

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

**OIL AND GAS DOCKET
NO. 10-0248182**

**IN THE TEXAS HUGOTON FIELD,
SHERMAN, HANSFORD, HARTLEY,
HUTCHINSON AND MOORE
COUNTIES, TEXAS**

FINAL ORDER

The Railroad Commission of Texas finds that, after statutory notice in the above-numbered docket heard on August 9, 2006, the proposed application is in compliance with all statutory requirements, and that this proceeding was duly submitted to the Commission at conference held in its offices in Austin, Texas. The Commission hereby adopts the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Notice of hearing was given at least ten (10) days prior to hearing to all operators in the Texas Hugoton Field ("Field").
2. Production from gas wells in the Texas Hugoton Field is currently prorated based on Chapter 86 of the Texas Natural Resources Code, Statewide Rule 31, and the gas field rules adopted as part of the Special Field Rules in Order No. 10-12,677, as amended.
3. As a result of recent market changes, market demand for gas from the Texas Hugoton Field has stabilized, but the Commission's proration system is not accurately predicting a consistent market demand.
4. Peak monthly production for each well during the most recent year of reported production will better and more consistently indicate reservoir market demand for gas from the Texas Hugoton Field than the procedure under the current proration system applicable to the Field.
5. Twelve Month Peak ("TMP") should be used instead of deliverability (G-10) tests in the allocation formula for the Texas Hugoton Field for purposes of allocating that portion of the reservoir allowable attributable to a well's ability to produce.
 - a. TMP means for each well in the Field, the month with highest average daily gas production for such well during any of the most recent twelve months of production reported to the Commission. The calendar month from which the TMP is determined may vary from well to well.
 - b. Many wells in the Field are unable to achieve sustained G-10 deliverability rates.

- c. A significant percentage of the wells in the Field are administrative special allowable wells which are not required to maintain current G-10 test data on file with the Commission.
 - d. A significant percentage of the wells in the Field are not prorated and not influenced by G-10 deliverability tests.
 - e. Use of TMP instead of G-10 tests more accurately reflects the sustained production capability of wells in the Field.
 - f. Use of TMP instead of G-10 tests will eliminate for most operators in the Field the requirement of G-10 well tests. Eliminating the need for G-10 deliverability tests in the Field will also eliminate the costs and disruptions associated with testing.
 - g. The proposed system will more accurately determine market demand so as to eliminate the need for MD-1's, thereby reducing unnecessary expense for operators and the Commission.
6. An allocation formula based on the product of TMP and assigned acreage will protect correlative rights by providing each owner with a reasonable opportunity to produce its fair share of the hydrocarbons, or their equivalent in kind, in the Field.
7. Well capability for all wells (including special and "N" allowable wells) should be based solely on the highest average daily gas production for a given well during any of the most recent six months of production reported to the Commission.
- a. A large percentage of the wells in the Field are administrative special allowable wells. For these administrative special allowable wells, under Statewide Rule 31 capability is determined using a one-month "lookback" procedure. Under Statewide Rule 31 a three-month "lookback" is used for wells in the remainder of the field
 - b. Nearly all of the gas production in the Field is produced through compressor stations and gas processing plants which require regular maintenance and this can cause production disruptions which can cause the production in the most recent reported month to be abnormally low.
 - c. The possibility of fluctuations in production, causing unreliable determination of a well's regulatory capability under Statewide Rule 31 in the Texas Hugoton Field, is minimized by extending the "lookback" period for all wells to six months.

- d. For new wells or wells which have not produced from the Field during the most recent twelve months of reported production, the operators must submit a G-10 test to be used as the well's capability for the first six allowable months after the month in which the well commenced or recommenced production and to be used as the well's TMP for the first six allowable months after the month in which the well commenced or recommenced production.
 - e. The proposed system uses actual production to determine well capability thereby eliminating the need for annual G-10's. This reduces unnecessary expense for operators and the Commission.
 - f. A substitute capability determination may be filed on Form GC-1. When a substitute capability determination is filed, it shall be used in lieu of TMP and as the capability for that well for a period of six months from the effective date of the substitute capability determination.
8. A revised method of determining reservoir allowable based on 80% of total TMP is necessary and will more accurately determine lawful reservoir market demand.
- a. The current gas proration system determines reservoir allowables that fluctuate significantly during the year.
 - b. The market demand for gas in the Texas Hugoton Field is consistent throughout the year and reasonably calculated to be 80% of the total TMP.
 - c. The decline rate in the Texas Hugoton Field is approximately 3 percent per year.
 - d. Assuring reservoir market demand of 80% of TMP is no less than 96.5% and no more than 97.5% of Total Field Capability is necessary in order to address a possible major operational upset in the Field and to reflect the natural production decline of the wells in the field.
 - e. The Commission will continue to make the ultimate determination of the lawful reservoir market demand for the Texas Hugoton Field by adjusting the calculated reservoir market demand by a Commission Adjustment (if necessary) in accordance with the Commission procedures for determining reservoir allowables on a monthly basis.
9. Approval of the application will result in more stable and predictable allowables, and will encourage further improvements to production facilities which will reduce reservoir abandonment pressure and thereby prevent waste and maximize ultimate recovery.

