

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

**OIL AND GAS DOCKET
NO. 08-0272539**

**IN THE PINON (OVERTHRUST) FIELD,
PECOS COUNTY, TEXAS**

**FINAL ORDER
AMENDING FIELD RULES
FOR THE PINON (OVERTHRUST) FIELD
PECOS COUNTY, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on November 4, 2011, 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 field rules adopted in Final Order No. 8-81,544, effective May 1, 1984, as amended, for the Pinon (Overthrust) Field, Pecos County, Texas, is hereby amended. The amended rules are set out in its entirety as follows:

RULE 1: The entire combined correlative interval from 4,701' to 11,043' (the base of the top of the unthrust Woodford Shale) as shown on the log of the Riata Energy, Inc., Longfellow 600-3- Lease Well No. 6 (API No. 42-371-37316), Pecos County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Pinion (Overthrust) 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. There is no between well spacing limitation. 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.

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

1. 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.
2. All take points in a horizontal drainhole well shall be a minimum of THREE HUNDRED THIRTY (330) 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 property line, lease line, or subdivision line than the lease line spacing distance, including any perforations added in the vertical portion or the curve of a horizontal drainhole well.

For the purpose of assigning additional acreage to a horizontal well pursuant to Field Rule No. 3, 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 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.

If the applicant has represented in the drilling application that there will be one or more no perf zones or ""NPZ"s"" (portions of the wellbore within the field interval without take points), then the as-drilled plat filed after completion of the well shall be certified by a person with knowledge of the facts pertinent to the application that the plat is accurately drawn to scale and correctly reflects all pertinent and required data. In addition to the standard required data, the certified plat shall include the as-drilled track of the wellbore, the location of each take point on the wellbore, the boundaries of any wholly or partially unleased tracts within a Rule 37 distance of the wellbore, and notations of the shortest distance from each wholly or partially unleased tract within a Rule 37 distance of the wellbore to the nearest take point on the wellbore.

A properly permitted horizontal drainhole will be considered to be in compliance with the spacing rules set forth herein if the as-drilled location falls within a rectangle established as follows:

- a. Two sides of the rectangle are parallel to the permitted drainhole and 33 feet on either side of the drainhole;
- b. The other two sides of the rectangle are perpendicular to the sides described in (a) above, with one of those sides passing through the first take point and the other side passing through the last take point.

Any point of a horizontal drainhole outside of the described rectangle must conform to the permitted distance of the nearest property line, lease line or subdivision line measured perpendicular from the wellbore.

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 or 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 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.

RULE 3a: 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 ONE HUNDRED AND SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED AND 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 AND SEVENTY-SIX (176) acres may be assigned. No proration unit plats are required.

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 well on a fractional proration unit.

RULE 3b: 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. No proration unit plats are required.

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 TWENTY (20) 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.

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 well on a fractional proration unit.

RULE 4a: 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:

FIVE percent (5%) of the total field allowable shall be allocated equally among the individual proratable wells producing from this field.

NINETY-FIVE percent (95%) 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.

RULE 4b: The daily oil allowable for each individual well shall not be allowable restricted or casinghead gas limited as the field is classified as salvage

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) Horizontal drainholes are drilled from a different surface location;
 - c) Each point of a Stacked Lateral Well's horizontal drainhole shall be no more than 300 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
- d) 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 Stacked Lateral Well, the operator shall identify such well with the designation "SL" in the well's lease name and also describe the well as a Stacked Lateral Well in the "Remarks" of the Form W-1 drilling permit application. 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 the field's minimum spacing distance as to any lease, pooled unit or property line. Operators may seek exceptions to Rules 37 and 38 for Stacked Lateral Wells in accordance with the Commission's rules, or any applicable rule for this field.
 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" 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 as-drilled location 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-10 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. Operators shall measure the production from each horizontal drainhole of a Stacked Lateral Well. Operators may measure full well stream with the measurement adjusted for the allocation of condensate based on the gas to liquid ratio established by the most recent well test for a Stacked Lateral Record Well as reported on Form G-10. The gas and condensate production will be identified by individual API Number and recorded and reported on the "Supplementary Attachment to Form PR" adopted per this docket.

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 a 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 Well 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.

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

Done this 22nd day of November, 2011.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated
November 22, 2011)**