

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET No. 08-0311743: APPLICATION OF RIO OIL AND GAS (PERMIAN) II, LLC FOR AN EXCEPTION TO STATEWIDE RULE 40 FOR THE EXPEDITION STATE UNIT 71-67 LEASE, WELL No. 3H, PHANTOM (WOLFCAMP) FIELD, REEVES COUNTY, TEXAS

FINAL ORDER

The Railroad Commission of Texas ("Commission") finds that notice in the above-numbered docket was provided to all parties entitled to notice. A hearing in the above numbered docket was heard on May 21, 2018, by a Commission Technical Examiner and Administrative Law Judge (collectively, "Examiners") This proceeding was duly submitted to the Commission at a conference held in its offices in Austin, Texas. After considering the evidence and record in this case, the Commission adopts the following findings of fact and conclusions of law.

Findings of Facts

1. Rio Oil and Gas (Permian) II, LLC ("Rio") requests an exception to Statewide Rule 40 (16 TEX. ADMIN. CODE § 3.40) for the Expedition State Unit 71-67 Lease, Well No. 3H (API No. 42-389-37119), Phantom (Wolfcamp) Field ("Field") in Reeves County, Texas with the following conditions:
 - a. To apply for duplicate assignment of acreage, the Operator shall file with its drilling permit application remarks or a written certification that duplicate assignment of acreage is required because an existing deed, lease, or other contract confines the Operator to a distinct depth interval.
 - b. Ten (10) business days prior to the filing of the drilling permit application, all drilling permit applicants shall provide written notice to each commission-designated operator of any well shown on the RRC map at the time of the drilling permit application that satisfies the following criteria: (1) the other operator's well is assigned to a UFT field listed on the applicant's drilling permit application, (2) the other operator's well is geographically located within one-half mile of applicant's proposed well, and (3) the other operator's well falls within the geographic limits of applicant's lease. The notice shall include a copy of the drilling permit application and a copy of the plat showing the well's proposed location. The obligations of this subsection b shall be applicable to any Operator proposing wells on a lease, pooled unit, production sharing unit or allocation well where such lease, pooled unit, production sharing unit or allocation well covers less than all depths.
 - c. The applicant shall provide copies of the well's as-drilled survey plat and any directional surveys to any party entitled to notice as described

in subsection b above, within 15 days of receipt by applicant of such written request.

- d. If a timely filed written objection to the application is received by the Commission, the complainant may request a hearing, at which the complainant will bear the burden of proof to show that the proposed application will not result in waste and/ or harm to correlative rights.
2. Notice of Rio's request was provided to all operators of record in the Phantom (Wolfcamp) Field.
 3. No one has protested Rio's request for the Rule 40 exception.
 4. A hearing was held on May 21, 2018 regarding Rio's requests for Rule 40 exceptions as well as an application by Rio to amend the field rules for the Field. At the hearing, Rio appeared. Cimarex Energy Company and Cimarex Energy Co. of Colorado ("Cimarex") appeared in protest of the request to amend the field rules. The Texas General Land Office appeared in support of Rio's requests for Rule 40 exceptions and application to amend the field rules. Anadarko E&P Onshore LLC ("Anadarko") and BHP Billiton Pet(TXLA OP) Co ("BHP") appeared as Respondents. Cimarex, Anadarko and BHP participated in the hearing and none opposed Rio's Rule 40 exception requests. This Rule 40 exception requests was severed from the other matters heard at the hearing and given its own docket number, which is used in this order.
 5. The Phantom (Wolfcamp) Field consists of a portion of the Third Bone Springs Formation and the entire Wolfcamp Formation.
 6. The Wolfcamp Formation contains a series of stacked "benches" that are the targets of horizontal drilling and production. Rio labels these benches from shallowest to deepest as the WCXY, WCA1, WCA2, WCA4, WCB1, WCB3 and WCC benches.
 7. Many oil and gas leases, including those issued by the State of Texas through the General Land Office and University Lands, contain horizontal Pugh Clauses. These clauses require the release of formations when not timely developed by a lessee.
 8. When a Pugh Clause becomes operational in the Phantom (Wolfcamp) Field, horizontal severances of ownership are created. One operator owns the rights to drill and produce from the shallower bench(es) and another operator owns the rights to drill and produce from the deeper bench(es).
 9. Statewide Rule 40 (16 TAC 3.40) prohibits the "double assignment" of acreage to non-stacked lateral, horizontal wells in the same field.

