

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
OIL AND GAS SECTION**

**RULE 37/38 CASE NOS. 0229028,
0229029,0229030, 0229031, 0229035,
0229036, 0229043, 0229044, 0229045,
0229064, AND 0229046 AND OIL & GAS
DOCKET NOS. 10-0229032, 10-0229033,
10-0229037, 10-0229038, 10-0229039, 10-
0229040, 10-0229041, 10-0229042, AND
10-0229065**

**APPLICATIONS OF BP AMERICA
PRODUCTION COMPANY FOR
EXCEPTIONS TO STATEWIDE RULES 37
AND/OR 38 FOR TWENTY WELLS ON
ITS PRICE ET AL., BRANNON "C", W. N.
PRICE, PRICE, PRICE "B", AND SWENY
LEASES, TEXAS HUGOTON FIELD,
SHERMAN COUNTY, TEXAS**

FINAL ORDER

The Commission finds that, after statutory notice in the above-numbered dockets, heard on April 22-May 1, 2002, the 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, 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 proposal for decision and the findings of fact and conclusions of law contained therein, and any exceptions and replies thereto, hereby adopts as its own Findings of Fact Nos. 1 through 11 and Conclusions of Law Nos. 1 through 4 contained in the proposal for decision, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein. The Commission makes the following additional Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

12. The Herington and Upper Krider formations have lesser permeability and lesser porosity development than the Lower Krider.

13. In the area of BP's proposed Price Et Al. Lease, Well Nos. D-54, D-55, D-57, D-58, D-59, D-60, and D-66 and W. N. Price Lease, Well No. 1A, existing wells are not efficiently and effectively draining 640 acres per well, particularly in the Herington and Upper Krider zones.

14. BP's proposed Price Et Al. Lease, Well Nos. D-54, D-55, D-57, D-58, D-59, D-60, and D-66, and W. N. Price Lease, Well No. 1A will not drain gas from any offsetting tract of another operator or materially affect production by wells on any such offsetting tract.

- a. These wells are proposed to be drilled at locations which are about 1-3 miles from any offsetting tract of another operator.
- b. Between the proposed locations of these wells and the locations of offsetting wells of another operator are existing wells operated by BP, which have drainage areas creating no flow boundaries.

15. BP's proposed Price Et Al. Lease, Well Nos. D-54, D-55, D-57, D-58, D-59, D-60 and D-66 and W. N. Price Lease, Well No. 1A will recover hydrocarbons that cannot be recovered by any existing well or additional wells at regular locations.

- a. The area of the Price Et Al. Lease and W. N. Price Lease in which these wells will be drilled has a high percentage of gas contained in zones having relatively little permeability, as evidenced by Lorenz Plots for existing wells surrounding the area.
- b. There are no locations on the Price Et Al. Lease and the W. N. Price Lease that are regular under the provisions of Statewide Rule 38.

16. BP will not be afforded a reasonable opportunity to recover its fair share of hydrocarbons beneath the Price Et Al. Lease and W. N. Price Lease or their equivalent unless Rule 37/38 exceptions are granted to drill proposed Price Et Al. Lease, Well Nos. D-58, D-59, and D-66 and W. N. Price Lease, Well No. 1A, and unless Rule 38 exceptions are granted to drill proposed Price Et Al. Lease, Well Nos. D-54, D-55, D-57, and D-60.

17. The proposed locations of Price Et Al. Lease, Well Nos. D-54, D-55, D-57, D-58, D-59, D-60, and D-66 and W. N. Price Lease, Well No. 1A are reasonable.

- a. These proposed locations are about 1-3 miles from any offsetting tract of another operator and there are existing BP wells between these locations and such offsetting tracts.

b. Wells drilled at these locations will not likely drain gas from tracts of other operators offsetting the Price Et Al. and W. N. Price Leases or materially affect production of wells on such offsetting tracts.

c. These locations are outside the drainage areas of older high cumulative wells on the Price Et Al. and W. N. Price tracts and/or are necessary to avoid conflict with steep banks of Cold Water Creek or pivotal irrigation systems on the surface.

18. Proposed Price Et Al. Lease, Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 are proposed to be drilled by BP at locations generally less than one mile and in some cases as close as 1,250' from offsetting tracts of other operators.

19. Lower pressures in the eastern portion of the subject leases as compared with pressures on offsetting tracts may cause gas to migrate from the offsetting tracts to the subject leases.

20. Proposed Price Et Al. Lease, Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 may cause migration of gas to the subject tracts from adjacent tracts and/or adversely affect the production of wells of other operators on adjacent tracts.

