



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

MEMORANDUM

TO: Chairman David Porter
Commissioner Christi Craddick
Commissioner Ryan Sitton

FROM: Haley Cochran, Attorney – General Counsel Section
Office of General Counsel

THROUGH: Lindil C. Fowler, General Counsel

DATE: October 15, 2015

SUBJECT: Proposed amendments to §3.86 relating to certain procedures for horizontal drainhole wells and conforming amendments to §§3.5, 3.31, 3.38, 3.40, 3.45, 3.51, and 3.52; O&G Docket No. 20-0298484.

October 20, 2015		
Approved	Denied	Abstain

Attached is Staff's recommendation to publish proposed amendments to 16 Tex. Admin. Code §3.86, relating to Horizontal Drainhole Wells, and conforming amendments to §§3.5, 3.31, 3.38, 3.40, 3.45, 3.51, and 3.52. These rule amendments establish a procedure for designating certain fields as unconventional fracture treated fields ("UFT fields"), which are fields in which horizontal drilling and hydraulic fracturing must be used to recover resources from all or part of the field. The substantive amendments regarding UFT fields are proposed in §3.86(i)-(l), with supporting amendments proposed in the other sections referenced above. Additionally, amendments are recommended to update various Commission requirements related to the drilling of horizontal drainhole wells.

Staff requests the Commission's approval to publish the proposed amendments in the *Texas Register* for a 30-day comment period. If approved at conference on October 20th, the proposal should appear in the November 6th issue of the Texas Register. This proposal and an online comment form would also be made available on the Commission's website the day after conference, giving interested persons more than two additional weeks to review and submit comments to the Commission.

cc: Lori Wrotenberg, Director – Oil and Gas Division
Tim Poe – Oil and Gas Division
Wei Wang, Chief Financial Officer

1 The Railroad Commission of Texas (Commission) proposes amendments to §§3.5, 3.31, 3.38,
2 3.40, 3.45, 3.51, 3.52, and 3.86, relating to Application To Drill, Deepen, Reenter, or Plug Back; Gas
3 Reservoirs and Gas Well Allowable; Well Densities; Assignment of Acreage to Pooled Development and
4 Proration Units; Oil Allowables; Oil Potential Test Forms Required; Oil Well Allowable Production; and
5 Horizontal Drainhole Wells, respectively.

6 The Commission proposes the amendments to establish a procedure for designating certain fields
7 as unconventional fracture treated fields ("UFT fields"). As proposed, a UFT field is a field in which
8 horizontal drilling and hydraulic fracturing must be used in order to recover resources from all or part of
9 the field and which is developed using either vertical or horizontal drilling techniques. This designation
10 would include shale formations, such as the Eagle Ford and Barnett Shale, in which the drainage of a
11 wellbore is based upon the area reached by the hydraulic fracturing treatments rather than conventional
12 flow patterns. The substantive amendments to incorporate this concept are proposed in §3.86(i)-(l), with
13 supporting and conforming amendments proposed in the other sections.

14 Additionally, the Commission proposes amendments to update various Commission requirements
15 related to the drilling of horizontal drainhole wells as defined in §3.86(a)(5). The Commission proposes
16 these amendments to incorporate common special field rule provisions, which apply on a field-by-field
17 basis, into rules that apply statewide. The proposed amendments will reduce and simplify field rule
18 hearings, resulting in a more efficient regulatory process. The proposed amendments would implement
19 requirements related to the following: (1) take points through which a horizontal drainhole can be
20 produced; (2) notification for off-lease penetration points when the proposed horizontal drainhole will
21 penetrate the productive formation at a point not on the applicant's lease, pooled unit or developmental
22 tract; (3) the creation and production of a structure known as a "stacked lateral" wellbore (a series of
23 horizontal drainholes producing from the same geographical area at differing depths); and (4) plats for
24 permitting, drilling and completion of horizontal wells.

1 Further, the Commission proposes non-substantive amendments to clarify, update, and conform
2 the rules to current Commission practice.

3 The proposed amendments to §3.5 provide plat standards for the drilling of horizontal wells, and
4 require applicants to provide GPS coordinates in connection with drilling permit applications.

5 The proposed amendments to §3.31 conform the wording related to allowable assignments for
6 gas wells in UFT fields, and update provisions regarding the correct office in which to file completion
7 reports.

8 The proposed amendments to §3.38 add a reference to the UFT field procedures proposed in
9 §3.86(k).

10 The proposed amendments to §3.40 provide that in UFT fields the assignment of acreage to
11 vertical wells and the assignment of acreage to horizontal wells will be regulated independently of one
12 another. The amendments also clarify requirements and update language regarding the filing of Form
13 P-12, Certificate of Pooling Authority, and the filing of Form P-16, Acreage Designation. Finally, the
14 amendments clarify the right of offset, overlying, or underlying operators and lessors or mineral interest
15 owners to file a complaint in situations where a violation of applicable acreage assignment rules may
16 exist.

17 The proposed amendments to §3.45 add a reference to the UFT field provisions proposed in
18 §3.86(d).

19 The proposed amendments to §3.51 provide that potential tests will be filed by the deadline for
20 completion reports, and that the resulting allowable may be backdated no more than 30 days. These
21 proposed amendments will conform §3.51 to previous amendments to §3.16, related to Log and
22 Completion or Plugging Report, adopted by the Commission effective April 28, 2015.

23 The proposed amendments to §3.52 provide for administrative cancelation of overproduction
24 following notice to offset operators in the field. This change will provide for cancelation of

1 overproduction without the need for a hearing in situations where there is no protest to the cancelation
2 and where the subject wells are otherwise compliant with Commission rules.

3 The majority of the substantive amendments contained in this proposal are found in §3.86.
4 Amendments to §3.86(a) are proposed to define nonperforation zone, record well, stacked lateral well,
5 unconventional fracture treated field, and the different types of take points.

6 Amendments to §3.86(b) are proposed to implement take point language and provisions related
7 to nonperforation zones within horizontal drainhole wells. The proposed language also adds additional
8 requirements related to plats to be filed in connection with such drainholes.

9 Amendments to §3.86(d) are proposed to clarify the assignment of production allowables for
10 horizontal drainhole wells in conventional fields and in UFT fields.

11 Section 3.86(f) is proposed to implement the use of stacked lateral wells as defined in proposed
12 §3.86(a)(10). Due to the limited area drained by this structure, the proposed amendments treat a stacked
13 lateral well as a single wellbore for purposes of calculating density and assigning allowable.

14 Section §3.86(g), which is currently §3.86(f), is proposed to implement notice requirements
15 related to drilling permit applications for wellbores in which the entry into the correlative interval occurs
16 on an offsite tract. The proposed amendments also clarify plat requirements for horizontal drainhole
17 wells.

18 Section 3.86(i) is proposed to establish criteria for designation of a field as a UFT field. The
19 proposed language establishes criteria which, if met, would allow such designation of a field without the
20 need for a hearing; and further provides for a hearing process if the field does not meet the criteria for
21 administrative processing or if an objection is filed. The proposed language provides that either an
22 operator or Commission staff may initiate the designation process. In all cases, a UFT field will be
23 designated by Commission order.

24 Section 3.86(j) is proposed to clarify that if an existing special field rule applies to a field

1 designated as a UFT field, the special field rule prevails over all conflicting provisions in Chapter 3 of
2 this title (relating to Oil and Gas Division). This subsection also provides for certain limited areas in
3 which amendments to special field rules in UFT fields may be made upon notice to all affected parties
4 but without the need for a hearing if there are no objections to the proposed change. Specifically, the
5 proposed language provides that, absent any objection from an affected party, a hearing may not be
6 required to: reduce the standard density to one-half of the existing density, delete a between-well spacing
7 rule, or alter the controlling provision under which the allowable is calculated. Similar provisions have
8 been adopted as special field rules for fields in which horizontal drilling and hydraulic fracturing
9 treatments are common.

