

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET
NO. 03-0247885

IN THE MERCHANT
(CONSOLIDATED) FIELD,
LIBERTY COUNTY, TEXAS

FINAL ORDER
CONSOLIDATING THE MERCHANT (EY-1 RESERVOIR),
MERCHANT (EY-1B RESERVOIR), MERCHANT (EY-2),
MERCHANT (EY-3 RESERVOIR) AND HULL (COOK MOUNTAIN) FIELDS
INTO THE MERCHANT (CONSOLIDATED) FIELD;
AND ADOPTING OPERATING RULES AND REGULATIONS
FOR THE MERCHANT (CONSOLIDATED) FIELD
LIBERTY COUNTY, TEXAS

The Commission finds that after statutory notice in the above-numbered docket heard on August 1, 2006, the presiding examiner has made and filed a report and recommendation containing findings of fact and conclusions of law, which was served on all parties of record; 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 Merchant (EY-1 Reservoir), Merchant (EY-1B Reservoir), Merchant (EY-2), Merchant (EY-3 Reservoir) and Hull (Cook Mountain) Fields be and are hereby combined and recognized as a new field, to be known as the Merchant (Consolidated) Field (No. 60558 200), Liberty County, Texas; and all records and reports filed with the Commission will show such designation.

It is further **ORDERED** by the Commission that the operating rules as hereinafter set out, be and are hereby adopted for the Merchant (Consolidated) Field, Liberty County, Texas.

RULE 1: The entire correlative interval from 7100 feet to 9600 feet as shown on the electric log of the Quail Creek Oil Corporation A. Merchant -D- Lease Well No. 4, C. F. Stephens Survey, A-767, Liberty County, shall be designated as the Merchant (Consolidated) Field.

RULE 2: No well for gas or oil shall hereafter be drilled nearer than THREE HUNDRED THIRTY (330) feet to any property line, lease line, or subdivision line and no well shall be drilled nearer than SIX HUNDRED SIXTY (660) 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. 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 therefor 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.

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

RULE 3: The acreage assigned to the individual oil well for the purpose of allocating allowable oil production thereto shall be known as a proration unit. The standard drilling and proration units are established hereby to be TWENTY (20) acres. No proration unit shall consist of more than TWENTY (20) acres except as hereinafter provided. The two farthestmost points in any proration unit shall not be in excess of TWO THOUSAND ONE HUNDRED (2100) feet removed from each other; provided however, that in the case of long and narrow leases or in cases where because of the shape of the lease such is necessary to permit the utilization of tolerance acreage the Commission may after proper showing grant exceptions to the limitations as to the shape of proration units as herein contained. All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive of oil.

If after the drilling of the last well on any lease and the assignment of acreage to each well thereon in accordance with the regulations of the Commission there remains an additional unassigned acreage of less than TWENTY (20) acres, then and in such event the remaining unassigned acreage up to and including a total of TEN (10) acres may be assigned as tolerance acreage to the last well drilled on such lease, or may be distributed among any group of wells located thereon so long as the proration units resulting from the inclusion of such additional acreage meet the limitations prescribed by the Commission.

Operators shall file with the Commission certified plats of their properties in said field, which plats shall set out distinctly all of those things pertinent to the determination of the acreage credit claimed for each well; provided that if the acreage assigned to any proration unit 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 maximum daily oil allowable for each well in the subject field shall be 133 barrels of oil per day, upon expiration of the discovery allowable, and the actual allowable for an individual well shall be determined by the sum total of the two following values:

- a. Each well shall be assigned an allowable equal to the top allowable established for a well having a proration unit containing the maximum acreage authorized exclusive of tolerance acreage multiplied by 75% and by then multiplying this value by that fraction the numerator of which is the acreage assigned to the well and the denominator of which is the maximum acreage authorized for a proration unit exclusive of tolerance acreage.
- b. Each well shall be assigned an allowable equal to 25% of the maximum daily oil allowable above.

Done this twenty-second day of August, 2006.

RAILROAD COMMISSION OF TEXAS
(Order approved and signatures affixed by OGC)

Unprotested Master Order dated August 22, 2006.)