21. BP did not present sufficient evidence to establish that proposed Price Et Al. Lease, Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 will recover hydrocarbons beneath the subject tracts that will not be recovered by existing wells or by additional wells at regular locations or that the granting of Rule 37 and/or Rule 38 exceptions for such proposed wells is necessary to afford BP a reasonable opportunity to recover its fair share of hydrocarbons beneath the leases or their equivalent in kind.

a. BP was unable to volumetrically calculate original gas in place for the areas where these wells are proposed to be drilled due to limited availability of modern electric logs.

b. BP's estimates of gas that existing wells are seeing within their drainage areas as determined by pressure versus cumulative plots are not necessarily related to the areas in which the proposed wells are to be drilled in that pressure versus cumulative plots do not define the size or extent of drainage areas of existing wells.

c. BP's rate versus time recovery estimates for existing wells in the area where the proposed wells will be drilled are forecast with a linear decline as opposed to an exponential decline and tend to underestimate future recovery by existing wells.

22. BP did not present sufficient evidence to establish that peculiar, unusual, or abnormal conditions exist in the subject reservoir beneath the Price "D" Leases as compared to adjacent and surrounding parts of the Texas Hugoton Field.

a. Conditions existing in the reservoir beneath the Price "D" tracts are essentially the same as exist beneath BP's Flores Lease about 4-5 miles to the south.

b. Heterogeneity in the reservoir beneath the Price "D" tracts exists also in other portions of the Texas Hugoton Field.

c. Local variations in permeability are common in the Texas Hugoton Field.

d. Depositional environment and geological models relevant to the Price "D" tracts apply to other areas of the Texas Hugoton Field, including areas adjacent to and surrounding the Price "D" tracts.

CONCLUSIONS OF LAW

5. The granting of Rule 37 and Rule 38 exceptions to drill BP's proposed Price Et Al. Lease, Well Nos. D-58, D-59, and D-66 and W. N. Price Lease, Well No. 1A, and Rule 38 exceptions to drill BP's proposed Price Et Al. Lease, Well Nos. D-54, D-55, D-57, and D-60 is necessary to prevent confiscation and protect correlative rights.

6. The granting of Rule 37 and/or Rule 38 exceptions for BP's proposed Price Et Al. Lease, Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 is not necessary to prevent confiscation or to protect correlative rights.

7. The granting of Rule 37 and/or Rule 38 exceptions for BP's proposed Price Et Al. Lease, Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 is not necessary to prevent waste.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the applications of BP America Production Company for exception permits under the provisions of Statewide Rule 37 and/or Statewide Rule 38 to drill its Price Et Al. Lease Well Nos. D-51, D-52, D-53, D-56, D-61, D-63, D-65, and D-67, Brannon "C" Lease, Well No. 2, Price Lease, Well No. 68, Price "B" Lease, Well No. 2, and Sweny Lease, Well No. 2 are **DENIED**.

It is further **ORDERED** by the Railroad Commission of Texas that the applications of BP America Production Company for exception permits under the provisions of Statewide Rule 37 and Statewide Rule 38 to drill its Price Et Al. Lease, Well Nos. D-58, D-59, and D-66, and W. N. Price Lease, Well No.1A and under the provisions of Statewide Rule 38 to drill its Price Et Al. Lease, Well Nos. D-54, D-55, D-57, and D-60 in the Texas Hugoton Field be and they are hereby **APPROVED** at the following locations:

Rule 37 and Rule 38 Exceptions

[0229043] PRICE ET AL. LEASE, WELL NO. D-58 LOCATION:

500' from the south line and 15,340' from the west line of the lease and 500' from the south line and 500' from the east line of the GH&H RR Co./J. M. Turner Survey, Abstract No. A-853, Sherman County, Texas

[0229028] PRICE ET AL. LEASE, WELL NO. D-59 LOCATION:

5,130' from the south line and 4,780' from the west line of the lease and 150' from the north line and 500' from the east line of the GH&H RR Co./O. F. Gregory Survey, Abstract No. A-621, Sherman County, Texas

[0229030] PRICE ET AL. LEASE, WELL NO. D-66 LOCATION:

750' from the south line and 4,030' from the west line of the lease and 750' from the south line and 1,250' from the east line of the GH&H RR Co./O. F. Gregory Survey, Abstract No. A-621, Sherman County, Texas

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[0229045] PRICE, W. N. LEASE, WELL NO. 1A LOCATION:

750' from the south line and 1,250' from the east line of the lease and 750' from the south line and 1,250' from the east line of the GH&H RR Co. Survey, Abstract No. A-163, Sherman County, Texas

Rule 38 Exceptions

[10-0229040] PRICE ET AL. LEASE, WELL NO. D-54 LOCATION:

