

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 08-0296468**

**IN THE SCOTT (CHERRY CANYON)
FIELD, WARD AND REEVES
COUNTIES, TEXAS**

**FINAL ORDER
AMENDING FIELD RULES
FOR THE SCOTT (CHERRY CANYON) FIELD,
WARD AND REEVES COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on June 25, 2015, 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 Field Rules adopted in Final Order No. No. 8-69,689, effective January 15, 1979, as amended, for the Scott (Cherry Canyon) Field, Ward and Reeves Counties, Texas, are hereby amended. The amended Field Rules are set out in their entirety as follows:

RULE 1: The entire correlative interval from 5,100 feet to 7,000 feet, as shown on the log of the Pitts Energy Co., Watson Well No. 1, API No. 42-475-31694, Section 32, Block 33, H & TC RR Co. Survey, Ward County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Scott (Cherry Canyon) Field.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than ONE HUNDRED NINETY-ONE (191) feet to any property line, lease line or subdivision line. There is no minimum between well spacing requirement. 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 Rule 37 and 38, which applicable provisions of said rule 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 ONE HUNDRED (100) 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 ONE HUNDRED NINETY-ONE (191) feet. There is no minimum between well spacing limitation between horizontal drainhole wells and horizontal drainhole wells or vertical wells.

In addition to the penetration point and the terminus for the wellbore required to be identified on the drilling permit application (Form W-1H) and plat, the first and last take point and any no-perf zones must be identified on the drilling permit application (Remarks Section) and plat. Operators shall file an as-drilled plat showing the surface location, wellbore path, penetration point, terminus point, first take point and last take point for all horizontal drainhole wells, regardless of allocation formula status.

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.

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.

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.

RULE 3: The acreage assigned to the individual oil or gas 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 SIXTY (160) acres. No double assignment of acreage will be accepted.

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

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 TEN (10) acres, then and in such event the remaining unassigned acreage up to and including a total of TEN (10) 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 TEN (10) acres. A proportional acreage allowable credit will be given for a well on a fractional proration unit.

For the determination of acreage credit 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 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. There is no maximum diagonal limitation in this field.

RULE 4a : The maximum daily oil allowable for each well in the subject field shall be 331 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:

1. 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 SEVENTY-FIVE percent (75%) and by then multiplying this value by that 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.
2. Each well shall be assigned an allowable equal to TWENTY-FIVE percent (25%) of the maximum daily oil allowable above.

RULE 4b: The 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:

1. 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.
2. FIVE percent (5%) of the field's total allowable shall be allocated equally among all the individual proratable wells producing from the field.

RULE 5: Oil wells in the field are hereby granted permission to produce under increased net gas-oil ratio authority with a casinghead gas limit of 780 MCFD.

RULE 6: 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, at an operator's discretion, 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 different surface locations;
 - c. All take points of a Stacked Lateral Well's horizontal drainholes shall be within a rectangular area the width of which is SIX HUNDRED (600) feet, and the length of which is the distance from the two most distant take points;
 - d. There shall be no maximum or minimum distance limitations between horizontal drainholes of a Stacked Lateral Well in a vertical direction; and,
 - e. All horizontal drainholes must be tested independently and as a result have the same wellbore classification (i.e., gas or oil).
 - f. The first horizontal drainhole will be identified as the "Record Well." An operator may change the Record Well designation to another wellbore by filing the appropriate Commission forms.

2. A Stacked Lateral Well, including all surface locations and horizontal drainholes comprising such Stacked Lateral Well, shall be considered as a single well for density and allowable purposes.
 - a. The requirements of Statewide Rule 86(d)(4) shall not apply to stacked lateral wells.
 - b. For the purpose of assigning additional acreage to the Stacked Lateral Well pursuant to Field Rule 3 or Statewide Rule 86 as applicable, the horizontal drainhole displacement shall be calculated based on the distance from the first take point to the last take point in the horizontal drainhole for the Record Well, regardless of the horizontal drainhole displacement of other horizontal drainholes of the Stacked Lateral Well.
3. Each surface location of a Stacked Lateral Well must be permitted separately and assigned an API number. In permitting a Stacked Lateral Well, the operator shall identify each surface location of such well as a Stacked Lateral Well in the on 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, or any applicable rule for this field.
5. Operators shall file separate completion forms for each surface location of the Stacked Lateral Well. Operators shall also file a certified as-drilled location plat for each surface location of a Stacked Lateral Well showing each horizontal drainhole from that surface location, 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.
6. In addition to the Record Well, each surface location of a Stacked Lateral Well will be listed on the proration schedule, but no allowable shall be assigned for an individual surface location. Each surface location 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.

7. Operators shall report all production from horizontal drainholes included as a Stacked Lateral Well on Form PR to the Record Well. Production reported for a Record Well is the total production from the horizontal drainholes comprising the Stacked Lateral Well. Operators shall measure the production from each surface location 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 G-10 well test rate for that surface location. The gas and condensate production will be identified by individual API number and recorded and reported on the "Supplementary Attachment to Form PR".
8. If the field's 100% AOF status should be removed, the Commission's Proration Department shall assign a single gas allowable to each Record Well classified as a gas well. The Commission's Proration Department shall also assign a single oil allowable to each Record Well classified as an oil well. The assigned allowable may be produced from any one, all, or combination of the horizontal drainholes comprising the Stacked Lateral Well.
9. 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.
10. An operator may not file Form P-4 to transfer an individual surface location 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 surface location of the Stacked Lateral Well.

RULE 7: The operator of a horizontal drainhole well shall file with the Commission the appropriate completion report within 90 days after completion of the well, or within 160 days after the date on which the drilling operation is completed, whichever is earlier.

It is further **ORDERED** that any overproduction of oil or gas accrued by an operator of wells in the field as of the date of this Final Order is hereby cancelled.

Done this 25th day of August, 2015.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Divisions' Unprotested Master
Order dated August 25, 2015)**