



DRILLING PERMITS:

**SWR 40(e)(2) Exception:
How to Request...Is it Required?**

July 2025



SWR 40 AMENDMENT



- SWR 40 amendment went live on March 3rd, 2020
- Allows administrative approval to SWR 40(e)(2)
- UFT fields only
 - Regular fields require a hearing

TERMINOLOGY (1 of 4)



- **UFT – Unconventional Fracture Treated**
- **Horizontal Division of Ownership – the depth range for which ownership exists within the surface acreage footprint**
- **Surface acreage footprint – the shape of the lease as seen on the surface of the earth (two dimensional)**

TERMINOLOGY (2 of 4)



- **Upper Limit – The top of the ownership interval**
- **Lower Limit – The bottom of the ownership interval**
- **Full Interval rights – condition in which the operator controls the minerals within the full correlative interval of the regulatory field**

TERMINOLOGY (3 of 4)



- **Developmental Tract** – A lease, pooled unit, or undeveloped tract being used within an Allocation or PSA well development
- **Developmental Acreage** – The overall acreage of an Allocation or PSA well development
- **Double Assignment** – the act of assigning proration acreage to multiple leases that share the same surface acreage footprint

TERMINOLOGY (4 of 4)



- **“Divided Horizontally”**
 - Per SWR 40(e)(2): “separated into depth intervals defined by total vertical depth, depth relative to a specific geological contact, or some other similar discriminator.”
- **Regulatory field (aka: field)**
 - The named correlative interval from which the proposed production will occur
 - This is the field (or fields) entered on the Field List tab of the W-1

INTERVAL INFORMATION



- Interval information is only required if you are seeking an exception to SWR 40(e)(2)
- RRC is not the administrator or owner of your contractual intervals, we only review the information provided
- The RRC does not have regulatory authority over the mineral lease agreements.
 - We assume the information provided is true and correct

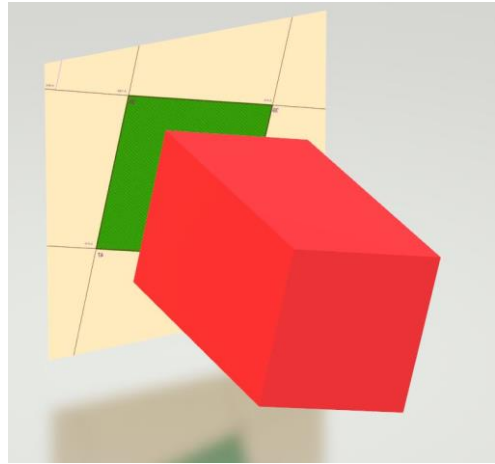
WHAT DOES DOUBLE ASSIGNMENT LOOK LIKE?



SINGLE LEASE ASSIGNMENT OF ACREAGE



- Single lease covering the correlative interval of the regulatory field
- Green is the surface acreage footprint
- Red is the correlative interval of the regulatory field
 - An example of full interval ownership



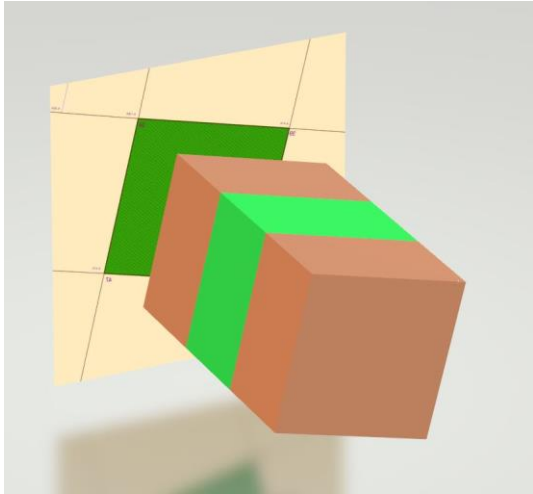
In this situation, the ownership interval values on the W-1 and P-16 would be blank.

As shown on further down Slide 13, the combination of Zero and 999,999 (0/999999) will no longer be used in combination to reflect full interval rights. Instead, the interval values will be empty (blank).

DOUBLE ASSIGNMENT OF ACREAGE



- Multiple leases within the correlative interval of the regulatory field
- Green is the surface acreage footprint
- Three leases are created within the regulatory field due to the ownership intervals that exist



In this situation, the ownership interval values on the W-1 and P-16 would have some values entered, dependent upon your mineral lease agreement.

As shown on further down Slide 13, the combination of Zero and 999,999 (0/999999) will no longer be used in combination to reflect full interval rights. Instead, the interval values will be empty (blank).

Zero (0) will still be used to indicate either the surface of the Earth, or the top of the regulatory field.

999,999 will still be used to indicate either the core of the Earth, or the bottom of the regulatory field.

In the basic example described on this slide there could be one of three options shown:

- 1) Surface/top of field ownership, to a certain benchmark
 - 1) Ex: 0/9500
- 2) A mid-range using an upper and lower benchmark
 - 2) Ex: 800/10,000
- 2) A certain benchmark to the bottom of the field/core
 - 3) Ex: 9500/999,999

IS IT REQUIRED?



- Claiming an exception to SWR 40(e)(2) is **OPTIONAL**
- It is **NOT** required to fill out the SWR 40 Section on the Field Details tab of the W-1

If you are not seeking an exception to SWR 40(e)(2), then please do not enter any values on the W-1.

Doing so, when it is not appropriate, will cause you issues during the permitting and completion process.

A NOTE ABOUT THE TWO SPRABERRY FIELDS



- **Spraberry (Trend Area) R40 EXC is no longer used to create new lease id numbers.**
 - The regular Spraberry (Trend Area) field will be used moving forward.
- **Oil or Gas leases already completed the R40 EXC field**
 - You will still use the R40 EXC field
 - Required to maintain the same field as the current lease
- **Allocation or PSA wells completed in the R40 EXC field**
 - You may still use the R40 EXC field if a new Allocation/PSA well is being proposed using the same developmental tracts.

There has been a little confusion on this matter.

To be clear, NO, the RRC has not “retired” the Spraberry (Trend Area) R40 EXC field.

The SWR 40 amendment allowed all UFT field to capture ownership interval information.

The R40 EXC field was created many years before the rule amendment to capture ownership interval information in the Spraberry (Trend Area).

- There is no different between the two field. They are part of the same correlative interval.
 - One of them is just “imaginary,” that being the R40 EXC field.

Since many wells and leases are already built to the proration schedule in the R40 EXC field, it could be outright removed.

Therefore, the decision was made to no longer create NEW lease IDs in this field.

- If you have an Oil Lease that is already built to schedule by virtue of at least one well, and a Lease ID has been established, then you should continue using the R40 EXC field for that lease.
 - The ownership interval values will continue to be reported as they are.
- If you have a Gas Lease that has been built to schedule by virtue of at least one well, and that well has an RRC ID established, then you should continue using the R40 EXC field for wells within that lease acreage.

- Although gas wells receive their own lease id number, they are still located within the same named lease acreage, and the field should remain consistent within this acreage.
- The ownership interval values will continue to be reported as they are.
- **The only exceptions to this are Allocation and PSA wells:**
 - All Allocation and PSA wells receive their own lease id number, so any new completion will technically be “a new lease id”
 - However, if you have an Allocation and/or PSA wells already completed in the R40 EXC field and you are permitting another Allocation or PSA well in that same developmental setup (i.e.: tracts are the same), then you can continue to use the R40 EXC field.
 - This is the **ONLY** exception. All other situations that would generate a new lease id should be using the Spraberry (Trend Area) field moving forward.

A NOTE ABOUT 0 and 999,999



- Zero will still be used
 - This will represent the top of the regulatory field
 - 0/9500
- 999,999 will still be used
 - This will represent the bottom of the regulatory field
 - 9500/999,999
- 0/999,999 will never be used in combination again
 - This represents full interval rights
 - You will leave both the upper and lower values empty in this case, moving forward

The slide explains this situation accurately.

Please leave the Upper and Lower Interval boxes EMPTY when you are reporting full interval rights.

You may use Zero (0) to represent “the surface of the Earth,” or “the top of the regulatory field.”

You may use 999,999 to represent “the bottom of the regulatory field,” or “the core of the Earth.”

However, you will no longer both Zero (0) and 999,999 in direct combination to indicate full interval.

- As mentioned, you will leave the boxes on the W-1 and P-16 empty in the case of full interval.

PAUSE



Take a moment to let that information sink in.
It is the foundation for the remainder of the presentation.



