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Railroad Commission Update

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RAILROAD COMMISSION UPDATE

I. Overview

In one way or another, the following topics addressed in this update relate to the continuing efforts by the Railroad Commission of Texas to regulate and accommodate unconventional resource development:

- The RRC concluded a rulemaking to update its Statewide Rules for horizontal wells, and as part of that rulemaking, it adopted new rules for unconventional fields developed with horizontal drilling and hydraulic fracture treatments (now to be designated as “UFT” Fields).
- The RRC continues to address issues relating to disposal wells for waste fluid from fracture treatments and production, including concerns about the potential for induced earthquakes and objections to disposal wells in residential areas.
- The RRC issued an order force pooling a State river tract that was not included in horizontal drilling and development on adjoining acreage.
- Downstream from the leases, as a result of the demand for pipeline transportation of natural gas liquids, the RRC is conducting a tariff rate case for a common carrier liquids pipeline.

II. STATEWIDE RULE AMENDMENTS FOR HORIZONTAL WELLS AND UFT FIELDS

In a rulemaking completed in January 2016, the RRC amended its Statewide Rules for horizontal wells and adopted a new designation for unconventional fracture treated fields. The RRC adopted amendments to Statewide Rules 5, 31, 38, 40, 51, 52, and 86.¹ In part, these amendments update the RRC’s rules for horizontal wells drilled in any field. In addition, the amendments create a new designation for unconventional fracture treated fields (“UFT Fields”) with specific rules to facilitate development in unconventional plays. Most of the amendments are patterned after rules already adopted by the RRC as field rules for shale and unconventional fields across the state. The amendments bring forward the best and most widely accepted of those field rule provisions into generally applicable Statewide Rules.

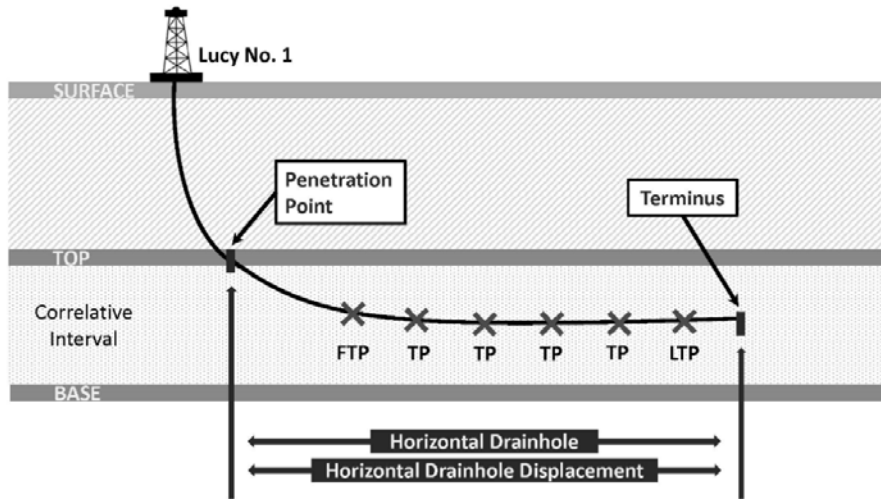
A. STATEWIDE RULE CHANGES FOR ALL HORIZONTAL WELLS

1. Rule 86 Definition of Horizontal Drainhole Displacement

The Rule 86 definition of “horizontal drainhole displacement” has been amended. For some wells, this change might reduce the amount of additional acreage that can be assigned to the well for proration.

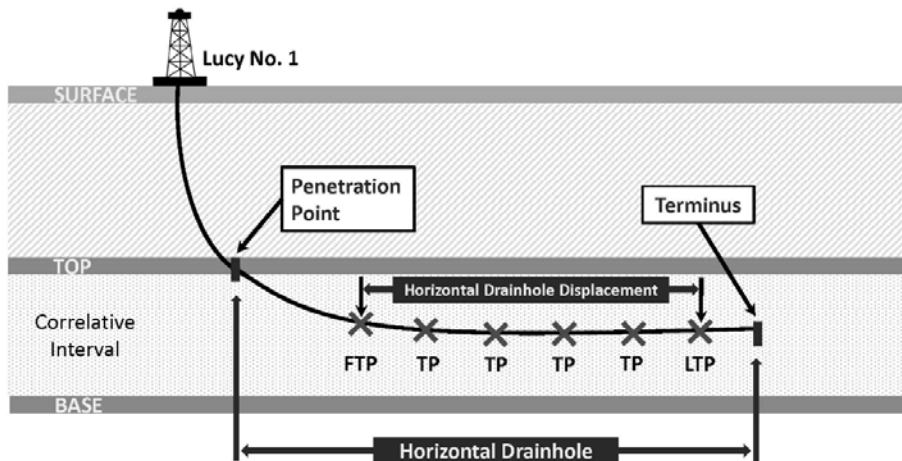
¹ 41 TexReg 785 (January 29, 2016)

Before the amendment, “horizontal drainhole displacement” was defined as the calculated horizontal displacement of the horizontal drainhole from the penetration point to the terminus. As depicted in the schematic diagram below, this prior definition focused on the entry of the lateral into the correlative interval, and on the end of the lateral, without regard to take points or perforations in the lateral.



HORIZONTAL DRAINHOLE DISPLACEMENT “BEFORE” RULE 86 AMENDMENT

With the amendment to Rule 86, the term “horizontal drainhole displacement” is now defined as the calculated horizontal displacement of the horizontal drainhole from the first take point to the last take point.² This amendment would make no difference if the FTP and PP were to coincide and if the LTP and Terminus were to coincide. For most wells, however, the FTP and LTP will be inside the PP and Terminus as depicted in the schematic diagram below, so the horizontal drainhole displacement will be reduced under the amended rule.



HORIZONTAL DRAINHOLE DISPLACEMENT “AFTER” RULE 86 AMENDMENT

² Statewide Rule 86(a)(4), 16 TAC § 3.86.

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