

IN THE STATE OIL AND GAS BOARD OF MISSISSIPPI

RE: PETITION OF VALENCE OPERATING COMPANY
TO AMEND SPECIAL FIELD RULES FOR THE
NANCY FIELD, CLARKE COUNTY, MISSISSIPPI
TO ALLOW PRODUCTION FROM TWO WELLS ON
A UNIT WITH A SINGLE COMBINED PRODUCTION
ALLOWABLE

JUL 8 1996

STATE OIL AND GAS BOARD
W. R. Lewis, Supervisor

DOCKET NO. 124-96-255

ORDER NO. 185-96

ORDER

This day this matter came on for hearing before the State Oil and Gas Board of Mississippi on the Petition of Valence Operating Company requesting authority to change the Special Field Rules for Nancy Field, Clarke County, Mississippi, to allow production from two wells on each 80-acre unit in the field, and for related relief, said hearing being called for such purpose; and

WHEREAS, the Board finding that due, proper and legal notice of the meeting of the Mississippi State Oil and Gas Board for the purpose of considering and taking action with respect to such matter was given in the manner and way provided by law and the rules and regulations of this Board; that due, legal and sufficient proofs of publication are on file with the Board in said matter; and that 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 the said Board in the hearing room of the Mississippi State Oil and Gas Board located at 500 Greymont Avenue, Suite E, Jackson, Mississippi, commencing at 9:30 o'clock a.m. on June 19, 1996, at which hearing all persons present who desire to be heard on said matter were heard and all testimony and documentary evidence duly considered by those present at said hearing; and

WHEREAS, the Board having considered the Petition and the evidence, and being fully advised in the premises is of the opinion and finds that the relief requested by the Petitioner should be and the same is hereby granted. The Board further finds and determines as follows:

1.

The Nancy Field currently produces from the Upper Smackover Oil Pool, Lower Smackover Oil Pool, Buckner Oil Pool and Norphlet Oil Pool, each as a separately defined interval. Spacing is on an 80 acre oil unit for all production. In recent years, production from the Nancy Field has declined. Because of the current economic situation, it is becoming more uneconomical to produce oil from the Nancy Field. At present, only a single well from each 80 acre unit can produce oil from that unit with a single production allowable. The known characteristics of the defined zones in the Nancy Field indicate that the efficient and adequate draining and production of oil and other hydrocarbons from said pools will be facilitated if wells drilled and completed on said pools are located on drilling units consisting of governmental half-quarter sections containing not less than 72 acres or drilling unit consisting of not more than 80 continuous surface acres upon which no other drilling or producible well is located. The characteristics of said pools are such that two wells located in conformity with such rules should be authorized to be located on each drilling unit and produce simultaneously from said pools. Geological conditions are such that the efficient and adequate draining and production of said pools will be facilitated if the Special Field Rules are amended to allow two wells to produce simultaneously from a defined pool and share a single production allowable.

2.

The Board finds that because of the age of Nancy Field and the declining production, it would be more economically feasible to allow two wells on a single 80 acre drilling unit to produce from

a single zone and to share a single well allowable. There are available well bores within the Nancy Field which could be used for production which would otherwise be unavailable. By allowing two wells to produce from a single unit with a shared production allowable, more oil and hydrocarbons will be produced from the Nancy Field.

3.

The Board finds that the granting of the relief requested in this Petition will promote conservation, will prevent waste, will avoid the drilling of unnecessary wells, and will fully protect the co-equal and correlative rights of all parties in interest. In addition, the granting of the relief requested will result in the ultimate recovery of more oil and other hydrocarbons from the Nancy Field.

IT IS, THEREFORE, ORDERED AND ADJUDGED as follows: that the Special Field Rules of Nancy Field are hereby amended in accordance herewith to allow two wells to be drilled and produced from each 80-acre unit in each of the defined zones, with such two wells to produce simultaneously and to share a combined single well allowable from each defined sand. A copy of the current Special Field Rules for the Nancy Field incorporating the relief granted in this Order is attached hereto as Exhibit "A" and a made part hereof by reference.

ORDERED AND ADJUDGED this the 19th day of June, 1996.

MISSISSIPPI STATE OIL AND GAS BOARD

By: Joseph D. Zuccaro
CHAIRMAN

ORDER PREPARED BY:

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**SPECIAL FIELD RULES FOR THE
NANCY FIELD, CLARKE COUNTY, MISSISSIPPI**

(June 19, 1996)

FIELD LIMITS:

The Nancy Field as used herein as that area described as West Half of Section 1, all of Section 2, East Half of Section 3, all of Section 10, all of Section 11, West Half of Section 12, West Half of Section 13, all of Section 14, East Half and Northwest Quarter of Section 15, all in Township 1 North, Range 14 East, Clarke County, Mississippi, underlain by the Upper Smackover Oil Pool, the Lower Smackover Oil Pool, the Buckner Oil Pool and the Norphlet Oil Pool, as hereinafter defined, and all productive extensions thereof.

UPPER SMACKOVER OIL POOL DEFINED:

The Upper Smackover Oil Pool in the Nancy Field as used herein shall be construed to mean those strata of the Smackover Formation productive of hydrocarbons in the interval between 13,360 feet and 13,560 feet indicated on the Electric Log for the Placid Oil Company (now Valence Operating Company) - Arledge 11-10-A Well, located 1,795 feet from the South line and 2,410 feet from the East line of Section 11, Township 1 North, Range 14 East, Clarke County, Mississippi, and all strata productive of hydrocarbons which can be correlated therewith.

