

Chapter 1 Section 2

(ww) Spacing Unit shall mean a specified area of land **and pool** designated by the Commission for purposes of determining well density and location. A spacing unit provides a basis for pooling the interests therein as does a drilling unit. The well location requirement for vertical wells set out in Chapter 3, Section 2(a) and Chapter 3, Section 2(a)(iii) do not create a spacing unit as defined under this section. For purposes of these rules, a spacing unit, drilling unit and drilling and spacing unit are interchangeable.

Chapter 3 Section 8

(l) In a drilling and spacing unit (DSU), only horizontal well APD(s) from the Owner/Operator of an existing well may be submitted or extended. In the absence of an existing well in the DSU, only horizontal well APD(s) from the Owner/Operator of the oldest pending or approved APD may be submitted or extended. An APD submission or extension from any other Owner/Operator will be denied, except as provided for in Chapter 3 Section 8(m).

(m) An Owner/Operator whose APD cannot be submitted or extended under Section 8(l) may file a hearing application requesting approval of an APD(s). An Owner/Operator shall file its application within fifteen (15) days of its receipt of a horizontal well application notice pursuant to Section 8(f)(ii) or within fifteen (15) days of any two (2) year anniversary of the spud of a well.

(i) A hearing application filed under Section 8(m) shall include at a minimum:

- (A) The date the APD(s) requested for approval was submitted;
- (B) A description of the technical ability and experience of the applicant to drill and complete similar wells;
- (C) Percentage of working interest ownership within the DSU and any written support from other working interest owners in the DSU;
- (D) Working interest ownership in the area;
- (E) The number of wells in the area operated by the applicant;
- (F) Status of any necessary Federal permitting;
- (G) Contractual obligations, if any;
- (H) If the well pad is on Fee surface, proof that negotiations have commenced between the Owner/Operator and surface owner;
- (I) Proof of negotiation by delivery of Authorization for Expenditure

(AFE) and Joint Operating Agreement (JOA) to all other Owners/Operators and unleased mineral interest owners in the DSU.

(ii) Commission staff will review any APD(s) submitted in accordance with Section 8(m) for technical adequacy prior to a hearing before the Commission.

(iii) The Owner/Operator of a completed well or the oldest pending or approved APD in a DSU protesting an application submitted under subsection (i) above shall provide the following at a minimum:

(A) Current development activity and plans in the area;

(B) A description of the technical ability and experience of the applicant to drill and complete similar wells;

(C) Percentage of working interest ownership within the DSU and any written support from other working interest owners in the DSU;

(D) Working interest ownership in the area;

(iv) In contested case proceedings under Section 8(m), the Commission shall consider the factors set forth in subsections (i) and (iii) above and may consider any other factor the Commission deems relevant.

(v) The Commission shall issue an order in accordance with the following:

(A) If the Commission denies an Owner/Operator's 8(m) application, the applicant's APD(s) shall be denied;

(B) If the Commission approves an Owner/Operator's 8(m) application relating to the initial APD in a DSU, the Commission shall deny the protestant's APDs; or

(C) If the Commission approves an Owner/Operator's 8(m) application relating to an APD extension, the protestant's APD(s) shall be denied and the protestant shall have an exclusive right to file an APD within thirty (30) days of the expiration or withdrawal of all the applicant's APD(s).