sections 21 and 22: South
Section 25: South
Section 26: West and South
TOWNSHIP 30 NORTH, RANGE 11 WEST, NMPM
Section 6: West and South
Section 8: West and South
Sections 9, 10, 11: South
Section 13: West and South
TOWNSHIP 31 NORTH, RANGE 12 WEST, NMPM
Section 19: South
Sections 27 and 28: South
Section 29: West and South
Section 35: West and South
Section 36: South
TOWNSHIP 31 NORTH, RANGE 13 WEST, NMPM
Sections 7 and 8: South
Sections 14 and 15: South
Section 16: West and South
Section 24: West and South
TOWNSHIP 31 NORTH, RANGE 14 WEST, NMPM
Section 12: South

(General Pool Rules also apply unless in conflict with the Special Pool Rules.)

SPECIAL RULES AND REGULATIONS FOR THE SOUTH BLANCO-PICTURED CLIFFS GAS POOL

THE VERTICAL LIMITS of the South Blanco-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

The South Blanco-Pictured Cliffs Gas Pool, Rio Arriba, S. Juan, and Sandoval Counties, New Mexico, was created May 1962 and gas proration became effective March 1, 1955.

**GENERAL RULES AND REGULATIONS FOR THE
PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)**

B. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(A). Standard GPU (Gas Proration Unit) in the South Blanco-Pictured Cliffs Gas Pool shall be 160 acres.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5(a)2. Non-Marginal GPU Allowable: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner:

(A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPUs in the pool.

(B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 8. Minimum Allowables. (As Amended by Order No. R-8170-L, Effective December 1, 1992, and Order No. R-8170-L-1, March 15, 1994.) Notwithstanding the provisions of Rule Nos. 3 and 5 of the General Rules and Regulations for the Prorated Gas Pools of New Mexico, the Division shall assign a minimum gas allowable of 100 MCF of gas per day acreage factor of 1.0.

RULE 9(a). Deliverability Tests: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Manual for San Juan Basin."

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

**SPECIAL RULES AND REGULATIONS FOR THE
TAPACITO-PICTURED CLIFFS GAS POOL**

THE VERTICAL LIMITS of the Tapacito-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

The Tapacito-Pictured Cliffs Gas Pool, Rio Arriba County, New Mexico, was created April 18, 1956 and gas proration in this pool became effective August 1, 1958.

B. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(A). Standard GPU (Gas Proration Unit) in the Tapacito-Pictured Cliffs Gas Pool shall be 160 acres.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5(a)2. Non-Marginal GPU Allowable: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner:

(A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's "AD Factor" bears to the total "AD Factor" for all non-marginal GPUs in the pool.

(B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

RULE 8. Minimum Allowables: A minimum allowable of 250 MCF per month per GPU will be assigned in order to prevent premature abandonment of wells.

RULE 9(a). Deliverability Tests: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Manual for San Juan Basin."

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

**SPECIAL RULES AND REGULATIONS FOR THE
ATOKA-PENNSYLVANIAN GAS POOL**

The Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, was created May 5, 1958, and gas proration in this pool became effective July 1, 1961.

A. DEFINITIONS

THE VERTICAL LIMITS of the Atoka-Pennsylvanian Gas Pool shall be the Pennsylvanian formation.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Atoka-Pennsylvanian Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the Atoka-Pennsylvanian Gas Pool shall be located in the northwest quarter or the southeast quarter of the section and shall be located no nearer than 990 feet to the outer boundary of the quarter section nor nearer than 330 feet to any governmental quarter-quarter section line; provided, however, that any well which was projected to or completed in said pool prior to June 5, 1959, is excepted from the requirements of this rule.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Atoka-Pennsylvanian Gas Pool.

**SPECIAL RULES AND REGULATION FOR THE
BLINEBRY OIL AND GAS POOL**

The Blinebry Oil and Gas Pool, Lea County, New Mexico was created February 17, 1963, and gas proration in this pool became effective January 1, 1964.

A. DEFINITIONS

THE VERTICAL LIMITS of the Blinebry Oil and Gas Pool shall extend from a point 75 feet above the "Blinebry Marker" to a point 100 feet above the "Tubb Marker." The Blinebry Marker shall be that point encountered at a depth of 5467 feet (elevation 3380, sub-sea datum -2077) and the Tubb Marker shall be that point encountered at a depth of 5921 feet (elevation 3380, sub-sea datum -2541) in the Exxon Corporation State "S" Well No. 20, SW/4 NW/4 of Section 2, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico.

A GAS WELL in the Blinebry Oil and Gas Pool shall be a well producing from within the vertical limits of the pool which produces with a gas-liquid ratio of 50,000 cubic feet of gas or more per barrel of liquid hydrocarbons. Provided, however, that any well which on January 1, 1974, was classified as a gas well in the Blinebry Gas Pool shall continue to be classified as a gas well. For those wells classified as gas wells, but with gas-liquid ratios of less than 50,000 cubic feet of gas per barrel of oil, the operator may, upon application to the District Supervisor, receive a reclassification of said well to that of an oil well.

AN OIL WELL in the Blinebry Oil and Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Blinebry Oil and Gas Pool shall be 4,000 cubic feet of gas per barrel of oil.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). 1. A standard gas proration unit in the Blinebry Oil and Gas Pool shall be 160 acres.

2. A standard oil proration unit in the Blinebry Oil and Gas Pool shall be 40 acres.

3. Acreage dedicated to a gas well in the Blinebry Oil and Gas Pool shall not be simultaneously dedicated to an oil well in the pool, and the dual completion of a well so as to produce separate gas and oil allowables from the Blinebry Oil and Gas Pool is prohibited.

RULE 2(b). 1. Each gas well to which is dedicated more than 40 acres shall be located no nearer than 600 feet to the outer boundary of its proration unit or of the quarter section and not nearer than 330 feet to any governmental quarter-quarter section or subdivision line.

**GENERAL RULES AND REGULATIONS FOR THE
PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)**

2. Each oil well, or gas well to which no more than 40 acres is dedicated, shall be located no nearer than 330 feet to the outer boundary of any governmental quarter-quarter section or subdivision boundary line.

RULE 4(b) 1. The Director may grant an exception to Rule 2(a) 1 above and Rule 4(b) (1) of the General Rules if a completion, recompletion, or reclassification of a Blinbery well results in dedication of acreage to an oil well on a previously approved gas proration unit, and thereby severs acreage contained in said unit from the gas well which produces for the unit.

2. The Director may grant an exception to Rule 2(a) 1 above and Rule 4(b) (2) of the General Rules when the non-standard proration unit consists of not more than 164 acres and lies wholly within a single governmental section.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Blinbery Oil and Gas Pool.

G. REPORTING OF PRODUCTION

RULE 17(b). In submitting Form C-115 on wells producing from the Blinbery Oil and Gas Pool in which condensate is commingled and/or low-pressure gas is commingled with other low-pressure gas produced on the lease, the operator shall estimate the volume produced by each well in each pool by using the ratios as reflected in the most recent test submitted.

I. MISCELLANEOUS SPECIAL POOL RULES

RULE 26. Oil wells in the Blinbery Oil and Gas Pool shall receive oil and casinghead gas allowables as provided in Rules 503, 506, and 506 of the Division Rules and Regulations.

RULE 27. Gas-liquid ratio tests shall be conducted annually during the months of July, August, and September on all wells located in and producing from the Blinbery Oil and Gas pool. Results of such tests shall be reported to the Division on Form C-116 on or before the 10th day of October of each calendar year.

RULE 28(a). The District Supervisor, on or before November 15 of each year shall review the production data, gas-oil ratio tests, and other pertinent data and reclassify a well if evidence reflects the need for such reclassification. In such event the District Supervisor will notify the operator of the reclassification at least 30 days before the effective date thereof. Any operator so notified may request that the District Supervisor reconsider the reclassification if he has evidence to support such request and the request has been filed within 10 days after receipt of the notification of reclassification. The District Supervisor shall approve or disapprove the request within 10 days after receipt thereof or in the alternative, with the consent of the applicant, set the request for hearing.

(b) In the event an oil well in the Blinbery Oil and Gas Pool is reclassified as a gas well, the operator of such well will be afforded the opportunity to form a non-standard gas proration unit for the well; provided however, that, until such unit is formed, said well shall be allocated a gas allowable commensurate with the acreage contained in the unit formerly dedicated to the oil well. In the event of two or more gas wells producing from the Blinbery Oil and Gas Pool within a single proration unit, the allowable assigned to the unit may be produced from any well on the unit in any proportion.

