

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 7C-0283443**

**IN THE SPRABERRY (TREND AREA)
FIELD, VARIOUS COUNTIES, TEXAS**

**FINAL ORDER
AMENDING FIELD RULES FOR THE
THE SPRABERRY (TREND AREA) FIELD
VARIOUS COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on August 7, 2013, the presiding examiner has made and filed a report and recommendation containing findings of fact and conclusions of law, 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 proposal for decision, the findings of fact and conclusions of law contained therein, and any exceptions and replies filed thereto, hereby adopts as its own Findings of Fact Nos. 1. through 14., 16., and 18., and 25., and Conclusions of Law Nos. 1. and 3., contained therein, and incorporates said Findings of Fact and Conclusions of Law as if fully set out and separately stated herein. The Commission declines to adopt all other proposed Findings of Fact and Conclusions of Law.

The Commission hereby adopts the following substitute Findings of Fact and Conclusions of Law:

Substitute Findings of Fact:

15. Horizontal severances occur due to lease provisions that require undeveloped intervals to be returned to lessors after some period of time.
17. Statewide Rule 40(d) prohibits unit acreage from being assigned to more than one well in a reservoir.
19. Current Spraberry (Trend Area) Field rules prohibit double assignment of acreage.
20. Commission Final Orders providing for exceptions to Statewide Rule 10 for authority to downhole commingle the Spraberry (Trend Area) Field with other fields (Docket Nos. 7C-0266343, 7C-0272342, and 7C-0274132) prohibit acreage assigned to wells on any lease for allocation of allowable from being

assigned to any other well or wells.

21. The application of these prohibitions on double assignment of acreage will reduce current recovery in the Spraberry (Trend Area) Field.
22. It is appropriate to require operators at the time they apply for a drilling permit to specify that the tract to be drilled contains a horizontal severance, to require operators to specifically locate the depth of the severance, and to allow the operator to use a new field identification number, reserved for deep severed rights, for permitting the well.
23. Pioneer's proposal is consistent with the current regulatory scheme and will allow tracts with severed rights to be developed.
24. The Commission has established precedents for exceptions to Statewide Rule 40(d) through the multiple drainhole provision of Statewide Rule 86(e) and by field rule provisions for stacked lateral wells.

Substitute Conclusions of Law:

2. Pioneer's application to amend the field rules in the Spraberry (Trend Area) Field should be adopted.
4. Pioneer's application to amend the field rules in the Spraberry (Trend Area) Field will prevent confiscation, protect correlative rights and will allow tracts with severed mineral rights to be developed.

All requested and proposed 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.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the captioned application is **APPROVED**, Field Rule 3 is amended such that the Field Rules for the Spraberry (Trend Area) Field shall read, in their entirety, as follows:

RULE 1: The entire correlative interval from 6,865 feet to 10,605 feet as shown on the log of the Pioneer Natural Res. USA, Inc. - Houpt Lease, Well No. 1 (API No. 42-329-31029), Section 24, Block 39, T-2-S, T&P RR Co. Survey, Midland County, Texas, shall be designated as a single reservoir for proration purposes and be designated as the Spraberry (Trend Area) Field. This interval is intended to include all reservoirs between the top of the Clearfork and the top of the Strawn formations.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than FOUR HUNDRED SIXTY SEVEN (467) feet to any property line, lease line, or subdivision line. There is no minimum between well spacing limitation. 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 in either field. 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 therefore 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.

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

Provided, however, that for purposes of spacing for horizontal drainhole wells, the following shall apply:

- a. A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced from the reservoir/field interval. The first take point may be at a different location than the penetration point and the last take point may be at a location different than the terminus point.
- b. No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take points are nearer than ONE HUNDRED (100) feet to any property line, lease line or subdivision line.
- c. For each horizontal drainhole well, the distance perpendicular to such horizontal drainhole from any take point to any point on any property line, lease line or subdivision line shall be a minimum of FOUR HUNDRED SIXTY SEVEN (467) feet.

