

BEFORE THE STATE OIL AND GAS BOARD OF MISSISSIPPI

RE: PETITION OF EOG RESOURCES, INC. TO AMEND THE SPECIAL FIELD RULES TO PROVIDE FOR COMMINGLING OF PRODUCTION AT A CENTRAL PLANT SITE IN THE MECHANICSBURG FIELD, YAZOO COUNTY, MISSISSIPPI

FILED FOR RECORD

AUG 31 2009

STATE OIL AND GAS BOARD
LISA IVSHIN, SUPERVISOR

DOCKET NO. 263-2009-496

ORDER NO. 444-2009

ORDER

THIS CAUSE came to be heard on the Petition of EOG Resources, Inc. ("Petitioner") requesting the Board to amend the Special Field Rules to provide for commingling of production in the Mechanicsburg Field, Yazoo County, Mississippi; and

WHEREAS, the Board finds that due, proper, and legal notice of the meeting of the Board for the purpose of considering and taking action with respect to such matter was given in the manner required by the rules and regulations of the Board; that due, legal, and sufficient proofs of publication and service are on file with the Board; and that the Board has full jurisdiction of the subject matter to hear and determine same; and

WHEREAS, pursuant to said Notice, a public hearing was held by said Board in the Hearing Room, Suite E, 500 Greymont Avenue, Jackson, Mississippi, commencing on August 19, 2009, at 10:00 o'clock a.m. at which hearing all persons present who desired to be heard on said matter were heard and all testimony and the evidence were duly considered by those present at said meeting; and

WHEREAS, the Board has fully considered said matter and the evidence and recommendations made in said hearing and finds as follows:

1.

Petitioner has drilled numerous wells in the Field. The Special Field Rules for the Field were last adopted or amended in this Field in Docket No. 377-2007-496, Order No. 682-2007.

2.

Petitioner seeks authority to commingle production above ground from wells in the Upper Cotton Valley and Lower Cotton Valley Gas Pools (the "Pools") for each unit in the Field and to allocate production back to each 640 acre unit based on check meters placed at each well site. Petitioner is also enlarging the field definition.

3.

Numerous wells have been drilled wells in this Field, many of which have penetrated the Pools in question. The Wells produce natural gas, natural gas liquids (“NGL”) and significant condensate. Petitioner seeks authority to commingle production from each well after measurement, then allocate sales back to each unit and well based upon proportionate allocation to each well and unit from the central tank battery. The production from each well will be separated into natural gas, condensate and water, measured, then recombined for treatment at a plant recently constructed. After processing, the sales proceeds will be proportionately allocated to each well. Therefore, for engineering reasons, Petitioner should be granted an amendment to the Special Field Rules to adopt commingling measurement rules so that gas, NGL, and condensate may be economically produced, measured, and sold.

4.

The amendment to the Special Field Rules, as set forth below, promotes conservation, protects the co-equal and correlative rights of all owners of all owners in interest, avoids the drilling of unnecessary wells and permits gas, NGL, and condensate to be produced which would not otherwise be recoverable.

IT IS, THEREFORE, ORDERED AND ADJUDGED by the State Oil and Gas Board of Mississippi that the Special Field Rules for the Mechanicsburg Field shall be, and hereby are amended as follows:

**SPECIAL FIELD RULES
MECHANICSBURG FIELD
YAZOO COUNTY, MISSISSIPPI**

A. The Mechanicsburg Field as used herein is the area in Sections 3, 4, 5, 8, 9, 10, 16, and 17, Township 9 North, Range 3 West, Yazoo County, Mississippi, and including all productive extensions thereof, underlain by the following described pools, to-wit:

- (1) The Upper Cotton Valley Gas Pool, as used herein, shall be construed to mean those strata of the Cotton Valley Formation productive of gas from the depths of 11,690 feet to 11,910 feet as shown by the electrical log of the Cardell-Tlapek Company - Williams Estate No. 2 Well located 990 feet from the North line and 1380 feet from the West line of Section 9, Township 9 North, Range 3 West, Yazoo County, Mississippi, and including those strata productive of gas which can be correlated therewith.

- (2) The Lower Cotton Valley Gas Pool, as used herein shall be construed to mean those strata of the Cotton Valley Formation productive of gas from the depths of 11,910 feet to 12,690 feet as shown by the electrical log of the Cardell-Tlapek Company - Williams Estate No. 2 Well located 990 feet from the North line and 1380 feet from the West line of Section 9, Township 9 North, Range 3 West, Yazoo County, Mississippi, and including those strata productive of gas which can be correlated therewith.
- (3) The Williams Sand Oil Pool as used herein, shall be construed to mean those strata of the Cotton Valley Formation productive of oil from the depth of 11,470 feet to 11,482 feet in the Cardell-Tlapek Company - Williams Estate No. 1 Well, as shown by the electrical log thereof, said well being located 815 feet from the North line and 1752 feet from the West line of Section 9, Township 9 North, Range 3 West, Yazoo County, Mississippi, and including those strata productive of oil which can be correlated therewith.

B. The characteristics of the above mentioned Williams Sand Oil Pool are such that one well drilled on a regularly formed drilling unit conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable oil from such unit in said pool without avoidable waste.

A. RULES

RULE 1 - SPACING OF GAS WELLS:

Every well drilled as a gas well in the Upper Cotton Valley Gas Pool and the Lower Cotton Valley Gas Pool:

- (1) Shall be located on a drilling unit consisting of 640 contiguous surface acres, (ii) or a governmental section containing not less than 600 acres or more than 680 ac res, (iii) or sixteen (16) contiguous governmental quarter-quarter sections whose total acreage is not less than 600 acres or more than 680 acres.
- (2) Any gas drilling unit not a governmental section must be completely encompassed by the perimeter of a rectangle 5,580 feet by 6,245 feet. Provided, however, no unit shall be permitted which will create island acreage;
- (3) Each well shall be located at least 1,000 feet from every other drilling or producible gas well in the same pool located in conformity with this rule; and,
- (4) Each well shall be located not less than 990 feet from every exterior boundary of the drilling unit.