RULE 29(a). Condensate from any gas well in the Blinbery Oil and Gas Pool may be commingled with other condensate produced by any other gas well or wells producing from the pool or the Tubb Oil and Gas Pool following its separation from the gas in a separator, provided approval therefor has been obtained in accordance with Division Rule 303-B and/or Rule 309-B, whichever is applicable.

(b) If two-stage separation is used, the low-pressure gas shall be directed into a low-pressure gas gathering system, and said low-pressure gas need not be measured separately from the other low-pressure gas produced on the lease, provided that certain test facilities are available and periodic tests made in accordance with Rule 27 above.

**SPECIAL RULES AND REGULATIONS FOR THE
BUFFALO VALLEY-PENNSYLVANIAN GAS POOL**

The Buffalo Valley-Pennsylvanian Gas Pool, Chaves County, New Mexico, was created November 1, 1962 and gas proration in this pool became effective May 1, 1969.

A. DEFINITIONS

THE VERTICAL LIMITS of the Buffalo Valley Pennsylvanian Gas Pool shall be the Pennsylvanian formation.

B. WELL LOCATION AND ACREAGE REQUIREMENT:

RULE 2(a). A standard GPU in the Buffalo Valley Pennsylvanian Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the Buffalo Valley-Pennsylvanian Gas Pool shall be located in the northwest quarter or the southeast quarter of the section or shall be located no nearer than 990 feet to the outer boundary of the quarter section nor nearer than 330 feet to any governmental quarter-quarter section line; provided, however, that any well drilling to or completed in said pool on or before October 3, 1982, is hereby excepted from the requirements of this rule.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Buffalo Valley-Pennsylvanian Gas Pool.

**SPECIAL RULES AND REGULATIONS FOR THE
BURTON FLAT-MORROW GAS POOL**

The Burton Flat-Morrow Gas Pool, Eddy County, New Mexico, was created March 1, 1973 and gas proration in this pool became effective April 1, 1974.

A. DEFINITIONS

THE VERTICAL LIMITS of the Burton Flat-Morrow Gas Pool shall be the Morrow formation.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Burton Flat-Morrow Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the Burton Flat-Morrow Gas Pool shall be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Burton Flat-Morrow Gas Pool.

**SPECIAL RULES AND REGULATIONS FOR THE
BURTON FLAT-STRAWN GAS POOL**

The Burton Flat-Strawn Gas Pool, Eddy County, New Mexico, was created September 1, 1973 and gas proration in this pool became effective April 1, 1974.

A. DEFINITIONS

THE VERTICAL LIMITS of the Burton Flat-Strawn Gas Pool shall be the Strawn formation.

B. WELL LOCATION AND ACREAGE REQUIREMENT

RULE 2(A). A standard GPU in the Burton Flat-Strawn Gas Pool shall be 320 acres.

RULE 2(B). Each well completed or recompleted in the Burton Flat-Strawn Gas Pool shall be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Burton Flat-Strawn Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE SOUTH CARLSBAD-MORROW GAS POOL

The South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico was created May 1, 1969 and gas proration in this pool became effective September 1, 1972.

A. DEFINITIONS

THE VERTICAL LIMITS of the South Carlsbad-Morrow Gas Pool shall be the Morrow formation.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the South Carlsbad-Morrow Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the South Carlsbad-Morrow Gas Pool shall be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the South Carlsbad-Morrow Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE CATCLAW DRAW-MORROW GAS POOL

The Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico was created June 21, 1971 and gas proration in this pool became effective April 1, 1974.

A. DEFINITIONS

THE VERTICAL LIMITS of the Catclaw Draw-Morrow Gas Pool shall be the Morrow formation.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Catclaw Draw-Morrow Gas pool shall be 640 acres.

RULE 2(b). Each well completed or recompleted in the Catclaw Draw-Morrow Gas Pool shall be located no closer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Catclaw Draw-Morrow Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE CROSBY-DEVONIAN GAS POOL

The Crosby-Devonian Gas Pool, Lea County, New Mexico was created May 27, 1955 and gas proration became effective April 1, 1957.

A. DEFINITIONS

THE VERTICAL LIMITS of the Crosby-Devonian Gas Pool shall include all the formations that can reasonably be considered to be of Devonian age.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Crosby-Devonian Gas Pool shall be 160 acres.

RULE 2(b). Each well completed or recompleted in the Crosby-Devonian Gas Pool shall be located no closer than 660 feet to any outer boundary of the proration unit nor closer than

330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Crosby-Devonian Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE EUMONT GAS POOL

The Eumont Gas Pool, Lea County, New Mexico, was created February 17, 1953, and gas proration in this pool became effective January 1, 1964. The Eumont Gas Pool now includes portions of the acreage once included in the Jalco and Langmat Pools (now Jalmat) and all of the acreage formerly in the Arrow and Hardy Pools.

A. DEFINITIONS

THE VERTICAL LIMITS of the Eumont Gas Pool shall extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers, and Queen formations.

A GAS WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Eumont Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a) 1. A standard gas proration unit in the Eumont Gas Pool shall be 640 acres.

2. A standard oil proration unit in the Eumont Gas Pool shall be 40 acres.

RULE 2(b) 1. A gas well in the Eumont Gas Pool to which 640 acres is dedicated shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section or subdivision boundary line.

2. An oil well in the Eumont Gas Pool shall be located no nearer than 330 feet to the outer boundary of any governmental quarter-quarter section or subdivision boundary line.

(Any well drilled to and producing from the Eumont Gas Pool prior to August 12, 1954, at a location conforming with the spacing requirements effective at the time said well was drilled, shall be granted a tolerance not exceeding 330 feet with respect to the required distance from the boundary lines.)

RULE 2(b) 4. In establishing a non-standard gas proration unit in the Eumont Gas Pool, the location of the well with respect to the two nearest boundary lines thereof shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration as follows:

Location	Maximum Acreage
660-660	160 acres
660-990	320 acres
990-990	600 acres

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Eumont Gas Pool.

(a) A 640 acre proration unit in the Eumont Gas Pool shall be assigned an Acreage Factor of 4.00; a 160 acre proration unit an Acreage Factor of 1.00, etc.

RULE 8. (As Amended by Order No. R-8170-G, December 1, 1990, and Order No. R-8170-G-1, March 11, 1994.) Notwithstanding the provisions of Rule Nos. 3 and 5 of the General Rules and Regulations for Prorated Gas Pools of New Mexico, the Division shall assign a minimum gas allowable of 600 MCF of gas per day per Acreage Factor of 1.0.

I. MISCELLANEOUS SPECIAL POOL RULES

RULE 28. Oil wells in the Eumont Gas Pool shall receive oil and casinghead gas allowables as provided in Rules 503, 505, and 506 of the Division Rules and Regulations.

SPECIAL RULES AND REGULATIONS FOR THE INDIAN BASIN-MORROW GAS POOL

The Indian Basin-Morrow Gas Pool, Eddy County, New Mexico was created March 1, 1963 and gas proration in this pool became effective July 1, 1965.

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

A. DEFINITIONS

THE VERTICAL LIMITS of the Indian Basin-Morrow Gas Pool shall be the Morrow formation.

(As Added by Order No. R-8170-O, Effective November 27, 1995) CONFINEMENT of the special rules governing the Indian Basin-Morrow Gas Pool shall apply only to such lands as shall from time to time lie within the horizontal limits of said pool.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Indian Basin-Morrow Gas Pool shall be 640 acres.

RULE 2(b). Each well completed or recompleted in the Indian Basin-Morrow Gas Pool shall be located no closer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Indian Basin-Morrow Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE INDIAN BASIN-UPPER PENNSYLVANIAN GAS POOL

The Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico was created March 1, 1963 and gas proration in this pool became effective July 1, 1965.

A. DEFINITIONS

THE VERTICAL LIMITS of the Indian Basin-Upper Pennsylvanian Gas Pool shall be the Upper Pennsylvanian formation.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(A). A standard GPU in the Indian Basin-Upper Pennsylvanian Gas Pool shall be 640 acres.

