

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

**OIL AND GAS DOCKET
NO. 09-0253880**

**IN THE NEWARK, EAST (BARNETT SHALE)
FIELD, VARIOUS COUNTIES, TEXAS**

**FINAL ORDER
AMENDING THE FIELD RULES FOR THE
NEWARK, EAST (BARNETT SHALE) FIELD
BOSQUE, COOKE, ELLIS, ERATH, DENTON, JOHNSON,
HILL, HOOD, JACK, MONTAGUE, PALO PINTO, PARKER,
SOMERVELL, TARRANT, YOUNG, AND WISE COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on January 9, 2008, the presiding examiners have made and filed a report and proposal for decision 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 examiners' report and proposal for decision, the findings of fact and conclusions of law contained therein, and any exceptions and replies thereto, 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 except for Findings of Fact 7 and 9 and Conclusion of Law 6 for which the following amended findings and conclusion are adopted:

Finding of Fact 7: Amendment of the special field rules to allow off lease penetration points is appropriate where the operator can establish it provided notice by certified mail, return receipt requested, to the mineral owner of any offsite tract where the wellbore will penetrate the mineral formation or, after exercising due diligence, the operator was unable to locate the mineral owner and then published notice pursuant to the Commission's Rules of Practice and Procedure.

Finding of Fact 9: If a wellbore will penetrate the mineral formation on property where the operator has not secured a lease, or the property is not included within the unit identified for the proposed well on the drilling permit application, the permit for the well cannot be granted unless the operator can establish it provided notice by certified mail, return receipt requested, to the mineral owner or, after exercising due

diligence, the operator was unable to locate the mineral owner and then published notice pursuant to the Commission's Rules of Practice and Procedure.

Conclusion of Law 6: Pursuant to the decision of the Texas Supreme Court in *Magnolia Petroleum Co. v. Railroad Commission*, 170 S.W.2d 189, 191 (Tex. 1943) if a proposed wellbore will penetrate the mineral formation on property where the operator has not secured a lease or the property is not included within the unit identified for the proposed well on the drilling permit application, the permit for the well cannot be granted unless the operator can establish it provided notice by certified mail, return receipt requested, to the off lease mineral owner or, after exercising due diligence, the operator was unable to locate the mineral owner and then published notice pursuant to the Commission's Rules of Practice and Procedure.

Therefore, it is ordered by the Railroad Commission of Texas that Rules 2 and 3 of the field rules for the Newark, East (Barnett Shale) Field is amended. The field rules for the Newark, East (Barnett Shale) Field, Bosque, Cooke, Ellis, Erath, Denton, Johnson, Hill, Hood, Jack, Montague, Palo Pinto, Parker, Somervell, Tarrant, Young and Wise Counties, Texas are set out in their entirety as follows:

RULE 1: The entire correlative interval from 6,672 feet to 7,166 feet as shown on the log of the Mitchell Energy Corporation - W. C. Young Well No. 2, API No. 497-32613, W. Ritchey Survey, A-704, Wise County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Newark, East (Barnett Shale) Field.

RULE 2: No well shall hereafter be drilled nearer than THREE HUNDRED THIRTY (330) feet to any property line, lease line, or subdivision line. No minimum between well spacing requirement shall apply in this field. The aforementioned distance in the above rule is a minimum distance 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 rules are incorporated herein by reference. Provided, however, that for purposes of the lease line spacing requirement for horizontal wells, the following shall apply:

1. Where the horizontal portion of the well is cased and cemented back above the top of the Barnett Shale formation, the distance to any property line, lease line or subdivision line will be calculated based on the distance to the nearest perforation in the well, and not based on the penetration point or terminus. Both the penetration point and the uppermost or first perforation point in the wellbore shall be identified on the drilling permit application and plat.
2. Where an external casing packer is placed in the well and cement is pumped above the external casing packer to a depth above the top of the correlative interval for the field, the distance to any property line, lease line or subdivision line will be calculated based on the location of the external casing packer or the closest open hole section in the Barnett Shale, and not on the penetration point. However, if perforations are added above the external casing packer, the perforations must comply with the spacing provisions, as described in paragraph number 1 of this Rule 2.
3. For any well permitted in this field configured as the above described wells, the penetration point need not be located on the same lease, pooled unit, unitized tract or production sharing agreement 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 the mineral owners of the Offsite Tract object 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.

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 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. Each proration unit containing less than THREE HUNDRED TWENTY (320) acres shall be a fractional proration unit. All proration units shall consist of acreage which can be 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 TWENTY (20) acres. A proportional acreage allowable credit will be given for a gas well on a fractional proration unit. No maximum diagonal requirement shall apply in this field.

The standard drilling unit for oil wells shall remain 40 acres.

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, a plat of the lease, unit or property; provided that such plat shall not be required to show individual proration units. 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. Operators in this field are exempt from the requirements of Rule 86(f)(3) entitled Proration Unit Plat; however operators must, for each horizontal drainhole, file a plat showing the as-drilled path, penetration point, terminus and, if applicable, perforations or external casing packer, for that horizontal drainhole and, for wells treated as stacked laterals, operators must file the plats required by paragraph number 6 of Rule 5. All plats referred to in this paragraph may be either a surveyor's plat or a certified plat, at the operator's option.

