

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 02-0289118**

**IN THE SUGARKANE (AUSTIN CHALK)
FIELD, ATASCOSA, BEE, LIVE OAK
AND KARNES COUNTIES, TEXAS**

**FINAL ORDER
AMENDING AND MAKING PERMANENT FIELD RULES
FOR THE SUGARKANE (AUSTIN CHALK) FIELD
ATASCOSA, BEE, LIVE OAK, AND KARNES COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on July 2, 2014, 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 Temporary Field Rules adopted in Final Order No. 02-0264837, effective June 22, 2010, as amended, for the Sugarkane (Austin Chalk) Field, Atascosa, Bee, Live Oak, and Karnes Counties, Texas, are hereby amended and made permanent. The amended Field Rules are set out in their entirety as follows:

RULE 1: 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 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. There is no minimum 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.
- 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 THREE HUNDRED THIRTY (330) feet.

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.

If the applicant has represented in the drilling application that there will be one or more no perf zones or "NPZs" (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 3a: 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. 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. There is no maximum diagonal limitation in this field.

Notwithstanding the above, the acreage assigned to a gas 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.

For the purpose of assigning additional acreage to a horizontal drainhole gas well pursuant to the formula above, 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.

RULE 3b: The acreage assigned to an individual oil well for the purpose of allocating allowable oil production thereto shall be known as a proration unit. The standard drilling and proration units for oil wells are established hereby to be EIGHTY (80) acres. No proration unit shall consist of more than EIGHTY (80) except as hereinafter provided. 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 allowed.

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 EIGHTY (80) 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.

An operator, at its option, shall be permitted to form optional drilling units of FORTY (40) acres. A proportional acreage allowable credit will be given for a well on a fractional proration unit.

Additional acreage may be assigned to each horizontal drainhole oil well in accordance with Statewide Rule 86. For the purpose of assigning additional acreage to a horizontal well pursuant to Statewide Rule 86, 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.

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, individual proration unit plats showing the acreage assigned to each well. 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. There is no maximum diagonal limitation in this field.

Under the following conditions, an operator, at its option, shall be granted an exception to Statewide Rule 38 and permitted to form fractional units of less than THREE HUNDRED TWENTY (320) acres for gas wells, but not less than FORTY (40) acres:

- (a) The Railroad Commission shall notify in writing the designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests (i) within 1,500 feet from the bottomhole location of a vertical well or (ii) within 1,500 feet of any take point on a horizontal well within the correlative interval.
- (b) Designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests receiving this written notification shall have 21 days from the date of issuance of the notice of application for a Rule 38 density exception to file a written protest with the Railroad Commission, such protest to be received by the Railroad Commission within said 21 day period.
- (c) If no written protest is received by the Railroad Commission within the 21 day period of time, or if written waivers are received from each designated operator, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests to whom notice is required, the application shall be approved administratively by the Railroad Commission.
- (d) If a written protest is received by the Railroad Commission within 21 days of the date of issuance of the notice of application, the application will be scheduled for hearing at which the applicant must show that the fractional proration unit and the well thereon are necessary to effectively drain an area of the field that will not be effectively drained by existing wells, or to prevent waste or confiscation.
- (e) Permits granted pursuant to the above provision shall be issued as exceptions to Statewide Rule 38.

Such an administrative provision shall not prevent an operator from electing to apply for and obtain a density exception to form fractional units of less than THREE HUNDRED TWENTY (320) acres for gas wells under the provisions of Statewide Rule 38 rather than under the provisions of sections (a) through (e) above.

RULE 4a: The field shall be classified as associated-prorated. The daily allowable production of gas from individual wells completed in the 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 proratable wells producing from this field.

RULE 4b: The maximum daily oil allowable for a well in the field shall be determined by multiplying 2,000 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 a vertical well for proration purposes, exclusive of tolerance acreage. Each oil well shall have unlimited net gas-oil ratio authority.

It is further **ORDERED** that the allocation formula for the Sugarkane (Austin Chalk) Field shall remain suspended. The allocation formula may be reinstated administratively, in accordance with the Commission's rules, if the market demand for gas in the Sugarkane (Eagle Ford) Field drops below 100% of deliverability.

Pursuant to the final order in Docket No. 02-0264837, operators in the Sugarkane (Austin Chalk) Field are granted exception to semi-annual G-10 deliverability testing requirements pursuant to Statewide Rule 28 in the field, 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 the record purposes.

It is further **ORDERED** that all over-production in the Sugarkane (Austin Chalk) Field, Atascosa, Bee, Live Oak, and Karnes, Counties, Texas, is hereby canceled.

It is further **ORDERED** that Marathon Oil EF LLC Turnbull Unit D Lease, Well No. 18H be permanently classified as a gas well, without the need of further administrative review, effective January 7, 2014.

Done this 28th day of October, 2014.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Divisions' Unprotested Master
Order dated October 28, 2014)**