RULE 2(B). Each well completed or recompleted in the Indian Basin-Upper Pennsylvanian Gas Pool shall be located no closer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Indian Basin-Upper Pennsylvanian Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL

The Jalmat Gas Pool, Lea County, New Mexico, was created effective September 1, 1954, from a consolidation of the Jalco and Langmat Pools, which were created February 7, 1953. Gas prorationing was instituted in the Jalco and Langmat Pools January 1, 1954, and was continued after consolidation to form the Jalmat Gas Pool. The Jalmat Gas Pool now includes acreage that was formerly included in the Jal, Cooper-Jal, Eaves, Falby-Yates, Jalco and Langmat Pools.

A. DEFINITIONS

THE VERTICAL LIMITS of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation, except,

In the area described immediately below, the vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 13: SE/4 NE/4, SE/4

Section 23: E/2 E/2

Section 24: All

Section 25: N/2

Section 26: E/2 NE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 18: SW/4 NW/4, W/2 SW/4

Section 19: W/2

Section 30: NW/4

A GAS WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquor ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Jalmat Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a) 1. A standard gas proration in the Jalmat Gas Pool shall be 640 acres.

2. A standard oil proration unit in the Jalmat Gas Pool shall be 40 acres.

3. Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates and oil from the Seven Rivers Queen formation is prohibited.

RULE 2(b) 1. A gas well in the Jalmat Gas Pool to which 640 acres is dedicated shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line or subdivision boundary line.

2. An oil well in the Jalmat Gas Pool shall be located no nearer than 330 feet to the outer boundary of any governmental quarter-quarter section or subdivision boundary line.

(Any well drilled to and producing from the Jalmat Gas Pool prior to September 1, 1954, at a location conforming with the spacing requirements effective at the time said well was drilled shall be granted a tolerance not exceeding 330 feet with respect to the required distance from the boundary lines.)

RULE 4(b) 2. In establishing a non-standard gas proration unit in the Jalmat Gas Pool, the location of the well with respect to the two nearest boundary lines thereof shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration as follows:

Location	Maximum Acreage
660-660	160 acres
660-690	320 acres
990-990	600 acres

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Jalmat Gas Pool.

(a) A 640 acre proration unit in the Jalmat Gas Pool shall be assigned an Acreage Factor of 4.00, a 160 acre proration unit a Acreage Factor of 1.00, etc.

RULE 8. Minimum Allowables. (As Added by Order No. R-8170 January 8, 1991, and Amended by Order No. R-8170-J-1, March 1, 1994.) Notwithstanding the provisions of Rule Nos. 3 and 5 of the General Rules and Regulations for the Prorated Gas Pools of New Mexico, the Division shall assign a minimum gas allowable of 600 MCF of gas per acre per Acreage Factor of 1.0.

I. MISCELLANEOUS SPECIAL POOL RULES

RULE 26. Oil wells in the Jalmat Gas Pool shall receive oil and casinghead gas allowables as provided in Rules 503, 504 and 505 of the Division Rules and Regulations.

SPECIAL RULES AND REGULATIONS FOR THE JUSTIS GAS POOL

The Justis Gas Pool, Lea County, New Mexico was created January 1, 1960 and gas proration in this pool became effective January 1, 1964.

A. DEFINITIONS

THE VERTICAL LIMITS of the Justis Gas Pool shall be defined as follows: from the top of the Glorieta formation found at a depth of 4599 feet (Elevation 3080, Subsea Datum 1519) in the Gulf Oil Corporation McBuffington Well No. 1 located 350 feet from the South line and 1980 feet from the West line of Section 13, Township 25 South, Range 37 East, NMPM

GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)

Lea County, New Mexico, to a point 40 feet above the marker encountered at 4879 feet (Subsea Datum - 1799) in said McBuffington Well No. 8. The Hamilton Dome Westates Carlson Federal "A" Well No. 1, located in the NW/4 of Section 25, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, as the completion existed on April 22, 1959, shall be considered to be completed within the vertical limits of the Justis Gas Pool.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Justis Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the Justis Gas Pool shall be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Justis Gas Pool.

RULE 8. (As Added by Order No. R-8170-M, April 1, 1993, and made permanent by Order No. R-8170-M-1, May 7, 1996.) Minimum Allowables. Notwithstanding the provisions of Rule Nos. 3 and 5 of the General Rules and Regulations for the Prorated Gas Pools of New Mexico, the Division shall assign a minimum gas allowable of 600 MCF of gas per day Acreage Factor of 1.0.

SPECIAL RULES AND REGULATIONS FOR THE MONUMENT MCKEE-ELLENBURGER GAS POOL

The Monument McKee-Ellenburger Gas Pool, Lea County, New Mexico was created February 17, 1953 and gas proration in this pool became effective March 1, 1961.

A. DEFINITIONS

THE VERTICAL LIMITS of the Monument McKee-Ellenburger Gas Pool shall be the McKee and Ellenburger formations.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a). A standard GPU in the Monument McKee-Ellenburger Gas Pool shall be 320 acres.

RULE 2(b). Each well completed or recompleted in the Monument McKee-Ellenburger Pool shall be located no closer than 1980 feet to the end boundary nor closer than 330 feet to any governmental quarter-quarter section or subdivision inner boundary.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 5. Acreage is the only proration factor in the Monument McKee-Ellenburger Gas Pool.

SPECIAL RULES AND REGULATIONS FOR THE TUBB OIL AND GAS POOL

The Tubb Oil and Gas Pool, Lea County, New Mexico, was created February 17, 1953, and gas proration in this pool became effective January 1, 1954.

A. DEFINITIONS

THE VERTICAL LIMITS of the Tubb Oil and Gas Pool shall extend from a point 100 feet above the "Tubb Marker" to the top of the Drinkard formation. The Tubb Marker shall be that point encountered at a depth of 5921 feet (elevation 3380, sub-sea datum - 2541) and the top of the Drinkard shall be that point encountered at a depth of 6245 feet (elevation 3380, sub-sea datum - 2865) in the Exxon Corporation State "S" Well No. 20, SW/4 NW/4 of Section 2, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico.

A GAS WELL in the Tubb Oil and Gas Pool shall be a well producing from within the vertical limits of the pool which produces with a gas-liquid ratio of 50,000 cubic feet of gas or more per barrel of liquid hydrocarbons.

AN OIL WELL in the Tubb Oil and Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Tubb Oil and Gas Pool shall be 2,000 cubic feet of gas per barrel of oil.

RULE 2(b) 1. Each gas well to which is dedicated more than 40 acres shall be located no nearer than 660 feet to the outer boundary of its proration unit or of the quarter section and not nearer than 330 feet to any governmental quarter-quarter section or subdivision line.

2. Each oil well, or gas well to which no more than 40 acres is dedicated, shall be located no nearer than 330 feet to the outer boundary of any governmental quarter-quarter section of subdivision line.

RULE 3(b) 1. The Director may grant an exception to Rule 2(b) 1 above and Rule 4(b) (1) of the General Rules if a completion, recompletion, or reclassification of a Tubb well results in dedication of acreage to an oil well on a previously approved gas proration unit, and thereby severs acreage contained in said unit from the gas well which produces for the unit.

B. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2(a) 1. A standard gas proration unit in the Tubb Oil and Gas Pool shall be 160 acres.

2. A standard oil proration unit in the Tubb Oil and Gas Pool shall be 40 acres.

3. Acreage dedicated to a gas well in the Tubb Oil and Gas Pool shall not be simultaneously dedicated to an oil well in the pool, and the dual completion of a well so as to produce separate gas and oil allowables from the Tubb Oil and Gas Pool is prohibited.

2. The Director may grant an exception to Rule 2(a) 1 above and Rule 4(b) (2) of the General Rules when the non-standard proration unit consists of not more than 164 acres and lies wholly within a single governmental section.

D. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8. Acreage is the only proration factor in the Tubb Oil and Gas Pool.

G. REPORTING OF PRODUCTION

RULE 17(b). In submitting Form C-115 on wells producing from the Tubb Oil and Gas Pool in which condensate is commingled and/or the low-pressure gas is commingled with low-pressure gas produced on the lease, the operator shall estimate the volume produced by each well in each pool by using the ratios as reflected in the most recent test submitted.

I. MISCELLANEOUS SPECIAL POOL RULES

RULE 26. Oil wells in the Tubb Oil and Gas Pool shall receive oil and casinghead gas allowables as provided in Rules 503, 506, and 508 of the Division Rules and Regulations.

RULE 27. Gas-liquid ratio tests shall be conducted annually during the months of August, September, and October on all wells located in and producing from the Tubb Oil and Gas Pool. Results of such tests shall be reported to the Division on Form C-116 on or before the 10th day of November of each calendar year.

