
* KEY ISSUES: Confiscation *
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* FINAL ORDER: GRANTED *

RULE 37 CASE NO. 0214683

**APPLICATION OF GOODRICH OIL CO. FOR AN EXCEPTION TO STATEWIDE
RULE 37 TO DRILL WELL NO. 1, R.E. KERSH LEASE, MARY BLEVINS (PALUXY
B) AND WILDCAT FIELDS, SMITH COUNTY, TEXAS.**

APPEARANCES:

FOR APPLICANT:

William Osborn, Atty.

David Meadows

Dale Miller

Dan Duffy

Ted Walters

Jerry G. Marston

Robert Wade

APPLICANT:

Goodrich Oil Co.

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FOR PROTESTANTS:

Kenneth R. King, Atty.

Martin Sammons, Atty.

PROTESTANTS:

Neva J. King, Trustee,
Tokeke Trust

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PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:

January 3, 1997

NOTICE OF HEARING:

January 31, 1997

DATE CASE HEARD:

March 21, 1997

HEARD BY:

Marshall Enquist, Hearings Examiner
Donna Chandler, Technical
Examiner

TRANSCRIPT DATE:

March 23, 1997

PFD CIRCULATION DATE:

August 28, 1997

STATEMENT OF THE CASE

Goodrich Oil Co. ("Goodrich") seeks an exception to Statewide Rule 37 to drill its proposed Well No. 1 on the R.E. Kersh Lease in the Mary Blevins (Paluxy B) Field and Wildcat Field. The application is protested by Neva J. King ("King"), a Trustee for the Tokeke Trust, which is an unleased mineral interest owner on a tract within the proposed R.E. Kersh pooled unit. The Mary Blevins (Paluxy B) field rules require spacing of 467 from lease lines and 1200 feet between wells, with 80 acre units.

The applied-for location is 200 feet from the west lease line and 570 feet from the north lease line. The 25% unleased mineral interest in protestant's tract, which has a southern lease line only 199 feet north of the proposed location, creates an internal Rule 37 problem. Thus, the proposed well location is within 200 feet of the west line and 199 feet of an internal lease line to the north.

DISCUSSION OF THE EVIDENCE

APPLICANT'S EVIDENCE

Goodrich presented testimony from four expert witnesses, supported by 25 exhibits. Goodrich established that the target reservoir lies at the top of a horst structure bounded on the west and east by sealing faults, with a shale-out to the southwest. Goodrich established the volume of the total reservoir at 4,447 acre/feet, the volume of currently recoverable reserves in the entire reservoir as 858,716 STB, and the currently recoverable reserves under the subject lease as 71,254 STB. Goodrich's maps indicate that there is no regular location on the Kersh unit due to the location of the sealing fault bounding the eastern edge of the reservoir.

PROTESTANT'S EVIDENCE

Protestant cross-examined the Goodrich witnesses and presented two exhibits: a W-1 and its accompanying plat which show that some of the same land comprising the R.E. Kersh Unit has been included in a unit for which King has already applied and received a drilling permit from the Commission.

EXAMINERS' OPINION

Exceptions to Statewide Rule 37 may be granted to prevent waste or to protect correlative rights/prevent confiscation. The applicant presented its case based on both waste and confiscation.

An applicant seeking an exception based on waste must establish three elements: 1.) unusual conditions, different from conditions in adjacent parts of the field, exist under the tract for which the exception is sought; 2.) as a result of the unusual conditions, hydrocarbons will be recovered by the well for which the permit is sought that would not be recovered by any existing well or by additional wells drilled at regular locations; and 3.) that the volume of otherwise unrecoverable reserves is substantial.

Applicant argued that the sealing fault bounding the eastern side of the reservoir is an unusual condition prohibiting drilling at a regular location on the applied-for unit. However, applicant did not show that the reserves on the applied-for unit could not be recovered by a well drilled at a regular location on an offset tract. Regular locations exist on offset tracts to the north and west of the applied-for unit that would, according to applicant's evidence, penetrate the applied-for reservoir. Applicant is not entitled to an exception location based on 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. A mineral interest owner's fair share is measured by the currently recoverable reserves under its property.

