

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL & GAS DOCKET NO. 08-0315509

**APPLICATION OF CENTENNIAL RESOURCE PRODUCTION, LLC (141077) FOR AN
EXCEPTION TO STATEWIDE RULE 40 FOR THE WOLFMAN D 4 21-24 LEASE, WELL
NO. C45H, PHANTON (WOLFCAMP) FIELD, REEVES COUNTY, TEXAS**

FINAL ORDER

The Commission finds that after statutory notice in the above-referenced and docketed case heard on December 12, 2018, the presiding Administrative Law Judge and Technical Examiner (collectively, "Examiners") find that the proposed application is in compliance with all statutory requirements; and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas. The Commission finds that the subject application should be granted and adopts the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Centennial Resource Production, LLC ("Centennial") requests an exception to Statewide Rule 40 (16 Tex. Admin. Code § 3.40) for its Wolfman D 4 21-24 Lease, Well No. C45H ("Well") (API No. 42-389-37515), Phantom (Wolfcamp) Field, Reeves County, Texas (the "Wolfman Well").
2. Notice of Centennial's application was provided to all operators of record in the Phantom (Wolfcamp) Field.
3. No one has protested Centennial's request for the Rule 40 exception.
4. The Well is an allocation well drilled across two tracts: Section 24 ("Section 24") and the S/2 of Section 21, both tracts being located in in Block 4, H. & G. N. R.R. Co. Survey, Reeves County, Texas (the "Subject Tract").
5. Centennial has permitted the Well as a horizontal drainhole well in the Phantom (Wolfcamp) Field with a first take point on Section 24 and a last take point on the Subject Tract. The Well is completed in the Wolfcamp formation below a subsurface depth of 10,500 feet. Centennial seeks to assign this well to the Phantom (Wolfcamp) field.
6. Devon Energy Production Co., L.P. ("Devon") drilled and completed the Michigan 21, Well No. 1 (API No. 42-389-33050) (the "Michigan Well").
7. The Michigan Well was permitted for the Phantom (Wolfcamp) Field. The Michigan Well was subsequently drilled and completed in the lower portion of the Bone

- Spring formation, which is within the correlative depth interval for the Phantom (Wolfcamp) Field.
8. Devon assigned all 305.95 acres in the Subject Tract to the Michigan Well for proration purposes.
 9. Carrizo (Permian) LLC (“Carrizo”) is the current operator of the Michigan Well.
 10. In addition to the lower portion of the Bone Spring geologic formation, the Phantom (Wolfcamp) Field also includes the entire Wolfcamp geologic formation.
 11. The Wolfcamp formation contains a series of stacked “benches” that are each the target of horizontal drilling and production.
 12. Many oil and gas leases contain horizontal “Pugh Clauses”. These clauses require the release of depths when not timely developed by a lessee.
 13. When a horizontal Pugh Clause becomes operational within the correlative depth interval for the Phantom (Wolfcamp) Field (or any other field), horizontal severances of ownership are created. When this occurs, one operator may own the rights to drill and produce from the shallower bench(es) and another operator may own the rights to drill and produce from the deeper bench(es) within the same field.
 14. On the Subject Tract, Carrizo owns leasehold rights to a depth of 100’ below the base of the Bone Spring Formation (defined for purposes of Carrizo’s leasehold ownership as being seen at a depth of 10,200 feet in the nearby Celero Energy II, LP, Oxy Fee 24-1 Well, (API No. 42-389-32637), and Centennial owns leasehold rights below that depth.
 15. On Section 24, Centennial owns leasehold rights in all depths within the correlative interval for the Phantom (Wolfcamp) Field. Carrizo does not own any leasehold rights in Section 24.
 16. Statewide Rule 40 (16 TAC 3.40) prohibits the “double assignment” of acreage to non-stacked lateral, horizontal wells in the same field.
 17. 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.
 18. According to publicly available data provided by various operators, the average Wolfcamp horizontal wells with a horizontal drainhole between 7,000 and 9,000 feet in length will produce 1,436,000 barrels of oil equivalent. Without relief from Statewide Rule 40, much of this production will go unrecovered in the Subject Tract.

19. In this case, an exception to Rule 40 is necessary for Centennial to produce its fair share of the hydrocarbons from its leasehold estate.
20. Granting a Rule 40 exception in this Docket is necessary to prevent waste and to protect correlative rights.
21. 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).
22. In the Phantom (Wolfcamp) Field, the Commission has granted a Statewide Rule 40 exception in Oil & Gas Docket Nos. 08-0309365, 08-0311740, 08-0311741, 08-0311742, and 08-0311743.
23. 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 Centennial to obtain a drilling permit and allowable to drill, complete, and produce the Wolfman Well and possible additional wells.
24. A Rule 40 exception will allow Centennial to develop its depth-severed minerals in the Subject Tract and thereby allow hydrocarbons to be produced which would otherwise go unproduced.
25. The correlative rights of Carrizo will also be protected, as Carrizo may continue to assign the entirety of the acreage in the Subject Tract to its own well or wells in the Phantom (Wolfcamp) Field.

CONCLUSIONS OF LAW

1. Centennial's application for an exception to Statewide Rule 40 for the Wolfman D 4 21-24 Lease, Well No. C45H is necessary to prevent waste and protect correlative rights.
2. 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 motion for rehearing and the Final Order in the case can be final and effective on the date the Final Order is signed.**

Therefore, it is **ORDERED** that the Wolfman D 4 21-24 Lease, Well No. C45H (API No. 42-389-37515) is **GRANTED** an exception to Statewide Rule 40 (16 TAC 3.40) in the Phantom (Wolfcamp) Field. All acreage from the 305.95 acre lease may be assigned for drilling, development, for allocation of allowables or for any other regulatory purposes to this well, or to any one or more additional wells on the same lease or pooled unit, or to

any production sharing unit or allocation well including this lease or unit so long as the well density complies with 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 written certification that duplicate assignment of acreage is required because an existing deed, lease, or other contact 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 applications 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 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 intervals.

Pursuant to section 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 is final and effective when a Master Order relating to this Final Order is signed.**

Done this 7th day of May, 2019

**RAILROAD COMMISSION OF TEXAS
(Order approved and signatures affixed
by Hearings Division's Unprotested
Master Order dated May 7, 2019)**