RULE 28(a). The District Supervisor, on or before December 10 of each year shall review production data, gas-oil ratio tests and other pertinent data and reclassify a well if evidence reflects the need for such reclassification. Any operator may request that the District Supervisor reconsider the reclassification if he has evidence to support such request.

**GENERAL RULES AND REGULATIONS FOR THE
PRORATED GAS POOLS OF NEW MEXICO - Cont'd.)**

(b) In the event an oil well in the Tubb Oil and Gas Pool is reclassified as a gas well, the operator of such well will be afforded the opportunity to form a non-standard gas proration unit for the well; provided however, that until such unit is formed, said well shall be allocated a gas allowable commensurate with the acreage contained in the unit formerly dedicated to the oil well. In the event of two or more gas wells producing from the Tubb Oil and Gas Pool within a single proration unit, the allowable assigned to the unit may be produced from any well on the unit in any proportion.

RULE 29(a). Condensate from any gas well in the Tubb Oil and Gas Pool may be commingled with other condensate produced by any other gas well or wells producing from the pool or the Blinbery Oil and Gas Pool following its separation from the gas in a separator, provided approval therefor has been obtained in accordance with Division Rule 303-B and/or Rule 309-B, whichever is applicable.

(b) If two-stage separation is used, the low-pressure gas shall be directed into a low-pressure gas gathering system, and said low-pressure gas need not be measured separately from the other low-pressure gas produced on the lease, provided that certain test facilities are available and periodic tests made in accordance with Rule 27 above.

**NORTH DAGGER DRAW-UPPER PENNSYLVANIAN POOL
Eddy County, New Mexico**

Order No. R-4691, Adopting Temporary Operating Rules for the North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, January 1, 1974.

See separate Order No. R-4691-A, February 3, 1976, as amended, amending rules to provide for 160-acre proration units and a special depth bracket allowable and extending the temporary rules adopted in Order No. R-4691.

Order No. R-4691-C, March 15, 1977, makes permanent the rules adopted in Order No. R-4691, as amended by Orders Nos. R-4691-A and R-4691-B.

See separate Order No. R-4691-D, April 1, 1991, amending rules to provide for a special depth bracket allowable.

Application of Roger C. Hanks for Pool Creation and Special Pool Rules, Eddy County, New Mexico.

CASE NO. 5117
Order No. R-4691

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a. m. on November 28, 1973, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 11th day of December, 1973, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant Roger C. Hanks, seeks the establishment of a pool for production from the Upper Pennsylvanian (Cisco-Canyon) formation by the abolishment of the Parrish Ranch-Upper Pennsylvanian Pool and the Dagger Draw-Upper Pennsylvanian Pool and the creation of a new pool, designating the North Dagger Draw-Upper Pennsylvanian Pool, to include in all acreage formerly therein as well as requisite intervening acreage.

(3) That the applicant further seeks the promulgation of temporary special pool rules for the proposed new pool including a provision for 320-acre spacing, limited well locations, and the assignment of a special depth bracket allowable of 427 barrels of oil per day.

(4) That the reservoir characteristics of the proposed pool indicate that it cannot be efficiently and economically drilled and developed on less than 320-acre spacing.

(5) That temporary special rules and regulations providing for 320-acre spacing for wells should be promulgated for the proposed pool in order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation risk arising from the drilling of an excessive number of wells to prevent reduced recovery which might result from the drilling of too few wells, and otherwise prevent waste and protect correlative rights.

(6) That the depth bracket allowable for oil wells in the proposed pool should be 427 barrels of oil per day.

(7) That the application for pool abolishment, pool creation, and temporary special pool rules should be granted.

IT IS THEREFORE ORDERED:

(1) That effective January 1, 1974, the Dagger Draw-Upper Pennsylvanian Pool heretofore defined as:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 36: E/2 and SW/4

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM
Section 30: W/2 W/2
Section 31: NW/4

TOWNSHIP 20 SOUTH, RANGE 24 EAST, NMPM
Section 1: NW/4

and the Parrish Ranch-Upper Pennsylvanian Pool heretofore defined as:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 13: E/2 SE/4
Section 24: NE/4

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM
Section 18: N. 2 S/2 and SE/4 NE/4

are hereby abolished.

(2) That effective January 1, 1974, a new pool is hereby created and designated the North Dagger Draw-Upper Pennsylvanian Pool with vertical limits consisting of the Upper Pennsylvanian (Cisco-Canyon) formation as found from a depth of 7375 feet to 7918 feet on the log of the Monsanto Hondo No. 1, located in Unit C of Section 31, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, and horizontal limits defined as:

**NORTH DAGGER DRAW-UPPER PENNSYLVANIAN
POOL - Cont d.)**

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 24: E 2
Section 25: E 2
Section 36: All

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM
Section 18: All
Section 19: W 2
Section 30: W 2
Section 31: W 2

TOWNSHIP 20 SOUTH, RANGE 24 EAST, NMPM
Section 1: N 2

(3) That effective January 1, 1974, temporary Special Rules and Regulations for the North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
NORTH DAGGER DRAW-UPPER PENNSYLVANIAN POOL**

RULE 1. Each well completed or recompleted in the North Dagger Draw-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof, and not nearer to or within the limits of another designated Upper Pennsylvanian Pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations herein-after set forth.

RULE 2. Each well shall be located on a standard unit containing 320 acres, more or less, comprising any two contiguous quarter section of a single governmental section, being a legal subdivision of the United States Public Land Surveys provided that for the purposes of these rules, a unit consisting of between 316 and 324 contiguous surface acres shall be considered a standard unit.

RULE 3. The Secretary-Director of the Commission 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 and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Land Surveys, or the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a standard proration unit for the well under the applicable provisions of Rule 2 above and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interest in the standard proration unit for the well in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such

non-standard unit. The Secretary-Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit with 30 days after the Secretary-Director has received the application.

RULE 4. Each well shall be located no nearer than 660 feet to the nearest side boundary of the tract nor nearer than 1980 feet to the nearest end boundary of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

RULE 5. The Secretary-Director may grant an exception to the requirements of Rule 4 without notice and 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 proration unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all operators offsetting the proration unit or if no objection to the unorthodox location has been entered within 20 days after the Secretary-Director has received the application.

RULE 6. That the special depth bracket allowable for a well on a 320-acre tract shall be 427 barrels of oil per day.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the North Dagger Draw-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the appropriate district office of the Commission in writing of the name and location of the well on or before March 1, 1974.

(2) That, pursuant to Paragraph A. of Section 65-3-14.5, NMSA 1953, contained in Chapter 271, Laws of 1969, existing oil wells in the North Dagger Draw-Upper Pennsylvanian Pool shall have dedicated thereto 320 acres and existing gas wells in said pool shall have dedicated thereto 320 acres, in accordance with the foregoing pool rules or, pursuant to Paragraph C. of said Section 65-3-14.5, existing wells may have non-standard spacing or proration units established by the Commission and dedicated thereto.

Failure to file new Forms C-102 with the Commission dedicating 320 acres to a well or to obtain a non-standard unit approved by the Commission within 60 days from the date of this order shall subject the well to cancellation of allowable.

Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the North Dagger Draw-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof shall receive no more than a 40-acre allowable for this pool.

(3) That this cause shall be reopened in January, 1976 to permit operators in the subject pool to appear and show cause why the special rules promulgated herein should remain in effect.

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

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 11211
ORDER NO. R-10328

GAS ALLOWABLES FOR THE PRORATED GAS POOLS IN NEW MEXICO FOR
APRIL THROUGH SEPTEMBER, 1995.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9:00 a.m. on February 23, 1995, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of March, 1995, the Commission, a quorum being present and having considered the testimony, the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) This hearing was called for the purpose of accepting nominations and other evidence and information to assist in determining April through September, 1995 gas allowables for the prorated gas pools in New Mexico. Thirteen of the prorated gas pools are in Lea, Eddy, and Chaves Counties in Southeast New Mexico, and the other four prorated gas pools are in San Juan, Rio Arriba, and Sandoval Counties in Northwest New Mexico.
- (3) Amendments to the Gas Proration Rules approved by the Commission Order No: R-8170-H in December, 1990 provide for allowables to be established for six month allocation periods beginning in April and October of each year.
- (4) Average monthly allowables for April through September, 1995 for each pool should be based on the monthly average individual pool production for April through September, 1994, with administrative adjustments where appropriate.

