

RAILROAD COMMISSION OF TEXAS

OIL AND GAS DOCKET NO. 08-0320864

APPLICATION OF TALL CITY OPERATIONS III LLC (835518) FOR AN EXCEPTION TO STATEWIDE RULE 40 FOR THE LINDLEY 98 LEASE, WELL NO. 15H IN SECTION 98, BLOCK 33, H&TC RY. CO. SURVEY, PHANTOM (WOLFCAMP) FIELD (71052900), LOVING 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 August 14, 2019, 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 Fact

1. Tall City Operations III LLC ("Tall City") requests an exception to Statewide Rule 40 (16 Tex. Admin. Code § 3.40) for the Lindley 98 Lease, Well No. 15H (API No. 42-301-34652, Permit Status No. 855804), Phantom (Wolfcamp) Field, Loving County, Texas.
2. Statewide Rule 40 prohibits the "double assignment" of acreage to non-stacked lateral, horizontal wells in the same field.
3. On July 22, 2019 the Hearings Division of the Commission sent a Notice of Hearing ("Notice") to Applicant and all offsetting operators in the field setting a hearing date of August 14, 2019. Consequently, the parties received more than 10 days' notice. The Notice contains (1) a statement of the time, place, and nature of the hearing; (2) a statement of the legal authority and jurisdiction under which the hearing is to be held; (3) a reference to the particular sections of the statutes and rules involved; and (4) a short and plain statement of the matters asserted.
4. The hearing was held on August 14, 2019, as noticed. Applicant appeared and participated at the hearing. No one appeared in protest.
5. The correlative interval adopted for the Phantom (Wolfcamp) Field (Field No. 71052900) is 9,515 feet to 12,447 feet as seen on the log of the Petrohawk Operating Company – Oxy Fee "24" Lease, Well No. 1 (API No. 42-389-32637) in Reeves County, Texas. The Field consists of the Third Bone Spring formation and the entire Wolfcamp formation.
6. The Wolfcamp formation contains a series of stacked "benches" that are the

primary targets of horizontal drilling and production in the Phantom (Wolfcamp) Field.

7. The Lindley tract is a called 642-acre tract of land comprised of the entire acreage of Section 98, Block 33, H&TC Ry. Co. Survey, Loving County, Texas ("Section 98") and abutting the Pecos River.
8. In Section 98, Shell Western E&P ("Shell") operates a 2005 oil and gas lease (the "Shell-Lindley Lease") covering Section 98. Shell drilled and completed its Lindley 33-98 LOV (Lease ID No. 47505) Well No. 1H (API No. 42- 301-32655) on Section 98 as a horizontal drainhole well with all take points within the boundary of Section 98 ("Shell's well"). Shell has assigned all of the available acres in Section 98 to its well by filing a Commission Form P-16.
9. The Shell-Lindley Lease has continuous-development, retained-acreage and depth-severance clauses. These types of clauses generally cause the partial termination of the lease as to certain lands or depths when development by a lessee ceases. The depth-severance clause in the Shell-Lindley Lease provides that the lease terminates after continuous development ceases as to all depths below the stratigraphic equivalent of 100 feet below the total depth drilled in the deepest producing well.
10. Shell's well (the only well drilled by Shell on Section 98) is completed in the Wolfcamp A bench of the Phantom (Wolfcamp) Field. The deepest depth drilled in Shell's well on Section 98 is at 11,084 feet.
11. Tall City presented evidence that the depth-severance clause became effective after Shell's well was drilled and completed and that there was a partial termination of the Shell-Lindley Lease below the stratigraphic equivalent of 11,184 feet. That depth termination occurred just above the bottom of the Wolfcamp A formation.
12. Tall City has obtained the Tall City-Lindley Lease covering depths below 11,184 feet.
13. Tall City has permitted its Lindley 98 Well No. 15H as a horizontal well with all take points within the boundary of Section 98, and intends to land the well in the Upper Wolfcamp B target of the Phantom (Wolfcamp) Field. Tall City seeks to assign this well to the Phantom (Wolfcamp) Field.
14. Tall City has permitted the subject Lindley 98 Well No. 15H on the Lindley Lease, but has not yet begun operations on the well. Shell has assigned all available acreage in Section 98 to its well in the Phantom (Wolfcamp) Field. If Tall City were not granted a Rule 40 exception, Tall City would not be able to assign any acreage to its proposed well on Section 98. Without any acreage available to be assigned to the well, Tall City would not receive an

allowable in the Phantom (Wolfcamp) Field and would not be able to produce the well.

15. Tall City presented evidence regarding the average production of nearby modern completion wells in the Upper Wolfcamp B target, where Tall City intends to land its proposed well. Of the 29 wells studied, the average estimated ultimate recovery per foot of lateral (from first to last take point) was 91 barrels of oil and 504 mcf of gas.
16. Tall City intends to drill its proposed Lindley 98 Well No. 15H with a lateral length of 7,557 feet (from first to last take point) in the Upper Wolfcamp B target. An average lateral of that length, in that target zone, with modern completion techniques, is expected to produce approximately 688,000 barrels of oil and 3,809,000 thousand cubic feet ("Mcf") of gas. Without an exception to Statewide Rule 40, these reserves would go unproduced and unrecovered.
17. An exception to Rule 40 is necessary for Tall City to produce its fair share of the hydrocarbons from its leasehold estate in Section 98.
18. Granting a Rule 40 exception in this Docket is necessary to prevent waste and to protect correlative rights.
19. This well is necessary from a geologic standpoint in order to develop hydrocarbons in the Wolfcamp formation. A Statewide Rule 40 exception is necessary for Tall City to drill, complete, and produce the Field below the depth-severance point at 11,184 feet, as established by the Shell-Lindley and Tall City-Lindley Leases.
20. The correlative rights of Shell will also be protected, as Shell may continue to assign the entirety of the acreage in Section 98 to its own well or wells in its depths to the Phantom (Wolfcamp) and other shallower fields.
21. Granting the Rule 40 Exception will give Tall City ability to develop deeper Wolfcamp benches in the Phantom (Wolfcamp) Field, which otherwise would go unrecovered.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to appropriate persons entitled to notice. See, e.g., Tex. Gov't Code §§ 2001.051, 052; 16 Tex. Admin. Code § 1.42.
2. The Commission has jurisdiction in this case. See, e.g., 16 Tex. Nat. Res. Code § 81.051.

3. Tall City's application for an exception to Statewide Rule 40 for the Lindley 98 Lease Well No. 15H is necessary to prevent waste and protect correlative rights.

Therefore, it is **ORDERED** that the Lindley 98 Lease, Well No. 15H (API No. 42-301-34652, Permit Status No. 855804) is **GRANTED** an exception to Statewide Rule 40 (16 Tex. Admin. Code § 3.40) in the Phantom (Wolfcamp) Field. All acreage from the called 642-acre lease may be assigned for drilling, development or for allocation of allowables or other 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 §3.38 and §3.40 of the Commission's statewide rules and/or special field rules, and any amendments and/or revisions thereof.

Pursuant to § 2001.144(a)(4)(A), of the Texas Government Code, and by agreement of the parties in writing or on the record, **the parties have waived the right to file a motion for rehearing and the Final Order in this case is final and effective on the date the Master Order relating to the Final Order is signed.**

Signed on September 11, 2019

RAILROAD COMMISSION OF TEXAS
(Order approved and signatures affixed
by Hearings Division's Unprotected
Master Order dated September 11, 2019)