

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL**

**OIL AND GAS DOCKET
NO. 08-0261715**

**IN THE MCKITTRICK (UPPER BONE
SPRINGS) FIELD, CULBERSON
COUNTY, TEXAS**

**FINAL ORDER
APPROVING THE APPLICATION OF
CHESAPEAKE OPERATING, INC. FOR NEW FIELD DESIGNATION
AND TEMPORARY FIELD RULES FOR THE
MCKITTRICK (UPPER BONE SPRINGS) FIELD
CULBERSON COUNTY, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on June 29, 2009, the presiding examiner has made and filed a report and recommendation containing findings of fact and conclusions of law, for which service was not required; that the proposed application is in compliance with all statutory requirements; and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the examiner's report and recommendation, the findings of fact and conclusions of law contained therein, hereby adopts as its own the findings of fact and conclusions of law contained therein, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is ordered by the Railroad Commission of Texas that the application of Chesapeake Operating, Inc. for new field designation for its DF Ranch State 63-3 No. 1H-ST is hereby approved. The new field shall be known as the McKittrick (Upper Bone Springs) Field, ID No. 59690 800, Culberson County, Texas.

It is further ordered that the following temporary field rules are hereby adopted for the McKittrick (Upper Bone Springs) Field, Culberson County, Texas:

RULE 1: The entire correlative interval from 4,150 feet (TVD) to 4,698 feet (TVD) as shown on the log of the DF Ranch State 63-3 No. 1H-ST, API 109 32292, Sec. 3, Blk. 63, T & P RR Co. Survey, A-3089, Culberson County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the McKittrick (Upper Bone Springs) Field.

RULE 2: No gas well shall hereafter be drilled nearer than SIX HUNDRED SIXTY (660) feet to any property line, lease line, or subdivision line and no well shall be drilled nearer than NINE HUNDRED THIRTY THREE (933) feet to any applied for, permitted or completed well in the same reservoir on the same lease, pooled unit or unitized tract. The aforementioned distances in the above rule are minimum distances to allow an operator

flexibility in locating a well, and the above spacing rule and the other rules to follow are for the purpose of permitting only one well to each drilling and proration unit in either field. Provided however, that the Commission will grant exceptions to permit drilling within shorter distances and drilling more wells than herein prescribed whenever the Commission shall have determined that such exceptions are necessary either to prevent waste or to prevent the confiscation of property. When exception to these rules is desired, application therefore shall be filed and will be acted upon in accordance with the provisions of Commission Statewide Rules 37 and 38, which applicable provisions of said rules are incorporated herein by reference.

Provided, however, that for purposes of spacing for horizontal wells, the following shall apply:

- a. A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced into the wellbore from the reservoir/field interval. The first take point may be at a different location than the penetration point and the last take point may be at a location different than the terminus point.
- b. All take points in a horizontal drainhole well shall be a minimum of SIX HUNDRED SIXTY (660) feet from any property line, lease line, or subdivision line. A permit or an amended permit is required for all take points closer to the lease line than the lease line spacing distance, including any perforations added in the vertical portion or the curve of a horizontal drainhole well.
- c. All take points in a horizontal drainhole well shall be a minimum distance of NINE HUNDRED THIRTY THREE (933) feet from take points in any existing, permitted, or applied for horizontal drainhole on the same lease, unit or unitized tract, with the exception that there shall be no minimum spacing requirement between horizontal and vertical wells.

In addition to the penetration point and the terminus of the wellbore required to be identified on the drilling permit application (Form W-1H) and plat, all proposed take points must also be identified on the drilling permit application (remarks section) and plat. Operators shall file an as-drilled plat showing the path, penetration point, terminus and all take points of all drainholes in horizontal wells, regardless of allocation formula.

In applying this rule, the general order of the Commission with relation to the subdivision of property shall be observed.

For the purpose of assigning additional acreage to a horizontal well pursuant to Rule 86, the distance from the first take point to the last take point in the horizontal drainhole shall be used in such determination, in lieu of the distance from penetration point to terminus.