10 Section 3.86(k) is proposed to establish an alternate procedure for approval of density exceptions
11 for wells in UFT fields. The alternate procedure includes notice provisions to allow affected parties an
12 opportunity to object to the approval of a density exception. In the absence of any objection, the alternate
13 procedure provides for the administrative approval of such exceptions without the need for a hearing or
14 the submission of supporting data. Similar provisions have been adopted as special field rules for fields
15 in which horizontal drilling and hydraulic fracturing treatments are common.

16 Section 3.86(l) is proposed to allow flowing oil wells in UFT fields to be completed without
17 tubing for a six-month period. The proposed provision allows for six-month extensions of the exception
18 in cases where the flowing pressure remains above 300 psig surface wellhead flowing pressure, and
19 requires the submission of a revised completion report once the well has been equipped with the required
20 tubing string. Similar provisions have been adopted as special field rules for fields in which horizontal
21 drilling and hydraulic fracturing treatments are common.

22 While the form is not included in this proposal, the Commission also proposes to amend Form
23 P-16 to make conforming changes related to the proposed amendments to §3.40. More information on the
24 proposed form changes is provided on the Commission's Proposed Forms Amendment web page at

1 <http://www.rrc.texas.gov/about-us/resource-center/forms/proposed-form-changes/>.

2 Timothy A. Poe, Assistant Director for Administrative Compliance, Oil & Gas Division, has
3 determined that for each year of the first five years the amendments will be in effect there will be fiscal
4 implications to the Commission and to the state as a result of implementing the amendments. There will
5 be no fiscal effect on local government.

6 Fiscal implications to the Commission would result from required changes to the Commission's
7 data processing systems. Priority modifications, anticipated to be completed within fiscal year 2016, are
8 estimated to cost \$128,700 and will allow for: (1) increased functionality related to UFT fields; (2)
9 recording the density exception option the operator has chosen; (3) tracking of off-lease penetration
10 points and stacked-lateral wells; (4) updates to the oil and gas allowable calculation programs; and (5)
11 related critical support programming. Additional modifications, anticipated to be completed within fiscal
12 year 2017, are estimated to cost \$213,300 and will enable electronic filing and processing of Form P-16,
13 automated processes related to cancelation of overproduction, and updated external templates and access
14 to data collected under the proposed amendments. Until programming modifications are complete,
15 Commission staff may require more time to perform these functions manually; however, these activities
16 will be implemented using the Commission's current budget and personnel.

17 Mr. Poe has determined that for each year of the first five years that the amendments are in
18 effect, state revenue may increase approximately \$77.4 million per year. Industry data indicates that the
19 proposed amendments could allow the drilling of 125 additional wells per year in affected fields, with an
20 estimated initial oil production of 800 barrels per well per day. Based on this data, Commission staff
21 estimates that an additional 36.5 million barrels of oil per year would be brought to market. As of
22 October 15, 2015, the price for WTI crude oil is at \$46.08 per barrel according to Bloomberg Business
23 (<http://www.bloomberg.com/energy>). Based on this figure, the estimated market value of the additional
24 production is approximately \$1.68 billion. Pursuant to Tax Code §202.052, the rate of tax on the

1 production of oil is 4.6 percent of the market value, or a potential increase in state revenue of
2 approximately \$77.4 million per year based on current crude oil prices.

3 Mr. Poe has determined that where the proposed amendments incorporate into Chapter 3 (the
4 rules which are applicable statewide) provisions that have previously been adopted as special field rules,
5 there is no economic cost for persons required to comply with the proposed amendments. The proposed
6 amendments creating a procedure to designate certain fields as UFT fields are intended to streamline
7 applicable requirements and therefore would have no negative fiscal impact. Further, an operator's
8 participation in horizontal drilling and fracture stimulation activities is optional based on the operator's
9 business practices and is not mandated by Commission rules.

10 Mr. Poe has also determined that for each year of the first five years the proposed rules are in
11 effect, the public benefit anticipated from the changes would be a more efficient regulatory process
12 resulting from reduced and simplified field rule hearings.

13 Texas Government Code, §2006.002, relating to Adoption of Rules with Adverse Economic
14 Effect, requires that, before adopting a rule that may have an adverse economic effect on small
15 businesses or micro-businesses, a state agency prepare an economic impact statement and a regulatory
16 flexibility analysis. The economic impact statement must estimate the number of small businesses subject
17 to the proposed rule and project the economic impact of the rule on small businesses. A regulatory
18 flexibility analysis must include the agency's consideration of alternative methods of achieving the
19 purpose of the proposed rule. The statute defines "small business" as a legal entity, including a
20 corporation, partnership, or sole proprietorship, that is formed for the purpose of making a profit; is
21 independently owned and operated; and has fewer than 100 employees or less than \$6 million in annual
22 gross receipts. A "micro-business" is a legal entity, including a corporation, partnership, or sole
23 proprietorship, that is formed for the purpose of making a profit; is independently owned and operated;
24 and has no more than 20 employees.

1 The Commission assumes that there are oil and gas operators that meet the definitions of
2 "micro-business" and "small business" set forth in §2006.001(1) and (2), respectively; however, entities
3 that perform activities under the jurisdiction of the Commission are not required to report to the
4 Commission their number of employees or their annual gross receipts, which are elements of the
5 definitions of "micro-business" and "small business." Therefore, the Commission has no factual bases for
6 determining which oil and gas operators should be classified as small businesses or micro-businesses.
7 However, as noted above, there is no anticipated negative economic impact as a result of the proposed
8 amendments. Therefore, the small business regulatory flexibility analysis is not required.

9 The Commission has determined that the proposed amendments will not affect a local economy.
10 Therefore, the Commission has not prepared a local employment impact statement pursuant to Texas
11 Government Code, §2001.022.

12 The Commission has also determined that the amendments do not meet the statutory definition of
13 a major environmental rule as set forth in Texas Government Code, §2001.0225(a); therefore, a
14 regulatory analysis conducted pursuant to that section is not required.

15 Comments on the proposal may be submitted to Rules Coordinator, Office of General Counsel,
16 Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967; online at
17 www.rrc.texas.gov/legal/rules/comment-form-for-proposed-rulemakings; or by electronic mail to
18 rulescoordinator@rrc.texas.gov. The Commission will accept comments until noon (12:00 p.m.) on
19 Monday, December 7, 2015, which is 31 days after publication in the Texas Register. Comments should
20 refer to O&G Docket No. 20-0298484. The Commission finds that this comment period is reasonable
21 because the proposal and an online comment form will be available on the Commission's web site more
22 than two weeks prior to Texas Register publication of the proposal, giving interested persons additional
23 time to review, analyze, draft, and submit comments. The Commission encourages all interested persons
24 to submit comments no later than the deadline. The Commission cannot guarantee that comments

1 submitted after the deadline will be considered. For further information, call Mr. Poe at (512) 463-2655.

2 The status of Commission rulemakings in progress is available at

3 www.rrc.texas.gov/legal/rules/proposed-rules.

4 The Commission proposes the amendments pursuant to Texas Natural Resources Code §§81.051
5 and 81.052, which provide the Commission with jurisdiction over all persons owning or engaged in
6 drilling or operating oil or gas wells in Texas and the authority to adopt all necessary rules for governing
7 and regulating persons and their operations under Commission jurisdiction; Texas Natural Resources
8 Code §§85.042, 85.202, 86.041 and 86.042, which require the Commission to adopt rules to control
9 waste of oil and gas; and Texas Natural Resources Code §85.053, which authorizes the Commission to
10 adopt rules relating to the allocation of production allowables.

11 Texas Natural Resources Code, §§81.051, 81.052, 85.042, 85.202, 86.041, 86.042, and 85.053
12 are affected by the proposed amendments.