9,490' from the south line and 9,560' from the west line of the lease and 250' from the south line and 1,000' from the east line of the GH&H Survey, Abstract No. A-172, Sherman County, Texas

[10-0229041] PRICE ET AL. LEASE, WELL NO. D-55 LOCATION:

9,760' from the north line and 3,880' from the west line of the lease and 800' from the south line and 1,400' from the east line of the GH&H RR Co./O. F. Loomis Survey, Abstract No. A-496, Sherman County, Texas

[10-0229039] PRICE ET AL. LEASE, WELL NO. D-57 LOCATION:

5,130' from the north line and 10,410' from the west line of the lease and 150' from the south line and 150' from the east line of the GH&H RR Co. Survey, Abstract No. A-190, Sherman County, Texas

[10-0229032] PRICE ET AL. LEASE, WELL NO. D-60 LOCATION:

14,965' from the south line and 6,939' from the east line of the lease and 445' from the south line and 256' from the east line of the GH&H RR Co./O. F. Gregory Survey, Abstract No. A-620, Sherman County, Texas

CONDITIONS

1. **Fresh Water Sand Protection.** The operator must set and cement sufficient surface casing to protect all usable-quality water as defined by the Texas Natural Resource Conservation Commission. Before drilling a well, the operator must obtain a letter from the Texas Natural Resource Conservation Commission stating the depth to which water needs protection. Write: Texas Natural Resource Conservation Commission, Surface Casing, P. O. Box 13087, Capitol Station, Austin, Texas 78711-3087. File a copy of the Texas Natural Resource Conservation Commission letter with the appropriate district office.

2. **Permit at Drilling Site.** A copy of the Form W-1 (Drilling Permit Application), the location plat, a copy of Statewide Rule 13 alternate surface casing setting depth approval from the district office, if applicable, and this drilling permit must be kept at the permitted well site throughout the drilling operations.
3. **Notification of Setting Casing.** The operator **MUST** call in notification to the appropriate district office a minimum of eight (8) hours prior to the setting of surface casing, intermediate casing, **AND** production casing. The individual giving notification **MUST** be able to advise the district office of the docket number.
4. **Producing Well.** Statewide Rule 16 requires that the operator submit a Form W-2 (oil well) or Form G-1 (gas well) to the appropriate Commission district office within thirty (30) days after completion of such well. Completion of the well in a field authorized by this order voids the order for all other fields included in the order unless the operator indicates on the initial completion report that the well is to be a dual or multiple completion and promptly submits an application for multiple completion. All zones are required to be completed before the expiration date of this order.
5. **Dry or Noncommercial Hole.** Statewide Rule 14(b)(2) prohibits suspension of operations on each dry or noncommercial well without plugging unless the hole is cased and the casing is cemented in compliance with Commission rules. If properly cased, Statewide Rule 14(b)(2) requires that plugging operations must begin within a period of one (1) year after drilling or operations have ceased. Plugging operations must proceed with due diligence until completed. An extension to the one year plugging requirement may be granted under the provisions stated in Statewide Rule 14(b)(2).
6. **Intention to Plug.** The operator must file a Form W-3A (Notice of Intention to Plug and Abandon) with the district office at least five (5) days prior to beginning plugging operations. If, however, a drilling rig is already at work on location and ready to begin plugging operations, the district director or the director's delegate may waive this requirement upon request, and verbally approve the proposed plugging procedures.
7. **Notification of Plugging a Dry Hole.** The operator **MUST** call to notify the appropriate district office a minimum of four (4) hours prior to beginning plugging operations. The individual giving notification **MUST** be able to advise the district office of the docket number and all water protection depths for that location as stated in the Texas Natural Resource Conservation Commission letter.
8. **Plugged Wells.** Should this well ever be plugged and abandoned, the Commission will consider such plugging and abandonment as prima facie evidence that production from said well is no longer necessary to prevent confiscation of applicant's property or to prevent waste; and upon such plugging and abandonment, the authority for such well as granted

under this permit shall cease.

9. **Permit Expiration.** This permit expires two (2) years from the date this order becomes administratively final, unless actual drilling operations have begun. The permit period will not be extended.

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.

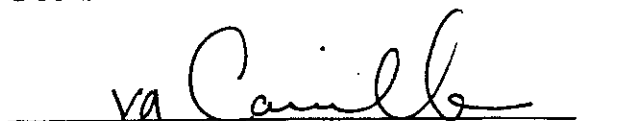
It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely 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 22 day of July, 2003.

RAILROAD COMMISSION OF TEXAS


CHAIRMAN MICHAEL L. WILLIAMS

COMMISSIONER CHARLES R. MATTHEWS


COMMISSIONER VICTOR G. CARRILLO

ATTEST:


SECRETARY