
* KEY ISSUES: Waste *
* Existing vertical well re- *
* entered for horizontal well *
* Exxon criteria applied *
* *
* FINAL ORDER: R37 EXCEPTION APPROVED *

RULE 37 CASE NO. 0208524

APPLICATION OF BEXCO OPERATING, INC. FOR A RULE 37 EXCEPTION TO DRILL WELL NO. 2, MANCUSO UNIT #2 LEASE, GIDDINGS (AUSTIN CHALK-3), GIDDINGS (AUSTIN CHALK, GAS) AND WILDCAT FIELDS, BRAZOS COUNTY, TEXAS

APPEARANCES:

FOR APPLICANT:

Jim Cowden (Attorney)
William E. Connatser, Jr.
Bill Maloy

APPLICANT:

Bexco Operating, Inc.

FOR PROTESTANT:

Joe Christina (Attorney)

PROTESTANT:

Inferno Snuffers, Inc.

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:	April 10, 1995
NOTICE OF HEARING:	May 19, 1995
HEARING DATE:	June 15, 1995
TRANSCRIPT RECEIVED:	June 29, 1995
HEARD BY:	Meredith Kawaguchi, Legal Examiner Donna Chandler, Technical Examiner
PFD CIRCULATION DATE:	August 3, 1995
CURRENT STATUS:	Protested

STATEMENT OF THE CASE

Bexco Operating, Inc. has filed an amended application to drill Well No. 2 at a Rule 37 location on the Mancuso Unit #2 in Brazos County. The well was permitted at a regular location in late 1994. After drilling this horizontal well, Bexco discovered in early 1995 that the point at which the well had penetrated the target horizon, the Austin Chalk at approximately 13,000 feet, was 344 feet from the nearest lease line rather than the permitted distance of 467 feet.

This well is the first well on a 400 acre unit. Field rules for the applied-for fields, Giddings (Austin Chalk, Gas), Giddings (Austin Chalk-3), and Wildcat, require lease-line spacing of 467' and between-well spacing of 1200'.

Inferno Snuffers, Inc. ("protestant") is the unleased mineral owner of a ten acre tract that abuts the Mancuso Unit #2. The Mancuso Well No. 2, at its closest point, is 1100 feet from Inferno Snuffers' property line.

Bexco's direct case consisted of evidence to prove that use of this existing wellbore is necessary to prevent physical waste of hydrocarbons. Bexco also presented evidence to show that Inferno Snuffers' tract would be unaffected by approval of Bexco's Rule 37 application. Inferno Snuffers did not present any evidence.

DISCUSSION OF THE EVIDENCE

Well No. 2 was completed as a horizontal well in late 1994. Due to a past problem with high water (the Navasota River is the Unit's northern border), Bexco placed the well's surface location 233' from the southern boundary. The well was drilled vertically to a depth of approximately 13,000' before the lateral length was begun. Historically, as a well is drilled vertically in the Austin Chalk, the bit drifts in an updip direction, i.e. in a northwest direction. Relying on this fact, Bexco believed that by the time it penetrated the Austin Chalk, it would be at a regular location 467 feet from the unit boundary. But instead of the bit drifting in a northwest direction, it traveled more to the west. Ultimately, the penetration point was 123 feet short of a legal location, i.e. 344 feet off the unit line. Bexco is seeking an amended permit so it can produce the well as drilled.

Bexco intended to drill a lateral length of 3700'. However, it was only able to achieve a lateral length of 757' before the well encountered a fault. The well began producing in mid-February 1995 and declined rapidly. The well has been shut-in since May 5, 1995. Currently, the well is not capable of producing enough gas to overcome the line pressure in the high pressure gas line to which the well is connected. Cumulative production has been 84 million cubic feet ("MMCF"). The gas is dry, without much condensate or oil content.

The well will likely not be commercial. Estimated ultimate production is 1/2 to 1 billion cubic feet ("BCF"). The cost to drill the well was \$1,350,000. The current price Bexco receives for the sale of gas is \$1.35 per thousand cubic feet ("MCF"). If Bexco produces 1 BCF and sells it at \$1.35 per MCF, its gross revenue, with a 75% net revenue interest, will be \$900,000.

Bexco asserts that, given the existing well's unprofitability, investors will not be willing to expend additional funds to sidetrack the well to a legal location or to drill a new well at a legal location. If its application is denied, Bexco indicated it would have to abandon the well.

Well No. 2 will not affect the Inferno Snuffers' tract. The well is drilled perpendicular to the fracture system. The fractures run in a northeast to southwest direction. None of the fracture system that is accessible to Well No. 2 is under Inferno Snuffers' property, which lies northwest of the drainage zone. Well No. 2 is, at its closest point, 1250 feet from the boundary of the only offset tract which could be affected by Well No. 2. The tract that Bexco crowds at 344 feet will not be affected, because it lies south of the fracture system in question. The effect on offset tracts would not change if the well's penetration point were 123 feet further north. In fact, the first productive fracture the well encountered was 500 feet from the unit boundary.

