



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

July 5, 2016

**RULE 37 CASE NO. 0299542**  
**STATUS NO. 813498**  
**DISTRICT 08**

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**APPLICATION OF ANADARKO E&P ONSHORE LLC FOR AN EXCEPTION TO STATEWIDE RULE 37 FOR THE SIEVERS STATE UNIT 2-1 LEASE, WELL NO. 1H, PHANTOM (WOLFCAMP) FIELD, REEVES COUNTY, TEXAS**

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### PROPOSAL FOR DECISION

**HEARD BY:**

Jennifer Cook – Administrative Law Judge  
Paul Dubois – Technical Examiner

**PROCEDURAL HISTORY:**

Application Date:	January 27, 2016
Protest Filed:	February 24, 2016
Hearing Request Form Filed:	March 9, 2016
Notice of Hearing:	March 10, 2016
Hearing Date:	April 29, 2016
Transcript Received:	May 16, 2016
Proposal for Decision Issued:	July 5, 2016

**APPEARANCES:**

**FOR APPLICANT:**

Ana Maria Marsland-Griffith,  
*Osborn, Griffith & Hargrove*  
David Christian,  
*Project Reservoir Engineer Advisor*  
Robert Haslam, *Landman*

**APPLICANT:**

Anadarko E & P Onshore, LLC

**PROTESTANT:**

Mike Rogers Lipscomb

**REPRESENTING:**

Himself

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## I. Statement of the Case

Anadarko E & P Onshore, LLC (“Anadarko” or “Applicant”) filed an application (“Application”) with the Railroad Commission (“Commission” or “RRC”) seeking a spacing exception permit under the provisions of 16 TEX. ADMIN. CODE § 3.37 (“Statewide Rule 37” or “Rule 37”). Applicant seeks an exception to the minimum 330 feet lease line minimum lease line distance limit in the field rules (“Field Rules”) for the Sievers State Unit 2-1 (“Unit”), Well No. 1H (“Well”) in the Phantom (Wolfcamp) Field (“Field”) because the proposed location of the Well is closer than allowed by the Field Rules to internal tracts within the Unit having unleased and/or non-pooled interests. The Application is protested by Mike Rogers Lipscomb (“Protestant” or “Mr. Lipscomb”), a landowner who owns an undivided interest in one of the tracts in the Unit.

The Administrative Law Judge and Technical Examiner (collectively “Examiners”) respectfully submit this Proposal for Decision (“PFD”) and recommend the Commission grant the Application.

## II. Background<sup>1</sup>

Anadarko filed the Application seeking a spacing exception permit under the provisions of Statewide Rule 37. Applicant seeks an exception to the minimum lease line distance requirement of the Field Rules because the Well as proposed will be closer than allowed to internal tracts of the Unit, which contain unleased and/or non-pooled interests. A copy of drilling plat showing the Unit, Well and tracts is attached as Appendix A.<sup>2</sup>

The Well will be a new horizontally drilled well in the Unit in Section 1, Block 2, H&GN RR CO Survey, Abstract No. 362 in Reeves County, located 13.03 miles in a southwest direction from Oral, Texas. The surface location of the Well is 330 feet from the southwest line of the Unit boundary, 467 feet from the northwest line of the Unit boundary and 467 feet from the northwest line of the H&GN RR CO Survey. The terminus location is 467 feet from the northwest line of the Unit boundary, 426 feet from the east line of the Unit boundary and 10,400 feet from the line of the H&GN RR CO Survey. The penetration point is 330 feet from the southwest line of the Unit boundary and 467 feet from the northwest line of the Unit boundary.<sup>3</sup>

Anadarko originally planned the Well according to the Field Rules in effect prior to the most recent amendment. The minimum lease line spacing distance prior to the most recent amendment was 467 feet.<sup>4</sup> The current Field Rules for the Phantom (Wolfcamp) Field include 330-foot lease line minimum spacing distance.<sup>5</sup>

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<sup>1</sup> The hearing transcript in this case will be referred to as “Tr. at [pages:lines]”. Anadarko offered nine exhibits, which were admitted into evidence; Anadarko’s exhibits will be referred to in the PFD as “Applicant Ex. [exhibit no.]”. Protestant offered one exhibit, which was admitted into evidence; Protestant’s exhibit will be referred to in the PFD as “Protestant Ex. 1”.

<sup>2</sup> Appendix A is a black and white copy of Applicant Ex. 6.

<sup>3</sup> Notice of Hearing, Appendix A.

<sup>4</sup> Tex. R.R. Comm’n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0277363, 1 (September 11, 2012).

<sup>5</sup> Tex. R.R. Comm’n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Culberson, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0290788, 1 (July 14, 2015).

The Unit contains seventeen tracts, is roughly rectangular and consists of 659.80 acres. The Well will be less than 330 feet from Unit tracts containing non-pooled and unleased interests; the tracts containing non-pooled and unleased interests are Tracts 2, 4, 7, 9 and 11. Protestant owns an undivided interest in Tract 9 of the Unit. Tract 9 is a five-acre tract just north of the center of the Unit.

### III. Jurisdiction and Notice

Rule 37 is authorized pursuant to sections 81.051 and 81.052 of the Texas Natural Resources Code, which provide the Commission with jurisdiction over all persons owning or engaged in drilling or operating oil or gas wells in Texas and the authority to adopt all necessary rules for governing and regulating persons and their operations under the jurisdiction of the Commission.<sup>6</sup>

Rule 37 contains provisions regarding notice of the application for a spacing exception and notice of any hearing on an application.<sup>7</sup> Regarding notice of the application, Rule 37 requires:

When an exception to only the minimum lease line spacing requirement is desired, the applicant shall file a list of the mailing addresses of all affected persons, who, for tracts closer to the well than the greater of one-half of the prescribed minimum between-well spacing distance or the minimum lease line spacing distance, include:

- (i) the designated operator;
- (ii) all lessees of record for tracts that have no designated operator; and
- (iii) all owners of record of unleased mineral interests.<sup>8</sup>

Applicant provided a list of the mailing addresses of the known addresses of the designated operator, all offset operators, all lessees of record for tracts that have no designated operator and all owners of record of unleased mineral interests. Because there were some addresses that Applicant was unable to locate, Applicant also provided notice of the Application by publication pursuant to 16 TEX. ADMIN. CODE § 1.46. Notice of the Application was published February 2, 9, 16 and 23, 2016 in the *Pecos Enterprise*, a newspaper of general circulation in Reeves County, Texas.

