RULE 38 DOCKET NOS. 10-0220715, 10-0220717 & 10-0220718

APPLICATION OF SAMSON LONE STAR LP FOR EXCEPTIONS TO STATEWIDE RULE 38 TO DRILL THE ISAACS 210 LEASE WELL NO. 8, AND THE ISAACS 209 LEASE WELL NOS. 8 AND 9, CANADIAN, SW. (GRANITE WASH) AND WILDCAT FIELDS, HEMPHILL COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT:	**APPLICANT:**
David Nelson Robert D. McKenna Raymond L. Taylor	Samson Lone Star LP
FOR PROTESTANT:	**PROTESTANT:**
Tim George	Chevron USA, Inc.

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:	November 20, 1997
NOTICE OF HEARING:	December 21, 1998
DATE CASE HEARD:	January 29, 1999
HEARD BY:	Marshall Enquist, Hearings Examiner Margaret Allen, Technical Examiner
TRANSCRIPT DATE:	February 26, 1999
PFD CIRCULATION DATE:	July 23, 1999

STATEMENT OF THE CASE

Samson Lone Star LP ("Samson") seeks exceptions to Statewide Rule 38 to drill its Isaacs 210 Lease Well No. 8 and Isaacs 209 Lease Well Nos. 8 and 9 in the Canadian, SW. (Granite Wash) Field (see Attachment I). The Canadian, SW. (Granite Wash) Field requires 660 foot lease-line spacing and 1320 foot between-well spacing, on 640-acre units with 320-acre optional units allowed. Rule 38 exceptions

are necessary because the requested Isaacs 210 Well No. 8 (Docket No. 10-0220717) will be the third well on a 630-acre lease, and the Isaacs 209 Well Nos. 8 (Docket No. 10-0220715) and 9 (Docket No. 10-0220718) will be the third and fourth wells on a 671.03 lease. The application is protested by Chevron USA, Inc. ("Chevron"), the operator of the existing wells on the Isaacs 209 and 210 leases.

DISCUSSION OF THE EVIDENCE

Samson's Evidence

Samson presented two expert witnesses and 12 exhibits in a combined presentation of Rule 38 Oil & Gas Docket Nos. 10-0220715, 10-220717 and 10-0220718. Samson's case is based on protection of correlative rights/prevention of confiscation.

The subject field is located between the large Hemphill (Granite Wash) and Mendota NW. (Granite Wash) Fields. Both of these fields have density rules prescribing 160 acre units with 80-acre optional units. Other Granite Wash fields in the area have special field rules with various densities--from 640-acre to 160-acre standard units, with the smallest optional units being 80-acres.

All of the proposed wells are at regular locations under Statewide Rule 37. Chevron operates the two existing wells on the Isaacs 210 Lease and the two existing wells on the Isaacs 209 Lease. Samson does not operate any wells on the two leases but does have slightly less than a 6% working interest in the leases. Samson asserts that it has the right to propose these wells as a non-operator pursuant to the unit operating agreement.

Structural position in this field is relatively unimportant. The thickness of net pay is the primary determinant of production. An isopach map of the Granite Wash B, the producing section in this field, indicates an area of thickness running northeast-southwest through the two leases. From a volumetric estimate, Samson determined that the original recoverable gas-in-place under the Isaacs 209 Lease was 22,852 MMCF. The total production from the two existing wells is 3,815 MMCF and Samson expects the two wells' ultimate recovery to be 6,039 MMCF. Therefore, on the Isaacs 209 Lease, 16,813 MMCF (16.8 BCF) of the original recoverable reserves will not be recovered by the two existing wells.

Samson's volumetric estimate of the original recoverable reserves under the Isaacs 210 Lease indicates that there were 15,169 MMCF present. The two existing wells together have produced 4,833 MMCF and Samson projects they will ultimately recover 8,182 MMCF. Of the original reserves under this lease, 6,987 MMCF (6.98 BCF) will not recovered by the existing wells. Because all offset wells in this field are at least regular to the Isaacs 209 and 210 Leases, and because existing wells have proved incapable of efficiently draining their 320 acre units, Samson believes that no offset wells are going to drain a significant amount of reserves from the two subject leases. Thus the remaining recoverable reserves would be equal to the original recoverable reserves minus the cumulative production to date.

Because existing wells will recover only one-half to one-third of the recoverable gas on the

two Isaacs Leases, Samson suggests that it may be appropriate to change the field rules in a future hearing. In making its volumetric analyses, Samson assumed that the original pressure was 3825 psia and that the abandonment pressure, divided by the Z-factor, would be 500 psia. The assumed recovery factor is 88% of the original gas-in-place.