13 Statutory authority: Texas Natural Resources Code §§81.051, 81.052, 85.042, 85.202, 86.041,
14 86.042, and 85.053.

15 Cross-reference to statute: Texas Natural Resources Code, Chapters 81, 85, and 86.

16
17 §3.5. Application To Drill, Deepen, Reenter, or Plug Back.

18 (a) - (g) (No change.)

19 (h) Plats. An application to drill, deepen, plug back, or reenter shall be accompanied by a neat,
20 accurate plat, with a scale of one inch equals 1,000 feet. The plat for the initial well on the lease, pooled
21 unit, or unitized tract shall show the entire lease, pooled unit, or tract, including all tracts being pooled. If
22 necessary to show the entire lease, the scale may be one inch equals 2,000 feet. Plats for subsequent
23 wells on a lease or pooled unit shall show at least the lease or pooled unit line nearest the proposed
24 location and the nearest survey/section lines. The Division Director or the director's delegate may

1 approve plats with other scales upon request.

2 (1) The lease shall be outlined on the plat using either a heavy line or crosshatching.

3 (2) For vertical wells, the [The] plat shall [is to] include the following:

4 (A) the surface location of the proposed drilling site;

5 (B) perpendicular lines providing the distance in feet from the two nearest non-
6 parallel survey/section lines to the surface location;

7 (C) perpendicular lines providing the distance in feet from the two nearest non-
8 parallel lease lines to the surface location;

9 (D) a line providing the distance in feet from the surface location to the nearest
10 point on the lease line, pooled unit line, or unitized tract line. If there is an unleased interest in a tract of
11 the pooled unit that is nearer than the pooled unit line, the nearest point on that unleased tract boundary
12 shall be used;

13 (E) a line providing the distance in feet from the surface location to the nearest
14 oil, gas, or oil and gas well identified by number either applied for, permitted, or completed in the same
15 lease, pooled unit, or unitized tract and in the same field and reservoir;

16 (F) the geographic location information, including the Latitude/Longitude or
17 X/Y coordinates in the NAD 27, NAD 83, or WGS 84 coordinate system ;

18 (G) a labeled scale bar; and

19 (H) northerly direction.

20 (3) For horizontal wells, the plat shall include the following:

21 (A) the surface location of the proposed drilling site, penetration point, first take
22 point, last take point, and terminus location;

23 (B) perpendicular lines providing the distance in feet from the two nearest non-
24 parallel survey/section lines to the surface location;

1 (C) perpendicular lines providing the distance in feet from the two nearest non-
2 parallel lease lines to the surface location; if location is offlease, then provide the distance in feet from
3 the two nearest non-parallel survey/section lines to the surface location;

4 (D) a line providing the distance in feet from the horizontal wellbore between
5 and including the penetration point and the terminus location to the nearest point on the lease line, pooled
6 unit line, or unitized tract line. If there is an unleased interest in a tract of the pooled unit that is nearer
7 than the pooled unit line, the nearest point on that unleased tract boundary shall be indicated. A line
8 providing the distance in feet from the horizontal wellbore between and including the first take point and
9 the last take point to the nearest point on the lease line shall be indicated. If there are multiple leases,
10 pooled units and/or unitized tracts closer to the horizontal course(s) of the drainhole(s) than allowed by
11 the applicable spacing rule, then the operator shall provide the distance in feet from the closest take point
12 to each such tract;

13 (E) a line providing the distance in feet from the wellbore from the penetration
14 point through the terminus location to the nearest oil, gas, or oil and gas well identified by number either
15 applied for, permitted, or completed in the same lease, pooled unit, or unitized tract and in the same field
16 and reservoir. A line providing the distance in feet from the wellbore between and including the first
17 take point and the last take point to the nearest oil, gas, or oil and gas well identified by number either
18 applied for, permitted, or completed in the same lease, pooled unit, or unitized tract and in the same field
19 and reservoir;

20 (F) the geographic location information for the surface location of the well,
21 including the Latitude/Longitude or X/Y coordinates in the NAD 27, NAD 83, or WGS 84 coordinate
22 system;

23 (G) a labeled scale bar; and

24 (H) northerly direction.

1 (4) ~~(3)~~ Requirements for plats as provided for in §3.11, §3.37, §3.38, and §3.86 of this
2 title (relating to Inclination and Directional Surveys Required, Statewide Spacing Rule, Well Densities,
3 and Horizontal Drainhole Wells) may supplement or replace the plat requirements set out above.

4
5 §3.31. Gas Reservoirs and Gas Well Allowable.

6 (a) (No change.)

7 (b) Changes in gas well allowables.

8 (1) Changes in allowable of gas wells currently assigned an allowable will be effective
9 on the date of the test or date of the change affecting the well's allowable (when the operator submits
10 special tests or information), provided this is not more than 15 days prior to the date the special test or
11 information is received in the appropriate Commission ~~[district]~~ office.

12 (2) With respect to a multicompleted well, the allowable of the second and succeeding
13 zones will be made effective no earlier than the date the last report or item necessary for the assignment
14 of an allowable is received in the appropriate Commission ~~[commission]~~ office.

15 (3) When a well is recompleted as a gas well in a different field, any overproduction that
16 has occurred in the old field must be made up before an allowable will be assigned in new field.

17 (4) The maximum daily allowable for a horizontal drainhole gas well or a gas well in a
18 designated unconventional fracture treated (UFT) field is set forth in §3.86(d)(4) and (5) of this title
19 (relating to Horizontal Drainhole Wells).

20 (c) - (k) (No change.)

21
22 §3.38. Well Densities.

23 (a) - (i) (No change.)

1 (j) The requirements for density exceptions for wells in a designated unconventional fracture
2 treated (UFT) field are set forth in §3.86(k) of this title (relating to Horizontal Drainhole Wells).

3
4 §3.40. Assignment of Acreage to Pooled Development and Proration Units.

5 (a) An operator may pool acreage, in accordance with appropriate contractual authority and
6 applicable field rules, for the purpose of creating a drilling unit or proration unit by filing an original
7 certified plat delineating the pooled unit and a Certificate of Pooling Authority, Form P-12 [~~revised~~
8 ~~5/2001~~], according to the following requirements:

9 (1) Each tract in the certified plat shall be identified with an outline and a tract identifier
10 that corresponds to the tract identifier listed on [~~the~~] Form P-12.

11 (2) The operator shall provide information on [~~the Certificate of Pooling Authority;~~]
12 Form P-12, accurately and according to the instructions on the form.

13 (A) The operator shall separately list each tract committed to the pooled unit by
14 authority granted to the operator.

15 (B) For each tract listed on Form P-12, the operator shall state the number of
16 acres contained within the tract. The operator shall indicate by checking the appropriate box on Form P-
17 12 if, within an individual tract, there exists a non-pooled and/or unleased interest.

18 (C) The operator shall state on Form P-12 the total number of acres in the pooled
19 unit. The total number of acres in the pooled unit shall equal the sum of all acres in each individual tract
20 listed. The total acreage shown on Form P-12 shall only include tracts in which the operator holds a
21 leased or ownership interest in the minerals or other contractual authority to include the tract in the
22 pooled unit.

1 (D) If a pooled unit contains more tracts than can be listed on a single Form P-
2 12, the operator shall file as many additional Forms P-12 as are necessary to list each pooled tract
3 individually. The additional Forms P-12 shall be numbered in sequence.

4 (E) The operator shall provide the requested identification and contact
5 information on ~~the~~ Form P-12.

6 (F) The operator shall certify the information on ~~the~~ Form P-12 by signing and
7 dating the form.

8 (3) Failure to timely file the required information on the certified plat or ~~the~~ Form P-12
9 may result in the dismissal of the W-1 application. "Timely" means within three months of the
10 Commission notifying the operator of the need for additional information on the certified plat and/or
11 ~~the~~ Form P-12.