SWR 40 Section on the W-1 (1 of 3)



| State Wide Rule 40 | Form W-1 Instructions | Form P-16 Instructions |
|--|-----------------------|------------------------|
| <p>In the current application, is the operator seeking multiple assignment of acreage under Statewide Rule 40? <input type="button" value="No"/></p> <p>If No is chosen, then the additional information below is not required and you can proceed to the wellbore profile section below.</p> | | |
| <p>1. Will the well be completed in a "UFT" field? <input type="button" value="None Selected"/></p> <p>"UFT" status can be found in the Special Horizontal Field Rules section of this application.</p> | | |
| <p>2. Is ownership of the right to drill or produce "divided horizontally", i.e., separated into depth intervals defined by total vertical depth, depth relative to a specific geological contact, or some other similar discriminator? <input type="button" value="None Selected"/></p> | | |
| <p>3. Please provide the upper and lower limits of the applicant's Horizontal Ownership Interval: Upper Limit: <input type="text"/> Lower Limit: <input type="text"/></p> <p>If this W-1 is for an Allocation or PSA well and there are multiple severances, the first severance encountered by the wellbore will be entered in the boxes above. Section 5 of the P-16 will capture the severance values for each developmental tract.</p> | | |
| <p>4. Is the applicant the owner of all wells, including any wells permitted but not yet drilled or completed, located within one-half mile of the proposed wellbore between the first and last take points? <input type="button" value="None Selected"/></p> <p>If No, please attach copies of the SWR 40 notice, SWR 40 service list, and certified plat as required by SWR 40(e)(2)(B).</p> | | |
| <p>5. If the well will not be completed in a UFT field, or if the well will be completed in a UFT field but the right to drill and produce has not been divided horizontally, please provide the docket number of the final order approving the multiple assignment of acreage for the subject well or RRC lease/unit. Docket Number: <input type="text"/></p> <p>Please see SWR 40(g) for more information about the public hearing process.</p> | | |
| <p>Note: If the answer to question 1 and/or 2 is NO, then this application cannot be approved until the applicant has been granted authority for the multiple assignment of acreage via a Commission approved Final Order.</p> | | |

- Section was deployed at the end of May 2022
- Located on the Field Details tab of the W-1

The new Section can be found on the Field Details tab, within the Basic Details section.

As previously mentioned, this is optional, it is not required.

Only use this situation if you are seeking an exception to SWR 40(e)(2).

This section appears for ALL regulatory fields.

- If you are seeking an exception to SWR 40(e)(2) for a field that is NOT designated UFT, then you must have an approved Final Order Docket number, or you will need to go to hearing to obtain an approved Final Order Docket number.
- If you are seeking an exception to SWR 40(e)(2) for a field that IS designated UFT, however, you answer Question #2 with NO, then you must have an approved Final Order Docket number, or you will need to go to hearing to obtain an approved Final Order Docket number.

SWR 40 Section on the W-1 (2 of 3)



[State Wide Rule 40](#)

[Form W-1 Instructions](#)

[Form P-16 Instructions](#)

- Links to the W-1 Instructions and P-16 instructions are found at the top of this Section
- W-1 and P-16 instructions have been updated to include direction regarding the SWR 40 section update
- These are provided so that you (the filer) have easy access to the procedures

SWR 40 Section on the W-1 (3 of 3)



State Wide Rule 40 [Form W-1 Instructions](#) [Form P-16 Instructions](#)

In the current application, is the operator seeking multiple assignment of acreage under Statewide Rule 40?:

If No is chosen, then the additional information below is not required and you can proceed to the wellbore profile section below.

- Will the well be completed in a "UFT" field?

"UFT" status can be found in the Special Horizontal Field Rules section of this application.
- Is ownership of the right to drill or produce "divided horizontally", i.e., separated into depth intervals defined by total vertical depth, depth relative to a specific geological contact, or some other similar discriminator?
- Please provide the upper and lower limits of the applicant's Horizontal Ownership Interval: **Upper Limit:** **Lower Limit:**

If this W-1 is for an Allocation or PSA well and there are multiple severances, the first severance encountered by the wellbore will be entered in the boxes above. Section 5 of the P-16 will capture the severance values for each developmental tract.
- Is the applicant the owner of all wells, including any wells permitted but not yet drilled or completed, located within one-half mile of the proposed wellbore between the first and last take points?

If No, please attach copies of the SWR 40 notice, SWR 40 service list, and certified plat as required by SWR 40(e)(2)(B).
- If the well will not be completed in a UFT field, or if the well will be completed in a UFT field but the right to drill and produce has not been divided horizontally, please provide the docket number of the final order approving the multiple assignment of acreage for the subject well or RRC lease/unit. **Docket Number:**

Please see SWR 40(g) for more information about the public hearing process.

Note: If the answer to question 1 and/or 2 is NO, then this application cannot be approved until the applicant has been granted authority for the multiple assignment of acreage via a Commission approved Final Order.

- **Green text within the section serves as guidance for each question**

Please pay note to the green text.

This is helpful information, added with the intent to guide you.

PLEASE NOTE:

The green text under Question 3 is now outdated.

There is new guidance in place and this note will be updated when time allows.

- **The new guidance is:**
 - If this W-1 is for an Allocation or PSA well and there are multiple severance, the Upper Limit value entered should be the DEEPEST value from all the upper limits in Section V of the P-16, and the Lower Limit value entered should be the SHALLOWEST value from all the lower limits in Section V of the P-16."
 - This is also addressed on slide 21 and 22.

SWR 40 Section: Qualifying Question



In the current application, is the operator seeking multiple assignment of acreage under Statewide Rule 40?:

If No is chosen, then the additional information below is not required and you may proceed to the wellbore profile section below.

- **SWR 40 is optional, therefore “NO” is selected by default**
- **If you are not claiming an exception to SWR 40(e)(2), then don’t change this answer and proceed past this section**
- **Selecting “YES” will require the additional questions in the section to be answered**

If you leave this answer as NO, then nothing else is required and you may continue entering information on the W-1 without the need for this section.

If you choose Yes, and start filling out information, and then you change this answer back to No, it will CLEAR all questions and data entry boxes.

- There will be a screen prompt if this occurs.

SWR 40 Section: Question #1



1. Will the well be completed in a "UFT" field?

"UFT" status can be found in the Special Horizontal Field Rules section of this application.

- Options are YES or NO
- If YES, move to question 2
- If No, move to question 2
 - This will also require the use of an approved Final Order Docket as stated in the Note at the bottom of the SWR 40 section

The SWR 40(e)(2) amendment of March 3rd, 2020, allows for the administrative approval of an exception to SWR 40(e)(2) on the W-1.

All other fields that are NOT designated UFT require a hearing for an approval to SWR 40(e)(2).

SWR 40 Section: Question #2



2. Is ownership of the right to drill or produce "divided horizontally", i.e., separated into depth intervals defined by total vertical depth, depth relative to a specific geological contact, or some other similar discriminator?

- Options are YES or NO
- If YES, move to question 2
- If No, move to question 2
 - This will also require the use of an approved Final Order Docket as stated in the Note at the bottom of the SWR 40 section

If your ownership rights are not divided horizontally, then you are required to go to hearing and present your case as to why you feel that double assignment of acreage is necessary for your development.

- If you have already done this and have the approved Final Order Docket number, then you may answer this question as NO, enter you approved ownership interval values in Question 3, and enter the Docket number in Question 5.
- If you do not have an approved Final Order Docket number, then you will need to go to hearing to obtain the Final Order Docket number first.

SWR 40 Section: Question #3 (1 of 2)



3. Please provide the upper and lower limits of the applicant's Horizontal Ownership Interval: **Upper Limit:** **Lower Limit:**

If this W-1 is for an Allocation or PSA well and there are multiple severances, the first severance encountered by the wellbore will be entered in the boxes above. Section 5 of the P-16 will capture the severance values for each developmental tract.

- **SWR 40 is optional, therefore “NO” is selected by default**
- **If you are not claiming an exception to SWR 40(e)(2), then don't change this answer and proceed past this section**
- **Selecting “YES” will require the additional questions in the section to be answered**

PLEASE NOTE:

The green text under Question 3 is now outdated.

There is new guidance in place and this note will be updated when time allows.

- **The new guidance is:**

- If this W-1 is for an Allocation or PSA well and there are multiple severance, the Upper Limit value entered should be the DEEPEST value from all the upper limits in Section V of the P-16, and the Lower Limit value entered should be the SHALLOWEST value from all the lower limits in Section V of the P-16.”

SWR 40 Section: Question #3 (2 of 2)



3. Please provide the upper and lower limits of the applicant's Horizontal Ownership Interval: **Upper Limit:** **Lower Limit:**

If this W-1 is for an Allocation or PSA well and there are multiple severances, the first severance encountered by the wellbore will be entered in the boxes above. Section 5 of the P-16 will capture the severance values for each developmental tract.