After notice of the Application was provided, the Commission received the protest by

<sup>6</sup> TEX. NAT. RES. CODE §§ 81.051 and 81.052: *see, e.g.*, 29 Tex. Reg. 8271 (August 27, 2004).

<sup>7</sup> Even though Rule 37 spacing limits do not apply because there are special Field Rules containing spacing limits. Rule 37 exception provisions apply whether the spacing limits are in Rule 37 or special field rules. Tex. R.R. Comm'n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Culberson, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0290788, 1-2 (July 14, 2015); *see also* Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* § 9.4 (LexisNexis Matthew Bender 2015).

<sup>8</sup> 16 TEX. ADMIN. CODE § 3.37(a)(2)(A).

Mr. Lipscomb, thereby necessitating a hearing on the Application. Rule 37 requires that notice of hearing be given to the same persons who were provided notice of the Application.<sup>9</sup> Notice of the hearing was provided to the same persons who were provided notice of the application and notice was provided by publication. The Commission Hearings Division sent notice to all persons on the certified service list submitted with the Application. Applicant provided for publication of the notice of hearing on March 18, 25, April 1 and 8, 2016 in the *Pecos Enterprise*.<sup>10</sup>

#### IV. Applicable Legal Authority

Statewide Rule 37 provides statewide well spacing limits for all fields that do not have special field rules. In this case, there are Field Rules that set a minimum lease line distance of 330 feet.<sup>11</sup> Rule 37 applies to applications for an exception to spacing limits whether the Rule 37 spacing limits apply or there are spacing limits in the Field Rules.<sup>12</sup>

Rule 37 provides that the Commission may grant an exception to the Rule 37 as follows:

[T]he commission, in order to prevent waste or to prevent the confiscation of property, may grant exceptions to permit drilling within shorter distances than prescribed in this paragraph when the commission shall determine that such exceptions are necessary either to prevent waste or to prevent the confiscation of property.<sup>13</sup>

Rule 37 further provides:

At any such hearing, the burden shall be on the applicant to establish that an exception to this section is necessary either to prevent waste or to prevent the confiscation of property.<sup>14</sup>

In sum, in order for Applicant to obtain an exception to the 330 foot minimum lease line distance limit, Applicant has the burden to prove the exception is necessary to either prevent waste or prevent the confiscation of property.

#### V. Discussion of Evidence

Applicant provided the testimony of two witnesses and nine exhibits. Protestant provided one exhibit and testified on his own behalf. The following is a summary of the evidence in the order that it was presented and it substantially correlates with the transcript of the hearing.

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<sup>9</sup> 16 TEX. ADMIN. CODE § 3.37(a)(3).

<sup>10</sup> Applicant Ex. 1 (Affidavit of Publication and copies of publication for each day of publication); Tr. at 19:14 to 21:4.

<sup>11</sup> Tex. R.R. Comm'n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Culberson, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0290788, 1 (July 14, 2015).

<sup>12</sup> Tex. R.R. Comm'n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Culberson, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0290788, 1-2 (July 14, 2015); *see also* Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* § 9.4 (LexisNexis Matthew Bender 2015).

<sup>13</sup> 16 TEX. ADMIN. CODE § 3.37(a)(1).

<sup>14</sup> 16 TEX. ADMIN. CODE § 3.37(a)(3).

### A. Summary of Applicant's Evidence and Argument

Applicant's first witness was David Christian. Mr. Christian is a Project Reservoir Engineer Advisor for Anadarko and responsible for both engineering analysis and regulatory compliance issues on a day-to-day basis. He has been an engineer for 38 years and has worked for Anadarko for 35 years. The Field is an area that is under his supervision at Anadarko.<sup>15</sup>

Mr. Christian testified that the Well would be in Reeves County, just south of the Pecos River, which divides Reeves and Loving County. The Well is proposed in the Phantom (Wolfcamp) Field; the Well name is the Sievers State Unit 2-1, which would be the first well in the Unit.<sup>16</sup>

Applicant provided a plat identifying the location of a northwest to southeast cross section of the Delaware Basin, with various locations of well penetrations along the cross-section.<sup>17</sup> The location of the proposed Well is near the center of the cross-section. Applicant also provided a log cross-section containing nine logs from wells corresponding to the plat.<sup>18</sup> The cross-section indicates the Third Bone Spring interval and the Wolfcamp formation are continuous across the Delaware Basin. Mr. Christian testified that the Phantom (Wolfcamp) Field is an unconventional tight reservoir in the center of the Delaware Basin.<sup>19</sup> The Field correlative interval is defined by the depth interval of 9,515 feet to 12,447 feet in the field type log and includes the Third Bone Spring member of the Bone Spring formation and the Wolfcamp formation. The Third Bone Spring interval directly overlies the top of the Wolfcamp formation.<sup>20</sup>

He testified that the Well is going to be a horizontal well drilled just into the top of the Wolfcamp formation below the Third Bone Spring. Anadarko is targeting the upper zone of the Wolfcamp formation below the Third Bone Spring at a subsurface depth of approximately 12,000 to 13,000 feet. Because it is a tight shale formation, Anadarko plans to utilize hydraulic fracturing in the horizontal Well to be able to develop this area.<sup>21</sup>

Anadarko provided a Certificate of Pooling Authority (Commission Form P-12) and the drilling plat for the Unit.<sup>22</sup> The Unit contains seventeen tracts, with five tracts containing non-pooled and/or unleased mineral interests. The Unit consists of 659.80 acres. The tract in which Protestant has an interest is Tract 9, practically in the center of the Unit and consisting of approximately five acres.

The Well path is approximately 467 feet from the northwest Unit boundary line.<sup>23</sup> The Well parallels the northwest boundary of the Unit.

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<sup>15</sup> Tr. at 16:19 to 18:4.

