

November 29, 2006

OIL AND GAS DOCKET NO. 03-0249627

APPLICATION OF TDC ENGINEERING INC., PURSUANT TO STATEWIDE RULE 101 FOR THE F.D. CALHOUN LEASE WELLS NO. 1H & 2H, GIDDINGS (AUSTIN CHALK, GAS) FIELD, GRIMES COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: November 20, 2006

APPEARANCES:

Rick Johnston

REPRESENTING:

TDC Engineering, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the untested application of TDC Engineering to consider approval of severance tax incentive certification pursuant to Statewide Rule 101 for its F.D. Calhoun Lease Wells No. 1H & 2H in the Giddings (Austin Chalk, Gas) Field for state severance tax incentives pursuant to 16 TAC §3.101. It is proposed that the subject wells qualify based on the previously approved tight gas area designation and formation approval by Oil & Gas Docket No. 03-0213448 for the Navasota River (Cretaceous Lwr.) Field. The examiner recommends approval.

DISCUSSION OF THE EVIDENCE

The Commission approved a tight gas area designation for the Lower Cretaceous Formation in Grimes County on September 24, 1996 in Oil & Gas Docket No. 03-0213448. The approved area designation covers 16,800 acres and wells completed in this area in the Lower Cretaceous Formation are designated as a high-cost/tight-gas formation pursuant to Statewide Rule 101 and are eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code. Commission administrative approval was not granted as the Commission "field name" for the designated area was not the same as the Commission field name for the wells that are the subject of this hearing.

The Lower Cretaceous Formation (specifically recognized by the Commission as the Navasota River (Cretaceous Lwr) Field) is defined as the entire correlative interval from 13,472' to 13,709' as shown on the log of the Viola Production, Ins., L.R. Fuqua Lease Well No. 1, John Bowman Survey, A-407 and the correlative interval from 12,653' to the total logged depth as shown on the log of the Cheasapeake Operating, Inc. Perry Lease Well No. 1H in the W.R. Sanders Survey, Grimes County. The two wells which were completed in the Navasota River (Cretaceous Lwr) Field as the test point wells were: Kennard Lease Well No. 2H (true vertical depth from 12,230' to 13,413') and the Risien Lease Well No. 1H (true vertical depth from 12,872' to 13,861'). Over 30 wells have been approved for tight gas severance tax incentive certification within the area designated by the Commission pursuant to Order No. 03-0213448. A total of 28 wells were filed with the Giddings (Austin Chalk, Gas) Field designation.

The TDC Engineering, F.D. Calhoun Lease Wells No. 1H and 2H should receive the State Severance Tax Incentive Certification. TDC Engineering completed its F.D. Calhoun Lease Well No. 1H in November 2003 and the F.D. Calhoun Well No. 2H in September 2004 in the Giddings (Austin Chalk, Gas) Field. Both wells are horizontal wells with horizontal laterals of $\pm 5,000'$ length. The completion interval of the F.D. Calhoun Lease Well No. 1H has a true vertical completion depth range from 12,896' to 13,384'. The completion interval of the F.D. Calhoun Lease Well No. 2H has a true vertical completion depth range from 13,078' to 13,421'. Both of the wells are within $\pm 1,500$ feet from the Kennard Lease Well No. 2H. The completion interval for both the F.D. Calhoun Lease Wells No. 1H and 2H are within the completed overlapping intervals of the Risien and Kennard wells in the Lower Cretaceous Formation. The F.D. Calhoun Lease Wells No. 1H and 2H are located within the designated tight gas sand area as shown on the as drilled and completed plats for the subject wells.

TDC Engineering argues that Statewide Rule 101 provides for area designation and a formation which is not dependent on "field name". There is no instance in the rule which requires the field name to be a judging parameter. The applicable portions of the rule states:

(e) Application requirements for individual well certifications. To qualify for the severance tax exemption or tax reduction, the operator shall prove that the gas produced is high-cost gas by providing the following information: ...

*(5) Applications for wells producing designated tight **formation** (emphasis added) gas shall include:*

(A) the completed applicable commission form;

(B) copies of all Gas Well Back Pressure Test, Completion or Recompletion Reports and Logs ever filed on the subject well;

*(C) specific reference to the commission docket number assigned to the applicable designated tight **formation** (emphasis added) area certification along with a copy of the map with the subject well location shown, which outlines the designated tight **formation** (emphasis added) area approved by the commission.*

The subject wells do not meet the following alternative provision where the well(s) may be outside the designated area or not completed within the formation interval which is covered by:

(f) Application requirements for tight formation area certifications.

(1) If justification for an individual well application is based on a tight formation certification and the well is not located within a geographical area that has been previously certified as a designated tight formation area or the well is not completed in a formation interval that has been previously certified as a designated tight

formation by the Federal Energy Regulatory Commission under the Natural Gas Policy Act or by the Railroad Commission of Texas, the operator shall first apply for a tight formation area designation.