- Interval values are from your company records
- RRC does not keep this information as the contractual record
 - This comes from your legal record
- The RRC does not have regulatory authority over the mineral lease agreements.
 - We assume the information provided is true and correct

PLEASE NOTE:

The green text under Question 3 is now outdated.

There is new guidance in place and this note will be updated when time allows.

- **The new guidance is:**
 - If this W-1 is for an Allocation or PSA well and there are multiple severance, the Upper Limit value entered should be the DEEPEST value from all the upper limits in Section V of the P-16, and the Lower Limit value entered should be the SHALLOWEST value from all the lower limits in Section V of the P-16."

SWR 40 Section: Question #4



4. Is the applicant the owner of all wells, including any wells permitted but not yet drilled or completed, located within one-half mile of the proposed wellbore between the first and last take points?

If No, please attach copies of the SWR 40 notice, SWR 40 service list, and certified plat as required by SWR 40(e)(2)(B).

- Options are YES or NO
- If YES, Notice documents are not required
- If No, Notice documents are required to be attached

Notification documents (if applicable) should be attached to the W-1 using the new attachment type classifications:

- SWR 40 Notification
- SWR 40 Service List

If you have provided one single notice packet that include the notice letter you sent, the half mile radius plat, and the service list, then simply upload that file twice, using each classification type.

Otherwise, you should attach:

- The service list as its own file, using the SWR 40 Service List classification.
- The notice letter and half mile plat as a combined file using the SWR 40 Notification classification.

One thing to be clear about the notice:

- **There is not a wait period like there is for an off-lease PoP notification.**
- The Rule refers to a 15-day period.
 - This period is the window within which the W-1 needs to be submitted after mailing the notice.
 - Once the notice is drafted, enveloped, and then mailed out, you may then immediately submit the W-1, or you may wait until the 15th day.
 - This is your choice
 - Provided the W-1 submission date is within 15 days after the

notification letter date, then you are ok.

- If the W-1 is submitted beyond 15 days, you will be asked to send the notice again and provide an updated copy to RRC staff (through a problem letter) so that it can be attached.

Although the preamble to the rule described the notice as a courtesy, the rule language addresses it as a requirement.

The RRC Office of General Counsel deems the notice a requirement.

Therefore, this is considered a required courtesy noticed and should be attached anytime you are seeking an exception to SWR 40(e)(2).

SWR 40 Section: Question #5



5. If the well will not be completed in a UFT field, or if the well will be completed in a UFT field but the right to drill and produce has not been divided horizontally, please provide the docket number of the final order approving the multiple assignment of acreage for the subject well or RRC lease/unit. **Docket Number:**

If a Docket # is provided, please also enter the approved interval from the Commission Approved Final Order in the boxes provided for question #3

Please see SWR 40(g) for more information about the public hearing process.

- If the answers to either Question 1 or 2 was NO:
 - An approved Final Order Docket Number is required
- If you already have an approved Final Order Docket Number
 - You are required to enter it
- If you do not yet have an approved Final Order Docket Number:
 - You will be required to go to Hearing
 - The W-1 cannot be approved until the Hearing has concluded and granted the approved Final Order Docket Number

SWR 40 Notice



- Covered by SWR 40(e)(2)(B)
- Notice requirements:
 - Operators of wells and/or permitted locations
 - Half mile radius from proposed well's production
 - Advise that you are applying for an exception to SWR 40(e)(2)
 - Provide location information and ownership interval information
- Once notice has been mailed:
 - W-1 must be submitted within 15 days
 - It can be submitted day of, or you can wait until the 15th day
 - If submitted after 15 days, re-notice will be required
 - There is not a wait period like an off-lease PoP notice

Although the preamble to the rule described the notice as a courtesy, the rule language addresses it as a requirement.

The RRC Office of General Counsel deems the notice a requirement.

Therefore, this is considered a required courtesy notice and should be attached anytime you are seeking an exception to SWR 40(e)(2).

Notification documents (if applicable) should be attached to the W-1 using the new attachment type classifications:

- SWR 40 Notification
- SWR 40 Service List

If you have provided one single notice packet that include the notice letter you sent, the half mile radius plat, and the service list, then simply upload that file twice, using each classification type.

Otherwise, you should attach:

- The service list as its own file, using the SWR 40 Service List classification.
- The notice letter and half mile plat as a combined file using the SWR 40 Notification classification.

One thing to be clear about the notice:

- **There is not a wait period like there is for an off-lease PoP notification.**
- The Rule refers to a 15-day period.

- This period is the window within which the W-1 needs to be submitted after mailing the notice.
- Once the notice is drafted, enveloped, and then mailed out, you may then immediately submit the W-1, or you may wait until the 15th day.
 - This is your choice
 - Provided the W-1 submission date is within 15 days after the notification letter date, then you are ok.
 - If the W-1 is submitted beyond 15 days, you will be asked to send the notice again and provide an updated copy to RRC staff (through a problem letter) so that it can be attached.



In the next section we will discuss:

Regular Leases and Pooled Units

INTERVAL INFORMATION REMINDER



- Interval information is only required if you are seeking an exception to SWR 40(e)(2)
- RRC is not the administrator or owner of your contractual intervals, we only review the information provided
- The RRC does not have regulatory authority over the mineral lease agreements
 - We assume the information provided is true and correct

INTERVAL VALUES: REGULAR LEASE



- For a regular lease or pooled unit there will only be one interval reported.
 - Enter the Upper and Lower limits in the boxes for question 3 and the boxes in Section II of the P-16
- If there are no other wells permitted or completed in an interval above or below the stated interval, then there is no double assignment yet.
 - Double assignment will begin when the first well in a different interval is permitted within the regulatory field and surface acreage footprint

INTERVAL VALUES: POOLED UNITS



- For a pooled unit, all the information on the previous slide applies as written
- If some of the pooled tracts have slightly different values per your contract(s), you will still only enter one interval range:
 - For the Upper Limit: You will use the **DEEPEST** value from all the upper limit values in your lease
 - For the Lower Limit: You will use the **SHALLOWEST** value from all the lower limit values in your lease

Multiple ownership intervals will not be recognized within a pooled unit, because a pooled unit is a single “lease” entity that is the sum of all it’s parts.

- As the slide states, if there is a situation in which there are some pooled unit tracts that individually contain ownership intervals different from the rest of the acreage, then you will need to enter the interval values according to the following guidance:
 - Upper Limit: choose the **DEEPEST** value from all the Upper limit values
 - Lower Limit: choose the **SHALLOWED** value from all the Lower limit values

The reason for this is so that the most consistent interval through which ownership is 100% can be reported.

The well would be drilled through this window.

If there is a situation in which the well will not pass under the tract(s) that contain a slightly different interval, then please contact the RRC to discuss this.

- These would be case by case examples, and we cannot provide a blanket note for guidance.
 - A conversation would be needed to discuss the facts.

The difference between a Pooled Unit and an Allocation/PSA development is:

- A Pooled Unit is the **SUM** of all it’s parts.
 - Think of a puzzle. All the pieces are tied together to create a larger whole.
- An Allocation/PSA development is the **COMBINATION** of all it’s parts.

- Picture a set of Lincoln Logs. While they are not glued or tied together, they are placed together to create a larger whole.

W-1 AND P-16 MUST MATCH



| SECTION II. WELL INFORMATION | | | |
|--|--|-----------------------|---------------------------------------|
| District No.: | | API No.: | |
| Well No.: | | Drilling Permit No.: | |
| Lease Name: | | RRC ID or Lease No.: | |
| Total Lease Acres: | | Field Name: | |
| Proration Acres: | | Field No.: | |
| Wellbore Profile: | | Is this a UFT field?: | |
| SL Record (Parent) Well Drilling Permit No.: | | County: | |
| | | | Purpose of Filing: |
| | | | <input type="checkbox"/> Form W-1 |
| | | | <input type="checkbox"/> Form G-1/W-2 |
| | | | Ownership Interval: |
| | | | Upper: |
| | | | Lower: |

- The interval values for your regular lease or pooled unit must be consistent on the W-1 and Section II of the P-16
- If the values are inconsistent, you will receive a problem