Chevron's Evidence

Chevron participated in the hearing by cross-examining the applicant's witnesses. It did not present any witnesses but did present two exhibits during cross-examination. Chevron owns the majority of the working interest (about 64%) in the two subject leases.

One of Chevron's exhibits demonstrated that the Canadian, SW. (Granite Wash) Field has generally been developed on 320-acre density. There has apparently not been any effort by the six operators in the field to drill wells on greater density. Except for one marginal well, operated by Crescendo Resources, that is assigned 40 acres, all the wells have at least 200 acres assigned. Samson's witness agreed that the current density is essentially one well per 320 acres.

Chevron also submitted a copy of the operating agreement that covers the Isaacs 209 and 210 leases. One paragraph of the agreement requires "the mutual consent of all parties" before a proposed well can be completed in any source of supply from which a well located elsewhere in the unit is producing. Chevron argues that since it is opposed to the proposed wells, there is no "mutual consent of all parties", therefore the wells cannot be drilled.

EXAMINERS' OPINION

Exceptions to Statewide Rule 38 may be granted to prevent waste or to protect correlative rights/prevent confiscation. The applicant has not described any unusual conditions under the Isaacs 209 and 210 leases which would justify an exception based on waste.

To obtain an exception to Statewide Rule 38 to protect correlative rights, the applicant must show that, absent the exception, it will be denied a reasonable opportunity to recover its fair share of minerals under the tract in question. Applicant's evidence that the Isaacs 209 Lease will suffer legal confiscation of 16,813 MMCF of gas and the Isaacs 210 Lease will suffer legal confiscation of 6,987 MMCF of gas absent the exception wells was uncontroverted. The proposed locations comply with the existing field rules regarding distances from lease lines and between wells. Protestant Chevron did not dispute the reasonableness of the locations. Samson is entitled to its applied-for exceptions to Statewide Rule 38 based on protection of correlative rights/prevention of confiscation.

Chevron believes that Samson does not have a good faith claim to propose or drill the applied-for wells. Samson counters that it does have a good faith claim as an interest owner in the unit and relies on Section 12 of the operating agreement, which allows non-operators to propose the drilling of wells and allows the operator and other non-operators to go non-consent if they wish. Chevron asserts that this right is denied to Samson by the language in a later clause in the agreement

which states:

> Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

Chevron Exhibit No. 2.

Chevron argues that because it does not consent to the proposed wells, there is no consent of all parties and the wells cannot be drilled. Samson replies that Chevron's consent is not needed if the proposed wells comply with the "unless" clause in the disputed paragraph. Samson asserts that the proposed wells are consistent with the quoted paragraph for two reasons. First, Samson argues that the term "well-spacing pattern" is ambiguous and can be interpreted to apply only to spacing distances; i.e., distances to lease-lines and between wells. Because the applied-for well locations comply with the field rules as to spacing distances, there is no conflict with the paragraph cited by Chevron. Second, Samson argues that even if the term "well-spacing pattern" includes both spacing distances and density, if the Railroad Commission approves the exception applications the wells would then be in compliance with the well-spacing pattern, and again there would be no conflict with the cited paragraph.

Chevron counters that the term "well-spacing pattern" does include both spacing distances and density and that density exceptions from the Railroad Commission do not mean that the locations are in compliance with the existing well spacing pattern. This dispute can only be finally resolved by determining the parties' rights under the terms of the operating agreement. It is unnecessary for the Commission to do this as an applicant for a permit is only required to show that it has a good faith claim to a legal right to undertake the operations for which it seeks a permit. "The function of the Railroad Commission in this connection is to administer the conservation laws. When it grants a permit to drill a well it does not undertake to adjudicate questions of title or rights of possession. These questions must be settled in the courts." Magnolia Petroleum Co. v. Railroad Commission, 170 S.W.2d 189, 191 (Tex. 1955). Chevron has the option of going to District Court and seeking a judicial interpretation of the terms of its operating agreement.

Chevron does not dispute the fact that Samson has an approximate 6% interest in Sections 209 and 210 of the Isaacs Lease. Given the 6% interest and Samson's posited reasonable interpretation of the operating agreement, Samson has demonstrated at least a good faith claim to a legal right to undertake the drilling operation which it proposes.

Based on the record in this docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. Notice of hearing was given on December 21, 1998 to all designated operators, lessees of record for tracts that have no designated operator, and owners of record of unleased mineral interests for each adjacent tract and each tract nearer to the well than the prescribed minimum lease-line spacing distance.