(5) Production information for 1994 was not available because of delays in getting C-115 production information into the new system. Estimates based on 1993 data were therefore used as a basis for preliminary allowables. Producers, purchasers, and transporters of gas were asked to review these preliminary allowables and to participate in the February 23, 1995 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) Chevron and Conoco presented evidence at the hearing to support the OCD recommended allowables for the prorated pools in Southeast New Mexico. Exxon and Oryx entered statements supporting the proposed allowables.

(7) Amoco submitted testimony at the hearing to support increased allowables for the Northwest New Mexico Pools. They requested the following monthly increases:

Basin Dakota - 10,000 MCF; Blanco Mesaverde - 535,491 MCF; Blanco P.C. South - 9,540 MCF; and Tapacito Pictured Cliffs - 2,509 MCF. Phillips entered a statement requesting essentially these same allowables for the Basin Dakota and Blanco Mesaverde Pools. Meridian submitted a statement supporting the OCD allowables but indicating no objection to increases proposed by others. The increases proposed by Amoco are in addition to the adjustments proposed by OCD.

(8) Testimony by OCD indicates that gas production in New Mexico continues at record levels in spite of low prices. Production was 1.4 TCF in 1994 and an estimated 1.55 TCF in 1995. This indicates there is sufficient demand for New Mexico gas to accommodate the proposed allowables.

(9) The allowable increases proposed by Amoco for the Northwest New Mexico Pools should be approved.

(10) OCD Exhibit No. 1 shows that there are currently no prorated wells in the Burton Flat Strawn; Carlsbad Morrow, South; Catclaw Draw Morrow; and Monument McKee Ellenburger Pools. This condition has existed for the last several years. Proration in these pools should therefore be suspended until such time as production data or other information indicates that the pools should be prorated.

IT IS THEREFORE ORDERED THAT:

(1) Exhibits "A" and "B" attached to and incorporated herein, including the increased allowables requested in Finding Paragraph No. (7) are adopted for the purpose of making allowable assignments for the prorated gas pools in New Mexico for the months of April through September, 1995.

(2) The Oil Conservation Division is hereby directed to prepare proration schedules for the April through September, 1995 allocation period in accordance with this order and other Division Rules, Regulations and Orders. Copies of this order shall be included in each proration schedule.

(3) Proration is hereby suspended in the Burton Flat Strawn; Carlsbad Morrow, South; Catclaw Draw Morrow; and Monument McKee Ellenburger Pools until such time as production data or other information indicates the pools should again be prorated.

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

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

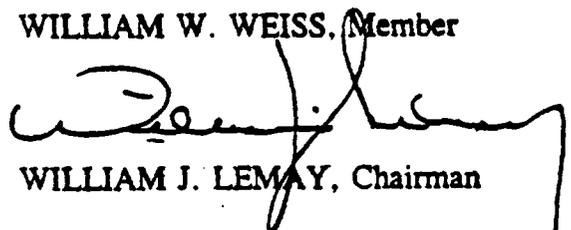
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



GARY CARLSON, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman

SEAL

**OIL CONSERVATION DIVISION
MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE
PRORATED GAS POOLS OF NORTHWEST NEW MEXICO
FOR APRIL 1995 THROUGH SEPTEMBER 1995**

NAME	AVG MONTHLY POOL SALES APR93-SEPP3	POOL ADJUSTMENTS	MONTHLY POOL ALLOWABLE APR93-SEPP3	MONTHLY MARGINAL POOL ALLOWABLE APR93-SEPP3	MONTHLY NON-MARGINAL POOL ALLOWABLE APR93-SEPP3	NUMBER OF NON-MARGINAL ACR. FACTORS	MONTHLY ACREAGE ALLOC. FACTOR
Basin Penn	106,172	930	107,102	59,102	48,000	2.00	24,000
Basin Oil and Gas	564,643	13,880	578,523	450,873	127,650	3.00	42,550
Basin Valley Penn	293,780	188	293,968	260,968	33,000	1.00	33,000
Basin Yates 7 Rivers On	2,563,744	451,241	3,014,985	2,156,185	858,800	22.60	38,000
Basin Morrow	62,700	531	63,231	47,231	16,000	1.00	16,000
Basin Upper Penn	3,722,866	183,172	3,906,038	2,934,038	972,000	4.86	200,000
Basin Tansill YT 7 Rivers	1,029,426	22,196	1,051,622	973,847	77,775	4.25	18,300
Basin Glorieta	48,401	51,631	100,032	26,832	73,200	4.00	18,300
Basin Oil and Gas	293,367	28,378	321,745	203,620	118,125	8.75	13,500

Gas Volumes Shown in MCF

**OIL CONSERVATION DIVISION
 MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE
 PRORATED GAS POOLS OF NORTHWEST NEW MEXICO
 FOR APRIL 1995 THROUGH SEPTEMBER 1995**

POOL NAME	AVG MONTHLY POOL SALES APR95-SEPT95	POOL ADJ	MONTHLY POOL ALLOWABLE APR-95-SEPT95	MONTHLY MARGINAL POOL ALLOW. ABLE APR95-SEPT95	MONTHLY NON- MARGINAL POOL ALLOW. ABLE APR95-SEPT95	NUMBER OF NON- MARGINAL ACB. FACTORS	NUMBER OF NON-MARGINAL ACB.*DLV.	MONTHLY ACREAGE ALLOC. FACTOR	MONTHLY ACB.*DLV. FACTOR
Basin Dakota	9,548,540	108,958	9,657,498	9,377,498	280,000	15.05	7,978	11,163	14.04
Hanco Mesaverde	16,495,592	535,491	17,031,083	14,049,750	2,981,333	129.16	85,529	5,771	26.14
Hanco P.C. South	1,216,638	39,353	1,255,991	1,106,658	149,333	84.80	3,974	440	28.18
Capito Pictured Cliffs	326,656	2,509	329,165	314,232	14,933	8.00	566	467	19.79

* All Gas Volumes Shown in MCF

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

RECEIVED
SEP 19 1997
CAMPBELL, CARR, et al.

APPLICATION OF MEWBOURNE OIL
COMPANY FOR AN UNORTHODOX GAS
WELL LOCATION AND A NON-STANDARD
GAS PRORATION UNIT, EDDY COUNTY,
NEW MEXICO.

Case No. 11723 (de novo)

APPLICATION OF FASKEN OIL AND
RANCH, LTD. FOR A NON-STANDARD
GAS PRORATION AND SPACING UNIT-
AND TWO ALTERNATE UNORTHODOX GAS
WELL LOCATIONS, EDDY COUNTY,
NEW MEXICO.

Case No. 11755 (de novo)

Order No. R-10872

**MOTION OF MEWBOURNE OIL COMPANY
FOR A STAY OF DIVISION ORDER NO. R-10872
AND TO SHUT-IN AN EXISTING WELL**

Mewbourne Oil Company ("Mewbourne") moves the Oil Conservation Division ("Division") and the Oil Conservation Commission ("Commission") for an order staying Division Order No. R-10872 pending a de novo review by the Commission, and requesting that an existing well be shut-in, and in support thereof, states:

A. MOTION FOR A STAY.

1. Denying A Stay Negates Mewbourne's Right To An Appeal.

The above cases were heard by the Division on April 3, 1997. On September 12, 1997 the Division entered Order No. R-10872, granting the application of Fasken Oil and Ranch, Ltd. ("Fasken Oil") and denying the application of Mewbourne. An Application for Hearing De Novo was filed with the Division by Mewbourne on September 17, 1997. Mewbourne has an absolute right to a de novo hearing before the Commission pursuant to statute. N.M. Stat. Ann. §70-2-13 (1995 Repl. Pam.).

If a stay is not granted, Fasken may drill its proposed well. As a result, by the time this matter is decided by the Commission the issue may be moot, and Mewbourne's right to a *de novo* hearing will effectively be negated. As a result, a stay of Order No. R-10872 is proper.

2. Order No. R-10872 Is Contrary To Division Policy And Law.

Order No. R-10872 approved Fasken's well location essentially because it was unopposed by offsetting interest owners. Order No. R-10872, Finding ¶(16). Division Memorandum 3-89 states that unorthodox locations will not be granted merely because they are unopposed. Thus, Order No. R-10872 is contrary to Division policy, and needs to be reviewed by the Commission before a well is commenced.

