

RULE 37 CASE NO. 0212386

**APPLICATION OF HPC OPERATING, INC. FOR AN EXCEPTION TO STATEWIDE
RULE 37 FOR ITS HAMIL "C" LEASE, WELL NO. 1, ACKERLY, N. (CANYON REEF
9080) AND WILDCAT FIELDS, DAWSON COUNTY, TEXAS**

APPEARANCES:

FOR APPLICANT:

Michael L. Woodward (attorney)
H. Wayne Gifford

APPLICANT:

HPC Operating, Inc.

FOR PROTESTANT:

William Osborn (attorney)

PROTESTANT:

Devon Energy Corporation

PROCEDURAL HISTORY

Date of Hearing:	July 31, 1996
Transcript Received:	August 24, 1996
Heard By:	Meredith Kawaguchi, Legal Examiner Donna Chandler, Technical Examiner
PFD Circulation Date:	October 18, 1996
Current Status:	Protested

STATEMENT OF THE CASE

The applicant, HPC Operating, Inc. ("HPC") proposes to drill a first well on the Hamil "C" Lease, to be completed in the Ackerly, N. (Canyon Reef 9080) and Wildcat Fields in Dawson County, Texas

Field rules for both fields require a distance of 467' from the nearest lease line. The applicant proposes to place its well 200' from Devon Energy's lease line and, hence, needs a Rule 37 exception. Devon Energy Corporation ("Devon") has protested the subject application.

DISCUSSION OF THE EVIDENCE

Waste is not an issue. The applicant's witness testified that existing wells could drain the entire Ackerly, N. (Canyon Reef 9080) Field.

The applicant believes a Rule 37 exception is necessary to protect the mineral owners of the Hamil "C" Lease from confiscation. There is currently no well on the Hamil "C" Lease, and the reserves under the lease are being drained by surrounding wells, particularly the Dyer No. 2 on Devon Energy's tract.

According to the applicant's witness, the Commission's action of July 30, 1996 in Oil and Gas Docket No. 8A-0210206, which resulted in a reduced allowable for the Dyer No. 2 well from 75 barrels of oil per day (BOPD) to 36 BOPD, was not sufficient to ensure equitable drainage of the subject reservoir. Devon's Dyer No. 2 is 150' from HPC's lease line, and will produce approximately 15% of the remaining reserves in the field, even with the reduced allowable; whereas Devon is entitled to only 5%, having approximately 5% of the reservoir's total net acre feet. The applicant's Hamil "C" tract has 28% of the total net acre feet.

The applicant's reservoir drainage maps demonstrate that if the well is drilled at the proposed location (200' from Devon's lease line) Devon will drain a smaller portion of the Hamil "C" Lease than if the well was placed in the middle of the tract (400' from Devon's lease line). However, the maps also show that the applicant will drain more of the Hamil "C" Lease from a mid-tract well than from a well at the proposed location.

The applicant's witness is of the opinion that waterflooding the reservoir as soon as possible is a most desirable course. With waterflooding, the amount of reserves that can be recovered from the field will be doubled. The most efficient position for the one water injection well the applicant would recommend is approximately the same Rule 37 location for which Devon offered to waive objection, the location in the middle of the applicant's tract. The applicant's witness conceded that at this location a well could produce, be converted to an injector (because it will be the highest well in the field structurally), and ultimately be returned to production as the last producing well in the field. Such a procedure would prevent expending \$450,000 (the estimated cost to drill) twice, once for a well at applicant's proposed location and again for an injection well in the middle of the tract.

Applicant's witness testified that ordinarily it would be imprudent to drill its proposed well 350' or less from the existing Dyer No. 2 well, but that it would be necessary in this instance to curtail drainage of the Hamil "C" Lease by the Dyer No. 2 well.

EXAMINERS' OPINION

There are substantial reserves, although the applicant was unable to quantify the amount, under the Hamil "C" Lease. The mineral owners are entitled to at least one well to prevent the draining away to existing wells of all the tract's reserves.

The Hamil "C" Lease is "L" shaped, and there are regular locations in the lower part of the "L". However, net pay is concentrated in the upper portion of the "L", the area where drainage of the lease is occurring. The upper part of the "L" is only 800' across which places any well in this area at a Rule 37 location. The examiners are of the opinion that a Rule 37 exception is necessary to allow the mineral owners of the Hamil "C" Lease an opportunity to recover their share of the reserves underlying their tract in the Ackerly, N. (Canyon Reef 9080) Field.

Although the applicant proposed placing the well 200' from Devon's lease line, the examiners are of the opinion that the reasonable location for this well is 400' from Devon's lease line. This reasonable location is in the middle of the upper portion of the "L" shaped tract. At this location the applicant's Exhibits 7a and 7b show that the mineral owners will recover more of the reserves under the Hamil "C" Lease than at the 200' location. The sole purpose of the 200' location is to limit Devon's recovery from the field. Placing the proposed well in the middle of the tract will prevent the drilling of unnecessary wells, because such location is ideal for placement of an injection well, to which the proposed well could be converted at a later date. Applicant's witness testified to the imprudence of drilling a well 200' from the lease line but believes it necessary to limit Devon's recovery of the field's reserves. The examiners are of the opinion that the proper justification for a Rule 37 exception is not to cause an offset operator to recover less but to allow the tract's mineral owners to recover more of their tract's reserves. The examiners believe a well at this alternate Rule 37 location will accomplish that result.

FINDINGS OF FACT

1. At least ten (10) days notice of hearing was sent 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' to the applicant's proposed wells.
2. Applicant has applied for an exception to Statewide Rule 37 to drill its Hamil "C" Lease, Well No. 1, Ackerly, N. (Canyon Reef 9808) and Wildcat Fields, Dawson County, Texas.
3. The proposed well will be the first well on the Hamil "C" Lease.
4. The applicant proposes to drill to the Ackerly, N. (Canyon Reef 9080) and Wildcat Fields. Field rules require a distance of 467' to the nearest lease line.
5. The application was protested by an offset operator, Devon Energy Corporation.

6. The net pay underlying the Hamil "C" Lease is concentrated in the northern portion of this "L"-shaped tract; surrounding wells on offset tracts are draining this northern portion of the Hamil "C" Lease.
7. This northern portion of the Hamil "C" Lease is 800' across, thereby causing any well on this portion of the tract to be at a Rule 37 location.
8. The applicant will drain more of the Hamil "C" Lease from an alternate, centralized, Rule 37 location, which is 400' from the nearest lease line, than it will from applicant's proposed location, which is 200' from the protestant's lease line.

CONCLUSIONS OF LAW

1. Timely and legally sufficient notice was given to all persons legally entitled thereto.
2. The Railroad Commission has jurisdiction over the applicant, the protestant, and the subject matter of this application.
3. The applicant is entitled to a lease-line spacing exception to Statewide Rule 37 to prevent confiscation.
4. The proposed location 200' from the nearest lease line is not reasonable; an alternate location 400' from the nearest lease line is reasonable.

RECOMMENDATION

The examiners recommend approval of the application as set forth in the attached Final Order.

Respectfully submitted,

Meredith Kawaguchi
Legal Examiner

Donna Chandler
Technical Examiner

MFK/ds