
* KEY ISSUES: _____ *
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* FINAL ORDER: WITHDRAWN & SETTLED PER ADM *

**RULE 37 CASE No. 0201136
PROPOSAL FOR DECISION**

AN APPLICATION BY REYNOLDS DRILLING COMPANY FOR AN EXCEPTION TO
STATEWIDE RULE 37 FOR ITS WELL No. 1, DAVY CROCKETT, N.E. (GLENROSE) AND
WILDCAT FIELDS, HOUSTON COUNTY, TEXAS

APPLICANT: Reynolds Drilling Company
FOR APPLICANT: Tim George, Bret Hammett, John M. Eiche, Jr.

PROTESTANT: UMC Petroleum Company
FOR PROTESTANT: Flip Whitworth, Jonathan Goodale

HEARINGS EXAMINER: Dwight Martin
TECHNICAL EXAMINER: Willis C. Steed, P.E., Director of Technical Hearings

PROCEDURAL HISTORY

APPLICATION FILED: 1-25-93	TRANSCRIPT DATE: 5-12-93
HEARING NOTICE DATE: 2-26-93	PFD CIRCULATION DATE: 8-2-93
HEARING DATE: 4-27-93	CURRENT STATUS: Protested

STATEMENT OF THE CASE

The Marie Shirey Lease is a 63.7 acre separate tract located in Houston County. The lease is coextensive with the D.C. Kenley Survey, A-1389, made in 1923 when the tract was patented by the state to D.C. Kenley. Applicant seeks an exception to Tex. R.R. Comm'n, 16 TEX. ADMIN.

CODE § 3.37 (Statewide Rule 37) to prevent confiscation, and proposes to drill the first well on the tract at a location 150 feet from the southerly north line and 467 feet from the east line of both the lease and the survey to the Davy Crockett, N.E. (Glenrose) and Wildcat Fields. Field rules require a 467 foot lease-line spacing for both fields. Protestant owns the tract to the immediate north of the Applicant's tract. The target formation is a depletion-driven Glen Rose limestone.

No well has ever been drilled on Applicant's tract. The tract has not been subdivided since it was patented from the State of Texas in 1923. Applicant will not be able to obtain any of the estimated 40,300 barrels of recoverable oil in place under its tract from any existing well. Applicant is entitled to a well on its tract.

Applicant's tract is an irregularly shaped parcel consisting of a nearly rectangular 649-foot-wide main body running east to west with two panhandles, one attached to the southeastern corner and running southward, and one to the northeastern corner running northward. The proposed location is within the main body, 150 feet south of Protestant's tract and 467 feet from the eastern boundary of the Applicant's tract, and would drain the Protestant. Protestant suggests an alternate location about 175 feet to the south of the proposed location, along the east-west centerline of the main body of the tract, and, like the proposed location, 467 feet from the east line of the tract. This alternate location, which would also drain the Protestant, is in the middle of a creekbed; to avoid the problems that would be encountered there, Protestant suggests, and Applicant resists, slant-drilling a well from the proposed surface location to Protestant's alternate bottom hole location. Applicant also resists moving his well to the west, toward a more geometrically central location, on the grounds that drillable locations in that direction are too far away from existing wells and would amount to a wildcat.

According to the Applicant, both the proposed and alternate locations will be 10-15 feet low to the discovery well in the field, the Strago-Harrelson Well No. 1 located about 2800 feet to the east. Protestant's structure maps, on the other hand, show that both the proposed and alternate locations will be very slightly high to the Strago-Harrelson well. The parties agree, however, that structural position in this case is far less important than porosity and permeability.

Applicant displayed both the "B" and the "C" zones of the Glen Rose formation in a single isopach map, which indicates that the proposed location will encounter between nine and ten feet of net pay, while Protestant's alternate location is predicted to encounter between seven and eight feet of net pay. Applicant feels that a minimum of eight or nine feet of net pay is necessary for an economic well, but gave no substantive analysis in support of this conclusion, and admitted that this estimate was based mainly on the fact that each of the two productive wells in the field have between eight and nine feet of net pay.

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Protestant separately mapped the "B" and "C" zones of the target formation; according to Protestant, the proposed location will encounter about nine feet of net pay, and the alternate location slightly more, but still less than ten.