WELL COUNT: WHAT QUALIFIES

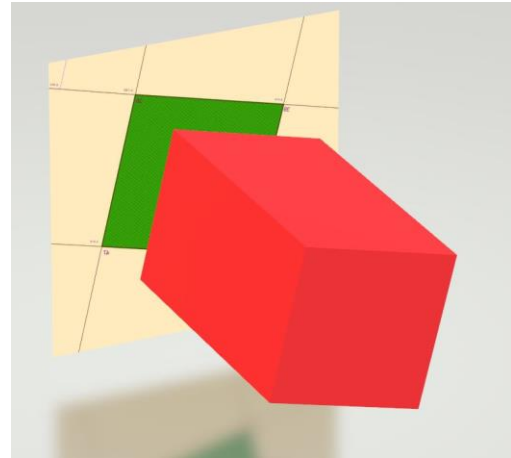
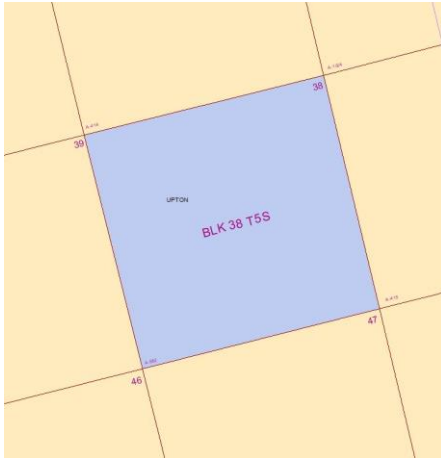


- The well count will include any wells that are:
 - In the same ownership interval that is provided on the application
 - In the same regulatory field
 - Profile specific with your application
- Any Allocation or PSA well with producing points that meet any or all the criteria above will also be included
- List all applicable wells in Section III of the P-16

SINGLE LEASE/POOLED UNIT EXAMPLES (1 of 7)



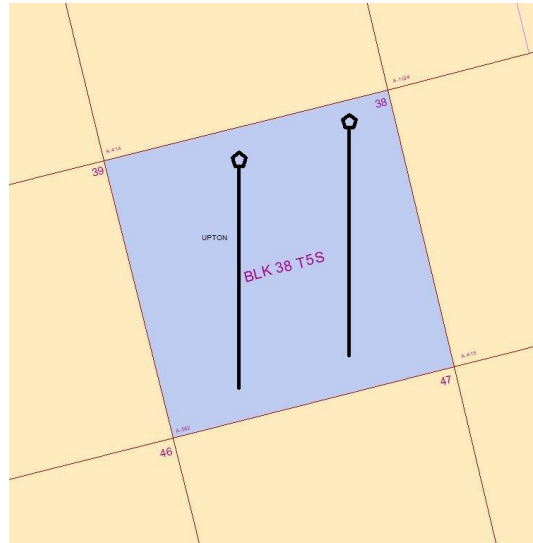
Single Lease with full interval rights



SINGLE LEASE/POOLED UNIT EXAMPLES (2 of 7)



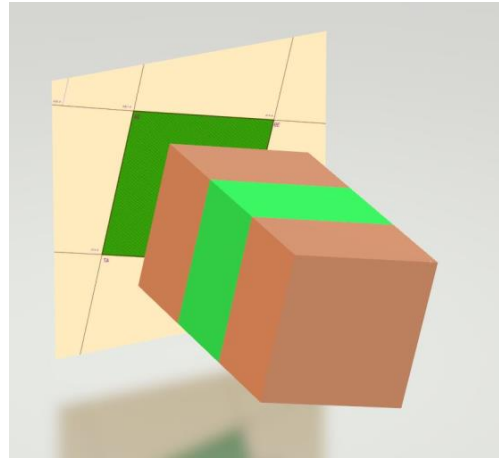
- Any well within this footprint, that is permitted or completed in the same regulatory field will be considered for well count, Rule 37 between well spacing, Rule 38 density calculations, and included in the P-16 listing, regardless of depth within the field and the Operator name associated with the well.
- This image depicts two wells. Assuming they are in the same field, they will account for each other.



SINGLE LEASE/POOLED UNIT EXAMPLES (3 of 7)



Single Lease with an ownership interval



SINGLE LEASE/POOLED UNIT EXAMPLES (4 of 7)



- The surface acreage footprint is represented in the image to the right.
- We will assume an ownership interval exists, for which the values are 8,000 to 10,000 feet
- We are concerned with any well that is permitted or completed in:
 - the same regulatory field
 - the same interval (8,000 – 10,000)
 - this same surface acreage footprint



SINGLE LEASE/POOLED UNIT EXAMPLES (6 of 7)

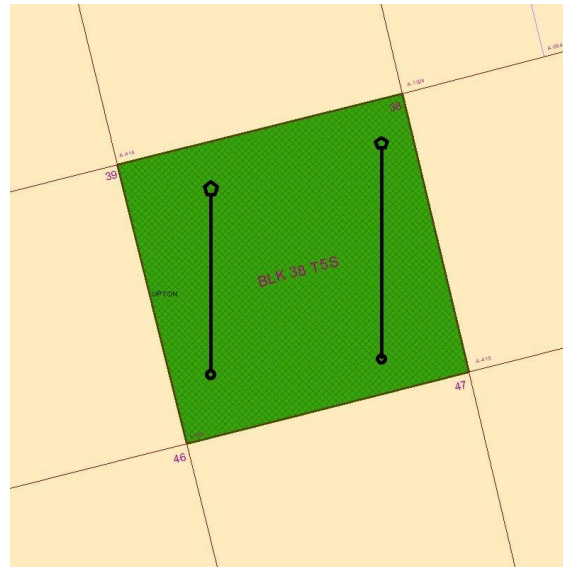


The two wells shown in the image are :

- Permitted or completed in the same field.
- Permitted or completed within the same interval on the W-1 (8,000-10,000).
- In the same surface acreage footprint.

Both wells are:

- Included in the well count.
- Considered for between well spacing.
- Included in Rule 38 calculations.

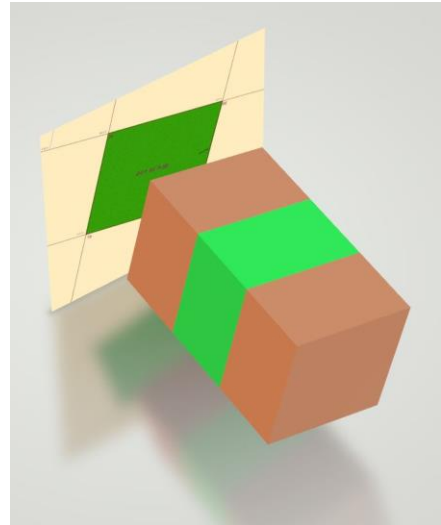


SINGLE LEASE/POOLED UNIT EXAMPLES (7 of 7)



The green block represents the top of the filer's ownership interval (8,000/10,000)

- Any well that is completed or permitted in the brown sections, will not be:
 - Included in the well count
 - Considered for between well spacing
 - Included in Rule 38 calculations
 - Listed on the P-16
- Regardless of the regulatory field.



LET IT SINK IN



Take a moment to let that information sink in, it will allow us to build into complex Allocation and PSA wells.



ALLOCATION AND PSA DEVELOPMENTS



**The next Section will cover Allocation and
PSA well developments and SWR 40(e)(2)**

ANOTHER INTERVAL INFORMATION REMINDER



- Interval information is only required if you are seeking an exception to SWR 40(e)(2)
- RRC is not the administrator or owner of your contractual intervals, we only review the information provided
- The RRC does not have regulatory authority over the mineral lease agreements
 - We assume the information provided is true and correct



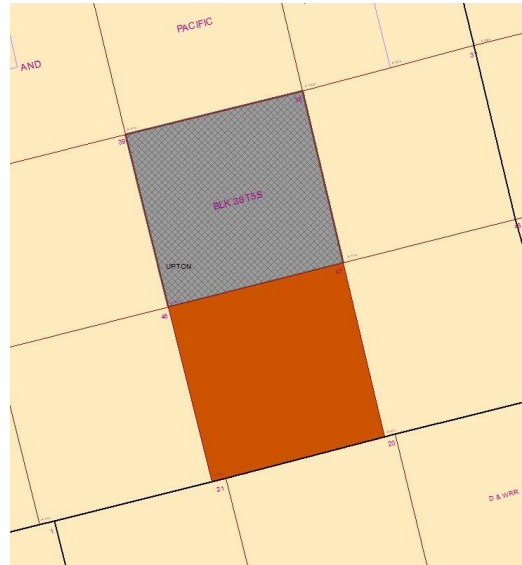
Minimal Complexity:

**Allocation or PSA developmental setup with
no ownership intervals**

ALLOCATION/PSA - NO INTERVALS (2 of 4)



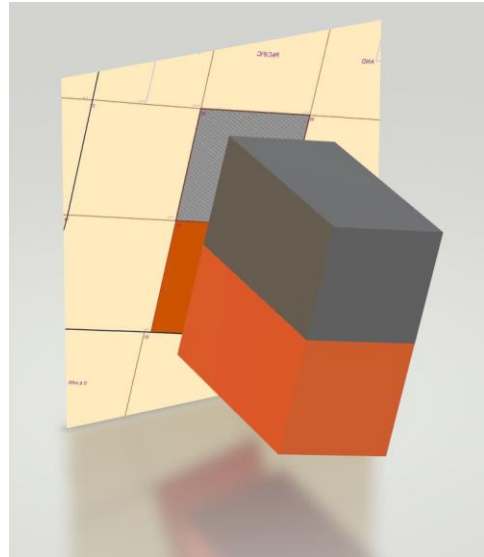
- Depicted is a basic Allocation or PSA developmental acreage.
- Two developmental tracts comprise this development.
- Surface acreage footprint of each lease (developmental tract) is shown.



