

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 08-0287470**

**IN THE MCGILLICUTTY (BRUSHY
CANYON) FIELD, LOVING COUNTY,
TEXAS**

**FINAL ORDER
FOR A NEW FIELD DESIGNATION
AND TO ADOPT TEMPORARY FIELD RULES
FOR THE PROPOSED MCGILLICUTTY (BRUSHY CANYON) FIELD,
LOVING COUNTY, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on April 16, 2014, the presiding examiners have 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 examiners' 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 application of Silver Hill Energy Partners LLC for a new field designation for the McGillicutty (Brushy Canyon) Field (ID No. 59489 500), Loving County, Texas, is hereby approved.

It is further **ORDERED** that the following Temporary Field Rules are hereby adopted for the McGillicutty (Brushy Canyon) Field, Loving County, Texas:

RULE 1: The entire correlative interval from 7,493 feet to 9,014 feet as shown on the Compensated Photo Density / Compensated Neutron with Gamma Ray log of the Silver Hill Energy Partners LLC - Rudd Draw 75-10 Well #1, (API No. 42-301-31984), Section 10, Block 75, PSL/Scarborough, W F Survey, A-1246; Loving County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the McGillicutty (Brushy Canyon) 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 NINE HUNDRED AND THIRTY-THREE (933)

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.

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 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. No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take point are nearer than TWO HUNDRED (200) feet to any property line, lease line or subdivision line.
- c. For each horizontal drainhole well, the perpendicular distance from any take point on such horizontal drainhole between the first take point and the last take point to any point on any property line, lease line or subdivision line shall be a minimum of FOUR HUNDRED AND SIXTY-SEVEN (467) feet.

For the purpose of assigning additional acreage to a horizontal well pursuant to Statewide 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 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 47 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, 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.

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

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.

RULE 3: The acreage assigned to an individual oil or gas well for the purpose of allocating allowable oil production shall be known as a proration unit. The standard drilling and proration units are established hereby to be EIGHTY (80) acres. No proration unit shall consist of more than EIGHTY (80) acres; provided that after the drilling of the last well on the lease and the assignment of acreage to each well thereon in accordance with the rules of the Commission there remains an additional unassigned acreage of less than EIGHTY (80) acres, then in such event the remaining unassigned acreage up to and including a total of FORTY (40) 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 may meet the limitations prescribed by the Commission. Each proration unit containing less than EIGHTY (80) 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 oil. No double assignment of acreage will be accepted.

For the determination of acreage credited in this field, operators shall file for each oil or gas 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. For oil or gas wells operators shall be required to file, along with Form P-15, a plat of the lease, unit, or property in the field, provided such plats shall not be required to show individual proration units or wells other than the well for which the Form P-15 is being filed. There is no maximum diagonal limitation in this field.

RULE 4a: The daily allowable production of gas from individual wells completed in the 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 allowables, among the individual wells in the following manner:

- a. FIVE percent (5%) 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 pratable wells producing from this field.

- b. 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 pratable wells producing from this field

RULE 4b: The maximum daily oil allowable for a well in the subject field shall be determined by the 1965 Yardstick Allowable and the actual allowable for an individual well shall be determined by the sum 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 5% and then multiplying this value by a fraction, the numerator of which is the acreage assigned to the well and the denominator which is the maximum acreage authorized by these rules for a proration unit, exclusive of tolerance acreage.
- b. 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 95%, provided this value shall not exceed the potential based on the most recent well test filed with the Commission multiplied by 95%.

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 (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" 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 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.

It is further **ORDERED** that these rules are temporary and effective until December 17, 2015, or until Commission staff evaluates appropriate data, after notice and opportunity for hearing as offered by the Commission prior to the expiration of the rules. After this notice and opportunity for hearing, should the evidence evaluated during review be insufficient to sustain spacing or proration unit rules, these temporary rules, on the Commission's own motion, may be modified or terminated.

Done this 17th day of June, 2014.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Divisions' Unprotested Master
Order dated June 17, 2014)**