12 ~~[(4) The operator shall file the original certified plat and Form P-12 at the Commission's
13 Austin office. The operator shall file a copy of the certified plat and Form P-12 with the appropriate
14 Commission district office or offices. If the operator files electronically through the Commission's
15 Electronic Compliance and Approval Process (ECAP) system, the operator is not required to file
16 additional paper copies in the appropriate Commission district office, because all Commission offices
17 will have electronic access to the Form P-12 and certified plat.]~~

18 (4) ~~(5)~~ The operator shall file ~~the~~ Form P-12 and a certified plat in the following
19 instances:

20 (A) with the drilling permit application when two or more tracts are joined to
21 form a pooled unit for Commission purposes ~~[to obtain a drilling permit];~~

22 (B) with the initial completion report if any information reported on Form P-12
23 has changed since the filing of the drilling permit application ~~[paperwork when the pooled unit's acreage~~
24 ~~is being used or assigned for allowable purposes];~~

1 (C) to designate a pooled unit formed after a completion report [~~paperwork~~] has
2 been filed [~~when the pooled unit's acreage is being used or assigned for allowable purposes~~]; or

3 (D) to designate a change in a pooled unit previously recognized by the
4 Commission. The operator shall file any changes to a pooled unit in accordance with the requirements of
5 §3.38(d)(3) of this title[;] (relating to Well Densities).

6 (b) If a tract to be pooled has an outstanding interest for which pooling authority does not exist,
7 the tract may be assigned to a unit where authority exists in the remaining undivided interest, provided,
8 that total gross acreage in the tract is included for allocation purposes, and the certificate filed with the
9 Commission [~~commission~~] shows that a certain undivided interest is outstanding in the tract. The
10 Commission may [~~commission will~~] not allow an operator to assign only the operator's [~~his~~] undivided
11 interest out of a basic tract, where a nonpooled interest exists.

12 (c) The nonpooled undivided interest holder retains the [~~his~~] development rights in the [~~his~~]
13 basic tract. If the development rights are exercised, the Commission grants authority to develop the basic
14 tract, and the well is completed as a producing well on the basic tract, then the entire interest in the basic
15 tract and any interest pooled with another tract shall be assigned to the well on the basic tract for
16 allocation purposes. [~~and should such rights be exercised, authority to develop the basic tract be~~
17 ~~approved by the commission, and a well completed as a producer thereon, then the entire interest in the~~
18 ~~basic tract must be allocated to said well, and any interest insofar as it is pooled with another tract must~~
19 ~~be assigned to the well on the basic tract for allocation purposes.~~] Splitting of an undivided interest in a
20 basic tract between two or more wells on two or more tracts is not acceptable.

21 (d) Except as provided in subsection (e) of this section, acreage, [~~Acreage~~] assigned to a well for
22 drilling and development, or for allocation of allowable, shall not be assigned to any other well or wells
23 completed or projected to be [~~or~~] completed in the same field [~~reservoir~~]; such duplicate assignment of

1 acreage is not acceptable. However, [~~provided, however, that~~] this limitation shall not prevent the
2 reformation of development or proration units so long as:

3 (1) no duplicate assignment of acreage occurs; [~~;~~] and

4 (2) [~~further, that~~] such reformation does not violate other conservation regulations.

5 (e) In unconventional fracture treated (UFT) fields defined in §3.86 of this title (relating to
6 Horizontal Drainhole Wells), duplicate assignment of acreage to both a horizontal well and a vertical
7 well for drilling and development or for allocation of allowable is permissible as follows:

8 (1) The field density rules apply independently to horizontal wells and vertical wells.
9 Acreage assigned to horizontal wells shall not count against acreage assigned to vertical wells, and
10 acreage assigned to vertical wells shall not count against acreage assigned to horizontal wells.

11 (2) Acreage assigned to horizontal wells for drilling and development, or for allocation
12 of allowable, shall be acceptable so long as the horizontal well density complies with §3.38 of this title
13 and/or special field rules, as applicable.

14 (3) Acreage assigned to vertical wells for drilling and development, or for allocation of
15 allowable, shall be acceptable so long as the vertical well density complies with §3.38 of this title and/or
16 special field rules, as applicable.

17 (4) For the purposes of this section, stacked lateral wells as defined in §3.86(a)(10) of
18 this title are not considered duplicate assignment of acreage to multiple horizontal wells.

19
20 (f) If an offset, overlying, or underlying operator, or a lessee or unleased mineral interest owner
21 determines that any operator has assigned identical acreage to two or more concurrently producing wells
22 in violation of this section, the operator or owner may file a complaint with the Hearings Division to
23 request that a hearing be set to consider the issues raised in the complaint. If the Commission determines
24 after a hearing on the complaint that acreage has been assigned in violation of this section, the

1 Commission may curtail or cancel the allowable production rate for any affected wells and/or may cancel
2 the Certificate of Compliance (Form P-4) for any affected wells for failure to comply with this section.

3 (g) An operator shall file Form P-16, Acreage Designation, with each drilling permit application
4 and with each completion report for horizontal wells in any field and for all wells in designated UFT
5 fields as defined in §3.86 of this title. The operator may file Form P-16 with each drilling permit
6 application and with each completion report for all other wells. The operator may also file proration unit
7 plats for individual wells in a field.

8
9 §3.45. Oil Allowables.

10 (a) Oil allowable yardsticks.

11 (1) - (4) (No change.)

12 (5) The maximum daily allowable for a horizontal drainhole oil well or an oil well in a
13 designated unconventional fracture treated (UFT) field is set forth in §3.86(d)(4) and (5) of this title
14 (relating to Horizontal Drainhole Wells).

15 (b) - (c) (No change.)

16
17 §3.51. Oil Potential Test Forms Required.

18 (a) A completed potential test form [~~with all information requested thereon filled in~~] shall be
19 filed with the Commission [~~in the district office~~] not later than the deadline for filing completion reports
20 under §3.16 of this title (relating to Log and Completion or Plugging Report) [~~10 days after the test is~~
21 ~~completed~~]. If the operator fails to file a potential test in an acceptable form prior to the deadline for
22 filing completion reports as specified under §3.16 of this title [~~within the 10 day period~~], then the
23 effective date of the allowable resulting from the test shall not extend back more than 30 [~~10~~] days prior
24 to the date that the test form, properly completed, is filed with the Commission [~~in the district office~~].

1 This 30-day [~~The 10 day~~] provision shall govern regardless of whether the potential test is taken during
2 the month in which it is received by the Commission [~~in the district office~~] or any prior month.

3 (b) (No change.)

4
5 §3.52. Oil Well Allowable Production.

6 (a) - (f) (No change).

7 (g) Administrative cancelation of overproduction.

8 (1) An operator may request in writing to the Commission that overproduction for a
9 specific lease be canceled. The request shall include a listing of the names and addresses of all offsetting
10 operators in the same field as the lease for which the request is filed.

11 (2) Upon receipt of an operator's written request:

12 (A) Commission staff shall determine whether the operator's wells on the
13 specified lease are in compliance with Commission rules excluding rules pertaining to overproduction.

14 (B) If the wells are found to be in compliance, the Commission staff shall send
15 written notice to offset operators as identified in the request advising them of the request and giving them
16 not less than 15 days to file a written objection to the request.

17 (C) If no objection to the request is received, the overproduction on the lease
18 requested by the operator shall be canceled.

19 (D) If objection to the request is received or if Commission staff determines that
20 the operator's wells are not in compliance with Commission rules excluding rules pertaining to
21 overproduction, then the requested cancelation shall not be administratively approved. The operator may
22 request that the matter be scheduled for public hearing pursuant to Tex. Nat. Res. Code §86.090. The
23 burden of proof shall be on the applicant operator.

24

1 §3.86. Horizontal Drainhole Wells.

