

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

OIL & GAS DOCKET NO. 09-0261248

**APPLICATION OF XTO ENERGY, INC., PURSUANT TO THE MINERAL INTEREST
POOLING ACT FOR THE PROPOSED TEXAS STEEL "B" POOLED UNIT, NEWARK,
EAST (BARNETT SHALE) FIELD, TARRANT COUNTY, TEXAS**

FINAL ORDER

The Commission finds that, after statutory notice in the above-numbered docket, heard on May 1, 2009, and October 5, 2009, 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 the Findings of Fact Nos. 1 through 20, 26 through 30, 32, and 34 through 35 and Conclusions of Law Nos. 1 through 4 and 6 through 9 contained therein, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein. Findings of Fact Nos. 25 and 33 in the proposal for decision are not adopted because they are duplicative of other findings and unnecessary. The Commission makes, in addition, the following substitute Findings of Fact and Conclusions of Law:

Substitute Findings of Fact

21. Volumetrically calculated gas in place beneath the amended 270.8852 acre unit is 36 BCF. If the proposed MIPA well recovers 0.8833 MMCF per foot of horizontal drainhole, its ultimate recovery will be about 3.1 BCF, which is about nine percent of the gas in place beneath the proposed unit.

22. A horizontal well that could be drilled at a regular location on the western side of the proposed unit area on a voluntary unit consisting of XTO's leased acreage without compulsory pooling, as shown on XTO Exhibit No. R8 incorporated into this finding by reference, would have a drainhole length of 2,415 feet. With a Rule 37 exception, the drainhole of this well could be extended on XTO's leased acreage by moving the penetration point to the southeast and the bottomhole location to the northwest, as shown conceptually on Appendix 5 to the proposal for decision, incorporated into this finding by reference. This would add a minimum of 335 feet to the horizontal drainhole of the well, and it is unlikely that any longer drainhole could be drilled from the off-lease surface location on the western side of the amended unit with or without compulsory pooling.

23. The horizontal well that could be drilled at a regular location on the western side of the proposed unit area on a voluntary unit consisting of XTO's leased acreage without compulsory pooling likely would recover gas that would not be recovered by XTO's proposed MIPA well.
24. The area of the proposed unit most likely to be drained by the proposed MIPA well is an area extending approximately 500 feet laterally on either side of the horizontal drainhole.
 - a. XTO's analysis of communication between two pairs of Barnett Shale wells located about 20 miles to the north of the TSBU does not establish the area which the proposed MIPA well likely will drain.
 - i. The wells that are the subject of this analysis were selected from a review of all of XTO's Barnett Shale wells, including well pairs that did not demonstrate communication over comparable distances.
 - ii. The study wells were not shown to be representative of Barnett Shale wells generally.
 - iii. XTO's communication analysis did not show how far any of the study wells were draining.
 - b. It is likely that multiple horizontal wells would be required to drain the entirety of the proposed 270.8852 acre unit.
 - i. XTO believed that four horizontal wells, as depicted on XTO Exhibit No. 30 incorporated into this finding by reference, could be drilled on the originally proposed unit if compulsory pooling were ordered. Three of these wells could be accommodated on the amended 270.8852 acre unit.
 - ii. A petroleum engineer presented by XTO expressed the expert opinion that the drilling of multiple wells on the proposed unit would be the most likely development plan if compulsory pooling were ordered and each of these wells would be needed to drain all of the acreage in the proposed unit.
 - c. The proposed MIPA well will recover only about nine percent of the gas in place beneath the proposed unit. Elsewhere in the Barnett Shale, drilling by XTO of multiple wells on comparable units has resulted in incremental recovery of gas, achieving up to a 24% recovery factor.