<sup>16</sup> Tr. at 21:8 to 21:21; Applicant Ex. 2.

<sup>17</sup> Tr. at 22:5 to 25:24; Applicant Ex. 3.

<sup>18</sup> Applicant Exs. 3-4.

<sup>19</sup> Tr. at 22:5 to 25:24; Applicant Ex. 3.

<sup>20</sup> Tex. R.R. Comm'n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0277363, 2 (September 11, 2015).

<sup>21</sup> Tr. at 27:20 to 27:24.

<sup>22</sup> Tr. at 29:10 to 31:8; Applicant Exs. 5-6.

<sup>23</sup> Tr. at 36:14 to 36:24.

Anadarko has initiated the process of obtaining a permit for a second well that runs along the southeast Unit boundary line.<sup>24</sup> Because all of the tracts that contain unleased and non-pooled interests are contained predominantly in the northwest segment of the Unit, Anadarko will not need a Rule 37 exception for this second well. However, Mr. Christian testified that the well in the southwest segment of the Unit will not be able to drain oil from the northeast segment of the unit and absent a well at the proposed location, reserves will remain unrecovered and be wasted unless Anadarko obtains the requested exception.

To demonstrate how the proposed well is necessary to obtain reserves in the northwest segment, Mr. Christian provided and discussed a Planar Fracture Geometry micro-seismic study Anadarko has performed to estimate the horizontal drainage range of the Well.<sup>25</sup> For the study, Anadarko conducted hydraulic fracture stimulation on a horizontal wellbore while monitoring the acoustic signature in an offset vertical well and at the surface. The treatment process causes rocks to fracture. Each fracture, in turn, creates an acoustic (sound) signal originating at the point of rupture. The acoustic signals are received and recorded at multiple receivers (geophones), which can then be processed to map the subsurface location at the point of rupture. In aggregate, the extent of fracturing is thus delineated. Based on this study and other wells Anadarko has drilled, Mr. Christian estimates a horizontal well in this type of shale reservoir will drain approximately 300 feet on each side of the wellbore. Mr. Christian testified that these types of wells should be placed about 600 feet apart. He stated that this study is provided to demonstrate that a well in a regular location<sup>26</sup> in the Unit is not going to recover the hydrocarbons at the proposed location because of the limited 600-foot horizontal drainage of a well in this Unit.<sup>27</sup> Consequently, even if the proposed second well in the southeast quadrant of the Unit is drilled, it will not recover the hydrocarbons that would be recovered in the northwest quadrant by the Well.

Mr. Christian also testified about the estimated production from the Well over time.<sup>28</sup> Based on Anadarko's evidence from prior wells and wells nearby, he provided a type-curve analysis for the Well. He estimates the Well will initially produce approximately 750 barrels ("bbl") of oil a day and 3 million cubic feet of gas, have about a 40-year life, and by the end of those 40 years, Anadarko expects to recover 650,000 bbl of oil and 2.6 billion cubic feet ("bcf") of gas. He testified that none of these hydrocarbons would be recovered by a regular well and would be wasted without the requested exception. The reserves that Anadarko will produce from this wellbore will only be drained from an area about 300 feet on either side of the wellbore from the first take point to the last take point. He also testified that the persons who are participating in the pooled Unit would not be able to get their fair share of hydrocarbons from the Unit if the Well is not drilled. For all these reasons, he testified that the Well is necessary at the proposed location to prevent waste and protect correlative rights.

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<sup>24</sup> Tr. at 36:25 to 39:21.

<sup>25</sup> Tr. at 39:24 to 46:8; Applicant Ex. 7.

<sup>26</sup> A "regular location" or "regular well" is referring to a well that would not require a Rule 37 exception to minimum spacing limits.

<sup>27</sup> Tr. at 52:7 to 53:22.

<sup>28</sup> Tr. at 53:23 to 56:9; Exhibit 8.

He further testified that there is no regular location that would allow for the production of reserves anticipated by the Well. The Unit is approximately 11,000 feet long and 2,600 feet wide. Given the 600 foot horizontal drainage width, Mr. Christian testified that in order to effectively and efficiency recover all of the reserves in the Field beneath the pooled Unit, Anadarko anticipates drilling two to three more wells in between the Well, which is along the northwest border of the Unit, and the planned regular well along the southeast border of the Unit.<sup>29</sup>

Anadarko plans to drill wells about 600 feet apart (on a 2600 feet wide Unit), which is a total of about four or five wells. In support of the drainage estimate in conjunction with Anadarko's plan to drill four or five wells on the Unit, Mr. Christian stated that it would not make sense for Anadarko to overlap drainage areas because then Anadarko would be drilling extra wellbores that will cost money and get Anadarko no new reserves.<sup>30</sup> Additionally, the Well is planned to cross within 330 feet<sup>31</sup> to the northwest of the tract in which Protestant has an undivided interest.<sup>32</sup> There are less than 660 feet between Tract 9 and the Unit boundary, so it is not feasible to drill a well without a Rule 37 exception.<sup>33</sup>

Anadarko's second witness was Robert Alden Haslam, a landman for Anadarko. He was the person responsible for contacting landowners and forming this pooled Unit.<sup>34</sup> Mr. Haslam testified that there are over a hundred interest owners in Tract 9.<sup>35</sup> He estimated that Protestant has a 1/120<sup>th</sup> interest in the five-acre tract. He testified that Anadarko has 50 percent of the five-acre Tract 9 leased with pooling authority. He testified that all of the mineral rights in Tract 9 are undivided such that—pursuant to Anadarko's leases for 50 percent of the undivided interest in Tract 9—Anadarko could drill on Tract 9 under the pooling clauses in those leases. Anadarko further represented it has leases and pooling authority for all tracts in the Unit.<sup>36</sup>

## **B. Summary of Protestant's Evidence and Argument**

For Protestant, Mr. Lipscomb testified on his own behalf.<sup>37</sup> Mr. Lipscomb testified that his grandfather and 11 other men bought Tract 9 in 1919.<sup>38</sup> The property has been passed down through the families and all owners have undivided interests. Protestant testified that he inherited an undivided interest in Tract 9 from his great grandfather.<sup>39</sup> Protestant stated his family has a one-twelfth interest in Tract 9.<sup>40</sup>

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<sup>29</sup> Tr. at 57:9 to 58:3.

