

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

**OIL AND GAS DOCKET
NO. 7C-0248949**

**IN THE SHEEP MOUNTAIN
(CONSOLIDATED) FIELD, UPTON AND
CROCKETT COUNTIES, TEXAS**

FINAL ORDER

**COMBINING THE SHEEP MOUNTAIN (WOLFCAMP) AND BLOCK 4 (PENN)
FIELDS, ADOPTING A DESIGNATION OF SHEEP MOUNTAIN (CONSOLIDATED)
FIELD AND ADOPTING OPERATING RULES AND REGULATIONS FOR THE
SHEEP MOUNTAIN (CONSOLIDATED) FIELD,
UPTON AND CROCKETT COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on November 3, 2006, 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 Sheep Mountain (Wolfcamp) and Block 4 (Penn) Fields, located in Upton and Crockett Counties, Texas, be and they are hereby combined and recognized as one field, to be known as the Sheep Mountain (Consolidated) Field (RRC ID No. 82857-300), County, Texas.

It is further ordered by the Commission that the operating rules as hereinafter set out are hereby adopted for Sheep Mountain (Consolidated) Field, Upton and Crockett Counties, Texas.

RULE 1: The entire combined correlative interval from 6,436' to 9,684' as shown on the Type Log of the Henry Petroleum, Univ5 BFU3 Lease Well No.7, Sect. 3, Blk 5, University Lands Survey, Upton County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Sheep Mountain (Consolidated) Field.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than FOUR HUNDRED AND SIXTY-SEVEN (467) feet to any property line, lease line, or subdivision line and no well shall be drilled nearer than THIRTEEN HUNDRED AND TWENTY (1320) 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 ONE HUNDRED AND SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED AND SIXTY (160) acres except as hereinafter provided. The two farthestmost points in any proration unit shall not be in excess of FORTY-FIVE HUNDRED (4,500) 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. No double assignment of acreage will be accepted.

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 ONE HUNDRED AND SIXTY (160) acres, then and in such event the remaining unassigned acreage up to and including a total of EIGHTY (80) 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 daily oil allowable for each individual well in the subject field shall be based on the top allowable per day and/or determined by the sum total of the following two values:

NINETY-FIVE percent (95%) 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.

FIVE percent (5%) of the total field allowable shall be allocated among the individual wells

in the proportion to the number of wells in the subject field.

Done this 5th day of December, 2006.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by OGC
Unprotested Master Order dated December 5,
2006)**