For the purpose of assigning additional acreage to a horizontal drainhole well pursuant to Statewide Rule 86, the distance from the first take point to the last take point in the horizontal drainhole shall be used in such determination, in lieu of the distance from penetration point to terminus.

In addition to the penetration point and the terminus of the wellbore required to be identified on the drilling permit application (Form W-1H) and plat, the first and last take points must also be identified on the drilling permit application (Remarks Section) and plat. Operators shall file an as-drilled plat showing the path, penetration point, terminus and the first and last take points of all drainholes in horizontal wells, regardless of allocation formula.

If the applicant has represented in the drilling application that there will be one or more no perf zones or "NPZs" (portions of the wellbore within the field interval without take points), then the as-drilled plat filed after completion of the well shall be certified by a person with knowledge of the facts pertinent to the application that the plat is accurately

drawn to scale and correctly reflects all pertinent and required data. In addition to the standard required data, the certified plat shall include the as-drilled track of the wellbore, the location of each take point on the wellbore, the boundaries of any wholly or partially unleased tracts within a Rule 37 distance of the wellbore, and notations of the shortest distance from each wholly or partially unleased tract within a Rule 37 distance of the wellbore to the nearest take point on the wellbore.

A properly permitted horizontal drainhole will be considered to be in compliance with the spacing rules set forth herein if the as-drilled location falls within a rectangle established as follows:

- a. Two sides of the rectangle are parallel to the permitted drainhole and 50 feet on either side of the drainhole;
- b. The other two sides of the rectangle are perpendicular to the sides described in (a) above, with one of those sides passing through the first take point and the other side passing through the last take point.

Any take point of a horizontal drainhole outside of the described rectangle must conform to the permitted distance to the nearest property line, lease line or subdivision line.

For any well permitted in this field, the penetration point need not be located on the same lease, pooled unit or unitized tract on which the well is permitted and may be located on an Offsite Tract. When the penetration point is located on such Offsite Tract, the applicant for such a drilling permit must give 21 days notice by certified mail, return receipt requested to the mineral owners of the Offsite Tract. For the purposes of this rule, the mineral owners of the Offsite Tract are (1) the designated operator; (2) all lessees of record for the Offsite Tract where there is no designated operator; and (3) all owners of unleased mineral interests where there is no designated operator or lessee. In providing such notice, applicant must provide the mineral owners of the Offsite Tract with a plat clearly depicting the projected path of the entire wellbore. In the event the applicant is unable, after due diligence, to locate the whereabouts of any person to whom notice is required by this rule, the applicant must publish notice of this application pursuant to the Commission's Rules of Practice and Procedure. If any mineral owner of the Offsite Tract objects to the location of the penetration point, the applicant may request a hearing to demonstrate the necessity of the location of the penetration point of the well to prevent waste or to protect correlative rights. Notice of Offsite Tract penetration is not required if (a) written waivers of objection are received from all mineral owners of the Offsite Tract; or, (b) the applicant is the only mineral owner of the Offsite Tract. To mitigate the potential for well collisions, applicant shall promptly provide copies of any directional surveys to the parties entitled to notice under this section, upon request.

RULE 3: The acreage assigned to an individual well shall be known as a proration unit. The standard drilling and proration units are established hereby to be EIGHTY (80) acres. No proration unit shall consist of more than EIGHTY (80) acres except as

hereinafter provided. There is no maximum diagonal limitation in this field. All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive of oil. Except as provided in these rules, no double assignment of acreage will be accepted.

Notwithstanding the above, operators may elect to assign a tolerance of not more than EIGHTY (80) acres of additional unassigned lease acreage to a well on an EIGHTY (80) acre unit and shall in such event receive allowable credit for not more than ONE HUNDRED SIXTY (160) acres.