ALLOCATION/PSA - NO INTERVALS (3 of 4)



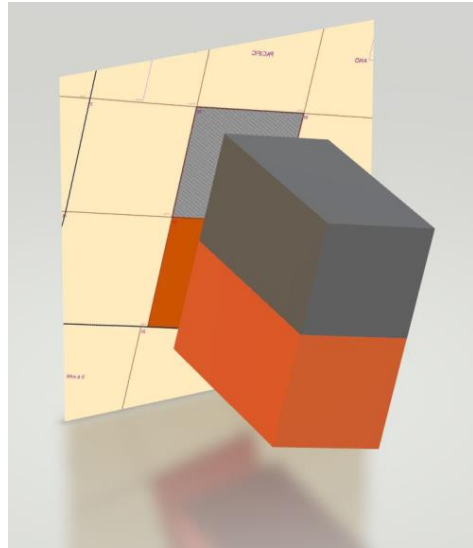
- No ownership intervals exist for either of the two developmental tracts.
 - An example of full interval rights in the regulatory field.
- No double assignment of surface acreage is occurring.



ALLOCATION/PSA – NO INTERVALS (4 of 4)



- Any well permitted or completed in the same regulatory field will be accounted for
- The full correlative interval of the regulatory field is available for development





Increasing the Complexity:

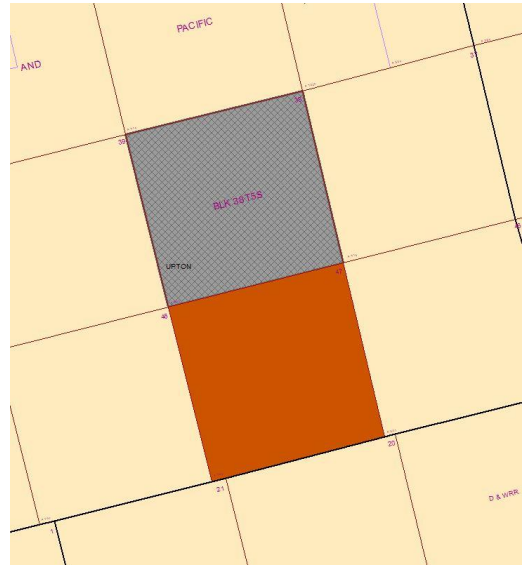
**We will add an ownership interval into the
Allocation or PSA developmental setup**

ALLOCATION/PSA WITH INTERVALS (2 of 10)



Depicted to the right is the surface acreage footprint of an allocation development.

- The burnt orange tract represents full interval rights.
- An ownership interval of 8,000 feet to the bottom of the field exists in the grey tract
 - The cross hatching represents the existence of an interval.

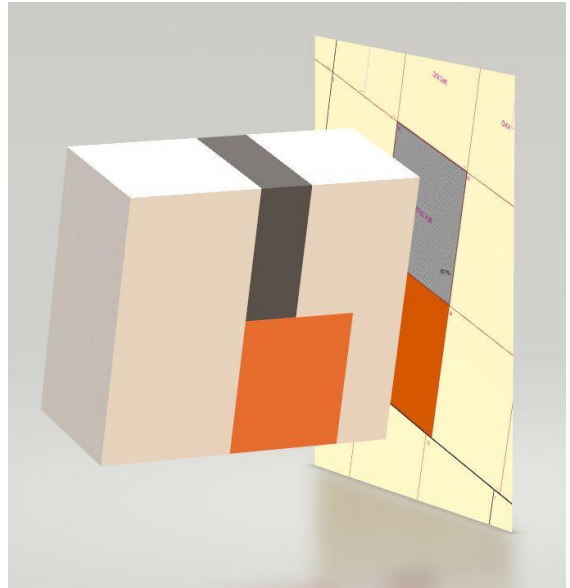


ALLOCATION/PSA WITH INTERVALS (3 of 10)



What does this look like underground ?

- The orange block represents the full interval rights tract.
- The grey block represents the tract with an ownership interval.
- The white blocks do not apply for two reasons:
 - 1) They exist above and below the regulatory field interval
 - 2) They exist within depth intervals that are outside the stated ownership for the grey tract.



ALLOCATION/PSA WITH INTERVALS (4 of 10)



Burnt Orange lease = Full Interval Rights

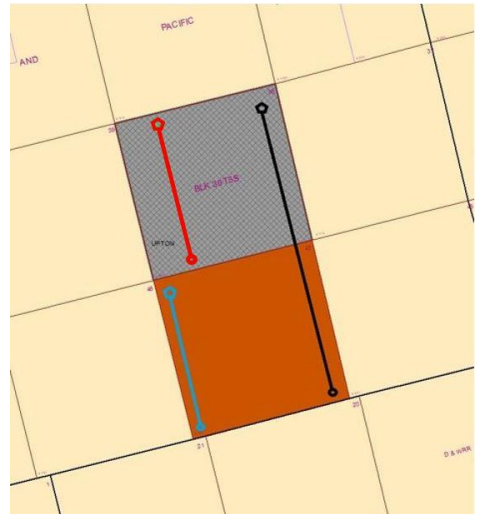
Grey Lease = 8,000 – 999,999

The black well is the proposed allocation well at a depth of 9,000.

- This depth allows both tracts to be used because the well is within the ownership rights as stated by the filer with the severance information.

The blue well is well drilled in the Burnt Orange lease and is at a depth of 7,000 feet in the same field.

- This well is included in the well count, and Rule 38 considerations because full interval rights exist that lease



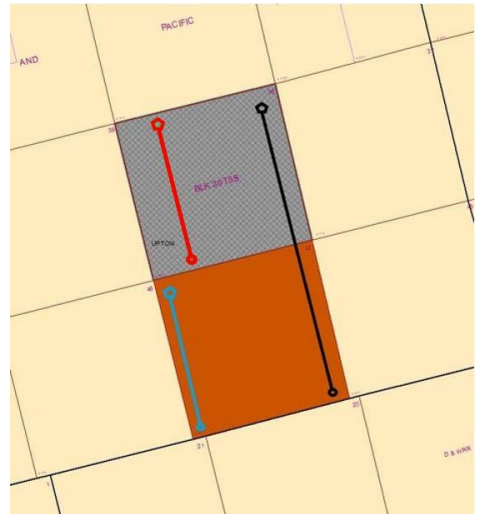
ALLOCATION/PSA WITH INTERVALS (5 of 10)



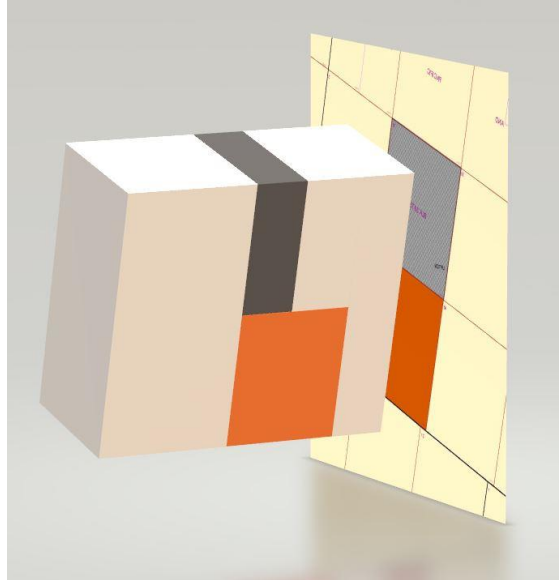
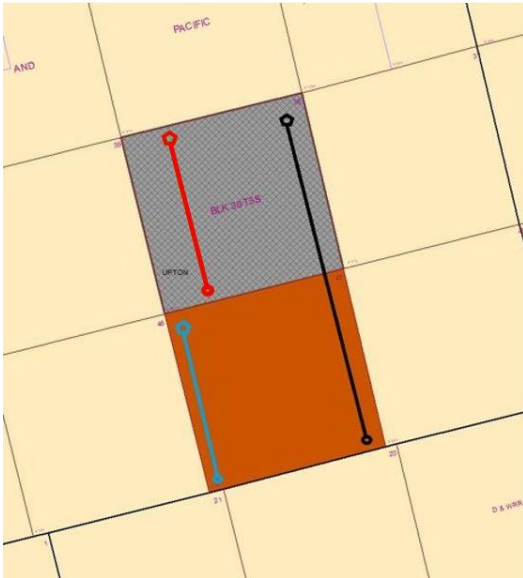
Burnt Orange lease = Full Interval Rights

Grey Lease = 8,000 – 999,999

- The Green well is well drilled in the same field at a depth of 7,000 feet, in a different ownership interval.
 - This would create a shallower lease above the Grey lease's interval
- Due to this, the green well is NOT included in the well count or for Rule 38 considerations
 - It does not have any production within the stated ownership rights for the proposed allocation well.