The characteristics of the said Upper Smackover Oil Pool in said Nancy Field are such that two (2) wells located as hereinafter described and drilled upon a unit containing approximately 80 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste.

LOWER SMACKOVER OIL POOL DEFINED:

The Lower Smackover Oil Pool in the Nancy Field as used herein shall be construed to mean those strata of the Smackover Formation productive of hydrocarbons in the interval between 13,900 feet and 14,100 feet indicated on the Electric Log for the Esenjay - Menasco 11-14 No. 1 Well, located 2,143 feet from the West line and 1,264 feet from the South line of Section 11, Township 1 North, Range 14

East, Clarke County, Mississippi and all strata productive of hydrocarbons which can be correlated therewith.

The characteristics of the said Lower Smackover Oil Pool in said Nancy Field are such that two (2) wells located as hereinafter described and drilled upon a unit containing approximately 80 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste.

BUCKNER OIL POOL DEFINED:

The Buckner Oil Pool in the Nancy Field as used herein shall be construed to mean those strata of the Buckner Formation productive of hydrocarbons in the interval between 13,394 feet and 13,430 feet in the Getty Oil Company - Masonite No. 1 Well located 660 feet South and 660 feet East of the Northwest corner of Section 14, Township 1 North, Range 14 East, Clarke County, Mississippi, as indicated on the Electric Log of said well and including those strata productive of hydrocarbons which can be correlated therewith.

The characteristics of the said Buckner Oil Pool in said Nancy Field are such that two (2) wells located as hereinafter described and drilled upon a unit containing approximately 80 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste.

NORPHLET OIL POOL DEFINED:

The Norphlet Oil Pool as used herein shall be construed to mean those strata of the Norphlet Formation productive of hydrocarbons and occurring between the measured depths of 14,296 and 14,334 feet as shown on the Electric Log of the Brewer-Garner 11-13 Well No. 1 located 1264 feet from the South line and 827 feet from the West line of the Southwest Quarter of Section 11, Township 1 North, Range 14 East, Clarke County, Mississippi, and all strata productive of hydrocarbons which can be correlated therewith.

The characteristics of the said Norphlet Oil Pool in said Nancy Field are such that two (2) wells located as hereinafter described and drilled upon a unit containing approximately 80 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste. RULE 1 - SPACING OF OIL WELLS:

Every well drilled as an oil well:

(a) shall be drilled on a drilling unit consisting of 80 contiguous surface acres or two governmental quarter-quarter sections containing not less than 72 acres nor more than 88 acres upon which no other drilling or producible well in the same oil pool is located; provided, however, two wells otherwise located in conformance herewith may be located on each drilling unit and produced from the same oil pool, with a single combined production allowable;

(b) shall be located at least 1,000 feet from every other drilling well or well completed in or producing from the same pool located in conformity with these Special Field Rules;

(c) shall be located at least 500 feet from every exterior boundary of the drilling unit; and

(d) any drilling unit not composed to two governmental quarter-quarter sections must be completely encompassed by the perimeter of a rectangle 1,600 feet by 2,725 feet. Provided, however, no unit shall be permitted which will create island acreage.

RULE 2 - MEASUREMENT OF PRODUCTION:

The operator of each producing lease shall maintain proper separators and stock tanks or metering devices and such connections thereto as are necessary to continuously measure the total production from such lease. Where metering devices are used, as herein provided, the production may be commingled in a common storage system and if, upon a sale therefrom a variance exists between the measurement from the common storage system and the total measurement of the production of all the leases commingled in

such common storage system, then such variance shall be allocated back to each of the leases producing into the common storage system proportionately to the production measured from each lease.

RULE 3 - EQUIPMENT FOR TESTS:

A. Each producing well shall be so equipped that gas/oil ratio tests and bottom hole or other pressure tests may be made.

B. The operator of each producing lease on which there are two or more producing wells shall maintain proper separators and stock tanks or metering devices and such connections thereto as will permit the adequate testing of each individual well under usual operating conditions without the necessity of closing in any other well. Such separators, stock tanks or metering devices and connections thereto shall be subject to approval by the Supervisor.

RULE 4 - USE OF METERS:

A. The use of meters for testing and for measurement of lease 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 oil passed through it in barrels or multiples thereof may be used.
2. All meters shall be downstream of the necessary separating or treating vessels. 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. No meter used for oil production measurement shall be directly or indirectly by-passed in such manner as to permit oil to pass into common storage without first being measured.
4. 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 per cent, it must be adjusted to conform to the said

tolerance limitation of two per cent or the meter calibration factor corrected.

5. The meter reading and meter calibration factor in use 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 - 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 for the Nancy Field. Such systems may be used to transfer production from individual leases or from common storage facilities as authorized in Rule 2 above. In the event the transfer is from such a common storage facility, the allocation of production to the leases being produced into such common storage system will be on the basis of the relationship of the measured production from each lease to the total measured production transferred by the automatic custody transfer system.

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 passed through it in barrels or multiples thereof. In addition to meeting all of the requirements set out in Rule 4 above which deals with the use of meters, said metering device will be compensated 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 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.