The Railroad Commission of Texas (Commission) adopts amendments to §§3.5, 3.31, 3.38, 3.40, 3.45, 3.51, 3.52, and 3.86, relating to Application To Drill, Deepen, Reenter, or Plug Back; Gas Reservoirs and Gas Well Allowable; Well Densities; Assignment of Acreage to Pooled Development and Proration Units; Oil Allowables; Oil Potential Test Forms Required; Oil Well Allowable Production; and Horizontal Drainhole Wells, respectively. Sections 3.5, 3.31, 3.38, 3.40, 3.45, 3.51 and 3.52 are adopted without changes, and §3.86 is adopted with changes from the proposed text as published in the November 6, 2015, issue of the *Texas Register* (40 TexReg 7766).

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

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

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

The Commission received comments from 47 parties, including six associations, two companies, and 39 individuals.

Comments from Occidental Petroleum Corporation (Occidental) and one individual, and a late-filed comment from Apache Corporation (Apache) stated support for the proposed rule changes and contained no recommended changes. The Commission thanks these commenters for their support.

Four associations (Texas Oil and Gas Association (TXOGA), Texas Independent Producers and Royalty Owners Association (TIPRO), Permian Basin Petroleum Association (PBPA), and Texas Alliance of Energy Producers (the Alliance)) filed comments supporting the proposed amendments and suggesting one change to §3.86(i)(2)(A)(ii) regarding the designated person to bear the burden of proof in the event a hearing is set on the Commission's motion.

The Commission agrees with the suggestion and adopts §3.86(i)(2)(A)(ii) with a change to require the proponent of UFT field designation to bear the burden of proof.

The remaining individuals, most of whom identified themselves as professional land surveyors, and two associations (the Texas Society of Professional Surveyors and the Texas Board of Professional Land Surveying) expressed general support for the proposed rule changes, but objected to the inclusion of professional engineers within proposed §3.86(g)(6) regarding plat requirements.

The Commission disagrees with this objection. Professional engineers are included in §3.86(g)(6) because they are qualified to certify downhole data provided to the Commission. Further, Section 3.86(g)(6) does not alter the scope of authority granted to professional land surveyors or to professional engineers. That scope of authority is established by relevant statutes and rules, and is enforced by the authorities created to regulate those professions. The authority granted to either profession is not affected by the Commission's acceptance of certifications related to work performed pursuant to that authority. Therefore, the Commission makes no change in response to these comments.

A separate comment filed by PBPA supported the proposed amendments and addressed some of

the comments from the professional land surveyors regarding §3.86(g)(6). PBPA stated that the proposed amendments did not modify the Commission's standards for plats, boundary surveys, or other products of registered professional land surveyors. The Commission agrees. The amendments do not affect the authority of professional land surveyors and professional engineers, and do not permit acts that are not authorized by either profession's governing statutes or rules.

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

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

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

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

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

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

The amendments to §3.52 provide for administrative cancellation of overproduction following notice to offset operators in the field. This change will provide for cancellation of overproduction without the need for a hearing in situations where there is no protest to the cancellation and where the subject wells are otherwise compliant with Commission rules.

The majority of the adopted substantive amendments are found in §3.86, which is adopted with

one change, as previously discussed. Amendments to §3.86(a) define nonperforation zone, record well, stacked lateral well, unconventional fracture treated field, and the different types of take points.

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

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

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

Section §3.86(g), which was §3.86(f) in the previous version of this rule, implements notice requirements related to drilling permit applications for wellbores in which the entry into the correlative interval occurs on an offsite tract.

Section 3.86(i) establishes criteria for designation of a field as a UFT field. The language establishes criteria which, if met, would allow such designation of a field without the need for a hearing; and further provides for a hearing process if the field does not meet the criteria for administrative processing or if an objection is filed. The language provides that either an operator or Commission staff may initiate the designation process. In all cases, a UFT field will be designated by Commission order. The Commission adopts a change in subsection (i)(2)(A)(ii) to clarify the burden of proof.