2. Applicant Samson Lone Star LP ("Samson" or "Applicant") has applied for exceptions to Statewide Rule 38 to drill the Isaacs 210 Lease Well No. 8 and the Isaacs 209 Lease Well Nos. 8 and 9, Canadian, SW. (Granite Wash) and Wildcat Fields, Hemphill County, Texas.

3. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed or have occurred.

4. Samson's primary objective is the Canadian SW. (Granite Wash) Field. Applicant would not drill the wells with the Wildcat Field as the sole objective.

5. The field rules for the Canadian SW. (Granite Wash) Field require 660 foot lease-line spacing and 1320 between-well spacing on 640 acre units with a 320 acre option.

6. Samson seeks Statewide Rule 38 exceptions to drill Well No. 8 on the Isaacs 209 Lease and Well Nos. 8 and 9 on the Isaacs 210 Lease.

   a. There are two existing wells on the Isaacs 209 Lease producing from the Canadian SW. (Granite Wash) Field. The lease consists of 671.03 acres.

   b. There are two existing wells on the Isaacs 210 Lease producing from the Canadian SW. (Granite Wash) Field. The lease consists of 630 acres.

   c. The applied-for well locations are regular as to lease-line and between well spacing.

   d. The applied-for locations will not affect other wells, either on-lease or off-lease.

7. The Isaacs 209 Lease originally had 22,852 MMCF (22.8 BCF) of recoverable gas in place. The existing wells on the lease, the Isaacs No. 1-209 and the Isaacs No. 4-209, are expected to recover 6,039 MMCF (6.039 BCF) prior to their abandonment. There has been no significant drainage of the Canadian SW. (Granite Wash) reserves from the lease by offset wells. Thus, 16,813 MMCF (16.81 BCF) of currently recoverable gas will not be recovered by the existing wells on the lease.

8. The Isaacs 210 Lease originally had 15,169 MMCF (15.16 BCF) of recoverable gas in place. The existing wells on the lease, the Isaacs No. 1-210 U and the Isaacs No. 3-210, are expected to recover 8,182 MMCF (8.18 BCF) of gas prior to their abandonment. There has been no significant drainage of Canadian SW. (Granite Wash) reserves from the lease by

offset wells. Thus, 6,987 MMCF (6.98 BCF) of currently recoverable gas will not be recovered by the existing wells on the lease.

9. Without the applied-for exceptions, recoverable reserves of 16.81 BCF beneath the Isaacs 209 Lease and recoverable reserves of 6.98 BCF beneath the Isaacs 210 Lease cannot be recovered by the mineral interest owners of those leases.

10. Offset wells on adjacent leases are at least regular to the subject leases and have drained little, if any, of the gas in place beneath the Isaacs 209 and 210 Leases.

11. Samson is not the operator of the Isaacs 209 and 210 Leases, but has slightly less than 6% working interest in each of the leases.

12. Section 12 of the operating agreement governing the Isaacs 209 and 210 Leases contains a provision allowing non-operators to propose and drill wells on the leases without the consent of the operator, under certain conditions.

13. Section 12 of the operating agreement is ambiguous. The provision may reasonably be interpreted as authorizing Samson to propose and drill the applied-for wells without the consent of the operator of the leases.

CONCLUSIONS OF LAW

1. Proper notice was timely given to all parties legally entitled to notice.

2. All things have occurred and have been done to give the Commission jurisdiction to decide this matter.

3. Exceptions pursuant to Statewide Rule 38 to the field rules are necessary to permit drilling the three applied-for wells.

4. Samson has a good faith claim to the legal right to drill the three applied-for wells on the Isaacs 209 and 210 Leases.

5. Approval of the requested permits to drill Well No. 8 on the Isaacs 209 Lease and Well Nos. 8 and 9 on the Isaacs 210 Lease is necessary to give the owners of the Isaacs 209 and Isaacs 210 Leases a reasonable opportunity to recover their fair share of hydrocarbons from the Canadian, SW. (Granite Wash) Field underlying the leases, or the equivalent in kind, thereby preventing confiscation.

RECOMMENDATION

The examiners recommend that Applicant's request for exceptions to Statewide Rule 38 for its Well No. 8 on the Isaacs 210 Lease and Well Nos. 8 and 9 on the Isaacs 209 Lease in the Canadian, SW. (Granite Wash) and Wildcat Fields be granted.

Respectfully submitted,

Marshall F. Enquist
Hearings Examiner

Margaret Allen
Technical Examiner

MFE