10. Field rules nos. 7, 8, 9, and 10 for the Texas Hugoton Field are unnecessary because the issues addressed in those rules are addressed by Commission Statewide Rules, including Rules 28 and 31.
11. A substantial number of wells operated by numerous different operators in the Field are in overproduced status causing wells to be shut in or produced at reduced rates.
12. Balancing is proper prior to implementing a new method for determination of reservoir allowable in this Field.
13. All parties have agreed on the record that this Final Order shall be effective as of the date a Master Order relating to this Final Order is signed.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred and have been done to give the Commission jurisdiction to decide this matter.
3. There has been a material change in the pattern of market demand for gas from the Texas Hugoton Field.
4. New and unforeseen problems have arisen due to the fact that the Commission's procedure for setting allowables in the Texas Hugoton Field is failing to recognize the recent changes in market demand.
5. These circumstances justify amendment to the field rules for the Texas Hugoton Field.
6. Adoption of the field rule amendments proposed by the applicant will prevent waste and protect correlative rights.
7. Reservoir market demand for gas in the Texas Hugoton Field can reasonably be determined from the total of the peak production from the most recent twelve months of production from each well in the Field with reservoir market demand being equal to 80% of the Total Field TMP not to exceed 97.5% of Total Field Capability and not to be less than 96.5% of Total Field Capability.
8. Reservoir market demand established under these field rules is subject to Commission adjustment based upon the Commission's monthly determination of reservoir market demand for gas from the Texas Hugoton Field.
9. Balancing is necessary in this Field to protect correlative rights and to allow operators to produce to meet market demand.

10. Pursuant to Texas Government Code §2001.144(a)(4), and the agreement of all parties, this Final Order is effective when a Master Order relating to this Final Order is signed on August 22, 2006.

Therefore, it is ordered by the Railroad Commission of Texas that BP America Production Company's application for field balancing in the Texas Hugoton Field is approved, and the field balancing shall be effective the 1st day of the month following the Effective Date of this Final Order. It is further ordered that the Texas Hugoton Field will be balanced again upon implementation of the allowable system provided for in this order.

It is further ordered that Rules 7, 8, 9, and 10 of the field rules for the Texas Hugoton Field shall be revoked and that Rules 2 and 3 of the field rules for the Texas Hugoton Field shall be amended and Rule 4 shall be adopted as follows:

Gas Rule 2: The lawful market demand for the Texas Hugoton Field shall be equal to the monthly reservoir allowable as determined by this rule. The reservoir allowable and the well capability for each well completed in the Field shall be determined in the following manner:

- (a) Definitions.
 - (1) Field means Texas Hugoton Field, Sherman, Hansford, Hartley, Hutchinson, and Moore Counties, Texas.
 - (2) Allowable Month means the month during which allowables calculated pursuant to this rule will be effective.
 - (3) Twelve-Month Peak ("TMP") means, for each well in the Field, the highest daily gas production for such well during any of the most recent twelve months of production reported to the Commission. The TMP for each well is determined by dividing the reported monthly production for the well by the number of days in the respective month for each of the most recently reported twelve months of production. The calendar month from which the TMP is determined may vary from well to well. For new wells or wells which have not produced from the Field during the most recent twelve months of reported production, operators must submit a G-10 test to be used as the well's capability for the first six allowable months after the month in which the well commenced or recommenced production and to be used as the well's TMP for the first six allowable months after the month in which the well commenced or recommenced production. When a substitute capability determination is filed (Form GC-1), the substitute capability determination shall be used in lieu of the TMP and capability for that well for a period of six months from the effective date of the substitute

capability determination.