<sup>30</sup> Tr. at 61:7 to 62:1.

<sup>31</sup> Anadarko could not specify how close the well would be to Tract 9 and is requesting in this matter a spacing limit of 1 foot to the nearest lease line. Estimating the distance looking at the plat in Appendix A, the Well appears to be approximately 100-200 feet to the nearest lease line of Tract 9.

<sup>32</sup> Tr. at 76:23 to 77:4.

<sup>33</sup> Tr. at 77:5 to 78:2.

<sup>34</sup> Tr. at 78:13 to 78:24.

<sup>35</sup> Tr. at 78:25 to 80:18.

<sup>36</sup> Tr. at 9:17 to 10:5.

<sup>37</sup> Mrs. Lipscomb was also present and spoke a few times, but Mr. Lipscomb did almost all of the speaking. Mrs. Lipscomb did not want to make an appearance at the hearing. For the purposes of simplicity, in the PFD all testimony or statements by the Lipscombs are referred to as Mr. Lipscomb's or Protestant's statements and testimony.

<sup>38</sup> Tr. at 35:2 to 35:11.

<sup>39</sup> Tr. at 11:11 to 16:4.

<sup>40</sup> Tr. at 64:24 to 65:18.

Protestant stated that he protests Anadarko's request to drill the Well.<sup>41</sup> He expressed concerns that the proximity of drilling and fracking activities "could render my land uninhabitable and unusable and cause irreparable damage to the environment."<sup>42</sup> He expressed concern that Anadarko would not properly clean site contamination should it occur. Mr. Lipscomb also expressed concern about the surface area near the river that runs along the northeastern edge of the Unit.<sup>43</sup> His concern is that the Well is going to interfere with persons enjoying the property.

Protestant offered one exhibit.<sup>44</sup> Protestant's Exhibit 1 is a document provided by Anadarko to Protestant. In efforts to have Protestant join as a participant in the pooling and leasing of the Unit, Anadarko provided a proposed lease to Protestant. During those discussions, Protestant then expressed concerns about potential liability for cleanup costs. In response, Protestant testified that Anadarko provided additional proposed liability sections to be part of the proposed lease; the limited liability sections are Protestant's Exhibit 1. In the proposed liability sections, it contains language that Anadarko "shall fill and level all pits within a reasonable time after said pits have dried and cured".<sup>45</sup> This language concerned Protestant because he took this language to mean that Anadarko intended to create pits and store hazardous material in pits on the surface of his property. He expressed concern that after the lease was over Anadarko would leave without cleaning up the surface.

Protestant also expressed concern that it was his understanding that Anadarko had left sites without cleaning them in the past.<sup>46</sup> The only information Protestant referenced is a settlement agreement that he believed Anadarko was a party to. Protestant did not provide any information of an instance in which Applicant had failed to clean a site.

Protestant did not dispute Anadarko's evidence.

### **C. Summary of Anadarko's Response to Protestant**

Anadarko responded that the drilling activity near the river would be approximately 12,000 feet below the surface suggesting that enjoyment of the surface land area near the river will not be impacted, or at most minimally impacted.<sup>47</sup>

Anadarko explained that regarding the settlement, in approximately 2007 Anadarko purchased another company. The settlement was to address clean up liability that the purchased company had; Anadarko in buying the company also bought the liability of that company.<sup>48</sup>

Anadarko responded that it is going to comply with all applicable Railroad Commission rules with respect to any permitting of any pits, et cetera; and that is always Anadarko's goal.<sup>49</sup> It

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<sup>41</sup> Tr. at 11:11 to 16:4.

<sup>42</sup> Tr. at 14:14 to 14:16.

<sup>43</sup> Tr. at 46:9 to 52:5.

<sup>44</sup> Tr. at 47:21 to 52:5; Protestant Ex. 1.

<sup>45</sup> Protestant Ex. 1.

<sup>46</sup> Tr. at 60:14 to 60:25.

<sup>47</sup> Tr. at 46:9 to 52:5.

<sup>48</sup> Tr. at 60:14 to 60:25.

does not in fact permit any pits for substances that are not also authorized by the Railroad Commission. It was also communicated to Protestant by the Examiners that Anadarko was not requesting a permit for a pit in this proceeding; the only issue in this proceeding is whether to allow Anadarko to drill within 330 feet of internal Unit lease lines as proposed.

Anadarko testified that any surface activity would be away from the river and would not occur on Protestant's tract.<sup>50</sup> Anadarko explained that the surface area would be near where the drilling and production of the Well occurs which is on the southwest corner of the Unit, and which is the opposite end of the Unit that the river borders. The surface equipment for the Well will be located right at the surface location of the Well only, which is not where Protestant's tract is located; Protestant's tract is in approximately the middle of the Well's lateral. The river borders the State of Texas tract, which is Tract 17. The surface equipment is expected to be on Tract 11, where the surface location of the Well is, and which is the farthest tract from the river. Additionally, the State granted pooling authority to Anadarko and is a participant in the Unit.

Anadarko presented the entire proposed lease that it provided to Protestant in conjunction with the liability provisions in Protestant Exhibit 1.<sup>51</sup> The lease Anadarko provided Protestant is a standard form lease and was the same lease that Anadarko provided to all other persons. The provisions that Protestant thought were extra provisions, are actually contained in the original lease that was provided to Protestant and were provisions provided to all those who Anadarko approached for pooling authority. The intent of the language is to state that Anadarko will conduct its operations on the lease premises as a reasonable and prudent operator and will pay for actual injury or damage done pursuant to its actual operations on the property. While Protestant took the language discussing surface equipment to mean that there would be surface equipment on Protestant's property, this language is boilerplate language offered to everyone so it includes language that addresses those tracts that will have surface equipment. Anadarko's witness, Mr. Christian, stated that Anadarko would not be involving Protestant's surface in any way.

