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\* KEY ISSUES: WASTE \*  
\* Failure to refute regular \*  
\* location; uneconomic locations \*  
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\* FINAL ORDER: R37 EXCEPTION DENIED \*  
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**RULE 37 CASE NO. 0206539**

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**APPLICATION OF VALENCE OPERATING COMPANY FOR AN EXCEPTION TO  
STATEWIDE RULE 37 TO DRILL ITS NO. 2 WELL, HOLCOMB "C" LEASE, OAK  
HILL (COTTON VALLEY) AND WILDCAT FIELDS, RUSK COUNTY, TEXAS**

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**APPEARANCES:**

**REPRESENTING:**

**APPLICANT**

Michael Moloney  
Stephen M. Manning  
David L. Willis

Valence Operating Company  
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**PROTESTANT**

James Bostic  
Larry Davis  
A. Andrew Gallo  
Bruce B. Rowley

Mustang Drilling, Inc.  
"  
Amoco Production Company  
"

**PROCEDURAL HISTORY**

<b>Application Filed:</b>	September 8, 1994
<b>Notice of Hearing:</b>	October 3, 1994
<b>Hearing Held:</b>	November 2, 1994
<b>PFD Circulated</b>	December 20, 1994
<b>Heard by:</b>	Larry Borella, Hearings Examiner Charles Dickson, P. E. Technical Examiner

### **STATEMENT OF THE CASE**

Valence Operating Company ("Valence") seeks a permit to drill its Holcomb "C" Well No. 2, Oak Hill (Cotton Valley) and Wildcat Fields, at a location 660 feet from the south line and 660 feet from the southern most west line of the 627 acre unit. Field rules require a lease/unit line offset of at least 933 feet. Valence asserts that the exception is necessary because of surface location constraints. The application is protested by Mustang Drilling, Inc. ("Mustang") and Amoco Production Company ("Amoco").

### **APPLICANT'S EVIDENCE AND POSITION**

Valence's evidence is summarized as follows. Numerous surface obstructions (archeological sites, surface coal mining operations, etc.) exist on the unit which must be taken into consideration when selecting a surface location. Considering these factors, the applied-for location is the preferred location. A regular location 933 feet from the unit lines is closer to Mill Creek and more likely to flood. While drilling a deviated hole is possible, the additional cost (estimated to be \$150,000) and risks associated with the drilling and fracturing a deviated hole are an unacceptable burden on Valence.

Using reservoir parameters and production history from offset wells, Valence calculates that the recoverable reserves in the 151 acres surrounding the applied-for well contain 5.2 BCF of recoverable gas.

Valence argues that drilling the applied-for well at a regular location will cause future wells to be situated, because of between well spacing requirements coupled with surface constraints, in uneconomic locations and prevent the "orderly economic development" of the 151 acres.

### **PROTESTANTS' EVIDENCE AND POSITION**

Protestant Mustang Drilling, Inc. ("Mustang") asserts that the subject field is a blanket sand whose reservoir parameters are not likely to change between the applied-for location and the closest regular location. Furthermore, there are numerous regular locations available to Valence and no unusual conditions exist that would lead to waste if the applied-for location is not granted.

Mustang and Amoco Production Company ("Amoco") operate offsetting wells to the south and southwest of the applied-for location. Mustang's and Amoco's wells are the best wells in the vicinity and Valence is simply trying to get as close as possible to these wells in hopes of duplicating their success. Furthermore, wells in Oak Hill (Cotton Valley) Field require massive fracturing and the resulting fracture orientation tends to be in a northeast-southwest direction. If the applied-for location is granted and the subject well "fraced", Valence will drain gas from the protestants' tracts. Neither Amoco's nor Mustang's wells are draining gas from Valence's tract.

The applied-for location and a regular location 933 feet out of the southwest corner of the unit are similar in elevation and site quality and the regular location has easier access from a county road. The estimated cost of building drilling locations on the two sites is essentially the same.

### **EXAMINERS' OPINION**

Exceptions to Statewide Rule 37 can be granted on a showing of waste or confiscation. To receive an exception based on waste, the applicant must show, inter alia, that a substantial amount of hydrocarbons will be forever lost if the exception is not granted. Valence did not make such a showing.

To receive an exception based on confiscation, the applicant must show that, absent the exception, it will not be afforded a reasonable opportunity to recover the hydrocarbons under its tract. Valence also failed to meet this burden. Numerous regular locations exist on the subject tract. Valence acknowledged that a well at a regular location 933 feet out of the southwest corner of the lease, would have the same anticipated ultimate recovery from the Oak Hill (Cotton Valley) Field as a well drilled at the applied-for location. No evidence concerning the Wildcat Fields was presented. Valence prefers the exception surface location because Valence believes it to be less prone to flooding from a nearby creek. However, according to a survey conducted by Valence, the regular location is only 2 feet lower than the exception location. Valence did not know if the area was included in the FEMA flood plain and presented no data concerning the probability of flooding. Nor did they estimate the additional cost associated with building a drilling pad sufficiently thick to compensate for the lower elevation. Additionally, Valence could drill a directional well from the applied-for location to a regular bottom hole location at an additional cost of approximately \$150,000. Valence is entitled to a reasonable opportunity to recover its tract's hydrocarbons, they are not entitled to maximize economic return at the expense of the field rules.

Valence also considers the applied-for location necessary to facilitate the "orderly economic development" of the tract. Valence argues that the applied-for location is necessary so that their next well can be drilled at the most desirable location. It appears that Valence wants the applied-for exception so that a future well can be regular. This argument is backwards. If Valence drills a regular well and finds that another well is necessary but can't be drilled at a regular location, that is the time to prove the need for an exception.

### **FINDINGS OF FACT**

1. On October 3, 1994, notice of hearing was given 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. Valence Operating Company ("applicant") has applied on Form W-1 for a permit to drill well No. Holcomb "C" Well No. 2, Oak Hill (Cotton Valley) and Wildcat Fields, at a location 660 feet from the south line and 660 feet from the southern most west line of the 627 acre unit.
3. Applicant's Holcomb "C" Lease is a tract of regular size and shape.
4. Regular locations exist on the subject tract that give the applicant a reasonable opportunity to recover the tract's reserves.
5. Reservoir conditions at the applied-for location and at the nearest regular location are indistinguishable.
6. The estimated recovery from a well at the applied-for location and from a well at the nearest regular location is the same.
7. An exception to the lease line spacing rules for the applied for fields is not necessary to give the mineral interest owners a reasonable opportunity to recover their fair share of hydrocarbons from the subject tract.

#### **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. Approval of a permit to drill a well at the proposed location is not necessary to give owners of the subject tract a reasonable opportunity to recover their fair share of hydrocarbons in the applied-for field.
4. The proposed location is not a necessary location because regular locations exist that will give the mineral interest owners of the unit a reasonable opportunity to recover their fair share of hydrocarbons in the applied-for field.
5. Denial of the applied-for application will not cause waste.

**RECOMMENDATION**

The examiners recommend that the subject application be denied.

Respectfully submitted,

Larry Borella  
Hearings Examiner

Charles Dickson, P.E.  
Technical Examiner

LGB