
* KEY ISSUES: CONFISCATION *
* No regular surface *
* location *
* *
* FINAL ORDER: R37 EXCEPTION GRANTED *

Rule 37 Case No. 0213209
District 8

**APPLICATION OF PARKER & PARSLEY PRODUCING L.P. FOR AN EXCEPTION TO
STATEWIDE RULE 37 TO DRILL ITS WELL NO. 1, BRADISH-MOSS UNIT, KEYSTONE
(HOLT) AND KEYSTONE (SAN ANDRES) FIELDS, WINKLER COUNTY, TEXAS**

APPEARANCES:

REPRESENTING:

APPLICANT -

George C. Neale, Attorney
Jim Brayton, Petroleum Engineer

Parker & Parsley Producing L.P.

PROTESTANT -

Steve Parrot, Attorney

John Walton

PROCEDURAL HISTORY

Application Filed:

July 29, 1996

Notice of Hearing:

September 6, 1996

Hearing Held:

September 27, 1996

PFD Circulated

October 17, 1996

Heard by:

Colin K. Lineberry,
Hearings Examiner
Thomas H. Richter, P.E.,
Technical Examiner

STATEMENT OF THE CASE

Parker & Parsley Producing L.P. ("Parker & Parsley" or "applicant") seeks an exception to Statewide Rule 37 to drill its proposed Well No. 1 on the Bradish-Moss Unit for the Keystone (Holt) and Keystone (San Andres) Fields. The application is protested by John Walton ("Walton" or "protestant"). The Keystone (Holt) and Keystone (San Andres) field rules mandate spacing of 330 feet from unit lines and 660 feet between wells, with 40 acre regular units and optional units of 20 acres.

The applied-for location is regular as to between-well spacing but is only 210 feet from the nearest unit line. Accordingly, an exception to the Keystone (Holt) and Keystone (San Andres) Field Rules pursuant to Statewide Rule 37 is necessary. The Bradish-Moss Unit contains 20 contiguous acres and the proposed well will be the only well on the unit producing from the Keystone (Holt) and Keystone (San Andres) Fields.

The hearing in this docket was held on September 27, 1996. The applicant presented one witness in support of its case. Protestant Walton was represented at the hearing by his attorney who cross-examined applicant's witness. The protestant did not sponsor any witnesses or exhibits.

APPLICANT'S EVIDENCE

The Bradish-Moss Unit is bisected by County Road 874 and, as a result, there is not an available regular surface location on the unit. The well location proposed by Parker & Parsley is south of the county road and is consistent with the "brick" pattern of development of 20 acre units on adjacent tracts to the east of the Bradish-Moss Unit. Because the tract in which protestant Walton owns an interest is to the north of the Bradish-Moss Unit, the proposed well location is actually farther from Walton's tract than a regular location. The proposed location is approximately 450 feet from the Unit line separating the Bradish-Moss Unit from Walton's acreage. A regular location would be only 330 feet from Walton's acreage¹.

Applicant Parker & Parsley could drill directionally from a surface location away from the county road to a regular bottom hole location ("BHL") under the county road. Directionally drilling would, however, add approximately \$80,000 to the estimated drilling and completion cost of \$255,000. Parker & Parsley's engineer estimated ultimate recovery to be the same for the applied-for BHL and for a regular BHL. Parker & Parsley's engineer testified that applicant's primary target is the Keystone (Holt) Field and that the Keystone (San Andres) Field is a secondary target or "bail-out" zone. The engineer calculated, based on volumetrics, that the original recoverable reserves under the Bradish-Moss Unit consist of approximately 58,000 barrels of oil in the Keystone (Holt) Field and approximately 35,000 barrels of oil in the Keystone (San Andres) Field. According to the engineer, there has not been any significant drainage of reserves from the Bradish-Moss Unit by offset wells.

¹ Walton also possesses an unpooled fractional interest in the northeast quarter of the pooled Bradish-Moss Unit.

Applicant ultimately intends to implement a secondary recovery project in the Keystone (Holt) Field. The proposed location, which is consistent with the "brick" pattern of development of adjacent leases would likely enhance future secondary recovery. Uniformly patterned injection wells tend to maximize secondary recovery.