Applicant did not estimate the ultimate recovery of a well at either the proposed or the alternate location; Protestant estimated that either well would ultimately recover about 188,000 barrels of oil.

Applicant testified that drilling at the alternate location, in the channel of a creek, would involve prohibitive extra costs, but supplied no specific figures. Applicant also testified that the drilling and operating costs of a well directionally drilled from the proposed surface location to the Protestant's alternate location would be prohibitive, but, again, supplied no figures. Protestant, on the other hand, introduced two AFEs for the proposed well, one for a straight hole and the other for a slant hole; the AFEs showed that either well would be economic, with a projected straight-hole payout period of seven months and a projected slant-hole payout period of eight months.

EXAMINERS' OPINION

Unlike a location at the geometric center of a substandard tract, the proposed location cannot be presumed reasonable; Applicant must justify the location by showing that it is necessary to enable the recovery of the Applicant's fair share of the hydrocarbons underlying the tract. Because there will be no difference in projected recovery between the proposed and the alternate locations, and because the only evidence in the record is that either well will be economic, the application should be granted conditioned on completion at the bottomhole location suggested by the Protestant in order to protect the Protestant's correlative rights.

PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

Findings of Fact

1. Notice of hearing was sent on February 26, 1993, to all designated operators, lessees of record for tracts having no designated operator, and owners of record of unleased mineral interests, for each adjacent tract and each tract nearer than 467 feet to Applicant's proposed well.
2. Applicant has applied on Forms W-1 and W-1-A to drill well No. 1 on its Marie Shirey lease at a location 150 feet from the north line of the lease and the D.C. Kenley Survey, and 467 feet from the east line of the lease and survey. Proposed completion is in the Glen Rose Formation of the Davy Crockett, N.E. Field and in the Wildcat Field. Applicant proposes a total depth of 7900 feet. Field rules for both fields require a lease-line spacing of 467 feet.

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3. The lease is coextensive with the survey, and took its present size (63.7 acres) and shape on November 6, 1923; at that time, no field rules existed in the Davy Crockett, N.E. Field. Current rules require 160 acres per well in the Davy Crockett, N.E. Field, and 40 8acres in the Wildcat.
4. There is no regular location on the Applicant's tract.
5. The Applicant's lease is underlain by about 40,300 barrels of recoverable oil. The proposed well would recover about 188 thousand barrels of oil; a well at Protestant's alternate location 325 feet south of the north lease line (175 feet south of the proposed location) would be more nearly geometrically central within Applicant's tract and would also produce about 188 thousand barrels of oil.
6. A well at either location would drain the Protestant's acreage to the north of Applicant's tract, but Protestant's alternate location would involve less drainage. Protestant's alternate location is reasonable and will allow the Applicant economically to recover its fair share of the hydrocarbons underlying its tract.
7. The alternate location suggested by the Protestant is in the middle of a creek bed; the drilling of a well at that location would be more expensive than the drilling of a well at the proposed location. Applicant did not quantify the additional expense. The additional cost involved in drilling a slant hole from the proposed surface location to the alternate bottomhole location would be \$76,000.00. This additional cost would lengthen the payout time of the well from a total of seven to a total of eight months of production. Applicant also claimed, but failed to quantify, extra production costs involved in rod-pumping a directional well.
8. The Applicant is not receiving its fair share equivalent of the oil in place under its tract through participation in any other well in the field.

Conclusions of Law

1. Timely and legally sufficient notice was given to all persons legally entitled thereto.
2. Applicant properly filed Railroad Commission Forms W-1 and W-1-A.
3. The Railroad Commission has jurisdiction over the Applicant, the Protestant, and the subject matter of the application.
4. The 63.7 acre Marie Shirey Lease is a legal subdivision.
5. Applicant is entitled to an exception to Statewide Rule 37 to prevent confiscation.
6. Approval of a permit to drill at the proposed location is not necessary to give Applicant a reasonable opportunity to recover its fair share of the hydrocarbons underlying its lease.

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7. Protestant's alternate location is reasonable and will allow the Applicant economically to recover its fair share of the hydrocarbons underlying its tract.

RECOMMENDATION

The examiners recommend a conditional grant of the application as set forth in the attached Final Order.

Respectfully submitted,

Willis Steed, P.E.
Technical Examiner

Dwight Martin
Hearings Examiner