10. Without relief from Statewide Rule 40, operators who lease the deeper benches in the same Commission designated field after the operation of a Pugh Clause cannot obtain permits to drill and produce from these lower benches. The average 10,000-foot (Wolfcamp) B1 horizontal well in the Phantom (Wolfcamp) Field will produce 2,042,000 barrels of oil equivalent. Without relief from Statewide Rule 40, much of this production will go unrecovered.
11. In this case, an exception to Rule 40 is necessary for Rio to produce its fair share of the hydrocarbons from its leasehold estate.
12. Granting a Rule 40 exception in this Docket is necessary to prevent waste and to protect correlative rights.
13. In the past, the Commission has granted exceptions to Statewide Rule 40 to prevent waste and promote orderly development of production via horizontal wells. See Tex. R.R. Comm'n, *Application of Pioneer Natural Resources USA, Inc. to Amend Field Rules for the Spraberry (Trend Area) Field in Various Counties, Texas*, Oil and Gas Docket Nos. 7C-0291169 and 7C-0291171 (Order issued December 2, 2014).
14. In the Phantom (Wolfcamp) Field, the Commission has granted a Statewide Rule 40 exception in Oil & Gas Docket No. 08-0309365.
15. This well is necessary from a geologic standpoint in order to develop hydrocarbons in the Wolfcamp Formation, and a Statewide Rule 40 exception is necessary in order to allow Rio to obtain a drilling permit and allowable to drill, complete, and produce its well.
16. A Rule 40 exception will allow Rio to develop the minerals that it purchased from the State of Texas and will allow hydrocarbons to be produced that would otherwise go unproduced.

CONCLUSIONS OF LAW

1. Rio's application to re-permit its Expedition State Unit 71-67 Lease, Well No. 3H, well into the Phantom (Wolfcamp) Field is necessary to prevent waste and protect correlative rights.
2. Rio's application for an exception to Statewide Rule 40 for the Expedition State Unit 71-67 Lease, Well No. 3H, is necessary to prevent waste and protect correlative rights.
3. Pursuant to § 2001.144(a)(4)(A), of the Texas Government Code, and by agreement of the parties on the record, **the parties have waived the right to file a motion for rehearing and the Final Order in this case can be final and effective on the date the Final Order is signed.**

Therefore, it is **ORDERED** that the Rio Oil and Gas (Permian) II, LLC Expedition State Unit 71-67 Lease, Well No. 3H, is hereby transferred from the Ford, West (Wolfcamp) Field into the Phantom (Wolfcamp) Field.

Further, it is **ORDERED** that the Expedition State Unit 71-67 Lease, Well No. 3H (API No. 42-389-37119), is **GRANTED** an exception to Statewide Rule 40 (16 TAC 3.40) in the Phantom (Wolfcamp) Field, and assignment of acreage for allocation of allowables to one or more wells on the same lease, pooled unit, production sharing unit or allocation well shall be acceptable so long as the well density complies with §3.38 and §3.40 of the Commission's statewide rules and/or special field rules, and any amendments and/or revisions thereof, subject to the following:

- a. To apply for duplicate assignment of acreage, the Operator shall file with its drilling permit application remarks or a written certification that duplicate assignment of acreage is required because an existing deed, lease, or other contract confines the Operator to a distinct depth interval.
- b. Ten (10) business days prior to the filing of the drilling permit application, all drilling permit applicants shall provide written notice to each commission-designated operator of any well shown on the RRC map at the time of the drilling permit application that satisfies the following criteria: (1) the other operator's well is assigned to a UFT field listed on the applicant's drilling permit application, (2) the other operator's well is geographically located within one-half mile of applicant's proposed well, and (3) the other operator's well falls within the geographic limits of applicant's lease. The notice shall include a copy of the drilling permit application and a copy of the plat showing the well's proposed location. The obligations of this subsection b shall be applicable to any Operator proposing wells on a lease, pooled unit, production sharing unit or allocation well where such lease, pooled unit, production sharing unit or allocation well covers less than all depths.
- c. The applicant shall provide copies of the well's as-drilled survey plat and any directional surveys to any party entitled to notice as described in subsection b above, within 15 days of receipt by applicant of such written request.
- d. If a timely filed written objection to the application is received by the Commission, the complainant may request a hearing, at which the complainant will bear the burden of proof to show that the proposed application will not result in waste and/ or harm to correlative rights.

Done this 19th day of June 2018.

RAILROAD COMMISSION OF TEXAS

Christi Craddick

CHAIRMAN CHRISTI CRADDICK

Ryan Sitton

COMMISSIONER RYAN SITTON

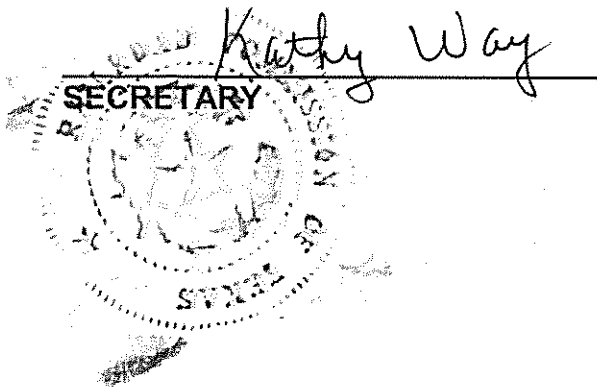
Wayne Christian

COMMISSIONER WAYNE CHRISTIAN

ATTEST:

Kathy Way

SECRETARY

The seal of the Railroad Commission of Texas is circular, featuring a five-pointed star in the center. The words "RAILROAD COMMISSION OF TEXAS" are inscribed around the perimeter of the seal.