Furthermore, for purposes of additional acreage assignment to horizontal drainhole wells under Statewide Rule 86 (d)(1), the amount specified by applicable rules for a proration unit for a vertical well shall be the EIGHTY (80) acres plus EIGHTY (80) acres tolerance provided in this Rule 3.

Under the following conditions, an operator, at its option, shall be granted an exception to Statewide Rule 38 and permitted to form fractional units of less than EIGHTY (80) acres, but not less than TWENTY (20) acres:

- a. The Railroad Commission shall notify in writing the designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests (i) within 1,867 feet from the location of a vertical well or (ii) within 1,867 feet of any point on a horizontal well within the correlative interval.
- b. Designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests receiving this written notification shall have 21 days from the date of issuance of the notice of application for a Rule 38 density exception to file a written protest with the Railroad Commission, such protest to be received by the Railroad Commission within said 21 day period.
- c. If no written protest is received by the Railroad Commission within the 21 day period of time, or if written waivers are received from each designated operator, lessee of record for tracts that have no designated operator, and all owners of unleased mineral interests to whom notice is required, the application shall be approved administratively by the Railroad Commission.
- d. If a written protest is received by the Railroad Commission within 21 days of the date of issuance of the notice of application, the application will be scheduled for hearing at which the applicant must show that the fractional proration unit and the well thereon are necessary to effectively drain an area of the field that will not be effectively drained by existing wells, or to prevent waste or confiscation.
- e. Permits granted pursuant to the above provision shall be issued as

exceptions to Statewide Rule 38.

- f. For permits requested on fractional units of less than TWENTY (20) acres, the procedures set forth in 16 Tex. Admin. Code § 3.38 (Rule 38) shall apply.

For the determination of acreage credit in this field, operators shall file for each oil or gas well in this field a Form P-15 Statement of Productivity of Acreage Assigned to Proration Units. On that form or an attachment thereto, the operator shall list the number of acres that are being assigned to each well on the lease or unit for proration purposes, in lieu of amended Form P-15's. For oil and gas wells, operators shall be required to file, along with the Form P-15, a plat of the lease, unit or property; provided that such plat shall not be required to show individual proration units. Operators may, however, file such proration unit plats for individual wells in the field if they so choose.

Where the ownership of oil and gas within the designated interval for Spraberry (Trend Area) Field has been divided horizontally, operators shall have the right to develop the individual ownership as follows:

- a. Operators of tracts with no horizontal severance of ownership within the designated interval for the Spraberry (Trend Area) Field AND operators of the shallow rights above a horizontal severance of ownership within that same interval shall permit wells in District 8 under Field ID. Number 85280300 and in District 7C under Field ID. Number 85279200.
- b. Operators with ownership of deep rights below a horizontal severance within the designated interval for the Spraberry (Trend Area) Field shall permit wells in District 8 under Field ID. Number 85280301 and in District 7C under Field ID. Number 85279201. These two field numbers for the Spraberry (Trend Area) Field shall be labeled "Spraberry (Trend Area) R 40 Exc" in the Commission's records.
- c. Any operator using the Field ID. Numbers for "deep rights" certifies, by use of that number, that the ownership of the oil and gas rights is divided horizontally on the tract for which the drilling permit is sought. Operators using the Field ID Numbers for "deep rights" shall designate, in the Remarks Section of the W-1 and in the Remarks Section of the Completion Form, the location of the depth severance.
- d. Where the ownership of oil and gas is horizontally divided, the Field Rules for the Spraberry (Trend Area) Field will apply separately to wells drilled under the shallow Field Number and wells drilled under the deep Field Number, such that proration units on a tract above and below the horizontal division of ownership are independent and may overlap.

RULE 4: The maximum daily oil allowable for each well on an EIGHTY (80) acre unit in the subject field shall be the MER Allowable of 515 barrels of oil per day, and the

actual allowable for an individual well shall be determined by the sum total of the two following values:

- a. Each well shall be assigned an allowable equal to the top allowable established for a well having a proration unit containing the maximum acreage authorized exclusive of tolerance acreage multiplied by SEVENTY FIVE percent (75%) and by then multiplying this value by a fraction, the numerator of which is the acreage assigned to the well and the denominator of which is the maximum acreage authorized for a proration unit exclusive of tolerance acreage.
- b. Each well shall be assigned an allowable equal to TWENTY FIVE percent (25%) of the maximum daily oil allowable above.

