

September 3, 1999

OIL AND GAS DOCKET NO. 8A-0222369

**THE APPLICATION OF YUCCA ENERGY INC. AN EXCEPTION TO STATEWIDE
RULE 39 TO INCLUDE NON-CONTIGUOUS ACREAGE WITHIN ITS WEST-DEAN
LEASE, LEVELLAND FIELD, COCHRAN COUNTY, TEXAS**

Heard by: Margaret Allen, Technical Hearings Examiner

Procedural history

Application received: August 10, 1999

Hearing held: September 3, 1999

Appearances

Jim Yates

Representing

Yucca Energy

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Yucca Energy, Inc., is seeking to have the Commission include two non-contiguous tracts, that are part of the same lease, within the West-Dean Lease as recognized by the Commission.

DISCUSSION OF THE EVIDENCE

Yucca originally took a checkerboard-shaped, farm-out lease from Apache (in League 94, Mills County School Land, Abstract 93, Dela Slaughter Wright Subdivision) that it refers to as the Apache-Dean Lease. After drilling successful wells on four squares within the checkerboard pattern, Yucca sought a second lease from Apache for the tracts interspersed among the original checkerboard Apache-Dean Lease. Yucca refers to the second lease as the Red Lake lease. A third Yucca lease in the area of the original checkerboard lease, also based on a farm-out from Apache, is referred to as the West-Dean Lease. This third lease contains two non-contiguous parcels of land, one of 42.5 acres and one of 420.7 acres.

All of the acreage between these two parcels is part of either the Apache-Dean or Red Lake Leases that Yucca farmed-in from Apache and the mineral interest underlying all three leases is the same. There is slightly different over-riding interest in the Apache-Dean, Red Lake and West-Dean leases, as Apache retained successively larger interests in the three leases as they were granted over time.

Yucca has drilled its West-Dean Lease Well No. 1 on the 42.5 acre tract. Field rules for the Levelland Field specify 42.5 acre proration units. It wants to drill a second well on the 421 acre parcel of the lease. It would cost an extra \$35,000 to build a separate tank battery for each parcel if the

Commission requires that they be treated as separate leases. The Commission has a procedure whereby Yucca could apply for an exception in order to use a common tank battery for two leases. However, such an exception, in this case, would commingle production from two leases that are artificially separate. In addition, the operator would have to meter production separately and account separately for production from two wells on what is legally considered a single lease.

Well No. 1 was drilled during July of 1999, and is producing 37 BOPD. After the initial decline, wells in the Levelland Field produce 15 to 30 BOPD for long periods of time. If the second well on its West-Dean Lease is successful, Yucca intends to continue drilling farther west on this lease. There is no production from the league immediately west of the West-Dean Lease, but there is San Andres production in Levelland Field tracts farther west. Eventually, Yucca hopes to unitize these leases and conduct secondary operations.

FINDINGS OF FACT

1. Notice of this hearing was given to all offset operators to the West-Dean Lease in the Levelland Field on August 20, 1999.
2. The West-Dean Lease, comprising a 42.5-acre tract and a 421-acre non-contiguous tract, was farmed-in by Yucca from an Apache Lease.
3. The acreage between the two tracts of the West-Dean Lease was part of either the Apache-Dean and Red Lake Leases previously farmed-in by Yucca from the same Apache Lease.
4. The West-Dean, Red Lake and Apache-Dean Leases have the same mineral interest ownership, but Apache retained slightly different over-riding royalty interest in each of the three leases.
5. Yucca drilled a successful San Andres well on the 42.5-acre tract and intends to drill a second Levelland well on the 421-acre tract.
6. Considering the two non-contiguous tracts to be separate leases will require either the construction of an unnecessary tank battery or considerable paperwork on the part of both the Commission and the operator to use a common tank battery.
7. The two non-contiguous tracts of Yucca's West-Dean Lease are legally considered as a single lease.

CONCLUSIONS OF LAW

1. Proper notice was given as required by statute.
2. All things have been done or occurred to give the Railroad Commission jurisdiction to resolve this matter.
3. The requested exception to Statewide Rule 39 will prevent waste and promote orderly development of the lease.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiner recommends approval of the requested exception to Statewide Rule 39 to allow non-contiguous acreage within the Yucca Energy, Inc. West-Dean Lease in the Levelland Field to be recognized by the Commission as a single lease.

Respectfully submitted,

Margaret Allen
Technical Hearings Examiner

Date of Commission Action _____

Exhibits

1. Plat of leases
2. Cost of separate tank battery
3. Map of Levelland wells in area