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RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0326272

APPLICATION OF DIAMONDBACK E&P LLC (217012) FOR A NEW FIELD DESIGNATION AND TEMPORARY FIELD RULES FOR THE PROPOSED PEART (BARNETT) FIELD, ECTOR COUNTY, TEXAS

HEARD BY: John L. Moore -- Technical Examiner
Kristi M. Reeve – Administrative Law Judge

HEARING DATE: June 24, 2020
CONFERENCE DATE: August 4, 2020

APPEARANCES: **REPRESENTING:**

APPLICANT: Diamondback E&P LLC

Bill Hayenga, Attorney
Greg Fitzgerald, Engineer
Tim Roepke, Geologist
Grant Yancy, Landman

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Diamondback E&P LLC ("Diamondback" or "Applicant") requests a new field designation and the adoption of temporary field rules for the proposed Peart (Barnett) Field. The proposed temporary field rules are to be reviewed by the Railroad Commission of Texas ("Commission") in two (2) years. Currently, Diamondback is the only operator in the proposed field. Diamondback proposed to adopt the following temporary field rules:

RULE 1: The entire correlative interval from 10,457 feet to 10,986 feet as shown on the log of the Edwards1-A (API No. 42-135-33263) Ector, County, Texas

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shall be designated as a single reservoir for proration purposes and be designated as the Peart (Barnett) Field.

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.

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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 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

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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 within three (3) days after the last date of publication in the newspaper or the application will be approved by the Commission.

RULE 3A: The acreage assigned to the individual vertical oil well for the purpose of allocating allowable oil production thereto shall be known as a proration unit. The standard drilling and proration units for a vertical oil or gas well are established hereby to be EIGHTY (80) acres. No proration unit shall consist of more than EIGHTY (80) acres for a vertical oil well except as hereinafter provided.

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Notwithstanding the above, operators may elect to assign a tolerance of not more than EIGHTY (80) acres of additional unassigned lease acreage to an oil well.

RULE 3B: The acreage assigned to the individual vertical gas well 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.

Notwithstanding the above, operators may elect to assign a tolerance of not more than EIGHTY (80) acres of additional unassigned lease acreage to a gas well.

RULE 3C: 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 oil well shall be Eighty (80) acres plus EIGHTY (80) acres tolerance provided in Rule 3A and for vertical gas wells shall be ONE HUNDRED AND SIXTY (160) acres plus EIGHTY (80) acres provided in Rule 3B.

There is no maximum diagonal in this field.

RULE 4: The maximum daily oil allowable for each vertical 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.

The allowable for horizontal wells is governed by Rule 86's allowable for horizontal wells in UFT Fields. See 16 TAC 3.86(d)(5).

RULE 5: For any well in the Peart (Barnett) Field completed with a gas-oil ratio (GOR) of 4,000 cubic feet per barrel and above, the operator may elect to have such well permanently classified as a gas well without the need of further administrative review effective the date of initial completion, provided the GOR was determined by stabilized well test conducted within 180 days of well completion

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and in accordance with the GOR determination requirements of Commission procedures as indicated on Forms G-1, G-5 or W-2 as appropriate.

It is further **ORDERED** that the allocation formula in the Peart (Barnett) Field will remain suspended. The allocation formula may be reinstated administratively, in accordance with the Commission's rules, if the market demand for gas in the Peart (Barnett) Field drops below 100% of deliverability.

It is further **ORDERED** that these rules are temporary and effective for a two-year period until August 4, 2022 or until Commission staff evaluates appropriate data after notice and opportunity for hearing as offered by the Commission prior to the expiration of the rules. After this notice and opportunity for hearing, should evidence evaluated during review be insufficient to sustain spacing, proration unit, allowable production, or well classification rules, those respective unsupported temporary rules, on the Commission's motion, will be terminated and the field will revert to appropriate spacing, density, allowable production or well classification rules as designated by the Commission in its final order.

The application is unopposed, and the Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the application.

DISCUSSION OF THE EVIDENCE

Diamondback completed its Xanadu 31 Lease, Well No. 1H in September 2019, with perforations in the Barnett formation at a true vertical depth of 10,683 feet. On initial test, the well produced on pump at a maximum rate of 273 barrels of oil per day, 473 thousand cubic feet of gas, and 442 barrels of water per day. Currently, Diamondback is the only operator in the proposed Peart (Barnett) Field.