## VI. Examiners' Analysis and Recommendation

The Examiners recommend that Anadarko's application for an exception to the lease line minimum spacing limit be granted such that the Well can be drilled in the proposed location.

Rule 37 authorizes exceptions to prevent waste or prevent confiscation.<sup>52</sup> In evaluating a Rule 37 case, it is worthwhile to consider that both the rule and much of the case law interpreting the rule contemplate only vertical wells; the rules were not written with horizontal wells in mind.<sup>53</sup> Given that the entire length of the horizontal drainhole must comply with Rule 37 spacing limitations,<sup>54</sup> new and challenging spacing issues have developed with the rise in

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<sup>49</sup> Tr. at 62:2 to 64:24.

<sup>50</sup> Tr. at 56:10 to 57:8; Tr. at 58:6 to 60:9; Applicant Ex. 6.

<sup>51</sup> Tr. at 82:21 to 85:11; Applicant Ex. 9.

<sup>52</sup> 16 Tex. Admin. Code § 3.37(a)(1).

<sup>53</sup> See Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* § 9.9 (LexisNexis Matthew Bender 2015).

<sup>54</sup> 16 Tex. Admin. Code § 3.86(a)(3) and (b); see also Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* § 9.9 (LexisNexis Matthew Bender 2015).

horizontal drilling.<sup>55</sup> This case provides an example of some of the challenges in applying spacing limitations to horizontal wells. There is extensive case law on Rule 37 exceptions. The Austin Court of Appeals has referred to it as “the agency’s famous ‘Rule 37.’”<sup>56</sup> While there is extensive case law regarding vertical wells, there is limited case law discussing Rule 37 exceptions for horizontal wells, as the majority of the developed case law in this area predates 1965.<sup>57</sup> The Examiners’ analysis is provided in this context.

**A. There is sufficient evidence that the Well is necessary to prevent waste.**

Applicant maintains that the Well is necessary to prevent waste. In order for Applicant to prevail, Applicant must show: (1) localized unusual conditions exist such that an exception to spacing limits is necessary to recover hydrocarbons that would otherwise not be recovered by a regular well, and (2) the amount of hydrocarbons that would otherwise not be recovered is substantial.<sup>58</sup> The evidence in this case was sufficient to show that localized unusual conditions exist, there is no regular location that can recover the hydrocarbons the Well is anticipated to recover, and if the exception is not granted, there will be waste of a substantial volume of hydrocarbons. Applicant met its burden of proof to show that drilling the Well at the proposed location is necessary to prevent waste and protect correlative rights.

The term ‘waste’ means the ultimate loss of oil; if a substantial amount of oil will be saved by the drilling of a well that otherwise would ultimately be lost, the permit to drill such well may be justified under the exception provided in Rule 37 to prevent waste.<sup>59</sup> In deciding waste exceptions to Rule 37, the courts acknowledge that agency discretion is important due to the complexities of the subject-matter. For example, in 1939 the Texas Supreme Court stated:

In deciding the issue of granting or refusing a well permit as an exception to Rule 37 to prevent waste, the Commission should be left reasonably free to exercise its sound judgment and discretion. . . . In administering our oil and gas conservation statutes, the Commission must be fair, and must not indulge in unreasonable discriminations between different oil fields, or between different tracts of land in the same field. In determining the issue of fairness or discrimination, some latitude must be allowed, because the subject of administration is so vast, complex, and complicated that its administrative agency cannot be placed in an absolute strait jacket.<sup>60</sup>

With the relatively recent rise in horizontal drilling, the complexity of the issues involved has not

<sup>55</sup> See Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* § 9.9 (LexisNexis Matthew Bender 2015).

<sup>56</sup> *Torch Operating Co. v. R.R. Comm’n of Tex.*, 894 S.W.2d 3, 5 (Tex. App.—Austin 1994), *rev’d*, 912 S.W.2d 790 (Tex. 1995).

<sup>57</sup> See generally Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* §§ 9.4-9.6 and 9.9 (LexisNexis Matthew Bender 2015).

<sup>58</sup> *Hawkins v. Texas Company*, 209 S.W.2d 388, 342-348 (1948); *Wrather v. Humble Oil & Refining Company*, 214 S.W.2d 112, 117 (Tex. 1948); *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 70 and 80 (Tex. 1939); see also *Exxon Corporation v. R.R. Comm’n of Tex.*, 571 S.W.2d 497 (1978); *Schlachter v. R.R. Comm’n of Tex.*, 825 S.W.2d 737 (Tex. App.—Austin 1992, writ denied); Tex. R.R. Comm’n, *Discussions of Law, Practice and Procedure* 32 (April 1991); Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* §§ 9.5 (LexisNexis Matthew Bender 2015).

<sup>59</sup> *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939).

<sup>60</sup> *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 85 (Tex. 1939); see also *Anadarko E & P Co., L.P. v. R.R. Comm’n of Tex.*, 2009 WL 47112, 14 (Tex. App.—Austin 2009, no pet.) (mem. op.).

diminished.

In order to obtain an exception to Rule 37, Applicant must demonstrate localized unusual conditions not common with the rest of the Field. As stated by the Texas Supreme Court:

The waste exception clause in Rule 37 has no application where ordinary or usual conditions prevail. To justify an exception under that clause it is necessary to show that the conditions affecting the drainage of wells on a particular tract are so peculiar, unusual and abnormal that it is removed from the same category of the surrounding area to which the general rule applies. When those peculiar and unusual conditions are found to exist in a localized area, exceptions may then be granted for the drilling of additional wells to the extent necessary to offset the abnormality and place it on parity, from the standpoint of efficient drainage, with other areas where the ordinary and usual reservoir conditions prevail.<sup>61</sup>

While most cases regard local unusual subsurface reservoir conditions warranting an exception, the courts have acknowledged that other conditions may be considered, such as economic conditions and lease geometry.<sup>62</sup>

The Field is an unconventional tight shale reservoir and has been designated by the Commission as an Unconventional Fracture Treated Field pursuant to Statewide Rule 86.<sup>63</sup> The Field is of substantial size, reaching across several counties. The Phantom (Wolfcamp) Field correlative interval is dependably uniform over much of the Delaware Basin including the Unit. Horizontal wells that utilize hydraulic fracturing are common in the (Phantom) Wolfcamp Field and necessary to produce the Field economically. For these reasons, the Examiners conclude that hydraulic fracturing via a horizontal well is necessary to economically produce hydrocarbons in the Unit.