Moreover, no geologic justification was given in Order No. R-10872 for denying one application and granting the other, and the order does not disclose the reasoning of the Division, as required by law. Fasken v. Oil Conservation Comm'n, 87 N.M. 292, 532 P.2d 588 (1975); Viking Petroleum, Inc. v. Oil Conservation Comm'n, 100 N.M. 451, 672 P.2d 280 (1983) (findings must be sufficiently extensive to show the basis of the order and disclose the reasoning of the Division). Therefore, Order No. R-10872 is legally defective, and must be reviewed by the Commission.

3. Order No. R-10872 Ignored The Operating Agreement.

The property at issue in this case, the S¼ of Section 1-21S-25E, is subject to an Operating Agreement (Mewbourne Exhibit 3), under which Mewbourne and Fasken Land and Minerals, Ltd. ("Fasken

Land") are interest owners.¹ There was substantial evidence presented at hearing that the operator under the agreement must be an interest owner, and thus Fasken Oil is not a proper applicant. Nonetheless, Order No. R-10872 appointed Fasken Oil as operator. Order No. R-10872, Decretory ¶(3). Therefore, the order is defective because Fasken Oil cannot be operator of a well in the SW of Section 1.

In addition, Mewbourne's well location was proposed first. As a result, Fasken Land, as operator, had a duty under the Operating Agreement to proceed with obtaining regulatory approval of Mewbourne's location, instead of opposing it. Order No. R-10872 ignored these facts. Again, the order is defective and must be reviewed by the Commission before any well is drilled.

4. The Division Did Not Have Jurisdiction Over Case 11755.

Fasken Land, not Fasken Oil, is the proper applicant in Case 11755. Notice of Case 11755 was never published naming Fasken Land as applicant, as required by Division Rule 1205.B. Thus, notice was defective, the Division never had jurisdiction over Case 11755, and granting relief in Case 11755 was improper.

B. MOTION TO SHUT-IN WELL.

Texaco Exploration and Production Inc. ("Texaco")² operates two wells in Section 12-21S-25E, one located in Unit N (drilled in 1972) and one located in Unit F (commenced in October 1995 and

¹Fasken Oil is not an interest owner under the Operating Agreement.

²Texaco entered an appearance in this action in opposition to Mewbourne's application.

completed in early 1996). Order No. R-10872, Finding ¶(9); Mewbourne Exhibit 10; Texaco Exhibit 6. Prorationing was suspended in the Catclaw Draw-Morrow Gas Pool in March 1995, by Commission Order No. R-10328. As a result, when the Texaco well in Unit F was drilled, it was subject to Division Rule 104.D(3), which limits the number of producing wells in a gas spacing and proration unit within non-prorated pools to one. Order No. R-10872, Finding ¶(5).

Thus, Texaco's E.J. Levers Fed. "NCT-1" Well No. 2, in Unit F of Section 12, was illegally drilled. Moreover, this well may be draining the S $\frac{1}{4}$ of Section 1, giving Texaco an unfair advantage over the interest owners therein.³ Therefore, Mewbourne requests that Texaco's well in Unit F of Section 12 be shut-in pending the hearing *de novo* and until Texaco applies to and obtains an order of the Division allowing it to produce the well.

WHEREFORE, Mewbourne requests that Order No. R-10872 be stayed pending a decision in the hearing *de novo*, and that Texaco's E.J. Levers Fed. "NCT-1" Well No. 2 be shut-in pending a proper application to and decision by the Division.

Respectfully submitted,



James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Mewbourne Oil Company

³Texaco's Well No. 2 produces at a rate of several million cubic feet of gas per day.

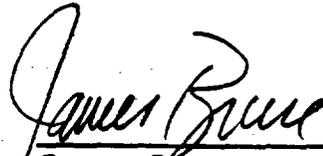
CERTIFICATE OF SERVICE

I hereby certify that a copy of the forgoing pleading was served upon the following counsel of record this 18th day of September, 1997, by United States mail:

W. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504

William F. Carr
Campbell, Carr, Berge & Sheridan, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504

Marilyn S. Hebert
Rand L. Carroll
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505



James Bruce

OPERATOR'S COPY

Form 3160-3
(December 1990)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
Budget Bureau No. 1004-0138
Expires: December 31, 1991

SUBMIT IN TRIPPLICATE

RECEIVED
AUG 1 11 31 AM '95

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. Type of Work **DRILL** **DEEPEN**
 1b. Type of Well **SINGLE ZONE**
OIL WELL **GAS WELL** **OTHER** **MULTIPLE ZONE**

2. Name of Operator **TEXACO EXPLORATION & PRODUCTION INC.**

3. Address and Telephone No. **P.O. Box 3109, Midland Texas 79702 688-4806**

4. Location of Well (Report location clearly and in accordance with any State requirements.)
 At Surface **2448'**
 Unit Letter **F** : **4000'** Feet From The **NORTH** Line and **1980** Feet From The **WEST** Line
 At proposed prod. zone **535**
SAME

14. Distance in Miles and Direction from Nearest Town or Post Office*
7 MILES NW FROM CARLSBAD

15. Distance From Proposed* Location to Nearest Property or Lease Line, Ft. (also to nearest drig. unit line, if any) **1980'** 16. No. of Acres in Lease **632.38**

18. Distance From Proposed Location* to Nearest Well, Drilling, Completed or Applied For, On This Lease, Ft. **2982'** 19. Proposed Depth **10680'**

21. Elevations (Show whether DF, RT, GR, etc.) **GR-3248'** **Carlsbad Controlled Water Basin**

5. Lease Designation and Serial No. **NM 0454228**
 6. If Indian, Aloties or Tribe Name
 7. If Unit or CA, Agreement Designation
 8. Well Name and Number **E. J. LEVERS '12' FEDERAL NCT-1**
 9. API Well No. **2**
 10. Field and Pool, Exploratory Area **CATCLAW DRAW MORROW**
 11. SEC., T., R., M., or BLK. and Survey or Area **Sec. 12, Township 21-S, Range 25-E**
 12. County or Parish **EDDY** 13. State **NM**
 17. No. of Acres Assigned To This Well **632.38**
 20. Rotary or Cable Tools **ROTARY**
 22. Approx. Date Work Will Start* **9/1/95**

23. PROPOSED CASING AND CEMENT PROGRAM				
SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2	WC60, 13 3/8	54.88	400'	400 SACKS - <u>CIRCULATE</u>
11	WC60, 8 5/8	28#	2250'	600 SACKS - <u>CIRCULATE</u>
7 7/8	K55, L80, P110, 5 1/2	17 & 23#	10560'	1390 SACKS - TOC @ 2900' (SEE STIPS)

CEMENTING PROGRAM:
 SURFACE CASING - 300 SACKS CLASS C W/ 4% GEL, 2% CACL2 (13.5 PPG, 1.74 CF/S, 9.11 GW/S). F/B 100 SACKS CLASS C W/ 2% CACL2 (14.8 PPG, 1.34 CF/S, 6.3 GW/S).

INTERMEDIATE CASING - 500 SACKS 35/65 POZ CLASS H W/ 6% GEL, 5% SALT, 1/4# FLOCELE (12.4 PPG, 2.14 CF/S, 11.9 GW/S). F/B 100 SACKS CLASS H (15.6 PPG, 1.19 CF/S, 5.2 GW/S).

PRODUCTION CASING - 1ST STAGE - 500 SACKS 50/50 POZ CLASS H W/ 2% GEL, 5% SALT, 1/4# FLOCELE (14.2 PPG, 1.35 CF/S, 6.3 GW/S). DV TOOL @ 8000'. 2ND STAGE - 750 SACKS 35/65 POZ CLASS H W/ 6% GEL, 5% SALT, 1/4# FLOCELE (12.4 PPG, 2.14 CF/S, 11.9 GW/S). F/B 100 SACKS CLASS H (15.6 PPG, 1.19 CF/S, 5.2 GW/S).

ESTIMATED DAYS TO T.D.: **30 DAYS**

THERE ARE NO OTHER OPERATORS IN THIS QUARTER QUARTER SECTION.

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

In Above Space Describe Proposed Program: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured true verticle depths. Give blowout preventer program, if any.