RULE 5: The permitted gas-oil ratio for all wells shall be four thousand (4,000) cubic feet of gas per barrel of oil produced. Any oil well producing with a gas-oil ratio in excess of four thousand (4,000) cubic feet of gas per barrel of oil shall be allowed to produce daily only that volume obtained by multiplying the daily oil allowable of such well as determined by the applicable rules of the Commission by four thousand (4,000) cubic feet; provided that an operator may produce an oil well under a net gas-oil ratio rule. The net gas-oil ratio as used herein shall be determined by subtracting from the total volume of gas produced from said well during any interval prescribed by the Commission that volume thereof that was during the same interval diverted to uses specified as legal uses for sweet natural gas in TEX. NAT. RES. CODE ANN. §86.181(1978), as amended, and by dividing the net volume of gas thus remaining by the oil produced during the same interval. If during any interval the said well has a net gas-oil ratio in excess of four thousand (4,000) cubic feet of gas per barrel of oil produced, its daily oil allowable shall be determined and assigned by multiplying by four thousand (4,000) that oil allowable which said well would be assigned under the Commission's rules were its net ratio four thousand (4,000) cubic feet of gas per barrel of oil, or less, and by dividing the product thus obtained by the net gas-oil ratio of said well as determined as hereinabove set out.

RULE 6: For oil and gas wells, Stacked Lateral Wells within the correlative interval for the field that are drilled from different wellbores may be considered a single well for regulatory purposes, as provided below:

1. A horizontal drainhole well qualifies as a Stacked Lateral Well under the following conditions:
 - a. There are two or more horizontal drainhole wells on the same lease or pooled unit within the correlative interval for the field;
 - b. Horizontal drainholes are drilled from different surface locations;
 - c. Each point of a Stacked Lateral Well's horizontal drainhole shall be no more than 300 feet in a horizontal direction from any point along any

other horizontal drainhole of that same Stacked Lateral Well. This distance is measured perpendicular to the orientation of the horizontal drainhole and can be illustrated by the projection of each horizontal drainhole in the Stacked Lateral Well into a common horizontal plane as seen on a location plat. Where one drainhole of a Stacked Lateral is longer than that of another drainhole of the Stacked Lateral, the 300 feet maximum shall be measured between the longer lateral and a projection of the shorter lateral along the same path as the existing lateral; and

- d. There shall be no maximum or minimum distance limitations between horizontal drainholes of a Stacked Lateral Well in a vertical direction.
2. A Stacked Lateral Well, including all surface locations and horizontal drainholes comprising such Stacked Lateral Well, shall be considered as a single well for density and allowable purposes.
 - a. All points between the first Take Point and the Last Take Point on all drainholes of a Stacked Lateral Well, including all Take Points on any horizontal drainhole that is longer than the Record Well, must fall within a box with a surface area equal to the number of acres to be assigned to the Stacked Lateral Well for allowable purposes. Two sides of the box will be formed by the two horizontal laterals that are the farthest apart in a horizontal direction, which shall be no greater than the 300 foot requirement in Item 1 above.
 - b. For the purpose of assigning additional acreage to the Stacked Lateral Well pursuant to Rule 86, the horizontal drainhole displacement shall be calculated based on the distance from the first take point to the last take point in the horizontal drainhole for the Record Well, regardless of the horizontal drainhole displacement of other horizontal drainholes of the Stacked Lateral Well.
 3. Each surface location of a Stacked Lateral Well must be permitted separately and assigned an API number. In permitting a Stacked Lateral Well, the operator shall identify each surface location of such well with the designation "SL" in the well's lease name and also describe the well as a Stacked Lateral Well in the "Remarks" of the Form W-1 drilling permit application. The operator shall also identify on the plat any other existing, or applied for, horizontal drainholes comprising the Stacked Lateral Well being permitted.
 4. To be a regular location, each horizontal drainhole of a Stacked Lateral Well must comply with (i) the field's minimum spacing distance as to any lease, pooled unit or property line, and (ii) the field's minimum between well spacing distance as to any different well, including all horizontal drainholes of any other Stacked Lateral Well, on the same lease or pooled unit in the