- (5) Each gas unit may contain up to two (2) producing wells.

RULE 2 - SPACING OF OIL WELLS:

Every well drilled as an oil well:

- (1) Shall be located on a drilling unit consisting of eighty (80) surface contiguous acres, or two governmental quarter-quarter sections containing not less than seventy-two (72) acres or more than eighty-eight (88) acres, upon which no other drilling -or producible well in the same pool is located;
- (2) Any drilling unit not composed of two governmental quarter-quarter sections must be completely encompassed by the perimeter of a rectangle 1600 feet by 2725 .feet. Provided, however, no unit shall be permitted which will create island acreage;
- (3) The well shall be located at least 1,000 feet from every other drilling or producible oil well in the same pool located in conformity with this rule; and
- (4) The well shall be located at least 500 feet from every exterior boundary of the drilling unit.

RULE 3 - AUTOMATIC CUSTODY TRANSFER SYSTEMS AUTHORIZED:

Automatic custody transfer systems which automatically test, sample, measure and transfer the production from the Operator to the purchaser are hereby authorized.

Each such system will be equipped with a sampling device which will take a representative sample of the total production passing through the system in order that the specific gravity and the basic sediment and water content can be determined.

Each such system will be equipped with a volume displacement type metering device which registers the volume of oil, condensate, and gas passed through it in barrels, MFC, or multiples thereof; said metering device will compensate for temperature, will be so equipped as to provide a cumulative total of all oil transferred by such system and will have an accuracy standard equivalent to the accuracy obtained in measurements made in calibrated stock tanks.

RULE 4 - USE OF METERS

A. The use of meters for testing and for measurement of production shall be subject to and in accordance with the following provisions:

(1) Only a volume displacement type metering device or vessel which registers the volume of condensate, gas, and oil passed through it in barrels, MCF, or multiples thereof may be used.

(2) All meters shall be downstream of the necessary separating or treating vessels. However, the Operator is authorized to use separators at each well site with meters which accurately separate the oil, condensate, water, and gas which will then be individually measured for each well, then recombined for delivery to the plant and central tank site for ultimate sale. All meters shall be designed and installed in

conformance with recognized metering practices and shall be subject to the approval of the Supervisor of the Oil and Gas Board.

(3) All meters and equipment affecting meter accuracy shall be kept in good working order. Each meter shall be calibrated at least once a month by means of a calibrated tank, a calibrated meter prover or a master meter. When a meter is found to deviate in its recording by more than two percent, it must be adjusted to conform to the said tolerance limitation of two percent or the meter calibration factor corrected.

(4) The corrected meter reading at 7:00 a.m. on the first day of each month for each meter shall be reported on the bottom of the Form 9 reporting the monthly production from the wells being measured by such meter.

RULE 5 - MEASUREMENT PROCEDURES AND FACILITIES

A. The Operator of the Field shall be permitted to commingle production at the surface from all individual units for collection, processing, treatment, and sale at a central tank battery as part of its treatment facilities. This includes a central tank battery and a central treatment facility for condensate, oil, water, natural gas liquids, and natural gas production. The oil and gas production from the Fields may be commingled in a common storage system. The Operator shall install a flowline, header and measurement system that allows each well in each unit in the Field to be separately and individually tested. If, upon a sale therefrom, a variance exists between the measurement from the common storage system and the measurement from the production of all the wells commingled in such common storage system, then such variance shall be allocated back to each of the wells producing into the common storage system proportionately to the production measured from each of the wells on the basis of the periodic tests.

B. Each producing well shall be so equipped that gas/oil ratio and bottomhole or other pressure test may be made.

C. Each producing well shall be connected to a metering system as will permit the adequate testing of each individual well under usual operating conditions without the necessity of closing in any other well. Separators, stock tanks or measuring devices and connections thereto shall be subject to approval by the Supervisor.

RULE 6 - APPLICABILITY OF STATEWIDE RULES:

A. All rules and regulations' contained in Statewide Order No. 201-51, and any amendments thereto, not specifically covered in the foregoing Special Field Rules are hereby adopted and shall apply to said field.

B. The Board expressly reserves the right, after notice and hearing, to alter, amend or repeal any and all of the foregoing rules and regulations.

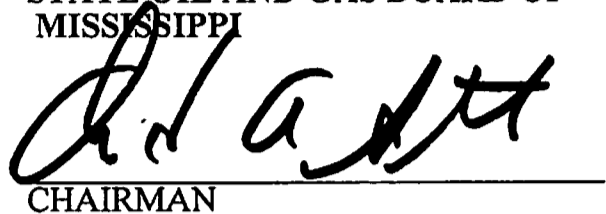
***** END OF SPECIAL FIELD RULES *****

IT IS FURTHER ORDERED AND ADJUDGED that this Order shall be in force and effect from and after August 19, 2009.

IT IS FURTHER ORDERED AND ADJUDGED that Petitioner shall acquire any other permits, if any, required by any other permitting authority.

ORDERED AND ADJUDGED this 3rd day of August, 2009.

STATE OIL AND GAS BOARD OF
MISSISSIPPI



A handwritten signature in black ink, appearing to read 'D. A. ...', is written over a horizontal line.

CHAIRMAN

Prepared By:

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