24. I hereby certify that the foregoing is true and correct.
 SIGNATURE C. Wade Howard TITLE Eng. Assistant DATE 7/31/95
 TYPE OR PRINT NAME C. Wade Howard

PERMIT NO. _____ APPROVAL DATE _____
 Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
 APPROVED BY [Signature] TITLE Work Area Manager DATE 9-15-95
 CONDITIONS OF APPROVAL, IF ANY:

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
Budget Bureau No. 1004-0136
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS
Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT -" for such proposals

5. Lease Designation and Serial No.
NM 0454228

6. If Indian, Abottee or Tribe Name

7. If Unit or CA, Agreement Designation

8. Well Name and Number
E. J. LEVERS '12 FEDERAL NCT-1
2

9. API Well No.

10. Field and Pool, Exploratory Area
CATCLAW DRAW MORROW

11. County or Parish, State
EDDY, NM

SUBMIT IN TRIPLICATE

1. Type of Well: OIL WELL GAS WELL OTHER

2. Name of Operator
TEXACO EXPLORATION & PRODUCTION INC.

3. Address and Telephone No. P.O. Box 3109, Midland Texas 79702 688-4606

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
Unit Letter F : 2448 Feet From The NORTH Line and 1960 Feet From The
WEST Line Section 12 Township 21-S Range 25-E

12. Check Appropriate Box(s) To Indicate Nature of Notice, Report, or Other Data

TYPE OF SUBMISSION	TYPE OF ACTION
<input checked="" type="checkbox"/> Notice of Intent <input type="checkbox"/> Subsequent Report <input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Abandonment <input type="checkbox"/> Recompletion <input type="checkbox"/> Plugging Back <input type="checkbox"/> Casing Repair <input type="checkbox"/> Altering Casing <input checked="" type="checkbox"/> OTHER: <u>MOVE LOCATION</u>
	<input type="checkbox"/> Change of Plans <input type="checkbox"/> New Construction <input type="checkbox"/> Non-Routine Fracturing <input type="checkbox"/> Water Shut-Off <input type="checkbox"/> Conversion to Injection <input type="checkbox"/> Dispose Water

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log Form.)

13. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

CHANGE OF LOCATION: THIS WELL WAS MOVED 465' SOUTH AT THE REQUEST OF THE BUREAU OF RECLAMATION.
THE APD FOR THIS WELL WAS FILED 7/31/95.
ATTACHED IS A REVISED C-102, TOPO MAP, DRILLING RIG LAYOUT, AND SURFACE USE PLAN.



14. I hereby certify that the foregoing is true and correct.

SIGNATURE C. Wade Howard TITLE Eng. Assistant DATE 8/7/95

TYPE OR PRINT NAME C. Wade Howard

(This space for Federal or State office use)

APPROVED BY Zelanda C. Lopez TITLE Asst. Area Mgr. DATE 9-15-95

CONDITIONS OF APPROVAL, IF ANY:

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

DISTRICT I
P. O. Box 1980, Hobbs, NM 88240

DISTRICT II
P. O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
P. O. Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994

Instructions on back

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Submit to Appropriate District Office

State Lease-4 copies
Fee Lease-3 copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

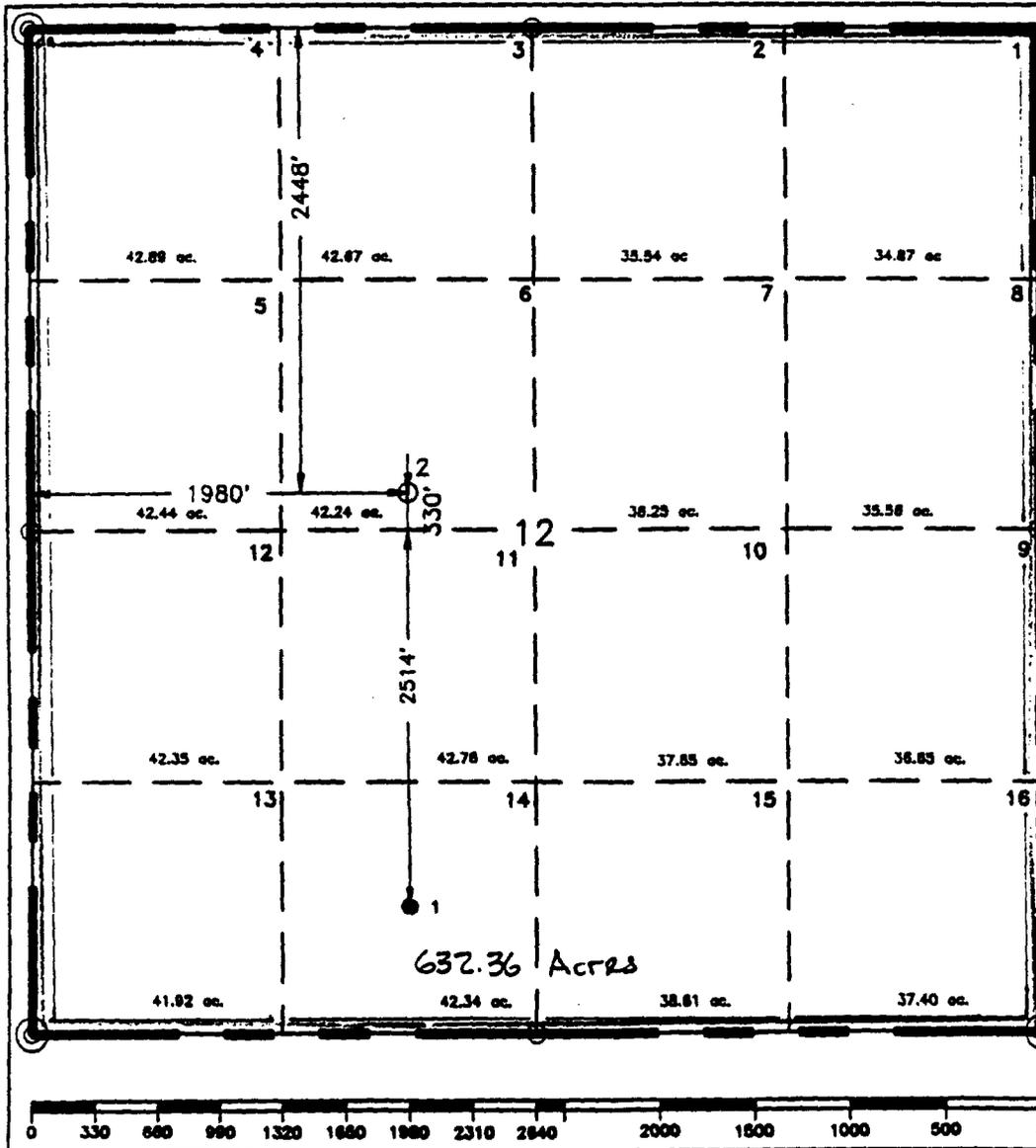
¹ API Number		² Pool Code		³ Pool Name Catclaw Draw Marrow	
⁴ Property Code 10982		⁵ Property Name E. J. Levers "12" Fed. (NCT-1)			⁶ Well Number 2
⁷ OGRID No. 22351		⁸ Operator Name TEXACO EXPLORATION & PRODUCTION, INC.			⁹ Elevation 3276'

¹⁰ Surface Location									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	12	21-S	25-E		2448'	North	1980'	West	Eddy

¹¹ Bottom Hole Location if Different From Surface									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 632.36'	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
--	-------------------------------	----------------------------------	-------------------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION.



¹⁶OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
C. Wade Howard

Printed Name
C. Wade Howard

Position
Engineer's Assistant

Company
Texaco Expl. & Prod. Inc.

Date
August 7, 1995

¹⁷SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
July 19, 1995

Signature & Seal of Professional Surveyor
John S. Piper

Certificate No.
7254 John S. Piper

Sheet 8 of 8



NOTE TO FILE

RECEIVED
SEP 11 1997
CAMPBELL, CARR, et al.

FOR: The record in Division Case Nos. 11723 and 11755

FROM: Michael E. Stogner, Chief Hearing Officer/Engineer *MS*

SUBJECT: Catclaw Draw-Morrow Gas Pool
production in Section 12, Township
21 South, Range 25 East, NMPM,
Eddy County, New Mexico

DATE: September 10, 1997

CC: William J. LeMay, Director - OCD, Santa Fe
Rand L. Carroll, Counsel - OCD, Santa Fe
William F. Carr, Counsel - Texaco Exploration &
Production Inc., Santa Fe

Texaco Exploration and Production Inc., a party appearing in this matter, operates the standard 632.36-acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool that comprises all of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, which is currently dedicated to the:

(a) E. J. Levers Federal "NCT-1" Well No. 1 (API No. 30-015-20683) located at a previously approved unorthodox gas well location [approved by Decretory Paragraph No. (6) of Division Order No. R-4157-D, dated June 21, 1971] 660 feet from the South line and 1980 feet from the West line (Lot 14/Unit N) of said Section 12; and,

(b) E. J. Levers Federal "NCT-1" Well No. 2 (API No. 30-015-28644) at a standard gas well location 2448 feet from the North line and 1980 feet from the West line (Lot 6/Unit F) of said Section 12.