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

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 proportion that the acreage assigned such well for proration purposes bears to the summation of the acreage with respect to all prorable wells producing from the same reservoir.

The allocation formula for the field is currently suspended. The allocation formula may be reinstated administratively if the market demand for gas in the Newark, East (Barnett Shale) Field drops below 100% of deliverability.

RULE 5: For oil and gas wells, Stacked Lateral Wells within the correlative interval for the field that are drilled from different wellbores may be considered a single well for regulatory purposes, as provided below:

1. A horizontal drainhole well qualifies as a Stacked Lateral Well under the following conditions:
 - a) There are two or more horizontal drainhole wells on the same lease or pooled unit within the correlative interval for the field;
 - b) Each horizontal drainhole is drilled from a different surface location on the same lease or pooled unit;
 - c) There shall be no more than 200 feet between the surface locations of horizontal drainholes qualifying as a Stacked Lateral Well.
 - d) Each point of a Stacked Lateral Well's horizontal drainhole shall be no more than 200 feet in a horizontal direction from any point along any other horizontal drainhole of that same Stacked Lateral Well. This distance is measured perpendicular to the orientation of the horizontal drainhole and can be illustrated by the projection of each horizontal drainhole in the Stacked Lateral Well into a common horizontal plane as seen on a location plat; and
 - e) There shall be no maximum or minimum distance limitations between horizontal drainholes of a Stacked Lateral Well in a vertical direction.
2. Each horizontal drainhole drilled as a Stacked Lateral Well must be permitted separately and assigned an API number. A Stacked Lateral Well, including all horizontal drainholes comprising such Stacked Lateral Well, shall be considered as a single well for density and allowable purposes.
3. In permitting a proposed Stacked Lateral Well, the operator shall identify in the "Remarks" of the Form W-1 drilling permit application that the horizontal drainhole is to be a Stacked Lateral Well. The operator shall also identify on the plat any other existing, or applied for, horizontal drainholes comprising the Stacked Lateral Well being permitted.

4. To be a regular location, each horizontal drainhole of a Stacked Lateral Well must comply with (i) the field's minimum spacing distance as to any lease, pooled unit or property line, and (ii) the field's minimum between well spacing distance as to any different well, including all horizontal drainholes of any other Stacked Lateral Well, on the same lease or pooled unit in the field. Operators may seek exceptions to Rules 37 and 38 for Stacked Lateral Wells in accordance with the Commission's rules.
5. For each Stacked Lateral Well, the operator must file Form G-1 or Form W-2 for the Commission's Proration Department to build a fictitious "Record" well for the Stacked Lateral Well. This Record Well will be identified with the words "SL Record" included in the lease name. This Record Well will be assigned an API number and Gas Well ID or Oil lease number.
6. Operators shall file separate completion forms, including directional surveys, for each horizontal drainhole of the Stacked Lateral Well. Operators shall also file a certified plat for each horizontal drainhole of a Stacked Lateral Well confirming the well's qualification as a Stacked Lateral Well and showing the maximum distances in a horizontal direction between each horizontal drainhole of the Stacked Lateral Well.
7. Each horizontal drainhole of a Stacked Lateral Well will be listed on the proration schedule, but no allowable shall be shown for an individual horizontal drainhole. Each horizontal drainhole of a Stacked Lateral Well shall be required to have a separate G-10 or W-2 test and the sum of all horizontal drainhole test rates shall be reported as the test rate for the Record well.
8. Operators shall report all production from horizontal drainholes included as a Stacked Lateral Well on Form PR to the Stacked Lateral Record Well. Production reported for a Stacked Lateral Record Well is the total production from the horizontal drainholes comprising the Stacked Lateral Well.
9. If the field's 100% AOF status should be removed, the Commission's Proration Department shall assign a single gas allowable to each Stacked Lateral Record Well classified as gas well. The Commission's Proration Department shall also assign a single oil allowable to each Stacked Lateral Record Well classified as an oil well. The assigned allowable may be produced from any one or all of the horizontal drainholes comprising the Stacked Lateral Well.
10. Operators shall file an individual Form W-3A Notice of Intention to Plug and Abandon and Form W-3 Form Plugging Report for each horizontal drainhole comprising the Stacked Lateral Well as required by Commission rules.

11. An operator may not file Form P-4 to transfer an individual horizontal drainhole of a Stacked Lateral Well to another operator. P-4's filed to change the operator will only be accepted for the Record well if accompanied by a separate P-4 for each horizontal drainhole of the Stacked Lateral Well.

Each exception to the examiners' proposal for decision not expressly granted herein is overruled. All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

This order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

Done this 29th day of July, 2008.

RAILROAD COMMISSION OF TEXAS

COMMISSIONER VICTOR G. CARRILLO

COMMISSIONER ELIZABETH A. JONES

ATTEST:

Secretary