

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

**OIL AND GAS DOCKET  
NO. 02-0264837**

**IN THE SUGARKANE (EAGLE FORD)  
AND SUGARKANE (AUSTIN CHALK)  
FIELDS, BEE, KARNES AND LIVE OAK  
COUNTIES, TEXAS**

**SEPARATING THE SUGARKANE (CRETACEOUS) FIELD  
AND ADOPTING TEMPORARY FIELD RULES FOR THE  
SUGARKANE (EAGLE FORD) AND SUGARKANE (AUSTIN CHALK) FIELDS  
BEE, KARNES AND LIVE OAK COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on April 29, 2010, 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 the Sugarkane (Cretaceous) Field shall be separated into the Sugarkane (Eagle Ford) Field (ID No. 86950 600) and the Sugarkane (Austin Chalk) Field (ID No. 86950 300). In addition, the following rules shall be adopted for the fields on a temporary basis:

**RULE 1a:** The entire correlative interval from 11,360 feet to 11,450 feet as shown on the log of the Kunde Lease Well No. 1, (API No. 297 34621), Section 120, J. Ingram Survey, Live Oak County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Sugarkane (Austin Chalk) Field.

**RULE 1b:** The entire correlative interval from 11,450 feet to 11,662 feet as shown on the log of the Kunde Lease Well No. 1, (API No. 297 34621), Section 120, J. Ingram Survey, Live Oak County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Sugarkane (Eagle Ford) Field.

**RULE 2:** For both the Sugarkane (Eagle Ford) Field and the Sugarkane (Austin Chalk) Field, no well 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:

- 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. The first take point and last take point in a horizontal well shall not be nearer than ONE HUNDRED (100) feet from any property line, lease line, or subdivision line and the minimum distance measured perpendicular to a horizontal drainhole for all points between the first take point and the last take point on such drainhole from any property line, lease line or subdivision line shall be a minimum of THREE HUNDRED THIRTY (330) feet. If any point on a horizontal drainhole between the first take point and the last take point does not comply with this rule, then an exception to Rule 37 must be obtained.

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.

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.



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 an individual gas well for the purpose of allocating allowable production thereto shall be known as a proration unit. The standard drilling and proration units are established hereby to be THREE HUNDRED TWENTY (320) acres. No proration unit shall consist of more than THREE HUNDRED TWENTY (320) 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 THREE HUNDRED FIFTY TWO (352) acres may be assigned. Each proration unit containing less than THREE HUNDRED TWENTY (320) acres shall be a fractional proration unit. The two farthestmost points in any proration unit for a vertical well shall not be in excess of SIX THOUSAND FIVE HUNDRED (6,500) feet removed from each other. 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 allowed.

Notwithstanding the above, the acreage assigned to a well which has been drilled as a horizontal drainhole may contain more than THREE HUNDRED TWENTY (320) acres providing that the following formula is utilized to determine the proper assignment of acreage:

$$A = (L \times 0.2) + 320 \text{ acres}$$

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 take point and the last take point.

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

$$\text{Maximum Diagonal} = 5,000 \text{ feet} + (L \times 2.5)$$

Multiple drainholes are allowed. A single 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.

For the determination of acreage credit in this field, operators shall file for each 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. When the allocation formula in this field is suspended, operators in this field shall not be required to file plats with the Form P-15. When the allocation formula is in effect in this field, operators shall be required to file, along with the Form P-15, certified plats of their properties in the 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 such plats shall not be required to show individual proration units. Provided further, that if the acreage assigned to any well 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 4:** For the Sugarkane (Austin Chalk) Field and the Sugarkane (Eagle Ford) Field, the daily allowable production of gas from individual wells completed in each 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 allowable purposes bears to the summation of the acreage with respect to all prorable wells producing from the field.

It is further ordered that the allocation formula in the Sugarkane (Austin Chalk) and Sugarkane (Eagle Ford) Fields shall be suspended. The allocation formula for a field may be reinstated administratively if the market demand for gas for that field drops below 100% of deliverability. If the market demand for gas in a field drops below 100% of deliverability while the allocation formula for that field is suspended, the operator shall immediately notify the Commission and the allocation formula for that field shall be immediately reinstated.

It is further ordered that these rules are temporary and effective until December 22, 2011, 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.

It is further ordered that operators in the Sugarkane (Austin Chalk) and Sugarkane (Eagle Ford) Fields are granted exception to semi-annual G-10 deliverability testing requirements pursuant to Statewide Rule 28 in the fields, subject to the following conditions:

1. Annual G-10 testing of wells in the subject fields shall be performed during April, May and June, due July 1 and effective August 1.
2. All of the requirements of Statewide Rule 28 shall remain in effect except for the semi-annual well testing requirement.
3. For the other test period for the specific field, operators shall file the latest G-10 test results or the test results filed on its previous Annual G-10 Test Report, whichever is the more current, on the Commission's computer generated semi-annual G-10 test report for record purposes.

It is further ordered that the following wells will be transferred to the Sugarkane (Austin Chalk) Field:

Baker Family Trust Well No. 1 (API 42-297-34747)  
Baker Family Trust Well No. 2 (API 42-297-34790)  
Baker Family Trust Well No. 3 (API 42-297-34836)  
Eskew West Unit Well No. 1 (API 42-297-34818)  
Kunde No. 1 Gas Unit Well No. 1 (API 42-297-34621)  
Kunde No. 1 Gas Unit Well No. 3 (API 42-297-34726)  
Lasca Buttler Searcy Trust Well No. 1 (API 42-297-34815)  
Marlene Olson Well No. 1 (API 42-297-34803)  
Marlene Olson Gas Unit Well No. 2 (API 42-297-34843)  
Olson-Baker Well No. 1 (API 42-297-34807)

It is further ordered that the following wells will be transferred to the Sugarkane (Eagle Ford) Field:

Bordovsky A7 Well No. 1 (API 42-255-31574)  
Butler A304 Well No. 1 (API 42-123-32208)  
Eskew North Unit Well No. 1 (API 42-297-34861)  
Kunde No. 1 Gas Unit Well No. 2 (API 42-297-34698)  
Plomero Ranch Well No. 2 (API 42-297-34851)

It is further ordered that the following wells shall be transferred to the De Witt (Eagle Ford Shale) Field:

Hooks Well No. 1 (API 42-12332193)  
Maraldo A403 Well No. 1 (API 42-123-32252)

It is further ordered that the following wells shall be allowed to produce from both the Sugarkane (Austin Chalk) and Sugarkane (Eagle Ford) by downhole commingling without the need for obtaining commingling authority under Statewide Rule 10:

Eskew West Unit Well No. 1 (API 42-297-34818)  
Kunde No. 1 Gas Unit Well No. 1 (API 42-297-34621)  
Kunde No. 1 Gas Unit Well No. 3 (API 42-297-34726)  
Lasca Buttler Searcy Trust Well No. 1 (API 42-297-34815)  
Marlene Olson Well No. 1 (API 42-297-34803)

It is further ordered that wells completed in the correlative interval for the Sugarkane (Cretaceous) Field prior to the effective date of this order shall receive permanent gas classification as provided by the final order in Oil and Gas Docket No. 02-0261131 and shall retain that classification after the effective date of this order.

Done this 22<sup>nd</sup> day of June, 2010.

**RAILROAD COMMISSION OF TEXAS**

**(Order approved and signatures  
affixed by OGC Unprotested Master  
Order dated June 22, 2010)**