2 (a) Definitions. The following words and terms, when used in this section, shall have the
3 following meanings, unless the context clearly indicates otherwise.

4 (1) Correlative interval--The depth interval designated by the field rules or [~~;~~] by new
5 field designation on Form P-7 (New Field Designation) [~~;~~ ~~or, where a correlative interval has not been~~
6 ~~designated by the commission, by other evidence submitted by the operator showing the producing~~
7 ~~interval for the field in which the horizontal drainhole is completed~~].

8 (2) First take point--The take point in a horizontal drainhole well nearest to the point
9 where the drainhole penetrates the top of the correlative interval. The first take point may be at a
10 location different from the penetration point.

11 (3) [~~2~~] Horizontal drainhole--That portion of the wellbore drilled in the correlative
12 interval, between the penetration point and the terminus.

13 (4) [~~3~~] Horizontal drainhole displacement--The calculated horizontal displacement of
14 the horizontal drainhole from the first take point to the last take point [~~penetration point to the terminus~~].

15 (5) [~~4~~] Horizontal drainhole well--Any well that is developed with one or more
16 horizontal drainholes having a horizontal drainhole displacement of at least 100 feet.

17 (6) Last take point--The take point in a horizontal drainhole well nearest the terminus.
18 The last take point may be at a location different from the terminus.

19 (7) Nonperforation zone (NPZ)--A portion of a horizontal drainhole well within the field
20 between the first take point and the last take point that the operator has intentionally designated as
21 containing no take points pursuant to the spacing requirements in §3.37 of this title (relating to Statewide
22 Spacing Rule).

23 (8) [~~5~~] Penetration point--The point where the drainhole penetrates the top of the
24 correlative interval.

1 (9) Record well--The single horizontal drainhole within a stacked lateral well designated
2 by the operator as the record well for reporting purposes.

3 (10) Stacked lateral well--A horizontal drainhole well in which the following conditions
4 are met:

5 (A) there are two or more horizontal drainhole wells on the same lease, pooled
6 unit, or unitized tract at different depths within the correlative interval for the field;

7 (B) the horizontal drainholes are drilled from different surface locations;

8 (C) all take points of a stacked lateral well's horizontal drainholes are within a
9 rectangular area the width of which is 660 feet, and the length of which is 1.2 times the distance between
10 the first and last take points of the record well;

11 (D) all horizontal drainholes are tested independently and have the same
12 classification (i.e., gas or oil). Only horizontal drainholes of the same classification are eligible to be
13 designated as a stacked lateral well; and

14 (E) there is only one operator for the stacked lateral well.

15 (11) Take point in a horizontal drainhole well--Any point along a horizontal drainhole
16 where oil and/or gas can be produced from the correlative interval.

17 (12) [~~6~~] Terminus--The farthest point required to be surveyed along the horizontal
18 drainhole from the penetration point and within the correlative interval.

19 (13) Unconventional fracture treated (UFT) field--A field designated by the Commission
20 under subsection (i) of this section for which horizontal well development and hydraulic fracture
21 treatment (as defined in §3.29(a)(15) and (16) of this title (relating to Hydraulic Fracturing Chemical
22 Disclosure Requirements)) must be used in order to recover resources from all or a part of the field and
23 which may include the drilling of vertical wells along with the drilling of horizontal wells.

24 (b) Drainhole spacing.

1 (1) No take point on a horizontal drainhole shall be located [~~drilled~~] nearer than 1,200
2 feet (horizontal displacement), or other between-well spacing requirement under applicable rules for the
3 field, to any take point along any other horizontal drainhole in another well, or to any other well
4 completed or permitted [~~drilling~~] in the same field on the same lease, pooled unit, or unitized tract.

5 (2) No take point on a horizontal drainhole shall be located [~~drilled~~] nearer than 467 feet,
6 or other lease-line spacing requirement under applicable rules for the field, from any property line, lease
7 line, or subdivision line.

8 (3) All wells developed with horizontal drainholes shall otherwise comply with
9 [~~Statewide Rule 37,~~] §3.37 of this title (relating to Statewide Spacing Rule), or other applicable spacing
10 rules.

11 (4) If the drilling permit application indicates that there will be one or more NPZs, then
12 the as-drilled plat filed after completion of the well shall be certified by a person with knowledge of the
13 facts pertinent to the application that the plat is accurately drawn to scale and correctly reflects all
14 pertinent and required data. In addition to the information required under subsection (f) of this section,
15 the certified as-drilled plat shall include:

16 (A) the as-drilled track of the wellbore;

17 (B) the location of each take point on the wellbore;

18 (C) the boundaries of any wholly or partially unleased tracts within the distance
19 permitted under §3.37 of this title or applicable special field rules of the wellbore; and

20 (D) notations of the shortest distance from each wholly or partially unleased tract
21 within the distance permitted under §3.37 of this title or applicable special field rules of the wellbore to
22 the nearest take point on the wellbore.

1 (5) To comply with the spacing requirements set forth in paragraph (3) of this
2 subsection, the take-points along the as-drilled location of a properly permitted horizontal drainhole shall
3 fall within a rectangle established as follows:

4 (A) two sides of the rectangle are parallel to the permitted drainhole and 50 feet
5 or 10% of the minimum distance to any property line, lease line or subdivision line, whichever is greater,
6 on either side of the drainhole; and

7 (B) the other two sides of the rectangle are perpendicular to the sides
8 described in subparagraph (A) of this paragraph, with one of those sides passing through the permitted
9 first take point and the other side passing through the permitted last take point.

10 (6) Prior to perforating the wellbore within an approved NPZ, the operator must amend
11 the permit to authorize perforations within the originally-approved NPZ.

12 (c) Well densities. All wells developed with horizontal drainholes shall comply with [~~Statewide~~
13 ~~Rule 38,~~] §3.38 of this title (relating to Well Densities) or other applicable density rules.

14 (d) Proration and drilling units.

15 (1) Acreage may be assigned to each horizontal drainhole well for the purpose of
16 allocating allowable oil or gas production up to the amount specified by applicable rules for a proration
17 unit for a vertical well plus the additional acreage assignment as provided in this paragraph.

18 Figure: 16 TAC §3.86(d)(1) (No change.)

19 (2) Assignment of acreage to proration and drilling units for horizontal drainhole wells
20 shall comply with [~~must be done in accordance with Statewide Rule 40,~~] §3.40 of this title (relating to
21 Assignment of Acreage to Pooled Development and Proration Units).

22 (3) All proration and drilling units shall consist of continuous and contiguous acreage
23 and proration units shall consist of acreage that can be reasonably considered to be productive of oil or
24 gas.

1 (4) The maximum daily allowable assigned to a horizontal well shall comply with the
2 table in subsection (d)(1) of this section and the maximum daily allowable specified by paragraph (5) of
3 this subsection, unless special field rules specify different requirements for acreage or maximum daily
4 allowable. [All points on the horizontal drainhole must be within the proration and drilling unit.]

5 (5) The maximum daily allowable for a horizontal drainhole well in a designated UFT
6 field shall be 100 barrels of oil for each acre that is assigned to an oil well for allowable purposes, or 600
7 Mcf of gas for each acre that is assigned to a gas well for allowable purposes. This paragraph does not
8 affect suspension of the allocation formula under §3.31(j) of this title (relating to Gas Reservoirs and Gas
9 Well Allowable). The maximum daily allowable for a horizontal drainhole well in a field that has not
10 been designated as a UFT field shall be determined by multiplying the applicable allowable for a vertical
11 well in the field with a proration unit containing the maximum acreage authorized by the applicable rules
12 for the field, exclusive of tolerance acreage, by a fraction:

13 (A) the numerator of which is the acreage assigned to the horizontal drainhole
14 well for proration purposes; and

15 (B) the denominator of which is the maximum acreage authorized by the
16 applicable field rules for proration purposes, exclusive of tolerance acreage. The daily oil allowable shall
17 be adjusted in accordance with [~~Statewide Rule 49(a)~~], §3.49(a) of this title (relating to Gas-Oil Ratio),
18 when applicable.