ALLOCATION/PSA WITH INTERVALS (6 of 10)



Although Green well is within grey surface acreage footprint, it is not within the ownership interval stated for the grey surface acreage footprint.

ALLOCATION/PSA WITH INTERVALS (7 of 10)

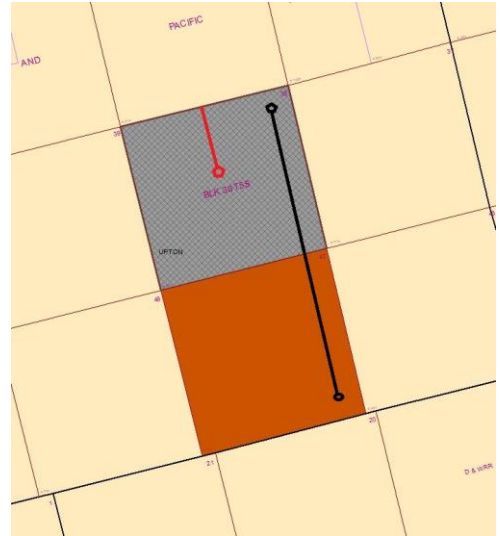


Burnt Orange lease = Full Interval Rights

Grey Lease = 8,000 – 999,999

The Red well is another allocation well at a depth of 10,000 feet, is in the same field, and uses the grey tract in its respective developmental acreage.

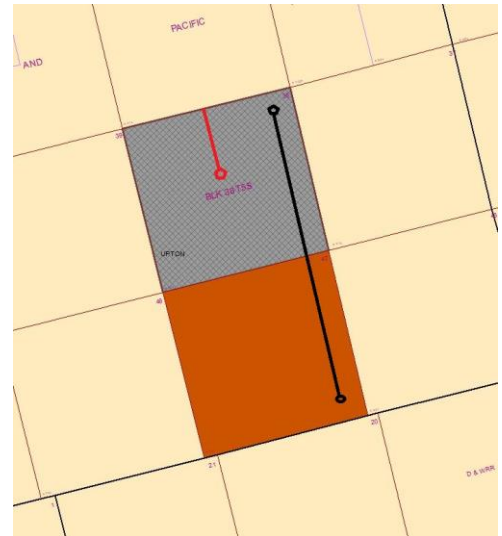
Although not in the orange tract, this well is still included in the well count and for Rule 38 considerations because it has production within the deep rights of the Grey tract, which is being used with the example Allocation well.



ALLOCATION/PSA WITH INTERVALS (8 of 10)



- Surface acreage assigned to the Red well, will be accounted for out of the grey tract acreage, regardless of the operator, and provided it is in the same field.
- On the P-16, for the grey tract's column in Section VI, only the amount of acreage being held from the grey tract will be listed.
- Even if the well is operated by a different operator, it will still be counted.



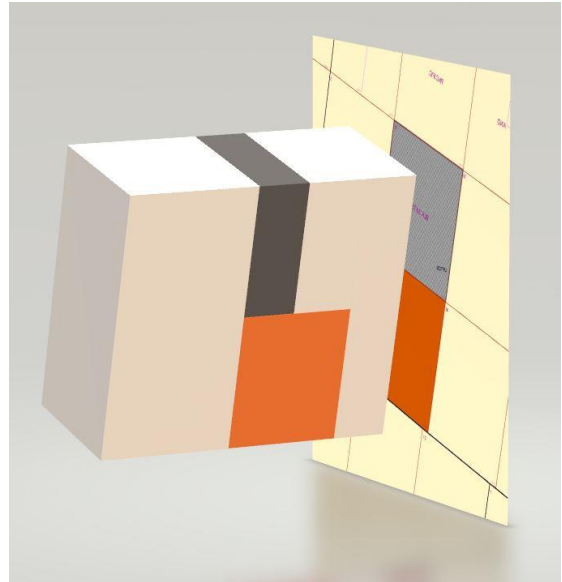
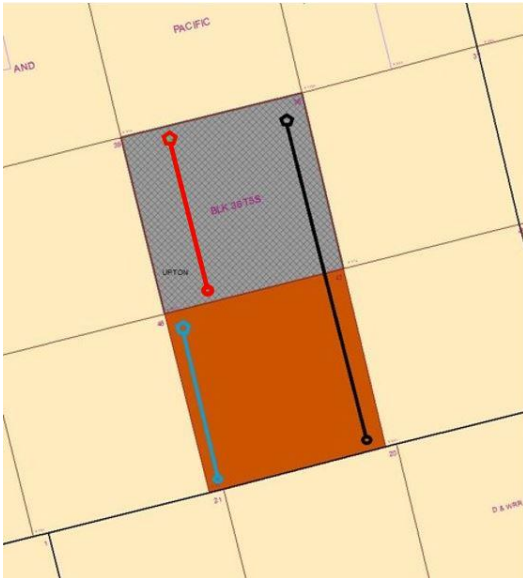
ALLOCATION/PSA WITH INTERVALS (9 of 10)



- Surface acreage assigned to the Red well, will be accounted for out of the grey tract acreage, regardless of the operator, and provided it is in the same field.
- On the P-16, for the grey tract's column in Section VI, only the amount of acreage being held from the grey tract will be listed.
- Even if the well is operated by a different operator, it will still be counted.



ALLOCATION/PSA WITH INTERVALS (10 of 10)



ALLOCATION AND PSA : P-16 INFO (1 of 2)



If seeking an exception to SWR 40(e)(2):

- **Account for any ownership intervals within the developmental tracts being listed in Section V of the P-16.**
- **Any intervals that exist will be listed in Section V of the P-16.**
- **You will NOT use the ownership interval boxes in Section II of the P-16.**

ALLOCATION AND PSA : P-16 INFO (2 of 2)



If all developmental tracts listed in Section V of the P-16 have the same ownership intervals, then you will enter that exact interval on the W-1.

| SECTION V. LISTING OF ALL TRACTS CONTRIBUTING ACREAGE TO AN RRC DESIGNATED DEVELOPMENTAL UNIT THAT IS NOT A SINGLE LEASE, POOLED UNIT, OR GROUP OF TRACTS UNITIZED BY CONTRACT FOR PURPOSES OF SECONDARY RECOVERY | | | | | |
|---|---------------|-----------------------|-------------------------------|-------------------------------|---|
| RRC ID No., Lease No. or Tract ID | Lease Name | Beginning Lease Acres | Ownership Interval (Upper) | Ownership Interval (Lower) | Operator Name and Operator No. (if different from filing operator) |
| A Tract 1 | Tract 1 | 500.000 | 0 | 9500 | |
| B 54678 | Apple | 754.000 | 0 | 9500 | |
| C New | Texas Rangers | 42.000 | | | |
| D New | Champions | 1687.000 | 0 | 9500 | |
| E Tract 5 | Tract 5 | 35000.000 | | | |
| F | | | | | |
| G | | | | | |
| H | | | | | |
| Total Acreage = | | 37983.000 | | | |

COMPLEX SCENARIOS



Let's solve some puzzles



ALLOCATION/PSA P-16 : MULTIPLE INTERVALS (1 of 4)



What do you do if there are multiple intervals listed in Section V that are not the same?