There is no comparable production to the discovery well, the Xanadu 31 Lease, Well No. 1H, within a 2.5-mile radius. There are twelve (12) Commission recognized fields in the area, however their respective designated correlative intervals do not stratigraphically overlap the productive interval of Diamondback's discovery well; i.e. from the top of the Barnett formation down to the top of the Devonian formation. Diamondback requests that the stratigraphic equivalent of the interval from 10,457 feet to 10,986 feet as shown on the log of the Edwards 1-A (API No. 42-135-33263), Ector County, Texas be designated as the correlative interval for the proposed Peart (Barnett) Field.

The proposed Peart (Barnett) Field is a shale formation with nearby faulting in the area. Diamondback testified that this type of faulting has impacted the gas-oil ratio of producing wells in other Barnett fields in West Texas. Diamondback acknowledged that it will provide evidence during the prescribed review of the Temporary Field Rules and the adoption of Permanent Field Rules to justify the continuance of the proposed field

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rules including Field Rule No. 5 dealing with a GOR of 4,000 for the classification of gas wells in the proposed field.

Structural cross-sections of the proposed Peart (Barnett) Field show that the field's proposed correlative interval thins across southern Ector County. Diamondback's requested temporary field rules are similar to those adopted by the Commission for other Barnett formation fields and other shale fields in the area.

Diamondback agreed on the record that, pursuant to the provisions of Texas Government Code § 2001.144(a)(4)(A), this Final Order shall be final and effective on the date a Master Order relating to this Final Order is signed.

FINDINGS OF FACT

1. Diamondback filed a request on February 27, 2020, for a new field designation and the adoption of temporary field rules for the proposed Peart (Barnett) Field, Ector County, Texas.
2. On May 22, 2020, the Hearings Division of the Commission sent a Notice of Hearing ("Notice") to Applicant and all operators in the Field setting a hearing date of June 24, 2020. 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. The hearing was held on June 24, 2020, as noticed. Applicant appeared and participated at the hearing. No one appeared in protest.
3. The discovery well for the proposed Peart (Barnett) Field is the Xanadu 31 Lease, Well No. 1, with perforations at a true vertical depth of 10,683 feet.
4. The designated correlative interval for the proposed Peart (Barnett) Field is the stratigraphic equivalent of the interval from 10,457 feet to 10,986 feet as shown on the log of the Edwards 1-A (API No. 42-135-33263), Ector County, Texas; i.e. from the top of the Barnett formation down to the top of the Devonian formation.
5. There is no comparable production from the designated correlative interval for the proposed Peart (Barnett) Field within a 2.5-mile radius of the discovery well, the Xanadu 31 Lease, Well No. 1H.
6. The proposed temporary field rules are to be effective for a two-year period until August 4, 2022, or until Commission staff evaluates appropriate data after notice and opportunity for hearing as offered by the Commission prior to the expiration of the temporary field rules.

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7. The requested temporary field rules are similar to those field rules adopted for other Barnett fields in West Texas and other shale fields.
8. Diamondback agreed on the record that, pursuant to the provisions of Texas Government Code § 2001.144(a)(4)(A), this Final Order shall be final and effective on the date a Master Order relating to this Final Order is signed.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to persons entitled to notice. Tex. Gov't. Code §§ 2001.051 and 2001.052; Tex. Admin. Code §§ 1.42 and 1.45.
2. The Commission has jurisdiction in this case. Tex. Nat. Res. Code § 81.051.
3. Approval of Diamondback's application is necessary to prevent waste, protect correlative rights and promote the orderly development of the Field.
4. Pursuant to Tex. Gov't. Code § 2001.144(a)(4)(A) and by agreement of Diamondback on the record, Diamondback has 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 Master Order relating to this Final Order is signed.

EXAMINERS' RECOMMENDATION


Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission approve the new field designation and adopt temporary field rules for a two (2) year period from the effective date of the final order for the Peart (Barnett) Field, Ector County, Texas

Respectfully submitted,

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John L. Moore
Technical Examiner

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Kristi M. Reeve
Administrative Law Judge