19 (6) All points on the horizontal drainhole from the first take point to the terminus shall
20 be within the proration and drilling unit. If the penetration point is located on an offsite tract, the
21 conditions prescribed in subsection (g) of this section shall be met before the drilling permit application
22 is submitted to the Commission.

23 ~~[(6) The maximum diagonal for each proration unit containing a horizontal drainhole~~
24 ~~well shall be the horizontal drainhole displacement of the longest horizontal drainhole for the well plus.]~~

1 ~~[(A) 2,100 feet for fields that are regulated under statewide rules; or]~~

2 ~~[(B) the maximum diagonal allowed for fields where the special field rules~~
3 ~~specify a maximum diagonal.]~~

4 (e) Multiple drainholes allowed.

5 (1) A single well may be developed with more than one horizontal drainhole originating
6 from a single vertical wellbore.

7 (2) A horizontal drainhole well developed with more than one horizontal drainhole shall
8 be treated as a single well.

9 (3) The horizontal drainhole displacement used for calculating additional acreage
10 assignment for a well completed with multiple horizontal drainholes shall be the horizontal drainhole
11 displacement of the longest horizontal drainhole plus the projection of any other horizontal drainhole on
12 a line that extends in a 180 degree direction from the longest horizontal drainhole.

13 (f) Stacked lateral wells.

14 (1) For oil and gas wells, stacked lateral wells within the correlative interval for the field
15 may be considered a single well for density and allowable purposes, at an operator's discretion. If an
16 operator chooses to designate horizontal drainholes as a stacked lateral well, the operator shall designate:

17 (A) one horizontal drainhole within the stacked lateral well as the record well.

18 An operator may change the record well designation to another wellbore by filing amended drilling
19 permit applications and completion reports for the previous and the new record well; and

20 (B) all points, from the first take point to the last take point, of the record well
21 for a stacked lateral well are within the proration and drilling unit designated for that well.

22 Notwithstanding paragraph (4) of this subsection, all points from the first take point to the last take point
23 of any other horizontal drainhole comprising the stacked lateral well are not required to be within the

1 proration and drilling unit designated for the record well so long as they otherwise comply with the
2 requirements of this section and any applicable lease line spacing rules.

3 (2) For the purpose of assigning additional acreage to the stacked lateral well, the
4 horizontal drainhole displacement shall be calculated based on the distance from the first take point to
5 the last take point in the horizontal drainhole for the record well, regardless of the horizontal drainhole
6 displacement of other horizontal drainholes of the stacked lateral well.

7 (3) Each surface location of a stacked lateral well shall be permitted separately and
8 assigned an API number. When applying for a drilling permit for a stacked lateral well, the operator
9 shall:

10 (A) identify each surface location of such well as a stacked lateral well on the
11 Form W-1 drilling permit application;

12 (B) identify on the plat any other existing, or applied for, horizontal drainholes
13 comprising the stacked lateral well being permitted; and

14 (C) depict on the plat a rectangle described in subsection (a)(10)(C) of this
15 section indicating the lateral boundaries of the stacked lateral well.

16 (4) Each horizontal drainhole of a stacked lateral well shall comply with: the applicable
17 minimum spacing distance under §3.37 of this title or any applicable special field rules for any lease,
18 pooled unit or property line; and the applicable minimum between well spacing distance under §3.37 of
19 this title or any applicable special field rules for any different well, including all horizontal drainholes of
20 any other stacked lateral well, on the same lease or pooled unit in the field. An operator may seek an
21 exception to §3.37 or §3.38 of this title for stacked lateral wells in accordance with the Commission's
22 rules in this chapter or any applicable special field rule. There are no maximum or minimum distance
23 limitations between horizontal drainholes of a stacked lateral well in a vertical direction;

1 (5) An operator shall file separate completion forms for each surface location of the
2 stacked lateral well. An operator shall also file a certified plat showing the as-drilled location for each
3 surface location of a stacked lateral well. The certified as-drilled plat shall;

4 (A) show each horizontal drainhole from each surface location; and

5 (B) depict on the plat a rectangle described in subsection (a)(10)(C) of this
6 section indicating the lateral boundaries of the stacked lateral well.

7 (6) In addition to the record well, each surface location of a stacked lateral well shall be
8 listed on the proration schedule, but no allowable shall be assigned for an individual surface location.

9 Each surface location of a stacked lateral well shall be required to have a separate well status report
10 (Form G-10 or Form W-10, as applicable) and the sum of all horizontal drainhole test rates shall be
11 reported as the test rate for the record well.

12 (7) An operator shall report all production from horizontal drainholes included as a
13 stacked lateral well on the production report that includes the record well. Production reported for a
14 record well shall equal the total production from all of the horizontal drainholes comprising the stacked
15 lateral well. An operator shall measure the production from each surface location of a stacked lateral
16 well. An operator shall measure the full well stream with the measurement adjusted for the allocation of
17 condensate based on the gas to liquid ratio established by the most recent Form G-10 test rate for that
18 surface location. The gas and condensate production shall be identified by individual API number, and
19 recorded and reported on the "Supplementary Attachment to Form PR".

20 (8) If the field is designated as absolute open flow (AOF) pursuant to §3.31(j) of this
21 title and that designation is removed, the Commission shall assign a single gas allowable to each record
22 well classified as a gas well. The assigned allowable may be produced from any one, all, or a
23 combination of the horizontal drainholes that constitute the stacked lateral well.

1 (9) An operator shall file Form W-3A, Notice of Intention to Plug and Abandon, and
2 Form W-3, Well Plugging Report, for each horizontal drainhole within the stacked lateral well as
3 required by §3.14 of this title (relating to Plugging).

4 (10) In order to maintain a single operator of record for a stacked lateral well, a
5 certificate of compliance changing the designation of an operator for a horizontal drainhole in a stacked
6 lateral well pursuant to §3.58 of this title (relating to Certificate of Compliance and Transportation
7 Authority; Operator Reports) may only be approved if certificates of compliance designating the same
8 operator have been filed for all horizontal drainholes within the stacked lateral well.

9 (11) An operator may remove a horizontal drainhole from a designated stacked lateral
10 well by filing an amended drilling permit application and a completion report. If the horizontal drainhole
11 being removed is the record well for the stacked lateral and there are still multiple horizontal drainholes
12 remaining within the designated stacked lateral well, then the operator shall designate a new record well
13 for the stacked lateral well prior to removing the existing record well from the designated stacked lateral
14 well.

15 (g) [(f)] Drilling applications and required reports.

16 (1) Application. Any intent to develop a new or existing well with horizontal drainholes
17 must be indicated on the application to drill. An application for a permit to drill a horizontal drainhole
18 shall include the fees required by [~~Statewide Rule 78;~~] §3.78 of this title (relating to Fees and Financial
19 Security Requirements), and shall be certified by a person acquainted with the facts, stating that all
20 information in the application is true and complete to the best of that person's knowledge. If the
21 penetration point on the proposed horizontal drainhole is located on an offsite tract, the following
22 conditions shall be met prior to submission of the application to drill:

23 (A) The applicant shall give written notice by certified mail, return receipt
24 requested, to all mineral owners of any offsite tracts through which the proposed wellbore path traverses

1 from the point of penetration. The notice shall identify the proposed well, include a plat clearly depicting
2 the projected path of the entire wellbore, and allow the party notified not less than 21 days to object to
3 the proposed offsite tract penetration. Notice of offsite tract penetration is not required if:

4 (i) written waivers of objection are received by the applicant from all
5 mineral owners of any offsite tracts and the waivers are attached to the drilling permit application; or

6 (ii) the applicant is the only mineral owner of any offsite tracts.