field. Operators may seek exceptions to Rules 37 and 38 for Stacked Lateral Wells in accordance with the Commission's rules, or any applicable rule for this field.

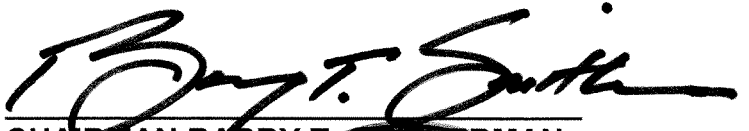
5. Operators shall file separate completion forms for each surface location of the Stacked Lateral Well. Operators shall also file a certified as-drilled location plat for each surface location of a Stacked Lateral Well showing each horizontal drainhole from that surface location, confirming the well's qualification as a Stacked Lateral Well and showing the maximum distances in a horizontal direction between each horizontal drainhole of the Stacked Lateral Well.
6. In addition to the completion forms for each surface location of a Stacked Lateral Well, the operator must file a separate Form G-1 or Form W-2 for record purposes only for the Commission's Proration Department to build a fictitious "Record Well" for the Stacked Lateral Well. This Record Well will be identified with the words "SL Record" included in the lease name. This Record Well will be assigned an API number and Gas Well ID or Oil lease number and listed on the proration schedule with an allowable if applicable.
7. In addition to the Record Well, each surface location of a Stacked Lateral Well will be listed on the proration schedule, but no allowable shall be assigned for an individual surface location. Each surface location of a Stacked Lateral Well shall be required to have a separate G-10 or W-10 test and the sum of all horizontal drainhole test rates shall be reported as the test rate for the Record Well.
8. Operators shall report all production from horizontal drainholes included as a Stacked Lateral Well on Form PR to the Record Well. Production reported for a Record Well is the total production from the horizontal drainholes comprising the Stacked Lateral Well. Operators shall measure the production from each surface location of a Stacked Lateral Well. Operators may measure full well stream with the measurement adjusted for the allocation of condensate based on the gas to liquid ratio established by the most recent G-10 well test rate for that surface location. The gas and condensate production will be identified by individual API number and recorded and reported on the "Supplementary Attachment to Form PR".
9. If the field's 100% AOF status should be removed, the Commission's Proration Department shall assign a single gas allowable to each Record Well classified as a gas well. The Commission's Proration Department shall also assign a single oil allowable to each Record Well classified as an oil well. The assigned allowable may be produced from any one or all of the horizontal drainholes comprising the Stacked Lateral Well.
10. Operators shall file an individual Form W-3A Notice of Intention to Plug and Abandon and Form W-3 Well Plugging Report for each horizontal drainhole

comprising the Stacked Lateral Well as required by Commission rules.

11. An operator may not file Form P-4 to transfer an individual surface location of a Stacked Lateral Well to another operator. P-4's filed to change the operator will only be accepted for the Record Well if accompanied by a separate P-4 for each surface location of the Stacked Lateral Well.

Done this 18th day of December, 2013.

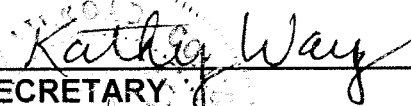
RAILROAD COMMISSION OF TEXAS


CHAIRMAN BARRY T. SMITH


COMMISSIONER DAVID PORTER


COMMISSIONER CHRISTI CRADDICK

ATTEST:


SECRETARY