| SECTION V. LISTING OF ALL TRACTS CONTRIBUTING ACREAGE TO AN RRC DESIGNATED DEVELOPMENTAL UNIT THAT IS NOT A SINGLE LEASE, POOLED UNIT, OR GROUP OF TRACTS UNITIZED BY CONTRACT FOR PURPOSES OF SECONDARY RECOVERY | | | | | |
|---|------------|-----------------------|-------------------------------|-------------------------------|---|
| RRC ID No., Lease No. or Tract ID | Lease Name | Beginning Lease Acres | Ownership Interval (Upper) | Ownership Interval (Lower) | Operator Name and Operator No. (if different from filing operator) |
| A | Tract 1 | 500.000 | 8000 | 99999 | |
| B | 54678 | 754.000 | 0 | 10000 | |
| C | New | 42.000 | 8750 | 10500 | |
| D | New | 1687.000 | | | |
| E | Tract 5 | 35000.000 | 8500 | 9750 | |
| F | | | | | |
| G | | | | | |
| H | | | | | |
| Total Acreage = | | 37983.000 | | | |

ALLOCATION/PSA P-16 : MULTIPLE INTERVALS (2 of 4)



SECTION V. LISTING OF ALL TRACTS CONTRIBUTING ACREAGE TO AN RRC DESIGNATED DEVELOPMENTAL UNIT THAT IS NOT A SINGLE LEASE, POOLED UNIT, OR GROUP OF TRACTS UNITIZED BY CONTRACT FOR PURPOSES OF SECONDARY RECOVERY

| RRC ID No., Lease No. or Tract ID | Lease Name | Beginning Lease Acres | Ownership Interval (Upper) | Ownership Interval (Lower) | Operator Name and Operator No. (if different from filing operator) |
|--------------------------------------|------------|-----------------------|-------------------------------|-------------------------------|---|
| A | Tract 1 | Tract 1 | 500.000 | 8000 | 99999 |
| B | 54678 | Apple | 754.000 | 0 | 10000 |
| C | New | Texas Rangers | 42.000 | 8750 | 10500 |
| D | New | Champions | 1687.000 | | |
| E | Tract 5 | Tract 5 | 35000.000 | 8500 | 9750 |
| F | | | | | |
| G | | | | | |
| H | | | | | |

Total Acreage = 37983.000

- Choose the deepest value from the Upper column for the W-1 Upper Value
- Choose the shallowest value from the Lower column for the W-1 Lower Value

ALLOCATION/PSA P-16 : MULTIPLE INTERVALS (3 of 4)



The W-1 ownership interval value for this example is:

8750 - 9750

| Ownership Interval (Upper) | Ownership Interval (Lower) |
|-------------------------------|-------------------------------|
| 8000 | 99999 |
| 0 | 10000 |
| 8750 | 10500 |
| | |
| 8500 | 9750 |

- Ownership rights do not exist above 8750 in the Yellow Tract
- Ownership rights do not exist below 9750 in the Green Tract
- Although other tracts have ownership above or below these values, 8750-9750 is the only interval for which ownership exists in all developmental tracts

The reason that this method is in place is so that there is visibility on the W-1 of the interval range for which there is common ownership throughout the tract

This does not mean that the well cannot be drilled shallower or deeper than the upper or lower limit; Section V of the P-16 will control how shallow or deep the well can be within each developmental tract.

The Drilling Permit team will start adding language to the W-1 in the form of an "information restriction" that states something to the effect of:

- "There are varying ownership intervals shown in Section V of the P-16 for the developmental tracts being used with this well. The well may not be drilled any shallower or deeper within each developmental tract, based on the interval range shown for a particular developmental tract. The interval range on the W-1 is a procedural process and is constrained by the system. Section V of the P-16 will control the depth ranges for this well."

ALLOCATION/PSA P-16 : MULTIPLE INTERVALS (4 of 4)



Although the W-1 ownership interval will show:

8750 - 9750

| Ownership Interval (Upper) | Ownership Interval (Lower) |
|-------------------------------|-------------------------------|
| 8000 | 99999 |
| 0 | 10000 |
| 8750 | 10500 |
| | |
| 8500 | 9750 |

- Staff will add an “informative restriction.”
- Not bound by W-1 interval, which is procedural.
- Section V controls the intervals you may drill under each developmental tract.

The reason that this method is in place is so that there is visibility on the W-1 of the interval range for which there is common ownership throughout the tract

This does not mean that the well cannot be drilled shallower or deeper than the upper or lower limit; Section V of the P-16 will control how shallow or deep the well can be within each developmental tract.

The Drilling Permit team will start adding language to the W-1 in the form of an “information restriction” that states something to the effect of:

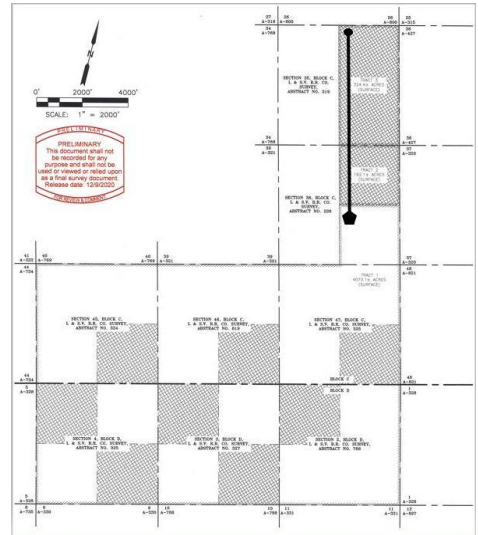
- “There are varying ownership intervals shown in Section V of the P-16 for the developmental tracts being used with this well. The well may not be drilled any shallower or deeper within each developmental tract, based on the interval range shown for a particular developmental tract. The interval range on the W-1 is a procedural process and is constrained by the system. Section V of the P-16 will control the depth ranges for this well.”
- In the Red interval, the well can be drilled no shallower than 8,000 feet and can be steered up or down from that point to meet the depth interval restrictions for the other developmental tracts that the wellbore will pass under.

COMPLEX ALLOCATION/PSA EXAMPLES (1 of 5)



The image shows the surface acreage footprint of an Allocation well with three developmental tracts:

- The cross-hatching represents the existence of severed rights due to a division of ownership.
- The ownership interval conditions of each lease are described on the next three slides.
- Proposed well is shown in black.
- This is a true example from a W-1 that was submitted and reviewed.



The plat image shows an allocation well with several factors at play: (this is a real-world case from a prior W-1 review)

- Three developmental tracts
- One tract is a deep rights only tract
- Another is split: the filer owns the top and the bottom, however, they do **NOT** own a section in the

middle.

- **The last is a single lease, within which there are 8 localized depth severances in the lease, and each has been accounted for.**
- **This is not a pooled unit.**

COMPLEX ALLOCATION/PSA EXAMPLES (2 of 5)



The red developmental tract :

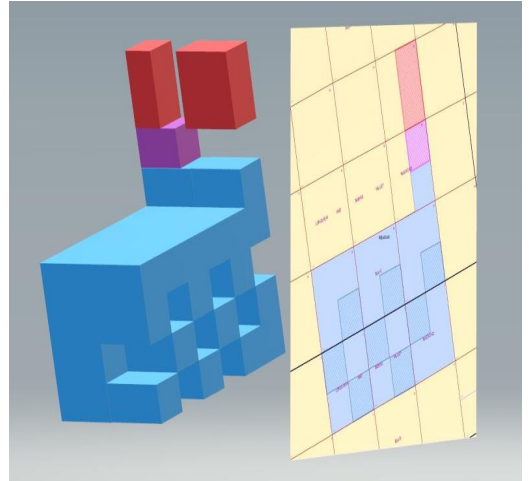
- 0 – 8,000 and 8,383 – 999,999

The purple developmental tract :

- 8,100 – 999,999.

The blue developmental tract :

- Is a single lease that contains 8 areas where there is a severance.
- This is not a pooled unit.



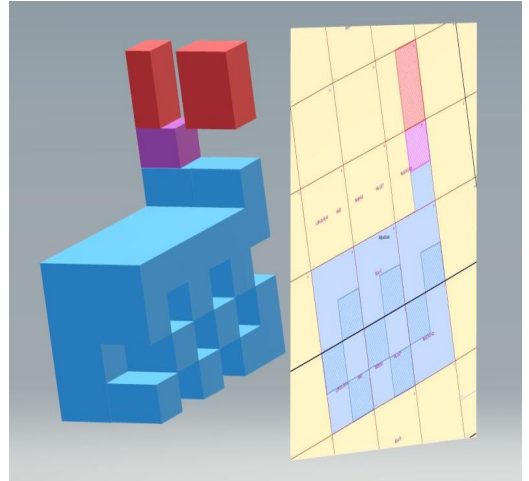
COMPLEX ALLOCATION/PSA EXAMPLES (3 of 5)



The Upper Value of the ownership intervals in each of the depressions are:

- - Section 2 NW: 8295
- - Section 3 NW: 8323
- - Section 3 SE: **8363 ***
- - Section 4 NW: 8396
- - Section 4 SE: 8195
- - Section 45 SE: 8363
- - Section 46 SE: 8342
- - Section 47 SE: 8293

The value with an asterisk is discussed on the next slide.