7 (B) For purposes of this subsection, the mineral owners of any offsite tracts
8 through which the proposed wellbore path traverses from the point of penetration include:

9 (i) the designated operator;

10 (ii) all lessees of record for any offsite tracts which have no designated
11 operator; and

12 (iii) all owners of unleased mineral interests where there is no designated
13 operator or lessee.

14 (C) In the event the applicant is unable after due diligence to locate the
15 whereabouts of any person to whom notice is required by this subsection, the applicant shall publish
16 notice of this application pursuant to Chapter 1 of this title (relating to Practice and Procedure).

17 (D) If any mineral owner of an offsite tract objects to the location of the
18 penetration point, the applicant may request a hearing to demonstrate the necessity of the location of the
19 penetration point of the well to prevent waste or to protect correlative rights.

20 (E) If any person specified in subparagraph (B) of this paragraph did not receive
21 notice as required in subparagraph (A) of this paragraph, that person may request a hearing. If the
22 Commission determines at a hearing that the applicant did not provide the notice as required by
23 subparagraph (A) of this paragraph, the Commission may cancel the permit.

1 (F) To mitigate the potential for wellbore collisions, the applicant shall provide
2 copies of any directional surveys to the parties entitled to notice under this section, upon request, within
3 15 days of the applicant's receipt of a request.

4 (2) Drilling unit plat. The application to drill a horizontal drainhole shall be accompanied
5 by a plat as required by §3.5(h) of this title (relating to Application to Drill, Deepen, Reenter, or Plug
6 Back).

7 (A) For fields that require a proration unit plat, in [In] addition to the plat
8 requirements provided for in §3.5(h) [§3.5] of this title [(relating to Application to Drill, Deepen,
9 Reenter, or Plug Back) (Statewide Rule 5)], the plat shall include[:]

10 [(†)] the lease, pooled unit or unitized tract, showing the acreage
11 assigned to the drilling unit for the proposed well and the acreage assigned to the drilling units for all
12 current applied for, permitted, or completed oil, gas, or oil and gas wells on the lease, pooled unit, or
13 unitized tract. [;]

14 [(ii) the surface location of the proposed horizontal drainhole well, and
15 the proposed path, penetration points, and terminus locations of all drainholes;]

16 [(iii) two perpendicular lines from the nearest point on the lease line,
17 pooled unit line, or any unleased interest in a tract of the pooled unit, depicting the distance(s) to:]

18 [(I) the penetration point(s); and]

19 [(II) the terminus location(s);]

20 [(iv) perpendicular lines providing the distance in feet from the two
21 nearest non-parallel survey lines to the terminus location(s);]

22 [(v) a line providing the distance in feet from the closest point along the
23 horizontal course(s) of the drainhole(s) to the nearest point on the lease line, pooled unit line, or unitized

1 ~~tract line. If there is an unleased interest in a tract of the pooled unit that is nearer than the pooled unit~~
2 ~~line, the nearest point on that unleased tract boundary shall be used, and]~~

3 ~~[(vi) lines from the nearest oil, gas, or oil and gas well, applied for,~~
4 ~~permitted or completed in the same lease or pooled unit and in the same field and reservoir depicting the~~
5 ~~distance to:]~~

6 ~~[(f) the penetration point(s);]~~

7 ~~[(H) the closest point along the horizontal course(s) of the~~
8 ~~drainhole(s); and]~~

9 ~~[(III) the terminus location(s):]~~

10 (B) An amended drilling permit application and plat shall be filed after
11 completion of the horizontal drainhole well if the Commission ~~[commission]~~ determines that the
12 drainhole as drilled is not reasonable with respect to the drainhole represented on the plat filed with the
13 drilling permit application. A horizontal drainhole, as drilled, shall be considered reasonable with respect
14 to the drainhole represented on the plat filed with the drilling permit application if the take points on the
15 as-drilled plat comply with subsection (b)(4) and (5) of this section and with any applicable lease line
16 spacing rules.

17 (3) Directional survey. A directional survey from the surface to the farthest point drilled
18 on the horizontal drainhole shall be required for all horizontal drainholes. The directional survey and
19 accompanying reports shall be conducted and filed in accordance with ~~[Statewide Rules 11 and 12;]~~
20 §3.11 and §3.12 of this title (relating to Inclusion and Directional Surveys Required, and Directional
21 Survey Company Report, respectively). No allowable shall be assigned to any horizontal drainhole well
22 until an acceptable ~~[a]~~ directional survey and survey plat has been filed with ~~[and accepted by]~~ the
23 Commission ~~[commission]~~.

1 (4) Proration unit plat. The required proration unit plat must depict the lease, pooled unit,
2 or unitized tract, showing the acreage assigned to the proration unit for the horizontal drainhole well, the
3 acreage assigned to the proration units for all wells on the lease, pooled unit, or unitized tract, and the
4 path, penetration point, take points, and terminus of all drainholes. No allowable shall be assigned to any
5 horizontal drainhole well until an acceptable ~~[the]~~ proration unit plat has been filed with ~~[and accepted~~
6 ~~by]~~ the Commission ~~[commission]~~. Proration unit plats are not required for wells in a designated UFT
7 field. However, an operator of a well in a designated UFT field may file a proration unit plat along with
8 Form P-16. Designated UFT fields have no maximum diagonal limit.

9 (5) As-drilled plat. An as-drilled plat is required for each horizontal drainhole well. The
10 as-drilled plat for each horizontal drainhole well shall show the surface location, actual wellbore path,
11 penetration point, terminus, and first and last take points of the horizontal drainhole. If the drilling
12 permit for the horizontal drainhole well is approved with one or more NPZs, the as-drilled plat shall show
13 the nearest take point on either side of each NPZ.

14 (6) Plat requirements. All plats required by this section shall be prepared using blue or
15 black ink and shall include a certification by a professional land surveyor registered in accordance with
16 Texas Occupations Code, Chapter 1071, relating to Land Surveyors, or by a registered professional
17 engineer registered in accordance with Texas Occupations Code, Chapter 1001, relating to Professional
18 Engineers.

19 ~~(h)~~ ~~(g)~~ Exceptions and procedure for obtaining exceptions.

20 (1) The Commission ~~[commission]~~ may grant exceptions to this section in order to
21 prevent waste, prevent confiscation, or to protect correlative rights.

22 (2) If a permit to drill a horizontal drainhole requires an exception to this section, the
23 notice and opportunity for hearing procedures for obtaining exceptions to the density provisions

1 prescribed in [~~Statewide Rule 38;~~] §3.38 of this title [~~(relating to Well Densities);~~] shall be followed as
2 set forth in [~~Statewide Rule 38(h);~~] §3.38(h) of this title [~~(relating to Well Densities)~~].

3 (3) For notice purposes, the Commission [~~commission~~] presumes that for each adjacent
4 tract and each tract nearer to any point along the proposed or existing horizontal drainhole than the
5 prescribed minimum lease-line spacing distance, affected persons include:

6 (A) the designated operator;

7 (B) all lessees of record for tracts that have no designated operator; and

8 (C) all owners of record of unleased mineral interests.

9 (i) UFT field designation criteria, application and approval procedures.

10 (1) Criteria for UFT field designation.

11 (A) Administrative UFT field designation. To be designated administratively as
12 a UFT field, a field shall have the following characteristics:

13 (i) the *in situ* permeability of at least one distinct producible interval
14 within the field is 0.1 millidarcies or less prior to hydraulic fracture treatment, as determined by core data
15 or other supporting data and analysis; and

16 (ii) as to producing wells for which the Commission issued the initial
17 drilling permit on or after February 1, 2012, that have been completed in the field, either:

18 (I) there are at least five such wells of which at least 65% were
19 drilled horizontally and completed using hydraulic fracture treatment; or

20 (II) there are at least twenty-five such wells drilled horizontally
21 and completed using hydraulic fracture treatment.