- d. The multiple wells believed by XTO to be necessary to drain the entirety of the proposed unit, as depicted on XTO Exhibit No. 30, are spaced about 1,000 feet apart, from which it reasonably may be inferred that each well would be expected to drain laterally about 500 feet on either side of the horizontal drainhole. To drain the entire 270.8852 acre unit, the proposed MIPA well would need to drain about 1,594 feet to the east and west of the horizontal drainhole.
31. The drilling of a horizontal well that will likely drain the central portion of the amended unit, as depicted in Appendix 1 to this Final Order, is necessary to prevent waste of hydrocarbons and afford the mineral interest owners in this portion of the unit a reasonable opportunity to recover their fair share of hydrocarbons.

Substitute Conclusion of Law

5. The Mineral Interest Pooling Act does not authorize the Commission to force pool separate tracts into a proration unit requiring multiple well development.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the application of XTO Energy, Inc., for formation of a pooled unit pursuant to the Mineral Interest Pooling Act is hereby **GRANTED** in part, to the extent, and subject to the terms and conditions, set forth in this order. All interests in tracts within the area described in Appendix 1 to this Final Order, including working interests, royalty interests, and unleased mineral interests, are pooled into the Texas Steel "B" Unit, the boundaries of which are as shown in Appendix 1 to this Final Order, Newark, East (Barnett Shale) Field, in Tarrant County, Texas. These interests are pooled into a proration unit for the drilling of a horizontal well in the Newark, East (Barnett Shale) Field at the location shown on Appendix 1 to this Final Order. The interests pooled are those in the tracts listed in Appendix 2 to this Final Order. Should there be any conflict between Appendix 1 and Appendix 2 to this Final Order as to the tracts pooled into the unit, Appendix 1 shall control. All interests in tracts shown in Appendix 1 and Appendix 2 to this Final Order are pooled on the following terms and conditions:

TERMS AND CONDITIONS

1. The name of the unit is the XTO Energy, Inc., Texas Steel "B" Unit.
2. The operator of the unit is XTO Energy, Inc.
3. The unit well is the well depicted on Appendix 1 to this order.
4. The unit shall be effective on the date this order becomes administratively final.
5. The unit is established for and limited to the depth interval correlative with the Newark, East (Barnett Shale) Field.

6. For the purpose of determining the portion of production owned by the persons owning interests in the pooled unit, the production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit.
7. The interests of lessors of tracts within the unit are pooled as royalty interests. The interests of XTO Energy, Inc., Chesapeake Exploration, LLC, and Thornton Gas Ventures in tracts within the unit are pooled as working interests.
8. The owners of all unleased tracts within the unit are pooled as owners of a 1/4th royalty and 3/4ths working interest, proportionately reduced. These owners' share of expenses, subject to a zero risk penalty, are payable only from 3/4ths of production rather than from their entire mineral interest.
9. The unit operator shall make no surface use of the unleased tracts within the unit without the written consent of the unleased owner.
10. XTO Energy, Inc., shall make a diligent effort to determine current addresses for all interest owners in the unit. Except as herein provided, payment of the appropriate pro rata share of the proceeds of production of the unit well shall be made, according to the terms of this final order, to each such interest owner for whom a current address and good title has been determined. The pro rata share of proceeds of production for any interest owner for whom a current address cannot be determined, or who declines to execute a division order in the form prescribed by §91.402 of the Texas Natural Resources Code, shall be held in escrow for the benefit of such owners and be subject to disposition in the manner provided by law.
11. The working interest owners shall adopt a joint operating agreement substantially in the form of the AAPL Form Joint Operating Agreement, which shall not include any provision prohibited by the Mineral Interest Pooling Act or contravene any provision of this final order.

It is further **ORDERED** by the Commission that to the extent not granted above, the application of XTO Energy, Inc., in this docket is **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 of 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 parties are notified of the order.

Each exception to the examiner's 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.

Done this 9th day of February, 2010, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS



CHAIRMAN VICTOR G. CARRILLO



COMMISSIONER ELIZABETH A. JONES

ATTEST:



SECRETARY