A horizontal well in this type of tight shale reservoir is expected to have a 300 foot horizontal drainage range on each side of the wellbore such that for this 2,600 foot wide rectangular Unit, it is anticipated that four or five wells 600 feet apart running parallel to the length of the rectangular Unit would be necessary to fully produce the hydrocarbons under the Unit.

At different segments within the Unit, there are internal unleased and/or non-pooled lease lines, that cross the half (1,300 feet of the 2,600 foot width) of the Unit parallel and closest to the 11,000 foot northwest Unit boundary line. Because a horizontal well is needed to economically produce the Unit and the expected drainage area of a horizontal well in this Unit is 600 feet wide (300 feet on each side of the wellbore), if there is no horizontal well within 330 feet of internal

<sup>61</sup> *Wrather v. Humble Oil & Refining Co.*, 214 S.W.2d 112, 117 (Tex. 1948).

<sup>62</sup> See *Exxon Corporation v. R.R. Comm'n of Tex.*, 571 S.W.2d 497 (Tex. 1978) (court finds economic conditions can be considered stating, "[E]conomic factors were relevant to BTA's application and were properly considered by the commission in determining whether a Rule 37 exception was necessary to prevent the waste of oil."); *Anadarko E & P Co., L.P. v. R.R. Comm'n of Tex.*, 2009 WL 47112 (Tex. App.—Austin 2009, no pet.) (mem. op.) (court affirms Commission's consideration of local lease geometry in Rule 37 waste analysis).

<sup>63</sup> Tex. R.R. Comm'n, *Final Order Designating Unconventional Fracture Treated Fields*, Oil and Gas Docket No. 01-0299858, Exhibit A (April 12, 2016); see also 16 TEX. ADMIN. CODE § 3.86.

unleased and/or non-pooled lease lines, then the northwest half of the Unit—parallel and closest to the northwest Unit boundary line and containing the majority of internal tracts with non-pooled and unleased interests—will not be fully produced.

The five-acre tract that Protestant has a non-pooled and unleased interest in, Tract 9, is a rectangular tract in the middle of the Unit. It has two lease lines that parallel the northwest Unit boundary line. One of those two lease lines is practically in the middle of the width of the Unit and the other is closer to the northwest Unit boundary line. There is not 660 feet—the length needed to place a regular well (330 distance from any lease line on either side of the lateral of the well)—between Tract 9 and the northwest Unit boundary line. Consequently, a Rule 37 exception is unavoidable to produce this area; either an exception to the minimum spacing limit is required for an internal lease line or for an external Unit boundary lease line. Moreover, an exception to internal lease line spacing minimums instead of Unit boundary lease lines is more protective of both the correlative rights of the interests held in the Unit and the correlative rights of the offset interests outside the northwest Unit boundary.

Applicant has a lease and pooling authority for every tract in the Unit. Consequently, Applicant has the right to drill a well on the very tract in which Protestant has an interest. In order to drill an economical horizontal well in the northwest half of the rectangular Unit, the horizontal wellbore will need to come within 330 feet of several tracts containing unleased and non-pooled interests; Mr. Lipscomb, and his wife, are the only unleased and non-pooled interests protesting the Rule 37 exception. The Unit is 659.80 acres. Five of the seventeen tracts contain unleased and non-pooled interests. The twelve tracts that contain 100% leased and pooled interests equal 549.06 acres and over 83 percent of the Unit's acreage.<sup>64</sup> The tract Protestant has an interest in is 4.99 acres; Applicant has leases covering 50% of this tract. The Examiners conclude that the evidence demonstrates unusual localized conditions preventing parity with other areas of the Field.

In addition to proving localized unusual conditions, Applicant must prove that the Well is necessary to prevent waste of a substantial quantity of hydrocarbons. The Examiners conclude that there is sufficient evidence that failing to grant the requested exception will result in a substantial volume of waste. Based on data from past wells and wells in the area, the Well is estimated to initially produce approximately 750 bbl per day and 3 million cubic feet of gas per day, to have about a 40-year life, and to ultimately recover 650,000 bbl of oil and 2.6 bcf of gas. 650,000 bbl of oil plus 2.6 bcf of gas equates to a substantial amount of hydrocarbons.<sup>65</sup> The only reserves that the Well would produce from this wellbore are reserves approximately 300 feet on either side of the wellbore for the entire length of the wellbore from the top take point to the bottom take point. Because none of these hydrocarbons would be recovered by a regular well, this substantial amount of hydrocarbons would be wasted without the requested exception

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<sup>64</sup> See Applicant Ex. 5.

<sup>65</sup> The Examiners note that Anadarko did not present a no-perf zone option for the Well, which would result in less estimated unrecoverable hydrocarbons since the unrecoverable amount would only be under the part of the lateral with the no-perf zone. Protestant did not dispute Anadarko's waste estimate or otherwise claim that the waste estimate should be based on a no-perf zone option. The Examiners conclude that even if the estimated waste was based on a no-perf zone option, and was for example approximately 5-15% of Anadarko's current estimate, the loss would still be a substantial quantity of hydrocarbons and the result in this case would not change.

and the significant number of persons who are participating in the pooled Unit would not obtain their fair share<sup>66</sup> of hydrocarbons from the Unit if the Well were not drilled.

Protestant offered no evidence to contradict Applicant's evidence that the Well is necessary to prevent waste. Nor did Protestant offer any evidence that a Rule 37 exception would not protect Protestant's correlative rights. Protestant expressed general concerns about the possibility of environmental harm to the area. Protestant was unable to connect his concerns to the issues that are relevant in a Rule 37 case. There was no evidence or claim that a Rule 37 exception would prejudice Protestant's correlative rights.<sup>67</sup>

The Examiners conclude that the Well is necessary at the proposed location to prevent waste of a substantial amount of hydrocarbons and protect correlative rights.