HIGHLY COMPLEX ALLOCATION/PSA EXAMPLES (4 of 5)



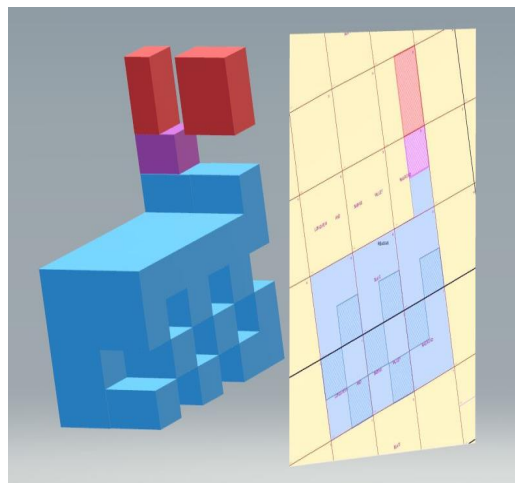
The well is passing under the Red, Purple, and Eastern portion of the Blue lease.

It will be subject to:

- Deep Red Interval
- The Purple Interval
- Must be deeper than the interval in the SE corner of Section 3 under the Blue

Interval for Blue will be reported with a comment in Section IV of the P-16.

- It will not be listed in Section V.



HIGHLY COMPLEX ALLOCATION/PSA EXAMPLES (5 of 5)

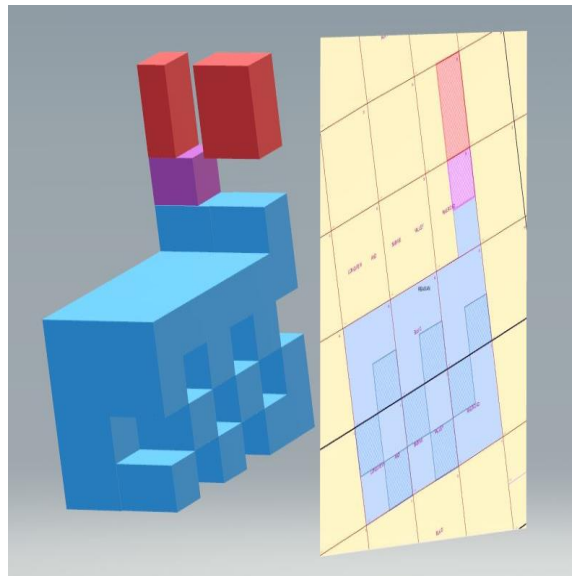


The interval on the W-1 will be reported as the Deep Red Interval.

Staff will add an Information restriction to address the varying intervals.

Section V will control the Red and Purple intervals.

Informative restriction will control the Blue interval.



The same principle that is at play for the Blue Lease, in this example, will also apply to a single pooled unit in which an interval exists under one tract, yet not the entirety of the unit.

If there are varying depths, like in this example, then the interval for Blue, and thus the depth the well could be completed at, would be based on the interval the well was running under.

- This situation will require a comment added by you, the filer, to bring visibility to.
- If a comment is not added, a problem letter will be sent because we won't know why the intervals under that lease are different.

OWNERSHIP BASED ON FORMATION BOUNDARY (1 of 4)



What do you do for a very large lease where the interval is based on the geologic formation boundary?

Example:

- Lease is 35,000 acres.
- Interval based on boundary between two formations.

The interval may be change from West to East.

- Due to stratigraphic sloping of the formation boundary.



FILER'S RESPONSIBILITY

- A comment **MUST** be added to the W-1 stating that the interval is based on a formation boundary.
- Explain which area of the lease that the slope trends towards:
 - Deeper in the West and Shallower in the East
 - Or the reverse
- If the comment is not added, you will be subject to a problem email from the W-1 if the intervals differ due to sloping.



Staff will add an “informative restriction” that references:

- The areal extent of the lease
- Ownership is based on the formation boundary
- Stratigraphic sloping creates different intervals within the extent of the lease
- This comment will feed over to the completion packet and provide visibility for the completion analyst.



This process should be used for very large leases.

If the interval is not based on a formation boundary, this process will not apply.

- **Single section leases and Allocation/PSA wells using single section tracts may not be applicable.**

Contact Drilling Permits for questions on Case-by-Case situations

This process was setup to account for situations in which very large leases have depth severed ownership that is based on formation depth boundaries.

If there is a 35,000-acre lease that is severed at a formation boundary there very well may be different values in the East vs. the West, or the North vs. the South.

- If there is no sloping, then this process will not apply.
- If there is minimal to no sloping, then this process will not apply.
- Smaller leases and allocation/psa wells using smaller tract will most likely not apply.
- Please contact drilling permits if there are any questions and concerns during your planning so that the issues can be talked through to a solution.

FINAL THOUGHTS (1 of 4)



- **SWR 40 allows for the double assignment of surface acreage to leases that are created due to a horizontal division of ownership.**
- **Rule 38 acreage reviews and Well Counts will be specific to the lease, field, and ownership interval.**
- **The lease assumes a three-dimensional component and will not account for any other well that is outside this three-dimensional shape.**

FINAL THOUGHTS (2 of 4)



Any well that does not exist within the stated ownership interval (and within the same regulatory field):

- **Will not be included in the well count**
- **Will not be considered for:**
 - **Rule 37 between well spacing**
 - **Rule 38 density calculations**
- **Will no be listed on the P-16 for the proposed acreage and ownership interval.**

FINAL THOUGHTS (3 of 4)



RRC will attach a SWR 40(e)(2) approval letter.

- **This letter is the actual approval for your SWR 40(e)(2) request**

If there is no double assignment of the surface happening, then the approval letter will not be attached.

- **You may still show ownership interval values on the W-1 as a matter of record.**
- **You will need to follow notification procedures in this case.**
- **The P-16 can reflect the values without the W-1 info if no double assignment is happening, as a matter of record.**

FINAL THOUGHTS (4 of 4)



- Interval information is only required if you are seeking an exception to SWR 40(e)(2).
- Ownership interval information is provided by the applicant, based on information in the mineral lease agreements, and is only reviewed by the RRC.
- The RRC does not have regulatory authority over the mineral lease agreements.
 - We assume the information provided is true and correct.

CONTACT INFORMATION



| Drilling Permit Main Phone Line | 512-463-6751 |
|---|--|
| General Questions (and corrections not related to a problem email) | drillingpermits-info@rrc.texas.gov |
| Publisher's Affidavits and Tear Sheets | SWR37@rrc.texas.gov |
| General Hearing Requests and Complaints (NOT resulting from a protest problem email) | OGHearingRequest@rrc.texas.gov |
| Protest Hearing Request (resulting from a protest problem email) | SWR37@rrc.texas.gov (or reply to the problem email) |
| Problem Responses | Reply to the problem email that was received |
| Manager: David King | David.King@rrc.texas.gov |

Information about Drilling Permit email addresses:

General questions:

- Use: drillingpermits-info@rrc.texas.gov

If you have identified any mistakes or typos **and a problem has not been sent for it:**

- Use: drillingpermits-info@rrc.texas.gov

Submitting Publisher's Affidavits and Tear Sheets:

- Use: SWR37@rrc.texas.gov
 - When sending the affidavits:
 - Please send ONE email per status number
 - List the status number in the subject line (if you don't, you may receive a problem)
 - If you have received a problem letter requesting the affidavits, then reply to the problem, do not send to the SWR37 address.

Hearing Requests and Complaints that are not the result of a problem email:

- Use: OGHearingRequest@rrc.Texas.gov
 - This is a new email group that has been set up
 - O&G staff will route the request to the relevant business group, and staff from that group will enter the request into the CASES system

Protest hearing requests (resulting from a protest problem email):

- You may reply to the problem email that was received
- If your legal counsel is sending in the response it should go to:
SWR37@rrc.Texas.gov
 - Please ensure that you are providing a letter that names your legal counsel who will represent you at the hearing and also formally requests the hearing.

For any response to a problem:

- Simply reply to the email you received.
 - We have seen some cases where a new email has been drafted and sent to the problems address.
 - If the status number is not included with your custom email, it will delay the processing of the W-1.
 - Replying to the email you received will ensure that all information is visible so that your problem response can be forwarded to the analyst working it.
- Problems are forwarded out twice a day (just before lunch and at the end of the day).
 - Please allow time for the analyst to review your response and work the resolution on the W-1.
 - Problem responses do not immediately go to the analyst and require time for review.
 - They are worked in the order of receipt by the analyst and are balanced with W-1s that have yet to be reviewed.

THANK YOU