PROTESTANT WALTON'S POSITION

Protestant Walton pointed out, via cross-examination, that the drainage area for a well is typically radial or elliptical and therefor not a good "fit" with the boundaries of a rectangular unit. Protestant Walton also established that Parker & Parsley's engineer did not personally prepare the volumetric calculations presented at the hearing, that the target reservoir dips to the east, and that potential well locations to the north of the county road are not practical surface locations because of the existence of surface pipelines on the unit.

EXAMINERS' OPINION

Exceptions to Statewide Rule 37 may be granted to prevent waste or to protect correlative rights/prevent confiscation. The applicant did not claim that the proposed well is necessary to prevent waste. To obtain an exception to Statewide Rule 37 to protect correlative rights, the applicant must show that: 1) It is not possible for the applicant to recover its fair share of minerals under its tract from regular locations; and, 2) that the proposed irregular location is reasonable.

It is undisputed that the existing county road precludes drilling at any regular surface location on the Bradish-Moss Unit and that potential locations immediately to the north of the county road are not feasible due to pipelines adjacent to the road. As the proposed well will be the first well in the applied-for fields on the Bradish-Moss Unit and there is no regular surface location, the only issue is the reasonableness of the proposed location. Parker & Parsley's evidence that a well bottomed at the applied-for location immediately south of the county road and a well at a regular location have the same estimated ultimate recovery was not challenged. Parker & Parsley's evidence that a directionally drilled well would cost an additional \$80,000 was unrefuted. The applied-for location is farther from the protestant's property than a regularly located well would be and therefor will cause less drainage of applicant's property than a regularly located well.

In short, applicant cannot drill at a regular surface location, the applied-for location is as close to a regular location as surface impediments allow, the applied-for BHL will not recover any more oil than a regular BHL, and the applied-for BHL is less likely to drain the protestant's reserves than a regular BHL. Based on the facts established in the record, the proposed location is reasonable and the applicant should be granted an exception to Statewide Rule 37 to drill at the applied-for location. The examiners recommend adoption of the following proposed findings of fact and conclusions of law:

FINDINGS OF FACT

1. Notice of the hearing was given at least 10 days prior to the hearing 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. Parker & Parsley Producing L.P., ("applicant") has applied on Form W-1 for a permit to drill Well No. 1 on the Bradish-Moss Unit. Applicant proposes to drill its well at a location 662 feet from the east line and 210 feet from the south line of the unit, and 1 foot from the west line and 120 feet from the north line of Section 8, Block B-2, PSL Survey, Winkler County, Texas. Applicant has applied to drill its proposed well for the Keystone (Holt) and Keystone (San Andres) Fields. The application is protested by John Walton ("protestant").
3. The Keystone (Holt) and Keystone (San Andres) Fields both have field rules requiring spacing of 330 feet from unit lines and 660 feet between wells. The field rules further specify a density pattern of 40 acres per well with optional 20 acre units.
4. Applicant's rectangular Bradish-Moss Unit contains 20 acres and there are not any other wells on the unit permitted for or drilled to the applied-for fields.
5. A county road bisects the Bradish-Moss Unit and, as a result, there is not a surface location on the unit that complies with the spacing requirements of the applicable field rules on which a well can be drilled.
6. There are approximately 58,000 barrels of remaining recoverable Keystone (Holt) reserves and approximately 35,000 barrels of remaining recoverable Keystone (San Andres) reserves under the applicant's Bradish-Moss Unit.
7. The applied-for location is farther from the protestant's tract than a regular location.
8. The applied-for location will drain less oil from the protestant's tract than a regular location.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred or have been done that are necessary to give the Commission jurisdiction to decide this matter.
3. An exception pursuant to Statewide Rule 37 to the Keystone (Holt) and Keystone (San Andres) Field rules regarding well spacing is necessary to permit drilling the applied-for well.
4. The applied-for location is reasonable.
5. Approval of the requested permit to drill a well at the proposed location is necessary to prevent confiscation of oil from the Keystone (Holt) and Keystone (San Andres) Field currently in place under the Bradish-Moss Unit.

RECOMMENDATION

The examiners recommend that the subject application be approved in accordance with the attached final order.

Respectfully submitted,

Colin K. Lineberry
Hearings Examiner

Thomas Richter, P.E.
Technical Examiner