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* KEY ISSUES: Confiscation *
* Legal subdivision *
* Reasonable location *
* * * * *
* FINAL ORDER: R37 EXCEPTION GRANTED *

RULE 37 CASE NO. 0202991

APPLICATION OF SONAT EXPLORATION COMPANY - TYLER FOR AN EXCEPTION TO STATEWIDE RULE 37 FOR ITS WELL NO. 1, LEVERETTE LEASE, 99 ACRES, DANIEL CLARK SURVEY, A-162, WILDCAT AND OAK HILL (COTTON VALLEY) FIELDS, RUSK COUNTY, TEXAS

APPEARANCES:

APPLICANT:

Mike Bellar
Ed Westergaard
Mark Cox
George C. Neale, Attorney

REPRESENTING:

Sonat Exploration Company

PROTESTANTS:

Jim Cowden, Attorney

The Long Trusts

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

NOTICE OF APPLICATION:

August 31, 1993

DATE OF HEARING:

October 29, 1993

TRANSCRIPT RECEIVED:

November 15, 1993

PFD CIRCULATED:

February 22, 1994

HEARD BY:

Jim McDougal, Hearings Examiner
Doug Johnson, P.E., Technical Examiner

STATEMENT OF THE CASE

This is a Rule 37 exception application of Sonat Exploration Company - Tyler (Sonat) to drill Well No. 1 on its Leverette Lease in the Wildcat and Oak Hill (Cotton Valley) Fields, Rusk County, Texas. The Leverette Lease consists of 99 acres. Field rules for the Oak Hill (Cotton Valley) Field are: lease line spacing of 933'; between well spacing of 1,867' and 640 acre standard gas proration units with optional 160 acre fractional units. Field rules for the Wildcat Field are statewide. The proposed location of Well No. 1 is: 799' from south line and 933' from east line of lease; 799' from south line and 1732' from west line of survey. The proposed well is to be completed at an approximate depth of 11,200 feet. Sonat based this application on confiscation.

This application is protested by The Long Trusts, an eastern offset lessor.

The examiners are of the opinion that Sonat proved its need for a Rule 37 exception and therefore recommend that Sonat's application be granted.

DISCUSSION OF THE EVIDENCE

APPLICANT'S EVIDENCE

The subject lease is a substandard 99 acre tract that is diagonally bisected (southwest to northeast) by a pipeline right-of-way. The subject tract is a legal subdivision in that it took its present size and shape by virtue of a deed dated October 3, 1910. Field rules for the Oak Hill (Cotton Valley) Field became effective in November of 1976. Due to the size and shape of the tract, there is no regular location and a location at the geometric center of the subject tract is not feasible because the pipeline easement traverses that point. Exxon operates the pipeline easement and prohibits any surface construction any closer to the pipeline than 100 feet. Under these circumstances, the proposed location is near the geometric center of the lease and therefore is a reasonable location. In addition, the proposed location is structurally updip to alternative drillable locations away from the pipeline.

The proposed well is the first well on the tract. Although Sonat operates some of the offsetting leases, mineral ownership of the subject tract differs in part from the mineral ownership of surrounding tracts.

The subject tract has recoverable reserves of approximately 1.5 BCF of gas. Based on a linear regression of the ultimate recovery of wells versus their structural position in the field, a well at the proposed location will recover approximately 107 MMCF more gas than a well drilled at an alternative downdip location.

PROTESTANT'S EVIDENCE

This application was protested by The Long Trusts who is the lessor of a substandard tract to the east of the subject tract. The Protestant did not present a direct case, but limited itself to cross-examination of Applicant's witnesses. Protestant's primary attack against this application was that Applicant did not need the proposed well because it was recovering its fair share from surrounding tracts.

Protestant's second argument was that Applicant could locate the proposed well on the northwest side of the easement and thus be a greater distance from Protestant's mineral acreage. The proposed location is regular with respect to Protestant.

EXAMINERS' OPINION

The examiners are of the opinion that Sonat should be granted its application for an exception to Statewide Rule 37.

The Protestant's arguments are not accepted by the examiners. Protestant's first argument is that Sonat is receiving its fair share from surrounding tracts. This argument fails to consider the fact that mineral ownership is sufficiently distinct between the applied for tract and surrounding tracts that in the absence of the proposed well, some mineral owners' minerals would not be recovered by them and thus they would suffer confiscation.

Protestant's second argument about the location of the well merely points out an alternative location to a more reasonable location. In light of the fact that the proposed location is structurally high, thereby allowing for the most efficient recovery of hydrocarbons, and near the center of the tract, the examiners reject Protestant's second argument.

For the above stated reasons, the examiners recommend the Railroad Commission grant Sonat's application for an exception to Statewide Rule 37.

FINDINGS OF FACT

1. At least 10 days' notice was given to all affected persons, who include: the designated operator; all lessees of record for tracts that have no designated operator; and all owners of record of unleased minerals interests.
2. This application is for an exception to Statewide Rule 37 to drill Well No. 1 on the Leverette Lease, Wildcat and Oak Hill (Cotton Valley) Fields, Rusk County, Texas. Applicable field

rules in the Oak Hill (Cotton Valley) Field are lease line spacing of 933', between well spacing of 1867' and 640 acre units with optional 160 acre fractional units. Field rules for the Wildcat Field are statewide.

3. The subject lease is a substandard 99 acre tract that is diagonally bisected (southwest to northeast) by a 100' pipeline right-of-way. The proposed location is 933' from the east lease line and 799' from the south lease line. There is no regular location available on the subject tract.
4. The subject tract is a legal subdivision in that it took its present size and shape by virtue of a deed dated October 3, 1910. Field rules for the Oak Hill (Cotton Valley) Field became effective in November of 1976. The proposed well will be the first well on the subject tract.
5. The proposed location is reasonable.
 - a. A location at the geometric center of the subject tract is not feasible because the pipeline easement traverses that point. Exxon operates the pipeline easement and prohibits any surface construction any closer to the pipeline than 100 feet.
 - b. The proposed location is near the geometric center of the lease.
 - c. The total recoverable hydrocarbon reserves underneath the subject tract is 1.5 BCF. A well at the proposed location will recover 1.4 BCF.
6. Mineral ownership of the subject tract differs, in part, from the mineral ownership of surrounding tracts. Therefore, the mineral interest owners of the subject tract will not, in all cases, have an opportunity to recover their fair share of hydrocarbons from surrounding tracts.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred and have been done to give the Commission jurisdiction to decide this matter.
3. The applicant has met its burden to show that the proposed well is necessary to provide the applicant an opportunity to recover their fair share of hydrocarbons or equivalent in kind.

EXAMINERS' RECOMMENDATION

The examiners recommend that Sonat's application for an exception to Statewide Rule 37 for its Well No. 1 on its Leverette Lease in the Wildcat and Oak Hill (Cotton Valley) Fields, Rusk County, Texas be granted.

Respectfully submitted,

Jim McDougal
Hearings Examiner

Doug Johnson, P.E.
Technical Examiner

JFM/ds