- (4) Total Field Twelve-Month Peak (“Total Field TMP”) means the sum of the TMP from each of the active wells in the Field multiplied by the number of days in the Allowable Month.
 - (5) Well Capability for all wells (including special and “N” allowable wells) means a well’s highest daily production during any of the six most recently reported production months and is determined by dividing the reported monthly production for the well by the number of days in the respective month for each of the most recently reported six months of production. Potential and deliverability tests of gas wells (Statewide Rule 28, Railroad Commission Form G-10) shall not be utilized for calculating Well Capability, except for new wells or wells which have not produced from the Field during the most recent twelve months of reported production. For these wells, the operators must submit a G-10 test to be used as the well’s capability for the first six allowable months after the month in which the well commenced or recommenced production and to be used as the well’s TMP for the first six allowable months after the month in which the well commenced or recommenced production. When a substitute capability determination is filed (Form GC-1), the substitute capability determination shall be used in lieu of the TMP and capability for that well for a period of six months from the effective date of the substitute capability determination. A well which has a TMP of 100 mcf per day or less will be assigned an administrative special allowable pursuant to subsection (h) of Statewide Rule 31.
 - (6) Total Field Capability means the sum of the well Capability for each of the active wells in the Field multiplied by the number of days in the allowable month.
 - (7) Commission Adjustment means any other adjustments to the adjusted reservoir market demand calculation that the Commission determines are necessary.
- (b) Determining Prorated Reservoir Allowable.
- (1) On or before the 25th day of each month, the Commission will determine the monthly reservoir allowable for the Field and the monthly well allowable for each well in the Field for the upcoming allowable month.
 - (2) Monthly Reservoir Allowable.

- (A) Subject to the following adjustments, the Monthly Reservoir Allowable for the Field shall be equal to 80 percent of the Total Field TMP for the Field.
 - (i) In the event 80 percent of the Total Field TMP for the Field results in a monthly reservoir allowable for the Field greater than 97.5 percent of the Total Field Capability, the Monthly Reservoir Allowable for the Field shall be adjusted down to 97.5 percent of the Total Field Capability.
 - (ii) In the event 80 percent of the Total Field TMP for the Field results in a monthly reservoir allowable for the Field of less than 96.5 percent of the Total Field Capability, then the Monthly Reservoir Allowable shall be adjusted up to 96.5 percent of the Total Field Capability.
 - (iii) The Commission retains the authority to apply a Commission Adjustment to the Monthly Reservoir Allowable as necessary to meet its obligations under the Texas Natural Resources Code.
- (B) No adjustment shall be made to the Monthly Reservoir Allowable except as provided in (b)(2)(A)(i),(ii), and (iii) above.
- (3) Gas Well Allowable. The Monthly Reservoir Allowable shall be allocated to wells in the Field in accordance with the allocation formula in the field rules. For administrative special [Rule 31(k)1 or (k)2] allowable wells, each well's initially assigned monthly allowable shall be equal to the lesser of its daily production during the most recently reported production month or its top prorated allowable. The maximum allowable assigned to wells in the Field will be determined in accordance with Statewide Rule 31(g)(9), and initially assigned allowables will be supplemented, based upon production as necessary, not to exceed the maximum allowable as provided for therein.
- (c) Miscellaneous Provisions.
 - (1) Statewide Rule 31(d) is not applicable to the Field.
 - (2) Any well in the Field may be assigned as few as 40 acres for proration purposes.
 - (3) Railroad Commission Form MD-1 shall not be utilized in determining

Monthly Reservoir Allowable in the Field.

- (4) In the event of a conflict between the provisions of this rule and the provisions of Statewide Rule 31, the provisions of this special field rule shall apply.

Gas Rule 3: The daily total gas allowable for the Field as fixed by the Commission, after deductions have been made for wells which are incapable of producing their allowables as determined hereby, shall be distributed among the remaining producing wells in the Field on the following basis:

The daily allowable production of gas from individual wells shall be determined by the proportion that the product of the Twelve Month Peak and the acreage attributable to such wells bears to the summation of this product with respect to all the wells in the Texas Hugoton Field.

Gas Rule 4: Deliverability tests (Commission Form G-10) are to be filed only upon initial completion of a well or when a well has not produced from the Field for the most recent twelve months of reported production. An operator may submit a substitute capability determination (Form GC-1) as provided in Statewide Rule 31, subject to the following:

Forms GC-1 may be filed only (1) when an operator has reworked a well, fracture stimulated a well, performed an acid treatment with at least 500 gallons of acid, added pay intervals to a well, added permanent compression to a well, or installed permanent artificial lift equipment; (2) when an operator, gatherer, pipeline, or plant has made permanent installations that significantly reduce the flowing wellhead pressure; or (3) when planned or unplanned down time has artificially limited production from a well for a period of at least three months.

Effective this 22nd day of August, 2006.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by OGC
Unprotested Master Order dated August 22, 2006)**