EXAMINERS' OPINION

Bexco's evidence demonstrates that Inferno Snuffers' tract will not be affected by a well at the existing location or a well at the permitted regular location. When an application is not protested by any affected person, ordinarily the applicant does not need to prove the Rule 37 exception is necessary to prevent waste or confiscation. In this case Bexco has submitted proof that physical waste of a substantial amount of gas will occur if this application is denied.

The applicant has met the test set forth in the Schlachter and Exxon cases for approval of a Rule 37 exception for an existing wellbore to prevent waste. Schlachter v. Railroad Commission of Texas, 825 S.W.2d 737 (Tex. App.-Austin 1992, writ denied); Exxon Corp. v. Railroad Commission of Texas, 571 S.W.2d 497 (Tex. 1978). First, the existing wellbore will recover oil reserves that cannot be produced by any other existing well. Second, it is not economically feasible to drill at a regular location. Bexco has shown that the well in question will not be economically feasible at either the Rule 37 or regular location. In addition, the subject well was drilled in good faith and not as a subterfuge to bolster a later Rule 37 exception. The examiners are of the opinion that waste of approximately 1 BCF will be avoided if Bexco is granted a Rule 37 exception to produce existing Well No. 2.

Bexco produced the well from February to May 1995 knowing the well was at an irregular, unpermitted site. The well has been shut-in since May 1995. The well produced 84,350 MCF. Ordinarily, the examiners would recommend that the Commission require Bexco to keep the well shut-in until the 84,350 MCF of gas produced from the well is made up. In this instance, there

appears to be no point in additional shut-in time. Since no other existing well can produce the gas that the applied for well will produce, a shut-in period will simply delay production without benefit to any offset interest and may cause damage to the well.

FINDINGS OF FACT

1. At least ten (10) days notice of this hearing was given to the designated operator, all lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests for each tract adjacent to the lease and each tract nearer to the well than the prescribed minimum lease line spacing distance.
2. The application for a Rule 37 exception was filed properly by Bexco Operating, Inc. ("applicant") on Form W-1 (Application to Drill, Deepen, Plug Back or Re-enter).
3. The applicant seeks an exception to Statewide Rule 37 for an existing wellbore, horizontal Well No. 2, the only well on the 400 acre unit.
4. The applicant proposes to complete the well in the Giddings (Austin Chalk-3), Giddings (Austin Chalk, Gas) and Wildcat (above 15,000') Fields. Field rules require the well to be 467' from the nearest lease line.
5. The well is 344' from the nearest lease line.
6. Inferno Snuffers, Inc., an offset mineral owner, protested the application.
7. The well has a lateral length of 757'.
8. The gas that can be produced from Well No. 2 cannot be produced by any other existing well.
9. It is not economically feasible to attempt a recompletion at a regular location or to drill a new well.
 - a. Well No. 2's estimated ultimate production is 1 BCF.
 - b. The current price applicant receives for the sale of gas from Well No. 2 is \$1.35 per MCF.
 - c. The applicant's net revenue from Well No. 2, based on 1 BCF of production, the current sales price, and Bexco's 75% revenue interest, will be \$900,000.

- d. The cost to drill the subject well was \$1,350,648.
 - e. The cost to recomplete the well at a regular location ranges from \$120,000 to \$400,000.
 - f. The reserves available at a regular location would be the same as, or slightly less than the reserves available at the Rule 37 location.
10. The subject well was drilled in good faith and not as a subterfuge to bolster a later Rule 37 exception.
- a. Placement of the surface location at 233' from the unit boundary was necessary to avoid rising water from the Navasota River.
 - b. Historically, the drill bit in the Austin Chalk travels updip to the northwest; in this instance, the bit traveled in a more westerly direction during vertical drilling to 13,000'.
 - c. The applicant did not gain any significant advantage by penetrating the Austin Chalk 344' rather than 467' from its unit boundary.
11. Production by Well No. 2 will not affect Inferno Snuffers or affect to any substantial degree any other offset operator or mineral owner.
- a. The fractures from which the well will drain do not underlie Inferno Snuffers' ten acre tract.
 - b. The boundary of the only offsetting lease potentially within the well's drainage zone is 1250' from the wellbore at its closest point.
 - c. The first productive fracture encountered by the well is no closer than 500' from the unit boundary.
12. The applicant produced 84,350 MCF from the subject well without a valid permit.

CONCLUSIONS OF LAW

- 1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.

2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. The applied for Rule 37 exception is necessary to prevent waste.

RECOMMENDATION

The examiners recommend that Bexco's Rule 37 exception application be granted.

Respectfully submitted,

Meredith Kawaguchi
Legal Examiner

Donna Chandler
Technical Examiner

MFK\ds