**B. There is sufficient evidence that the Well is necessary to prevent confiscation.**

While Applicant did not argue that the Well is necessary to prevent confiscation, the Examiners conclude that the evidence demonstrates that Applicant has met the burden of proof necessary to prove that the Well is necessary to prevent confiscation. As stated by the Texas Supreme Court:

The term 'confiscation' is a word capable of being used in many senses. . . . It is impossible to give a general definition which can be applied in all instances. . . . As used in Rule 37 and the Rule of May 29th, the term 'confiscation' evidently has reference to depriving the owner or lessee of a fair chance to recover the oil and gas in or under his land, or their equivalents in kin[d]. It is evident that the word refers principally to drainage. . . . It is the law that every owner or lessee of land is entitled to a fair chance to recover the oil and gas in or under his land, or their equivalents in kind. Any denial of such fair chance would be 'confiscation' within the meaning of Rule 37.<sup>68</sup>

In a confiscation analysis, Applicant must show (1) absent an exception, Applicant will not have an opportunity to recover its fair share of minerals under its tracts from a regular location and (2) the proposed location is reasonable.<sup>69</sup> While confiscation principally refers to drainage, that is not the exclusive method of confiscation.<sup>70</sup> There are several prior proposals for decision considering a situation in which there is a horizontal well proposed requiring a Rule 37

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<sup>66</sup> See, e.g., *Texaco, Inc. v. R.R. Commission*, 583 S.W.2d 307 (Tex. 1979) (discussing the "elementary rule of property that a landowner is entitled to an opportunity to produce his fair share of oil from a common reservoir").

<sup>67</sup> See *Imperial Am. Res. Fund, Inc. v. R.R. Comm'n of Tex.*, 557 S.W.2d 280, 287 (Tex. 1977) (court considers lack of detriment to protestant's correlative rights when evaluating Rule 37 exception).

<sup>68</sup> *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939); see also *R.R. Comm'n of Tex. v. Williams*, 356 S.W.2d 131, 136 (Tex. 1961); *R.R. Comm'n of Tex. v. Gulf Production Co.*, 132 S.W.2d 254, 255 (Tex. 1939).

<sup>69</sup> *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 and 85 (Tex. 1939); see also Tex. R.R. Comm'n, *Discussions of Law, Practice and Procedure* 32-34 (April 1991); see also Vol. 2 Ernest E. Smith and Jacqueline Lang Weaver, *Texas Law of Oil and Gas* §§9.6 (LexisNexis Matthew Bender 2015).

<sup>70</sup> See *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939).

exception due to unleased interests, and concluding—assuming the other elements of confiscation are met—a Rule 37 exception is necessary to prevent confiscation.<sup>71</sup>

Applicant provided evidence that the Well is necessary to recover the reserves under the northwest portion of the Unit and that there is no regular well that would recover the reserves at issue under the northwest portion of the Unit. Applicant provided evidence of the estimated amount of reserves recoverable that would not otherwise be recoverable in that section of the Unit.<sup>72</sup> The Well's proposed location is reasonable. The Examiners conclude the evidence demonstrates that the Well is necessary at the proposed location to prevent confiscation.

**C. The Examiners recommend granting Anadarko's application for an exception to the 330-foot minimum lease line spacing distance as proposed.**

The Examiners recommend granting Applicant's request for a well spacing limit exception to allow the Well to be drilled at the proposed location as shown on the attached drilling plat,<sup>73</sup> in the Application and described as follows:

- A new horizontal drill in the Sievers State Unit 2-1, Well No. 1H in the Phantom (Wolfcamp) Field;
- To be drilled at a depth of approximately 12,000-13,000 feet;
- Located in Section 1, Block 2, H&GN RR CO Survey, Abstract No. 362 in Reeves County, located 13.03 miles in a southwest direction from Oral, Texas;
- Having a surface location 330 feet from the southwest line of the Unit boundary, 467 feet from the northwest line of the Unit boundary and 467 feet from the northwest line of the H&GN RR CO Survey;
- Having a terminus location 467 feet from the northwest line of the Unit boundary, 426 feet from the east line of the Unit boundary and 10,400 feet from the line of the H&GN RR CO Survey;
- Having a penetration point 330 feet from the southwest line of the Unit boundary and 467 feet from the northwest line of the unit boundary;
- Being less than 330 feet from lease lines of internal tracts within the Unit; and
- Being less than 330 feet from Tract 9, but not less than 1 foot from Tract 9.<sup>74</sup>

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<sup>71</sup> See, e.g., *Amended Proposal for Decision*, Rule 37 Case Nos. 0291317, 0292253 and 0292241, Applications of Chesapeake Operating, Inc. for an Exception to Statewide Rule 37 for its TCCD South Unit, Well Nos. 4H, 5H and 6H, Newark, East (Barnett Shale) Field, Tarrant County, Texas (April 7, 2016); *Proposal for Decision*, Rule 37 Case No. 0291096, Application of Chesapeake Operating, Inc. for Rule 37 Exception, Pegasus Lease, Well No. 5H, Newark, East (Barnett Shale) Field, Johnson County, Texas (May 22, 2015); *Proposal for Decision*, Rule 37 Case No. 0290915, Application of Chesapeake Operating, Inc. for Rule 37 Exception for its Englermann Lease, Well No. 3H, Newark, East (Barnett Shale) Field, Tarrant County, Texas (April 14, 2015).

<sup>72</sup> See, e.g., *Atlantic Refining Co. v. R.R. Comm'n of Tex.*, 346 S.W.2d 801, 803-804 (Tex. 1961).

<sup>73</sup> Applicant Ex. 6.

<sup>74</sup> See Notice of Hearing, Appendix A.

## VII. Conclusion, proposed findings of fact and proposed conclusions of law

Based on the record in this case and evidence presented, the Examiners recommend that the Application be approved, the requested exception to drill the Well at the proposed location be granted, and that the Commission adopt the following findings of fact and conclusions of law.

