

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

**OIL AND GAS DOCKET  
NO. 08-0248239**

**IN THE TOYAH, NW (SHALE) FIELD,  
REEVES COUNTY, TEXAS**

**FINAL ORDER  
APPROVING NEW FIELD DESIGNATION AND  
ADOPTING TEMPORARY RULES AND REGULATIONS  
FOR THE TOYAH, NW (SHALE) FIELD  
REEVES COUNTY, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on August 23, 2006, 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 application of Petro-Hunt, L.L.C. for new field designation for its Block 59 State 35 Well No. 1H is hereby approved. The new field shall be known as the Toyah, NW (Shale) Field, ID No. 90890 700, Reeves County, Texas.

It is further ordered by the Railroad Commission of Texas that the following rules shall be adopted on a temporary basis for the Toyah, NW (Shale) Field, Reeves County, Texas.

**RULE 1:** The entire correlative interval from 11,978 feet (TVD) to 13,040 feet (TVD) as shown on the log of the Block 59 State 35 Well No. 1H (API 389-32371), Section 35, Block 59, PSL/C.L. Johnston Survey, A-2670, Reeves County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Toyah, NW (Shale) Field.

**RULE 2:**

(a) No vertical well for gas shall hereafter be drilled nearer than **FOUR HUNDRED SIXTY-SEVEN (467)** feet to any property line, lease line or subdivision line and no vertical well shall be drilled nearer that **ONE THOUSAND TWO HUNDRED (1,200)** feet to any applied for, permitted or completed well in the same reservoir on the same lease, pooled unit or unitized tract.

(b) No horizontal drainhole well for gas shall hereafter be drilled such that the penetration point or terminus of a horizontal drainhole is nearer than FOUR HUNDRED SIXTY SEVEN (467) feet to any property line, lease line or subdivision line.

(c) For each horizontal drainhole well, the perpendicular distance from any point on such horizontal drainhole between the penetration point and the terminus, to any point on any property line, lease line or subdivision line shall be a minimum of FOUR HUNDRED SIXTY-SEVEN (467) feet. No point on a horizontal drainhole within the correlative interval shall be closer than ONE THOUSAND TWO HUNDRED (1,200) feet to such point on another horizontal well on the same lease, provided that this restriction on spacing between wells shall not apply to horizontal drainhole wells that are parallel or subparallel and do not overlap more than ONE HUNDRED (100) feet.

(d) 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.

Provided, however, that for purposes of the lease line spacing requirement for horizontal wells, the following shall apply:

1. Where the horizontal portion of the well is cased and cemented back above the top of the correlative interval, the distance to any property line, lease line or subdivision line will be calculated based on the distance to the nearest perforation in the well, and not based on the penetration point or terminus;
2. Where an external casing packer is placed in the well and cement is pumped above the external casing packer to a depth above the top of the correlative interval, the distance to any property line, lease line or subdivision line will be calculated based on the closest open hole section in the correlative interval.

In applying this rule the general order of the Commission with relation to the subdivision of property shall be observed.

**RULE 3:** The acreage assigned to the individual gas well for the purpose of allocating allowable gas production thereto shall be known as a proration unit. The standard drilling and proration units are established hereby to be ONE THOUSAND TWO HUNDRED EIGHTY (1,280) acres. No proration unit shall consist of more than ONE THOUSAND TWO HUNDRED EIGHTY (1,280) 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 THOUSAND FOUR HUNDRED EIGHT (1,408) acres may be assigned. The two farthestmost points in any proration unit shall not be in excess of **TWELVE THOUSAND FIVE HUNDRED (12,500)** feet removed from each other. Each proration unit containing less than ONE THOUSAND TWO HUNDRED EIGHTY (1,280) 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.

Notwithstanding the above, the acreage assigned to an gas well which has been drilled as a horizontal drainhole may contain more than ONE THOUSAND TWO HUNDRED EIGHTY (1,280) acres providing that the following formula is utilized to determine the proper assignment of acreage:

$$A = (L \times 0.32829) + 1,280 \text{ acres}$$

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 point at which the drainhole penetrates the top of the correlative interval and the horizontal drainhole end point within the correlative 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.

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 4: The daily allowable production of gas from individual wells completed in a non-associated gas reservoir of 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 following manner:

SEVENTY FIVE percent (75%) of the total field allowable shall be allocated 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 this field.

TWENTY FIVE percent (25%) of the total field allowable shall be allocated among the individual wells in the proportion that the deliverability of such well, as evidenced by the most recent G-10 test filed with the Railroad Commission bears to the summation of the deliverability of all prorable wells producing from this field.

It is further ordered by the Railroad Commission of Texas that the allocation formula in the Toyah, NW (Shale) Field is hereby suspended. The allocation formula may be reinstated administratively if the market demand for gas in the Toyah, NW (Shale) Field drops below 100% of deliverability. If the market demand for gas in the Toyah, NW (Shale) 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.

These rules are temporary and effective until \_\_\_\_\_, \_\_\_\_\_, or until Commission staff evaluates appropriate data after notice and hearing.

Done this 10<sup>th</sup> day of October, 2006.

**RAILROAD COMMISSION OF TEXAS**

**(Order approved and signatures affixed  
by OGC Unprotested Master Order  
dated October 10, 2006)**