



---

## RRC RULES IN FAVOR OF OPERATOR IN ALLOCATION WELL PERMIT CASE

---

The Railroad Commission of Texas (“Commission”) ruled on a matter that will have major implications for the practice of issuing drilling permits for “allocation wells.”<sup>1</sup> The Commissioners unanimously voted to approve EOG Resources Inc.’s application to drill its Klotzman (Allocation) #1H well despite the hearing examiners’ recommendation to dismiss the application because the lessee lacked the authority to pool under the leases.

Generally speaking, an “allocation well” permit refers to a horizontal well that runs beneath two or more un-pooled tracts, where the operator has not been able to sign 65% of the royalty interest to a production sharing agreement. Earlier this year, several mineral owners protested EOG’s application to drill the Klotzman (Allocation) #1H well, and the Commission’s Hearings Division issued a Proposal for Decision (the “PFD”) in favor of the mineral owners. The Commissioners disagreed with the recommendation in the PFD that EOG’s permit application be denied because the drilling of a horizontal well across the two leases would constitute unauthorized pooling. Reasoning that the Commission was without jurisdiction to determine whether or not the leases permitted the operator to drill without pooling, the Commissioners voted to approve EOG’s permit application.

If you have any questions regarding the information in this Client Alert, please contact one of the attorneys listed below, or any Thompson & Knight attorney with whom you regularly work.

---

### CONTACTS:

**Gaye White**  
512.469.6165  
[Gaye.White@tklaw.com](mailto:Gaye.White@tklaw.com)

**Gary D. Compton**  
512.469.6102  
[Gary.Compton@tklaw.com](mailto:Gary.Compton@tklaw.com)

**Lucas A. LaVoy**  
713.951.5814  
[Lucas.LaVoy@tklaw.com](mailto:Lucas.LaVoy@tklaw.com)

*This Client Alert is sent for the information of our clients and friends. It is not intended as legal advice or an opinion on specific circumstances and is not intended or written to be used, and may not be used, by any person for the purpose of avoiding penalties that may be imposed under United States federal tax laws.*

©2013 Thompson & Knight LLP

---

<sup>1</sup> Oil & Gas Docket No. 02-0278952, Hearings Division, Railroad Commission of Texas.