### FINDINGS OF FACT

1. Anadarko E & P Onshore, LLC (“Anadarko” or “Applicant”) submitted an application (“Application”) for an exception to the 330 foot minimum lease line distance limit for the Sievers State Unit 2-1 (“Unit”), Well No. 1H (“Well”) in the Phantom (Wolfcamp) Field (“Field”).
2. Notice of the Application was sent by mail to the known addresses of the designated operator, all offset operators, all lessees of record for tracts that have no designated operator and all owners of record of unleased mineral interests. Notice of the Application was additionally published February 2, 9, 16 and 23, 2016, in the *Pecos Enterprise*, a newspaper of general circulation in Reeves County, Texas.
3. There are no wells currently in the Unit and Anadarko is the only operator seeking to develop the Unit. Anadarko has a lease interest and pooling authority for every tract within the Unit.
4. The Commission received a protest to the Application necessitating a hearing.
5. The Notice of Hearing was sent by mail to the known addresses of the designated operator, all offset operators, all lessees of record for tracts that have no designated operator and all owners of record of unleased mineral interests. The Notice of Hearing was also published on March 18, 25, April 1 and 8, 2016 in the *Pecos Enterprise*.
6. Protestant, Mike Rogers Lipscomb (“Protestant”), and Anadarko appeared at the hearing on this matter.
7. The Well will be a new horizontally drilled well within the Unit in Section 1, Block 2, H&GN RR CO Survey, Abstract No. 362 in Reeves County, located 13.03 miles in a southwest direction from Oral, Texas. The surface location of the Well is 330 feet from the southwest line of the Unit boundary, 467 feet from the northwest line of the Unit boundary and 467 feet from the northwest line of the H&GN RR CO Survey. The terminus location is 467 feet from the northwest line of the Unit boundary, 426 feet from the east line of the Unit boundary and 10,400 feet from the line of the H&GN RR CO Survey. The penetration point is 330 feet from the southwest line of the Unit boundary and 467 feet from the northwest line of the Unit boundary. The well is to be drilled to an approximate depth of 12,000-13,000 feet.
8. The Field Rules for the Phantom (Wolfcamp) Field are set out in Oil & Gas Docket No. 08-0290788 and include provisions for 330-foot minimum lease line spacing distance and 0-foot between well spacing.

9. The Unit contains seventeen tracts, is roughly rectangular and consists of 659.80 acres. The Well is less than 330 feet from internal tracts containing non-pooled and unleased interests in the Unit; the tracts containing non-pooled and unleased interests are Tracts 2, 4, 7, 9 and 11. Protestant owns an undivided interest in Tract 9 of the Unit. Tract 9 is a five acre tract just north of the center of the Unit. Anadarko has pooling authority and a leased interest of 50 percent of Tract 9.
10. The Field is an unconventional tight shale reservoir.
11. A horizontal well in this type of tight shale reservoir is expected to have a 300 foot horizontal drainage range on each side of the wellbore such that for this 2,600 foot wide rectangular Unit, it is anticipated that four or five wells 600 feet apart running parallel to the length of the Unit would be expected to fully produce the hydrocarbons under the Unit. Given the expected drainage range of a well in this tight shale reservoir and the internal tract lease lines, there is no regular well that would be capable of producing all of the hydrocarbons that the Well is expected to produce at the proposed location.
12. The Well is expected to recover 650,000 bbl of oil and 2.6 bcf of gas. If the exception were not granted a significant amount of hydrocarbons would not be produced, causing waste. The exception is necessary to prevent waste and confiscation. Additionally, the substantial number of pooled and leased interests in the Unit would not be able to achieve their fair share of production if the exception is not granted; the exception is necessary to protect correlative rights.

#### CONCLUSIONS OF LAW

1. Proper notice was issued in accordance with all applicable statutes and regulatory codes. See 16 TEX. ADMIN. CODE §§ 3.37(a)(2) and (a)(3), and 1.46.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter pursuant to TEX. NAT. RES. CODE ch. 81. See, e.g., TEX. NAT. RES. CODE § 81.051.
3. An exception is needed because the Well is closer than allowed by the Field Rules to internal tracts within the pooled Unit that contain unleased and non-pooled interests, pursuant to 16 TEX. ADMIN. CODE § 3.37 (“Statewide Rule 37” or “Rule 37”) and Tex. R.R. Comm’n, *Final Order Amending the Field Rules for the Phantom (Wolfcamp) Field, Culberson, Loving, Reeves, Ward and Winkler Counties, Texas*, Oil and Gas Docket No. 08-0290788, 1-2 (July 14, 2015).
4. Anadarko has met its burden of proof and satisfied the requirements of Statewide Rule 37. 16 TEX. ADMIN. CODE § 3.37.
5. Granting the Application and approval of the requested exception to Statewide Rule 37 is necessary to prevent waste, prevent confiscation and protect correlative rights.

**EXAMINERS' RECOMMENDATION**

The Examiners recommend that the Commission grant Anadarko E & P Onshore, LLC's application for an exception to Statewide Rule 37 for the proposed well location in the Sievers State Unit 2-1, Well No. 1H in the Phantom (Wolfcamp) Field, Reeves County.

The proposed location is shown on the attached drilling plat, in the Application and described as follows:

- A new horizontal drill in the Sievers State Unit 2-1, Well No. 1H in the Phantom (Wolfcamp) Field;
- To be drilled at a depth of approximately 12,000-13,000 feet;
- Located in Section 1, Block 2, H&GN RR CO Survey, Abstract No. 362 in Reeves County, located 13.03 miles in a southwest direction from Oral, Texas;
- Having a surface location 330 feet from the southwest line of the Unit boundary, 467 feet from the northwest line of the Unit boundary and 467 feet from the northwest line of the H&GN RR CO Survey;
- Having a terminus location 467 feet from the northwest line of the Unit boundary, 426 feet from the east line of the Unit boundary and 10,400 feet from the line of the H&GN RR CO Survey;
- Having a penetration point 330 feet from the southwest line of the Unit boundary and 467 feet from the northwest line of the unit boundary;
- Being less than 330 feet from lease lines of internal tracts within the Unit; and
- Being less than 330 feet from Tract 9, but not less than 1 foot from Tract 9.

Respectfully,



Jennifer Cook  
Administrative Law Judge



Paul Dubois  
Technical Examiner

APPENDIX A