Section 3.86(j) clarifies that if an existing special field rule applies to a field designated as a UFT field, the special field rule prevails over all conflicting provisions in Chapter 3 of this title (relating to Oil and Gas Division). This subsection also provides for certain limited areas in which amendments to special field rules in UFT fields may be made upon notice to all affected parties but without the need for a hearing if there are no objections to the proposed change. Specifically, the language provides that, absent any objection from an affected party, a hearing may not be required to: reduce the standard density to one-half of the existing density, delete a between-well spacing rule, or alter the controlling

provision under which the allowable is calculated. Similar provisions have been adopted as special field rules for fields in which horizontal drilling and hydraulic fracturing treatments are common.

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

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

While the form is not included in this proposal, the Commission also adopts amended Form P-16 to make conforming changes related to the amendments to §3.40. More information on the adopted form changes is provided on the Commission's Proposed Forms Amendment web page at http://www.rrc.texas.gov/about-us/resource-center/forms/proposed-form-changes/.

The Commission adopts the amendments pursuant to Texas Natural Resources Code §§81.051 and 81.052, 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 Commission jurisdiction; Texas Natural Resources Code §§85.042, 85.202, 86.041 and 86.042, which require the Commission to adopt rules to control waste of oil and gas; and Texas Natural Resources Code §85.053, which authorizes the Commission to adopt rules relating to the allocation of production allowables.

Texas Natural Resources Code, §§81.051, 81.052, 85.042, 85.202, 86.041, 86.042, and 85.053

are affected by the proposed amendments.

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

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

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

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

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

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

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

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

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

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

(D) - (E) (No change.)

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

(G) - (H) (No change.)

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

(A) the surface location of the proposed drilling site, penetration point, first take

point, last take point, and terminus location;

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

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

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

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

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

(G) a labeled scale bar; and

(H) northerly direction.

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

§3.31. Gas Reservoirs and Gas Well Allowable.

(a) (No change.)

(b) Changes in gas well allowables.

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

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

(3) (No change.)

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

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

§3.38. Well Densities.

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

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

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

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

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

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

(A) - (B) (No change.)

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

(D) (No change.)

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

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

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

[~~(4) The operator shall file the original certified plat and Form P-12 at the Commission's Austin office. The operator shall file a copy of the certified plat and Form P-12 with the appropriate~~

~~Commission district office or offices. If the operator files electronically through the Commission's Electronic Compliance and Approval Process (ECAP) system, the operator is not required to file additional paper copies in the appropriate Commission district office, because all Commission offices will have electronic access to the Form P-12 and certified plat.~~]

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

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

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

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

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

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

(c) The nonpooled undivided interest holder retains the [~~his~~] development rights in the [~~his~~] basic tract. If the development rights are exercised, the Commission grants authority to develop the basic tract, and the well is completed as a producing well on the basic tract, then the entire interest in the basic tract and any interest pooled with another tract shall be assigned to the well on the basic tract for allocation

purposes. [~~, and should such rights be exercised, authority to develop the basic tract be approved by the commission, and a well completed as a producer thereon, then the entire interest in the basic tract must be allocated to said well, and any interest insofar as it is pooled with another tract must be assigned to the well on the basic tract for allocation purposes.~~] Splitting of an undivided interest in a basic tract between two or more wells on two or more tracts is not acceptable.

(d) Except as provided in subsection (e) of this section, acreage [~~Acreage~~] assigned to a well for drilling and development, or for allocation of allowable, shall not be assigned to any other well or wells completed or projected to be [~~or~~] completed in the same field [~~reservoir~~]; such duplicate assignment of acreage is not acceptable. However,[~~, provided, however, that~~] this limitation shall not prevent the reformation of development or proration units so long as:

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

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

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

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

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

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

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

(f) If an offset, overlying, or underlying operator, or a lessee or unleased mineral interest owner determines that any operator has assigned identical acreage to two or more concurrently producing wells in violation of this section, the operator or owner may file a complaint with the Hearings Division to request that a hearing be set to consider the issues raised in the complaint. If the Commission determines after a hearing on the complaint that acreage has been assigned in violation of this section, the Commission may curtail or cancel the allowable production rate for any affected wells and/or may cancel the Certificate of Compliance (Form P-4) for any affected wells for failure to comply with this section.