RULE 3: The acreage assigned to the individual gas well for the purpose of allocating allowable gas production thereto shall be known as a proration unit. The

standard drilling and proration units are established hereby to be THREE HUNDRED TWENTY (320) acres. No proration unit shall consist of more than THREE HUNDRED TWENTY (320) acres; provided that, tolerance acreage of ten (10) percent shall be allowed for each standard proration unit so that an amount not to exceed a maximum of THREE HUNDRED FIFTY TWO (352) acres may be assigned. The two farthestmost points in any proration unit shall not be in excess of SIX THOUSAND FIVE HUNDRED (6,500) feet removed from each other. Each proration unit containing less than THREE HUNDRED TWENTY (320) acres shall be a fractional proration unit.

For the purpose of allocating allowable, acreage may be assigned to each Horizontal Drainhole Well up to the acreage determined by the following formula:

$$A = (L \times 0.11488) + 320 \text{ acres}$$

where A = calculated area assignable, if available, to a horizontal drainhole for proration purposes rounded upward to the next whole number evenly divisible by 40 acres; and L = the Horizontal Displacement of the well measured in feet between the point at which the drainhole penetrates the top of the designated interval for the field and the horizontal drainhole end point within the designated interval for the field, provided that L is at least 150 feet.

The two farthestmost points in any horizontal drainhole well proration unit shall be determined by the formula:

$$\text{Maximum Diagonal} = 475.933 \sqrt{A}, \text{ but not less than } 2,000 \text{ feet plus the Horizontal Drainhole Displacement, where } A = \text{the acres actually assigned to the proration unit.}$$

All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive. No double assignment of acreage will be accepted.

For the determination of acreage credit in this field, operators shall file for each well in this field a Form P-15 Statement of Productivity of Acreage Assigned to Proration Units. On that form or an attachment thereto, the operator shall list the number of acres that are being assigned to each well on the lease or unit for proration purposes. When the allocation formula in this field is suspended, operators in this field shall not be required to file plats with the Form P-15. When the allocation formula is in effect in this field, operators shall be required to file, along with the Form P-15, individual proration unit plats showing the acreage assigned to each well. Provided further, that if the acreage assigned to any well has been pooled, the operator shall furnish the Commission with such proof as it may require as evidence that interests in and under such proration unit have been so pooled.

RULE 4: The daily allowable production of gas from individual wells completed in a non-associated gas reservoir of the subject field shall be determined by allocating the allowable production, after deductions have been made for wells which are incapable of producing their gas allowables, among the individual wells in the following manner:

SEVENTY FIVE percent (75%) of the total field allowable shall be allocated among the individual wells in the proportion that the acreage assigned such well for allowable purposes bears to the summation of the acreage with respect to all proratable wells producing from this field.

TWENTY FIVE percent (25%) of the total field allowable shall be allocated among the individual wells in the proportion that the deliverability of such well, as evidenced by the most recent G-10 test filed with the Railroad Commission bears to the summation of the deliverability of all proratable wells producing from this field.

It is further ordered that these rules are temporary and effective until August 11, 2011, or until Commission staff evaluates appropriate data after notice and opportunity for hearing as offered by the Commission prior to the expiration of the rules. After this notice and opportunity for hearing, should the evidence evaluated during review be insufficient to sustain spacing or proration unit rules, these temporary rules, on the Commission's own motion, may be modified or terminated.

It is further ordered that the application of Chesapeake Operating, Inc. for suspension of the allocation formula in the McKittrick (Upper Bone Springs) Field is approved. The allocation formula may be reinstated administratively if the market demand for gas in the McKittrick (Upper Bone Springs) Field drops below 100% of deliverability. If the market demand for gas in the McKittrick (Upper Bone Springs) Field drops below 100% of deliverability while the allocation formula is suspended, the operator shall immediately notify the Commission and the allocation formula shall be immediately reinstated.

Done this 18th day of August, 2009.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated August
18, 2009)**