

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET
NO. 06-0271582

IN THE OAK HILL (COTTON VALLEY)
FIELD, GREGG, HARRISON, PANOLA,
AND RUSK COUNTIES, TEXAS

ORDER NUNC PRO TUNC

ORDER APPROVING THE APPLICATION OF NFR ENERGY, LLC.,
TO AMEND FIELD RULES FOR THE OAK HILL (COTTON VALLEY) FIELD,
GREGG, HARRISON, PANOLA, AND RUSK COUNTIES, TEXAS

In conference at its office in Austin, Texas the Railroad Commission of Texas took up for consideration the matter of correcting its Final Order entered on October 11, 2011, amending field rules and subsequently setting out the field rules in their entirety for the Oak Hill (Cotton Valley) Field in Gregg, Harrison, Panola, and Rusk Counties, Texas. The Commission finds that, due to clerical error, the Final Order entered October 11, 2011, incorrectly stated the Field Rules for the Oak Hill (Cotton Valley) Field by erroneously omitting the existing Rule 5.

Accordingly, it is **ORDERED** that the Final Order in Docket No. 06-0271582 be, and the same is hereby, amended *nunc pro tunc* so that Rule 5 be included in the Final Order prescribing all Field Rules for the Oak Hill (Cotton Valley) Field and that the Field Rules are set out in their entirety as follows:

RULE 1: The entire correlative interval from 8,670 feet to 10,469 feet, as shown on the type log of the McCormick Oil & Gas Corp., G. W. Bird Estate Lease, Well No. 1 (API No. 42-401-30325), James McLain Survey, Rusk County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Oak Hill (Cotton Valley) Field.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than FOUR HUNDRED SIXTY SEVEN (467) feet to any property line, lease line or subdivision line and no well shall be drilled nearer than FOUR HUNDRED SIXTY SEVEN (467) 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 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 rule are incorporated herein by reference. The standard oil drilling unit shall remain FORTY (40) acres.

Notwithstanding the above, there shall be no minimum spacing requirement between horizontal and vertical wells on the same lease or pooled unit. 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 FOUR HUNDRED SIXTY SEVEN (467) 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 FOUR HUNDRED SIXTY SEVEN (467) feet from take points in any existing, permitted, or applied for horizontal drainhole on the same lease, unit, or unitized tract.

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, the first and last 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 the first and last take points of all drainholes in horizontal wells, regardless of allocation formula.

For any well permitted in this field, the penetration point need not be located on the same lease, pooled unit or unitized tract on which the well is permitted and may be located on an Offsite Tract. When the penetration point is located on such Offsite Tract, the applicant for such a drilling permit must give 21 days notice by certified mail, return receipt requested to the mineral owners of the Offsite Tract. For the purposes of this rule, the mineral owners of the Offsite Tract are (1) the designated operator; (2) all lessees of record for the Offsite Tract where there is no designated operator; and (3) all owners of unleased mineral interests where there is no designated operator or lessee. In providing such notice, applicant must provide the mineral owners of the Offsite Tract with a plat clearly depicting the projected path of the entire wellbore. In the event the applicant is unable, after due diligence, to locate the whereabouts of any person to whom notice is required by this rule, the applicant must publish notice of this application pursuant to the Commission's Rules of Practice and Procedure. If any mineral owner of the Offsite Tract objects to the location of the penetration point, the applicant may request a hearing to demonstrate the necessity of the location of the penetration point of the well to prevent waste or to protect correlative rights.

Notice of Offsite Tract penetration is not required if (a) written waivers of objection are received from all mineral owners of the Offsite Tract; or, (b) the applicant is the only mineral owner of the Offsite Tract.

To mitigate the potential for well collisions, applicant shall promptly provide copies of any directional surveys to the parties entitled to notice under this section, upon request.

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.

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 an 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 ONE HUNDRED SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED SIXTY (160) 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 ONE HUNDRED SEVENTY SIX (176) acres may be assigned. The two farthestmost points in any proration unit shall not be in excess of FIVE THOUSAND FIVE HUNDRED (5,500) feet removed from each other. Each proration unit containing less than ONE HUNDRED SIXTY (160) acres shall be a fractional proration unit. All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive of gas. No double assignment of acreage will be accepted.

An operator, at his option, shall be permitted to form optional drilling units of FORTY (40) acres. A proportional acreage allowable credit will be given for a well on a fractional proration unit. The two farthestmost points of a FORTY (40) acre fractional proration unit shall not be greater than TWO THOUSAND ONE HUNDRED (2,100) feet removed from each other.

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.

Notwithstanding the above, operators shall be required to file an as-drilled plat showing the path, penetration point and terminus of all drainholes in horizontal wells.

RULE 4a: The gas field shall be classified as associated-prorated. The daily allowable production of gas from individual wells completed in 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:

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 field's total 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 the field.

RULE 4b: The maximum daily oil allowable for each well in the subject field shall be the 1965 Yardstick Allowable of 172 barrels of oil per day 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 NINETY FIVE percent (95%) and by then multiplying this value by a 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 its potential based on the most recent well test filed with the Commission multiplied by FIVE percent (5%), provided that this value shall not exceed the 1965 Yardstick Allowable of 172 barrels of oil per day multiplied by FIVE (5%).

RULE 5: No gas well shall be given an allowable in excess of its capability, which is the lesser of the well's latest deliverability test on file with the Commission of the most recent reported production month. The capability for a well that is new to the reservoir and has not filed the most recent production in accordance with Commission Rules and Regulations shall be determined by the well's latest deliverability test on file with the Commission. The limited allowable assigned to the well may be adjusted to a value not to exceed the allowable applicable to the well under the allocation formula, upon certification to the Commission from the operator that such well is producing gas in excess of the limited allowable assigned it.

It is further **ORDERED** that the allocation formula for the field shall remain suspended. The allocation formula may be reinstated administratively, in accordance with the Commission's rules, if the market demand for gas in the Oak Hill (Cotton Valley) Field drops below 100% of deliverability.

Done this 8th day of November, 2011.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotected Master Order dated
November 08, 2011)**