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

§3.45. Oil Allowables.

(a) Oil allowable yardsticks.

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

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

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

§3.51. Oil Potential Test Forms Required.

(a) A completed potential test form [~~with all information requested thereon filled in~~] shall be filed with the Commission [~~in the district office~~] not later than the deadline for filing completion reports under §3.16 of this title (relating to Log and Completion or Plugging Report) [~~10 days after the test is completed~~]. If the operator fails to file a potential test in an acceptable form prior to the deadline for

filing completion reports as specified under §3.16 of this title [~~within the 10-day period~~], then the effective date of the allowable resulting from the test shall not extend back more than 30 [~~10~~] days prior to the date that the test form, properly completed, is filed with the Commission [~~in the district office~~]. This 30-day [~~The 10-day~~] provision shall govern regardless of whether the potential test is taken during the month in which it is received by the Commission [~~in the district office~~] or any prior month.

(b) (No change.)

§3.52. Oil Well Allowable Production.

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

(g) Administrative cancelation of overproduction.

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

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

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

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

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

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

§3.86. Horizontal Drainhole Wells.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Drainhole spacing.

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

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

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

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

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

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

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

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

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

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

(B) the other two sides of the rectangle are perpendicular to the sides described in subparagraph (A) of this paragraph, with one of those sides passing through the permitted first take

point and the other side passing through the permitted last take point.

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

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

(d) Proration and drilling units.

(1) (No change.)

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

(3) (No change.)

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

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

(A) (No change.)

(B) the denominator of which is the maximum acreage authorized by the applicable field rules for proration purposes, exclusive of tolerance acreage. The daily oil allowable shall

be adjusted in accordance with [~~Statewide Rule 49(a),~~] §3.49(a) of this title (relating to Gas-Oil Ratio), when applicable.

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

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

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

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

(e) (No change.)

(f) Stacked lateral wells.

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

(A) one horizontal drainhole within the stacked lateral well as the record well. An operator may change the record well designation to another wellbore by filing amended drilling permit applications and completion reports for the previous and the new record well; and

(B) all points, from the first take point to the last take point, of the record well for a stacked lateral well are within the proration and drilling unit designated for that well. Notwithstanding paragraph (4) of this subsection, all points from the first take point to the last take point of any other horizontal drainhole comprising the stacked lateral well are not required to be within the proration and drilling unit designated for the record well so long as they otherwise comply with the requirements of this section and any applicable lease line spacing rules.

(2) For the purpose of assigning additional acreage to the stacked lateral well, the

horizontal drainhole displacement shall be calculated based on the distance from the first take point to the last take point in the horizontal drainhole for the record well, regardless of the horizontal drainhole displacement of other horizontal drainholes of the stacked lateral well.

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

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

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

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

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

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

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

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

(6) In addition to the record well, each surface location of a stacked lateral well shall be listed on the proration schedule, but no allowable shall be assigned for an individual surface location. Each surface location of a stacked lateral well shall be required to have a separate well status report (Form G-10 or Form W-10, as applicable) and the sum of all horizontal drainhole test rates shall be reported as the test rate for the record well.

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

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

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

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

(11) An operator may remove a horizontal drainhole from a designated stacked lateral

well by filing an amended drilling permit application and a completion report. If the horizontal drainhole being removed is the record well for the stacked lateral and there are still multiple horizontal drainholes remaining within the designated stacked lateral well, then the operator shall designate a new record well for the stacked lateral well prior to removing the existing record well from the designated stacked lateral well.