There are only 9.225 productive acres in the Mary Blevins (Paluxy B) Field located in the NE corner of the Kersh unit. The only regular location in that corner would be right on the fault defining the eastern edge of the reservoir (see Attachment I). Goodrich has drilled three other wells in this field, which deviated from vertical maximum distances of 140.27 feet, 169.64 feet and 110.20 feet respectively, as measured by inclination survey. Because of the amount of wellbore deviation experienced in the other three wells in this field, Goodrich argues that it is not prudent to drill at a location closer than 200 feet to the fault. The examiners believe the proposed location is reasonable, given the proximity of the fault. Although the pooled unit has only 9 acres of productive acreage, this portion of the reservoir is 40-45 feet thick and has substantial recoverable reserves (71,000 bbls). The mineral interest owners of the pooled tract do not own interests elsewhere in the field. Denial of the permit would result in the loss of a valuable property right which would be confiscation.

The examiners recommend adoption of the following proposed findings of fact and conclusions of law:

FINDINGS OF FACT

1. Notice of hearing was given on January 31, 1997 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. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed or have occurred.

3. The applicant, Goodrich Oil Co., seeks an exception to Statewide Rule 37 to drill Well No. 1 on the R.E. Kersh Lease. Applicant proposes to drill its well at a location 570 feet FNL and 200 feet FWL of the unit, and 200 feet FWL and 1430 feet FSL of the survey. Applicant has applied for completion of its proposed well in the Mary Blevins (Paluxy B) Field, which has field rules requiring spacing 467 from lease or unit lines and 1200 between well spacing on 80 acre units. Applicant is also applying for a completion in a Wildcat Field, which under Statewide rules requires spacing of 467 from unit or lease lines and 1200 feet between well spacing on 40 acre units.
4. Applicant's pooled unit is a tract of regular size and shape, containing 80 acres.
5. Applicant's primary objective is the Mary Blevins (Paluxy B) field. Applicant would not drill the well with the Wildcat Field as the sole objective.
6. The mineral interest owners of the R.E. Kersh pooled unit do not have an interest in, and cannot receive their fair share of hydrocarbons from, wells on offset tracts in the same drainage area as the proposed well.
7. An exception to the lease-line spacing rules for the applied-for fields is necessary to give the mineral interest owners a reasonable opportunity to recover their fair share of hydrocarbons in the subject fields underlying the unit.
 - a. There are currently recoverable reserves of 71,000 Bbl underneath the R.E. Kersh pooled unit.
 - b. Without the applied-for exception, these reserves cannot be recovered by the mineral interest owners of the R.E. Kersh pooled unit.
 - i. Only 9.225 acres in the NE corner of the R.E. Kersh pooled unit are productive.
 - ii. A regular location would be almost directly above the sealing fault that bounds the target reservoir, creating a likelihood that the well would miss the reservoir (through normal wellbore deviation).

CONCLUSIONS OF LAW

1. Proper notice was timely given to all parties legally entitled to notice.
2. The application on Form W-1 was properly filed.
3. All things have occurred and have been done to give the Commission jurisdiction to decide this matter.

4. The mineral interest owners of the R.E. Kersh pooled unit are entitled to protection from confiscation.
5. An exception to the lease-line spacing requirements is necessary to permit drilling the applied-for well.
6. Approval of a permit to drill a well at the proposed location is necessary to give owners of the subject tract a reasonable opportunity to recover their fair share of hydrocarbons in the applied-for fields underlying the tract or the equivalent in kind, thereby preventing confiscation.
7. The proposed location is a reasonable location that will give the mineral interest owners of the unit a reasonable opportunity to recover their fair share of hydrocarbons in the applied-for fields underlying the unit, or the equivalent in kind, thereby preventing confiscation.

RECOMMENDATION

The examiners recommend that Applicant's request for an exception to Statewide Rule 37 for its R.E. Kersh Lease, Well No. 1, as to the Mary Blevins (Paluxy B) and Wildcat Fields, Smith County, Texas, be granted.

Respectfully submitted,

Marshall F. Enquist
Hearings Examiner

Donna Chandler
Technical Examiner

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