

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

**OIL AND GAS DOCKET
NO. 10-0269117**

**IN THE PAN PETRO (CLEVELAND)
FIELD, HANSFORD, HUTCHINSON,
LIPSCOMB, OCHILTREE AND
ROBERTS COUNTIES, TEXAS**

**FINAL ORDER
CONSOLIDATING VARIOUS (CLEVELAND) FIELDS
INTO THE PAN PETRO (CLEVELAND) FIELD AND
AMENDING FIELD RULES FOR THE
PAN PETRO (CLEVELAND) FIELD
HANSFORD, HUTCHINSON, LIPSCOMB,
OCHILTREE AND ROBERTS COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on March 23, 2011, 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 following fields located in Hansford, Hutchinson, Lipscomb, Ochiltree and Roberts Counties, Texas, are hereby combined into the Pan Petro (Cleveland) Field (ID No. 68735 120).

<u>FIELD NAME</u>	<u>ID NUMBER</u>
Buler, North (Cleveland)	13207 110
Dutcher (Cleveland)	26801 333
Ellis Ranch (Cleveland)	28506 152
Horizon (Cleveland)	42597 332
Lips, West (Cleveland)	53854 500
Perryton, West (Cleveland)	70750 111
R. H. F. (Cleveland)	74035 200
Stekoll (Cleveland)	85878 500

Wells in the subject fields shall be transferred into the Pan Petro (Cleveland) Field without requiring new drilling permits and plats.

It is further **ORDERED** that the following Field Rules adopted in Final Order No. 10-79,758, effective July 11, 1983, as amended, for the Pan Petro (Cleveland) Field, Ochiltree County, Texas, are hereby amended. The amended Field Rules are set out in their entirety as follows:

RULE 1: The entire correlative interval from 7,120 feet to 7,268 feet as shown on the log of the Apache Corporation - Robert H. Urban "A" Lease, Well No. 1, (API No. 42 357 00551), Section 108, Block 13, T&NO Survey, Ochiltree County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Pan Petro (Cleveland) Field.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than THREE HUNDRED THIRTY (330) feet to any property line, lease line or subdivision line. No vertical well shall be drilled nearer than NINE HUNDRED THIRTY THREE (933) feet to any other 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 in the field. 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.

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 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.
- b. Horizontal drainhole wells may penetrate or terminate within the field interval at any location on a lease, pooled unit or unitized tract, provided that all take points in a horizontal drainhole well shall be a minimum of THREE HUNDRED THIRTY (330) feet from the property line, lease line, or subdivision line. A permit or an amended permit is required for any take point closer to the lease line than the lease line spacing distance, including any perforations added in the vertical portion or the curve of a horizontal drainhole well.

- c. All take points in a horizontal drainhole well shall be a minimum distance of NINE HUNDRED THIRTY THREE (933) feet from any existing, permitted, or applied for horizontal drainhole well take points on the same lease, unit or unitized tract, provided that this restriction on spacing between horizontal wells shall not apply to horizontal drainholes that are parallel or subparallel (within 45 degrees of parallel) and do not overlap more than ONE HUNDRED (100) feet.
- d. There is no minimum between well spacing requirement from take points in a horizontal drainhole well to any other existing, permitted, or applied for vertical well on the same lease, unit or unitized tract.

For the purpose of assigning additional acreage to a horizontal well pursuant to Rule 3 of this order, 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.

RULE 3a: The acreage assigned to the individual gas well shall be known as a proration unit. The standard drilling and proration units are established hereby to be ONE HUNDRED SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED 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 SEVENTY SIX (176) acres may be assigned. The two farthestmost points in any proration unit shall not be in excess of FOUR THOUSAND FIVE HUNDRED (4,500) feet removed from each other. Each proration unit containing less than ONE HUNDRED SIXTY (160) 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 gas. No double assignment of acreage will be accepted.

RULE 3b: The acreage assigned to an individual oil well shall be known as a proration unit. The standard drilling and proration units are established hereby to be ONE HUNDRED SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED SIXTY (160) acres except as hereinafter provided. The two farthestmost points in any proration unit shall not be in excess of FOUR THOUSAND FIVE HUNDRED (4,500) feet removed from each other; provided however, that in the case of long and narrow leases or in cases where because of the shape of the lease such is necessary to permit the utilization of tolerance acreage, the Commission may after proper showing grant exceptions to the limitations as to the shape of proration units as herein contained. 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.

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 SIXTY (160) acres, then and 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 meet the limitations prescribed by the Commission.

Notwithstanding the above, the acreage assigned to an oil or gas well which has been drilled as a horizontal drainhole may contain more than ONE HUNDRED SIXTY (160) acres providing that the following formula is utilized to determine the proper assignment of acreage:

$$A = (L \times 0.32829) + 160 \text{ acres}$$

Where: A = calculated area assignable, if available, to a horizontal drainhole for proration purposes rounded upward to the next whole number evenly divisible by 40 acres;
L = the horizontal drainhole distance measured in feet between the first and last take points within the field interval.

The two farthestmost points in any horizontal drainhole well proration unit shall be determined by the formula:

$$\text{Maximum Diagonal} = 475.933 \sqrt{A}$$

A horizontal well may be developed with more than one horizontal drainhole from a single wellbore. A horizontal drainhole well developed with more than one horizontal drainhole shall be treated as a single well. The horizontal drainhole displacement (L) used for determining the proration unit assignable acreage (A) for a well with multiple horizontal drainholes shall be the longest horizontal drainhole length plus the perpendicular projection on a line that extends in a 180 degree direction from the longest drainhole, or any other horizontal drainhole drilled in a direction greater than 90 degrees from the longest horizontal drainhole.

An operator, at his option, shall be permitted to form optional oil or gas drilling and fractional proration units of FORTY (40) acres, with a proportional acreage allowable credit for a well on a fractional proration unit. The two farthestmost points of a FORTY (40) acre fractional proration unit shall not be greater than TWO THOUSAND ONE HUNDRED (2,100) feet removed from each other.

Operators shall file with the Commission certified plats of their properties in said field, which plats shall set out distinctly all of those things pertinent to the determination of the acreage credit claimed for each well; provided that if the acreage assigned to any proration unit 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.

RULE 4a: The Pan Petro (Cleveland) 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 proportion that the acreage assigned such well for proration purposes bears to the summation of the acreage with respect to all proratable wells producing from the same reservoir.

RULE 4b: The maximum daily oil allowable for a well in the field shall be determined by multiplying the 1965 Yardstick Allowable of 353 barrels of oil per day by a fraction, the numerator of which is the acreage assigned to the well for proration purposes and the denominator of which is the maximum acreage authorized by these field rules for proration purposes, exclusive of tolerance acreage. Each oil well shall have unlimited net gas-oil ratio authority.

It is further **ORDERED** by the Commission that the application of Holmes Exploration, LLC for suspension of the allocation formula in the Pan Petro (Cleveland) Field is approved. The allocation formula may be reinstated administratively if the market demand for gas in the Pan Petro (Cleveland) Field drops below 100% of deliverability. If the market demand for gas in the Pan Petro (Cleveland) Field drops below 100% of deliverability while the allocation formula is suspended, the operator shall immediately notify the Commission and the allocation formula shall be immediately reinstated.

Done this 18th day of April, 2011.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated April
18, 2011)**