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

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

(A) The applicant shall give written notice by certified mail, return receipt requested, to all mineral owners of any offsite tracts through which the proposed wellbore path traverses from the point of penetration. The notice shall identify the proposed well, include a plat clearly depicting the projected path of the entire wellbore, and allow the party notified not less than 21 days to object to the proposed offsite tract penetration. Notice of offsite tract penetration is not required if:

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

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

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

(i) the designated operator;

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

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

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

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

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

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

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

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

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

[~~(ii) the surface location of the proposed horizontal drainhole well, and~~

~~the proposed path, penetration points, and terminus locations of all drainholes;~~]

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

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

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

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

[~~(v) a line providing the distance in feet from the closest point along the horizontal course(s) of the drainhole(s) to the nearest point on the lease line, pooled unit line, or unitized tract line. If there is an unleased interest in a tract of the pooled unit that is nearer than the pooled unit line, the nearest point on that unleased tract boundary shall be used; and~~]

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

[~~(I) the penetration point(s);~~]

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

[~~(III) the terminus location(s).~~]

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

(3) Directional survey. A directional survey from the surface to the farthest point drilled

on the horizontal drainhole shall be required for all horizontal drainholes. The directional survey and accompanying reports shall be conducted and filed in accordance with [~~Statewide Rules 11 and 12,~~] §3.11 and §3.12 of this title (relating to Inclination and Directional Surveys Required, and Directional Survey Company Report, respectively). No allowable shall be assigned to any horizontal drainhole well until an acceptable [~~a~~] directional survey and survey plat has been filed with [~~and accepted by~~] the Commission [~~commission~~].

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

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

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

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

(1) The Commission [~~commission~~] may grant exceptions to this section in order to

prevent waste, prevent confiscation, or to protect correlative rights.

(2) If a permit to drill a horizontal drainhole requires an exception to this section, the notice and opportunity for hearing procedures for obtaining exceptions to the density provisions prescribed in [~~Statewide Rule 38,~~] §3.38 of this title [~~(relating to Well Densities),~~] shall be followed as set forth in [~~Statewide Rule 38(h),~~] §3.38(h) of this title [~~(relating to Well Densities)~~].

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

(A) the designated operator;

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

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

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

(1) Criteria for UFT field designation.

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

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

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

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

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

(B) Alternative UFT field designation obtained through evidentiary hearing. If an applicant demonstrates in a hearing that reservoir characteristics exist other than the characteristics

specified in subparagraph (A) of this paragraph such that horizontal drilling and hydraulic fracture treatment must be used in order to recover the resources from all or a part of the field and that UFT field designation will promote orderly development of the field, the hearings examiner may recommend to the Commission that the field be designated as a UFT field.

(2) Procedures for UFT field designation.

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

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

(ii) If the Commission receives a timely filed written objection, the Commission shall notify the operators in the field that an objection was received and allow any operator in the field 21 days to request a hearing. Pursuant to paragraph (1)(B) of this subsection, the operator requesting the hearing shall bear the burden of proof at the hearing. If no request to set the matter for hearing is received from an operator in the field, the Commission may either dismiss the matter or set the matter for hearing on its own motion. If the matter is set for hearing on the Commission's motion, the proponents of UFT field designation shall bear the burden of proof.

(B) Operator application for UFT designation.

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

(ii) If, on review of the completed application, Commission staff determines that the field meets the criteria in paragraph (1)(A) of this subsection, Commission staff shall notify all operators in the field that a UFT field designation order may be presented to the Commission

for approval not less than 21 days after the date the notice is issued unless the Commission receives a written objection. If the applicant provides written waivers of objection from all operators in the field, then notice to the operators in the field shall not be required.

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

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

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

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

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

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

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

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

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

existing standard and/or optional density;

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

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

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

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

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

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

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

(A) within 600 feet from the location of a vertical well completed within the

UFT field; or

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

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

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

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

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

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

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

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

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

This agency hereby certifies that the rules as adopted have been reviewed by legal counsel and found to be a valid exercise of the agency's legal authority.

Issued in Austin, Texas, on January 12, 2016.

Filed with the Office of the Secretary of State on January 12, 2016.

David Porter, Chairman

Christi Craddick, Commissioner

Ryan Sitton, Commissioner

ATTEST:

Kathy Way
Secretary of the Commission

Haley Cochran
Haley Cochran
Rules Attorney
Office of General Counsel
Railroad Commission of Texas