

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. OG-19-00001048

APPLICATION OF DIAMONDBACK E&P LLC (217012) TO AMEND FIELD RULES FOR THE
HOEFS T-K (WOLFCAMP) FIELD, REEVES AND PECOS COUNTIES, TEXAS, DISTRICT 08

FINAL ORDER

The Commission finds that after statutory notice in the above-numbered docket heard on November 8, 2019, the presiding examiners have made and filed a report (the "Report") and recommendation containing findings of fact and conclusions of law, for which service was not required; 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, after consideration of this matter, hereby adopts as its own the findings of fact and conclusions of law contained in the Report, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the field rules for the HOEFS T-K (WOLFCAMP) FIELD are hereby amended.

The amended field rules are hereby set out in their entirety as follows:

RULE 1: The correlative interval from 7,692 feet to 13,210 feet as shown on the log of the El Paso Natural Gas – Hoefs Lease, Well No. 1 (API No. 42-389-00310), shall be designated as a single reservoir for proration purposes and be designated as the Hoefs T-K (Wolfcamp) Field. The formations within this interval include the base of the Brushy Canyon formation to the base of the Wolfcamp Formation.

RULE 2: No well for oil or gas shall hereafter be drilled nearer than THREE HUNDRED AND THIRTY (330) feet to any property line, lease line, or subdivision line. There is no minimum between well spacing requirement. 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. 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 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 into the wellbore 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 perpendicular distance from any take point on such horizontal drainhole between the first take point and the last take point to any point on any property line, lease line, or subdivision line shall be a minimum of THREE HUNDRED AND THIRTY (330) feet.

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.

c.

Any point of a horizontal drainhole outside of the described rectangle must conform to the permitted distance of the property line, lease line or subdivision line measured perpendicular from the wellbore.

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 14 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, the operator name, lease name, well name, the field the proposed wellbore will be located, and contact information for the applicant in the event of an objection. The notice by the operator must also inform the mineral owner of the following: i) the deadline to file an objection to the Commission in writing at drillingpermits-info@rrc.texas.gov (or successor email address) is 14 days from the receipt of the application and must include the operator name, lease name, well number, and field name; ii) the objection must also be provided to applicant no later than the following day after an objection is filed with the Commission; and iii) failure to timely or properly object will result in the application being approved administratively by the Commission without a hearing. 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. It is the responsibility of the applicant to provide the Commission with the deadline for a mineral owner to object to the proposed Offsite Tract penetration point. Any permit issued by the Commission prior to the expiration of the objection deadline is void, unless an objection is not timely filed by a mineral owner.

An objection by a mineral owner to the proposed location of the penetration point on an Offsite Tract must be in writing and filed with the Commission at drillingpermits-info@rrc.texas.gov (or successor email address) within 14 days of the receipt of the certified mail drilling permit application. The written objection must include the operator name, lease name, well number, and field the wellbore will be located. The mineral owner must also provide the applicant a copy of the objection letter no later than the following day of filing with the Commission. Failure of a mineral owner to file an objection with all of the information described above with the Commission or failure of a mineral owner to notify the applicant of the objection to the proposed Offsite Tract penetration point renders the objection invalid. Upon a timely objection by a mineral owner, 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.

If the applicant cannot locate a mineral owner of an offsite tract to provide notice, the applicant may publish notice of the application at least once a week for two consecutive weeks in the newspaper of general circulation for the county that the proposed off lease penetration point is located. The notice should include the information that would have been provided in the certified mail notice, except for the plat. A property description of the offsite tract shall be included in the published notice. A protest must be filed with the Commission as described above with three (3) days after the last date of publication in the newspaper or the application will be approved by the Commission.

RULE 3: The acreage assigned to an individual well for the purpose of allocating allowable production thereto shall be known as a proration unit. The standard drilling and proration units are established hereby to be ONE HUNDRED AND SIXTY (160) acres. No proration unit shall consist of more than ONE HUNDRED AND SIXTY (160) acres except as hereinafter provided.

If after the drilling of the last well on any lease and the assignment of acreage to each well thereon in accordance with the regulations of the Commission there remains an additional unassigned acreage of less than ONE HUNDRED AND SIXTY (160) acres, then and in such event the remaining unassigned acreage up to and including a total of FORTY (40) acres may be assigned as tolerance acreage to the last well drilled on such lease or may be distributed among any group of wells located thereon, so long as the proration units resulting from the inclusion of such additional acreage meet the limitations prescribed by the Commission.

For the purpose of allocating allowable oil production, acreage may be assigned to each Horizontal Drainhole Well up to the acreage determined by the following formula:

$A = (L \times 0.11488) + 160$ acres, where A = calculated area assignable, if available, to a horizontal drainhole for proration purposes rounded upward to the next whole number evenly divisible by 40 acres; and L = the Horizontal Displacement of the well measured in feet between the point at which the drainhole penetrates the top of the designated interval for the field and the horizontal drainhole end point within the designated interval for the field, provided that L is at least 150 feet.

All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive. No double assignment of acreage will be accepted.

For determination of acreage credit in this field, operators shall file for each oil or gas well in the field a form P-15 Statement of Productivity of Acreage Assign 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 pooled unit for proration purposes.

For oil or gas wells, operators shall be required to file, along with the Form P-15, a plat of the lease, pooled unit, or property; provided that such plat shall not be required to show individual proration units. There is no maximum diagonal in this field.

Notwithstanding the above, operators shall be required to file an as-drilled plat showing the path, penetration point and terminus of all drainholes in horizontal wells.

RULE 4: The maximum daily oil allowable for each well in the subject field shall be the 1965 Yardstick Allowable 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 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 25% of the maximum daily oil allowable above.

RULE 5: A flowing oil well will be granted administratively, without necessity of filing fees unless the Commission requires filing fees in the future for Statewide Rule 13(b)(4)(a) exceptions, a six month exception to Statewide Rule 13(b)(4)(a) regarding the requirement of having to be produced through tubing. A revised completion report will be filed once the oil well has been equipped with the required tubing string to reflect the actual completion configuration. This exception would be applicable for new drills, reworks, recompletions, or for new fracture stimulation treatments for any flowing oil well in the field. For good cause shown, which shall include the well flowing at a pressure in excess of 300 psig surface wellhead flowing pressure, an operator may obtain administratively from the district director, one of more extensions each with a duration of up to six months. If the request for an extension of time is denied, the operator may request a hearing. If a hearing is requested the exception shall remain in effect pending final Commission action on the request for an extension.

RULE 6: An oil well will be granted administratively, without necessity of filing fees unless the Commission requires filing fees in the future for Statewide Rule 51(a) exceptions, a six month exception to the provisions of Statewide Rule 51(a) regarding the 10 day rule for filing the potential test after testing of the well. This will allow for the backdating of allowables on the oil wells without requiring a waiver to be secured from all field operators. This rule will grant the Commission the authority to issue an allowable back to the initial completion date for all oil wells in the field to prevent unnecessary shut-ins to alleviate potential overproduction issues related to the completion paperwork filings and producing the oil wells without tubing. If an extension of time is granted under Rule 5 above, then the exception to Statewide Rule 51(a) under this rule is automatically extended for the additional time.

RULE 7: 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 the table in Rule 3 above, 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.

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

**RAILROAD COMMISSION OF TEXAS
(Order approved and signatures
affixed by Hearing Divisions'
Unprotested Master Order dated
December 17, 2019)**