The E. J. Levers Federal "NCT-1" Well No. 2 was spudded on October 29, 1995, reached a T.D. of 10,600 feet on November 11, 1995, completed on December 21, 1995, and began producing gas on March 1, 1996.

The Catclaw Draw-Morrow Gas Pool is governed by the "General Rules and Regulations for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool", as promulgated by Division Order No. R-8170, as amended, which requires

standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet from the outer boundary of a proration unit nor closer than 330 feet from any governmental quarter-quarter section or subdivision inner boundary. Although technically classified as a "Prorated Gas Pool", gas prorationing was suspended in the Catclaw Draw-Morrow Gas Pool by Division Order No. R-10328, issued by the New Mexico Oil Conservation Commission in Case No. 11211 on March 27, 1995, due to the fact that there were no "prorated wells" in the pool. The Catclaw Draw-Morrow Gas Pool is currently subject to the spacing and well location provisions of the *"Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool"*, as described above, as well as Rule 104.D(3) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996, which restricts the number of producing wells within a single gas spacing unit within non-prorated pools to only one. Prior to January 18, 1996 the policy, as described in Division Memorandums dated July 27, 1988 and August 3, 1990 were in effect, which also limited and initially established the "one-well rule" (see copies attached).

In reviewing this matter further, I was unable to find where Texaco had applied for and received an exception to this "one well rule" within its existing 632.36-acre gas spacing and proration unit comprising said Section 12 that was essentially put into effect on March 27, 1995 when prorationing was suspended in the Catclaw Draw-Morrow Gas Pool. I met with Rand Carroll, Bill Carr, and Jim Bruce (W. Thomas Kellahin was extended an invitation but was out of town) this morning and requested that Texaco shut-in one of its two producing Morrow gas wells within said Section 12 until such time as: (i) gas prorationing in the Catclaw Draw-Morrow Gas Pool is reestablished; (ii) the pool rules are amended to allow for an infill-well (this would be similar to the actions taken for the Indian Basin-Morrow Gas Pool when gas prorationing was suspended); (iii) an exception to the Rule 104.D(3) is obtained; or, (iv) proper documentation is provided showing that an exception was granted Texaco for the above-described E. J. Levers Federal "NCT-1" Well No. 2.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF TEXACO EXPLORATION
AND PRODUCTION INC. FOR CLARIFICATION
OF THE RULES GOVERNING THE CATCLAW DRAW-
MORROW GAS POOL, OR IN THE ALTERNATIVE,
FOR AN EXCEPTION TO THOSE RULES,
EDDY COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

TEXACO EXPLORATION AND PRODUCTION INC. ("Texaco") hereby makes application to the Division for an order clarifying the Division Rules which govern the development of the Catclaw Draw-Morrow Gas Pool as these rules apply to second wells on spacing units within this pool or, in the alternative, for an exception to these rules for its E. J. Levers Federal "NCT-1" Wells Nos 1 and 2 located on Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, and in support of this application states:

1. Texaco is the operator of a standard 632.36-acre spacing and proration unit in the Catclaw Draw-Morrow Gas Pool comprised of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico.
2. The Catclaw Draw-Morrow Gas Pool was created on June 21, 1971 by Division Order No. R-4157.
3. In 1971, Texaco drilled its E. J. Levers Federal "NCT-1" Well No. 1 (API No. 30-015-20683) at an unorthodox gas well location 660 feet from the South line and 1980 feet from the West line in Unit N/Lot 14 of Section 12 (approved by Decretory Paragraph No. (6)

of Division Order No. R- 4157-D, dated June 21, 1971) and dedicated all of Section 12 thereto in the Catclaw Draw-Morrow Gas Pool.

4. Special Pool Rules and Regulations for the Catclaw Draw-Morrow Gas Pool were amended from time to time and the pool was prorated on January 15, 1974. (Order No. R-4704).

5. Pursuant to these rules, the Catclaw Draw-Morrow Gas Pool has been developed on an effective 320-acre spacing pattern.

6. In 1988 and again in 1990, William J. LeMay, Director of the Division, issued memoranda to the industry which prohibited continuous and concurrent production of two wells on a single spacing unit in unprorated pools unless exception to the pool rules was obtained after notice and hearing.

7. The Special Pool Rules for the Catclaw Draw-Morrow Gas Pool (Order No. R-4704) were incorporated into the General Rules and Regulations for the Prorated Gas Pools of New Mexico (Order No. R-1670-O).

8. New General Rules and Regulations for the Prorated Gas Pool of New Mexico were adopted by Division Order No. R-8170 on March 28, 1986. This order repealed Order No. R-1670 and promulgated Special Pool Rules for many of the prorated pools including the Catclaw Draw-Morrow Gas Pool. The special pool rules for the Catclaw Draw-Morrow Gas Pool provide for 640-acre spacing and 1650 foot well set backs but is silent on authorization of second wells on spacing units.

9. By Order No. R-10328 dated March 27, 1995, the Oil Conservation Commission "suspended" prorationing in certain pools including the Catclaw Draw-Morrow Gas Pool.

10. On July 31, 1995, Texaco filed a Form C-101, seeking Division approval of its E. J. Levers Federal "NCT-1" Well No. 2. The Division approved that well.

11. In October 1995, Texaco drilled its E. J. Levers Federal "NCT-1" Well No. 2 (API No. 30-015-28644) located at a standard gas well location 2448 feet from the North line and 1980 feet from the West line in Unit F Lot 6 of said Section 12.

12. On September 10, 1997, Texaco was advised by the Division that the Catclaw Draw Morrow Gas Pool is governed by the General Rules and Regulations for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool, as promulgated by Order No. R-8170 and Division Rule 104.D(3) of the General Rules and Regulations of the Oil Conservation Division as revised by Division Order No. R-10533. Those Rules and Orders restrict to one the number of producing wells on a single spacing unit in a non-prorated pool. The Division requested that Texaco shut-in one well in Section 12 until Division approval for a second Morrow well on Section 12 is obtained from the Division.

13. Texaco requests clarification from the Commission as to the current status of the rules which govern the Catclaw Draw-Morrow Gas Pool. Specifically, Texaco requests clarification of the meaning of "suspension" of prorationing in this pool. The issues which

need clarification include:

- A. Has Prorationing been terminated in this pool and if not what is the meaning of the suspension of prorationing?
 - B. Because Special Pool Rules for the Catclaw Draw-Morrow Gas Pool were abolished by Order No. R-8170, were second wells on spacing units authorized in this Pool?
 - C. Did the suspension of prorationing change the spacing for this pool whereby a second well was authorized on each spacing unit prior to the suspension but only one well per spacing unit permitted thereafter?
14. If the Rules which govern the Catclaw Draw-Morrow Gas Pool authorize only one well per 640-acre spacing unit, Texaco seeks an exception to these rules to permit the simultaneous dedication of Section 12, Township 21 South, Range 25 East, NMPM, to its E. J. Levers Federal ("NCT-1") Well Nos 1 and 2.
15. Approval of this application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, TEXACO EXPLORATION AND PRODUCTION INC. hereby requests that this application be set for hearing before an Examiner of the Oil Conservation Division on October 23, 1997, and after notice and hearing, the Division enter its order clarifying the rules for the Catclaw Draw-Morrow Gas Pool and, if needed, authorizing the simultaneous dedication of Section 12, Township 21 South, Range 25 East, NMPM, Eddy

APPLICATION,

county, New Mexico to its E. J. Levers Federal ("NCT-1") Wells Nos. 1 and 2.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: _____
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
Telephone: (505) 988-4421

ATTORNEYS FOR TEXACO
EXPLORATION AND PRODUCTION INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was mailed this ____ day of September, 1997 to the following counsel of record:

Rand Carroll, Esq.
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Attorney for the Oil Conservation Division

James Bruce, Esq.
612 Old Santa Fe Trail
Suite B
Santa Fe, New Mexico 87501

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

William F. Carr