EXAMINER'S OPINION

Statewide Rule 101 provides for area designation and a formation that is designated by a specific interval in a well that is used for correlative purposes for other wells completed within the area in the same formation. The examiner believes that it was never the Legislative intent to restrict certification of a well for severance tax incentive for completions in a Commission recognized field only. Routinely fields are consolidated as a result of "fields" growing together over time through development and to discover that the reservoirs are in reality a common reservoir. The intent was to designate a correlative interval delineating a qualifying formation and a specific areal description by surveys. The Commission's Form ST-1 Application for Texas Severance Tax Incentive Certification, Item No. 6, does require the "Field Name". However, the examiner believes that the "field name" entry is for record filings purposes. The Commission's Central Records filing system is formatted by District/Field Name. If a field name is not associated with an application or multiple field names submitted, the application is filed in "District General" by operator (applicant) name.

FINDINGS OF FACT

1. Notice of this hearing was provided to all affected parties on November 1, 2006 and there was no protest registered.
2. The Commission approved a tight gas area designation for the Lower Cretaceous Formation in Grimes County on September 24, 1996 in Oil & Gas Docket No. 03-0213448. The approved area designation covers 16,800 acres and wells completed in this area in the Lower Cretaceous Formation are designated as a high-cost/tight-gas formation pursuant to Statewide Rule 101 and are eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code.
3. The Lower Cretaceous Formation (specifically recognized by the Commission as the Navasota River (Cretaceous Lwr) Field) is defined as the entire correlative interval from 13,472' to 13,709' as shown on the log of the Viola Production, Ins., L.R. Fuqua Lease Well No. 1, John Bowman Survey, A-407 and the correlative interval from 12,653' to the total logged depth as shown on the log of the Cheasapeake Operating, Inc. Perry Lease Well No. 1H in the W.R. Sanders Survey, Grimes County.
 - a. The two wells which were completed in the Navasota River (Cretaceous Lwr) Field as the test point wells were: Kennard Lease Well No. 2H (true vertical depth from 12,230' to 13,413') and the Risien Lease Well No. 1H (true vertical depth from 12,872' to 13,861').

4. The TDC Engineering, F.D. Calhoun Lease Wells No. 1H and 2H should receive the State Severance Tax Incentive Certification. TDC Engineering completed its F.D. Calhoun Lease Well No. 1H in November 2003 and the F.D. Calhoun Lease Well No. 2H in September 2004 in the Giddings (Austin Chalk, Gas) Field.
 - a. Both wells are horizontal wells with horizontal laterals of $\pm 5,000'$ length.
 - b. The completion interval of the F.D. Calhoun Lease Well No. 1H has a true vertical completion depth range from 12,896' to 13,384'.
 - c. The completion interval of the F.D. Calhoun Lease Well No. 2H has a true vertical completion depth range from 13,078' to 13,421'. Both of the wells are within $\pm 1,500$ feet from the Kennard Lease Well No. 2H.
 - d. The completion interval for both the F.D. Calhoun Lease Wells No. 1H and 2H are within the completed overlapping intervals of the Risien and Kennard wells in the Lower Cretaceous Formation.
 - e. The F.D. Calhoun Lease Wells No. 1H and 2H are located within the designated tight gas sand area as shown on the as drilled and completed plats for the subject wells.
5. Statewide Rule 101 provides for area designation and a formation designation that is not dependent on a specific Commission designated "field name".
 - a. Over 30 wells have been approved for tight gas severance tax incentive certification within the area designated by the Commission pursuant to Order No. 03-0213448.
 - b. A total of 28 well were filed with the Giddings (Austin Chalk, Gas) Field designation and approved for the severance tax incentive pursuant to Order No. 03-0213448.

CONCLUSIONS OF LAW

1. Proper notice was issued to all affected persons as required by the applicable codes and regulatory statutes.
2. The Commission is the appropriate agency to make a determination concerning high cost and/or tight gas formation certification pursuant to 16 TAC §3.101.
3. The state subject wells meet the requirements for State severance tax incentives pursuant to 16 TAC §3.101
4. Gas produced from wells completed in the proposed area designation in the Lower

Cretaceous Formation, identified by plat in this hearing and the attached real property descriptions indicating county, survey and abstract is high cost and/or tight gas pursuant to 16 TAC §3.101.

EXAMINER'S RECOMMENDATION

The examiner recommends the attached order be entered to recommend that the TDC Engineering, Inc., F.D. Calhoun Lease Wells No. 1H and 2H should receive the State Severance Tax Incentive Certification pursuant to 16 TAC §3.101 and are eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Hearings Examiner
Office of General Counsel