22 (B) Alternative UFT field designation obtained through evidentiary hearing. If
23 an applicant demonstrates in a hearing that reservoir characteristics exist other than the characteristics
24 specified in subparagraph (A) of this paragraph such that horizontal drilling and hydraulic fracture

1 treatment must be used in order to recover the resources from all or a part of the field and that UFT field
2 designation will promote orderly development of the field, the hearings examiner may recommend to the
3 Commission that the field be designated as a UFT field.

4 (2) Procedures for UFT field designation.

5 (A) Commission motion to designate a UFT field. The Commission may on its
6 own motion propose that a field be designated as a UFT field upon written notice of the motion to all
7 operators in the field.

8 (i) If no written objection is filed within 21 days after the date the notice
9 is issued, Commission staff may present a recommendation to the Commission regarding designation of
10 the field as a UFT field.

11 (ii) If the Commission receives a timely filed written objection, the
12 Commission shall notify the operators in the field that an objection was received and allow any operator
13 in the field 21 days to request a hearing. Pursuant to paragraph (1)(B) of this subsection, the operator
14 requesting the hearing shall bear the burden of proof at the hearing. If no request to set the matter for
15 hearing is received from an operator in the field, the Commission may either dismiss the matter or set the
16 matter for hearing on its own motion. If the matter is set for hearing on the Commission's motion, the
17 burden of proof will be assigned as stated in the Notice of Hearing.

18 (B) Operator application for UFT designation.

19 (i) An operator may propose that a field be designated as a UFT field by
20 submitting an application to the Commission that includes an affirmative statement that the field qualifies
21 for designation as a UFT field and providing core data or other supporting data and analysis in support of
22 that affirmative statement.

23 (ii) If, on review of the completed application, Commission staff
24 determines that the field meets the criteria in paragraph (1)(A) of this subsection, Commission staff shall

1 notify all operators in the field that a UFT field designation order may be presented to the Commission
2 for approval not less than 21 days after the date the notice is issued unless the Commission receives a
3 written objection. If the applicant provides written waivers of objection from all operators in the field,
4 then notice to the operators in the field shall not be required.

5 (iii) If the Commission receives a timely filed written objection to the
6 notice of the proposal to designate the field as a UFT field, or if Commission staff determines that the
7 field does not qualify for designation as a UFT field, then the applicant for UFT field designation may
8 request that the application be set for hearing.

9 (iv) If the applicant requests a hearing, the Commission shall send a
10 notice of hearing to all operators in the field proposed for designation as a UFT field at least 15 days in
11 advance of the hearing.

12 (v) Following a hearing on the request, the hearings examiner may
13 present a recommendation to the Commission regarding the request to designate the field as a UFT field.

14 (j) Effect of special field rules for UFT fields.

15 (1) Special field rules for a UFT field shall prevail over all conflicting provisions of this
16 chapter.

17 (2) The Commission may on its own motion or on the motion of an operator in a field
18 call a hearing to review the current special field rules applicable in a field that is designated or proposed
19 to be designated as a UFT field and request amendment or rescission of any portion of the current field
20 rules, in conjunction with such designation, so that the field is regulated with the appropriate
21 combination of special field rules and the rules in this chapter to effectively and efficiently protect
22 correlative rights and/or prevent waste.

23 (3) The following provisions shall apply with respect to specific amendments to the
24 special field rules for a UFT field.

1 (A) A special field rule amendment hearing is not required for the following
2 amendments:

3 (i) reduction of the standard and/or optional density to one-half of the
4 existing standard and/or optional density;

5 (ii) deletion of the between-well spacing rule; or

6 (iii) replacement of the allowable provided by special field rules with the
7 allowable provided by §3.31 of this title, §3.45 of this title (relating to Oil Allowables), and subsection
8 (d)(4) and (5) of this section.

9 (B) To request one or more of the amendments listed in subparagraph (A) of this
10 paragraph, the operator shall submit to the Commission a request for amendment and engineering and/or
11 geological data to support the requested amendments. For each exhibit submitted, the operator shall
12 include a written explanation showing that the requested amendment will result in the protection of
13 correlative rights and/or the prevention of waste.

14 (C) Upon receipt of a request for amendment, the Commission shall provide
15 notice of the request to all operators in the field. If no written objection is filed within 21 days after the
16 date the notice is issued, Commission staff may present a recommendation to the Commission regarding
17 the requested amendment. If the Commission receives a timely filed written objection, the applicant may
18 request a hearing to establish through the submission of competent evidence that the requested
19 amendment is necessary for continued development of a designated UFT field, and will result in the
20 protection of correlative rights and/or prevention of waste.

21 (k) Exceptions to §3.38 for a well in a UFT field. To request an exception to §3.38 of this title
22 for a well in a UFT field:

1 (1) The operator shall submit to the Commission a written request for an exception to
2 §3.38 of this title. The operator shall clearly state on the drilling permit application whether the density
3 exception is sought under this subsection or through the provisions of §3.38 of this title.

4 (2) The Commission shall send written notice of the request for an exception to §3.38 of
5 this title filed under this subsection to any designated operators, lessees of record for tracts that have no
6 designated operator, and all owners of unleased mineral interests:

7 (A) within 600 feet from the location of a vertical well completed within the
8 UFT field; or

9 (B) within 600 feet from any take point on a horizontal well within the UFT field
10 correlative interval.

11 (3) Persons who have received notice pursuant to paragraph (2) of this subsection shall
12 have 21 days from the date of issuance of the notice to file a written objection with the Commission.

13 (4) If no timely filed written objection is received by the Commission, the applicant
14 provides written waivers from all persons entitled to notice under paragraph (2) of this subsection, or
15 there are no persons entitled to notice, then the application may be approved administratively without the
16 requirement of filing supporting data.

17 (5) If a timely filed written objection is received by the Commission, the applicant may
18 request a hearing, at which the applicant shall show that the proposed exception to §3.38 of this title is
19 necessary to effectively drain an area of the UFT field that will not be effectively drained by existing
20 wells or to prevent waste or confiscation. Notice of a hearing for a protested exception application under
21 §3.38 of this title for a well in a UFT field will be provided to those persons entitled to notice of such an
22 application as specified in paragraph (2) of this subsection.

23 (6) Permits granted pursuant to paragraphs (1) - (5) of this subsection shall be issued as
24 exceptions to §3.38 of this title.

1 (7) Nothing in this subsection prevents an operator from electing to apply for and obtain
2 a density exception under the provisions of §3.38 of this title rather than the provisions of paragraphs (1)
3 - (6) of this subsection.

4 (1) Tubing requirements for completions in UFT fields. An operator of a flowing oil well in a
5 UFT field may obtain a six-month exception to the requirement in §3.13(b)(4)(A) of this title (relating to
6 Casing, Cementing, Drilling, Well Control, and Completion Requirements) that flowing oil wells shall be
7 produced through tubing. The exception may be granted administratively. A revised completion report
8 shall be filed once the oil well has been equipped with the required tubing string to reflect the actual
9 completion configuration.

10 (1) For good cause shown, including a showing that the well is flowing at a pressure in
11 excess of 300 psig surface wellhead flowing pressure, an operator may obtain from the District Director
12 one or more extensions to the six month exception. Each extension shall be no more than six months in
13 duration. If the request for an extension is denied, the operator may request a hearing. If a hearing is
14 requested, the exception shall remain in effect pending final Commission action on the request for an
15 extension.

16 (2) This subsection applies to new drills, reworks, recompletions, or new fracture
17 stimulation treatments for any flowing oil well in the field.

18
19 This agency hereby certifies that the proposal has been reviewed by legal counsel and found to
20 be within the agency's authority to adopt.

21 Issued in Austin, Texas on October 20, 2015.

22 Filed with the Office of the Secretary of State on October 20, 2015.



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Railroad Commission of Texas