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 \* KEY ISSUES: Waste \*  
 \* Standing to Protest \*  
 \* Length of Fracture Zones \*  
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 \* FINAL ORDER: DENIED \*  
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**RULE 37 CASE NO. 0216936  
 DISTRICT 3**

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**APPLICATION OF H. BRYAN POFF FOR AN EXCEPTION TO STATEWIDE RULE 37  
 TO DRILL WELL NO. 1-H, STAMPER LEASE, GIDDINGS (AUSTIN CHALK-3) AND  
 GIDDINGS (AUSTIN CHALK-GAS) FIELDS, FAYETTE COUNTY, TEXAS**

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**APPEARANCES:**

**FOR APPLICANT:**

Michael E. McElroy - Attorney  
 Kevin E. Smith - Consultant

**APPLICANT:**

H. Bryan Poff  
 " "

**FOR PROTESTANTS:**

Andrew M. Taylor - Attorney  
 Steve Hillhouse - Vice President

**PROTESTANTS:**

Ginger Petroleum Co., Inc.  
 " "

Jerry Russell - Consultant

Anchor Operating Company  
 and Stable Energy

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

**APPLICATION FILED:**

July 23, 1997

**NOTICE OF HEARING:**

July 29, 1997

**AMENDED NOTICE OF HEARING:**

August 7 and August 14, 1997

**HEARD BY:**

Mickey R. Olmstead - Hearings Examiner  
 Margaret Allen - Technical Examiner  
 D. W. Ortman - Hearings Examiner

**HEARING DATE:**

September 10, 1997

**TRANSCRIPT DATE:**

October 17, 1997

**PFD CIRCULATION DATE:**

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**STATEMENT OF THE CASE**

H. Bryan Poff ("Poff" or "applicant") seeks an exception to Statewide Rule 37 to drill its proposed horizontal Well No. 1-H on the Stamper Lease ("subject well"/"subject lease") for the Giddings (Austin Chalk-3) and Giddings (Austin Chalk-gas) Fields. The Giddings (Austin Chalk-3) and Giddings (Austin Chalk-gas) field rules require spacing of 467 feet from lease lines and 1200 feet between wells, on 160 acre units with an 80 acre option. The Stamper Lease is composed of 80.755 acres as outlined on the plat attached to the Form W-1 (Drilling Permit) submitted by Poff. The proposed surface location is 135' from Poff's northwest lease line. The proposed bottom hole location is 50' from the southeast lease line. (See Poff Exhibit No. 1 attached hereto as Exhibit "A" for reference.)

The application is protested by Ginger Petroleum Company, Inc. ("Ginger"), Anchor Operating Company ("Anchor"), and Stable Energy ("Stable"). No protestant objected to the proposed surface location/penetration point, but all protested the proposed bottomhole location. Protestants argue that granting an exception to Rule 37 is not necessary to protect Poff's correlative rights or to prevent waste.

**DISCUSSION OF THE EVIDENCE**

**Applicant's evidence:**

H. Bryan Poff presented one expert witness, Kevin Smith, and eight exhibits in support of its argument that an exception to Rule 37 is necessary to prevent waste of hydrocarbons on the Stamper Lease. Poff presented no argument or evidence that an exception to Rule 37 is necessary to protect its correlative rights.

Poff objects to Ginger's standing to protest Poff's application on the basis that Ginger has no interest in any offsetting tract. In support thereof, Poff offered a copy of a recorded Oil, Gas and Mineral Lease in favor of Ginger and covering the adjacent 38.27-acre J. Cooke Wilson, Jr. Lease. On its face, the lease has expired by its own terms. Accordingly, Poff argues that Ginger no longer owns a mineral interest in any property adjacent to the proposed location, and therefore, has no standing to protest the instant application.

The proposed horizontal well will measure 2,187 feet in lateral distance from the surface location/penetration point to the bottomhole location. Poff admits that a regular location is available on the Stamper Lease, but argues that a horizontal well drilled at a regular location will not drain hydrocarbons trapped in a fracture zone located near the southeast line of the subject lease. Poff argues that denying the exception will result in the physical waste of more than 10,000 barrels of hydrocarbons trapped in said fracture zone.

Poff's expert testified that fracture systems in the Austin Chalk are often associated with faulting and that such fracture systems may constitute a commercial reservoir. Poff's expert also

testified that the fracture systems generally have a northeast-southwest orientation and further stated that it is difficult to estimate the width of the fracture zones accurately. Poff presented evidence developed from seismic lines K-101 and HBP 94-1. These seismic lines indicate that two separate fracture systems exist under the Stamper Lease. Seismic line HBP 94-1 indicates that one fracture zone is located at shotpoint 135.5 and the other fracture zone is located at shotpoint 140. Poff's expert acknowledged that the hydrocarbons trapped in the fault zone located at shotpoint 135.5 may be recovered by a well drilled at a regular location. The second fracture zone is located near Poff's southeast lease line. Poff's expert asserted that the hydrocarbons in the fracture zone under the southeast lease line cannot be recovered from a well drilled at a regular location on the Stamper Lease.

The offsetting Union Pacific Resources Company ("U.P.R.C.") Garnet Unit No. 1 Well and the CRM Energy, Inc. Schumacher Unit No. 1-H Well each are located more than 1,000 feet from Poff's Stamper Lease. Poff's expert testified that the Schumacher Unit No. 1-H Well and the U.P.R.C. Garnet Unit No. 1 Well are not draining the fracture zone located near the southeast lease line of the Stamper Lease. However, the witness conceded that he had not reviewed any drilling or production data from the offsetting wells to support his opinion.

On cross-examination, Poff's expert admitted that fracture systems in this area may extend for several miles. Poff's expert claimed that fracture zones in this area of the Austin Chalk propagate in the direction of north-32 degrees-east. From the proposed terminus of the subject well, a line drawn at an orientation of north-32 degrees-east intersects the U.P.R.C. Garnet Unit No. 1 wellbore. Additionally, a line drawn at an orientation of north-32 degrees-east appears to intersect both the Schumacher Unit No. 1-H Well and the fracture zone located near Poff's southeast lease line.

**Ginger Petroleum's evidence:**

Ginger Petroleum Co., Inc. offered testimony from its Vice President, Steve Hillhouse, and five exhibits in support of its protest. Ginger argues that an exception to Rule 37 is not necessary to protect Poff's correlative rights or to prevent waste of reserves. Ginger's witness testified that Ginger had executed an extension to its Cooke Wilson Lease and had filed a drilling permit application with the Commission to drill on said lease.

Ginger compared the subject lease area to the lease areas of producing horizontal wells within 3 1/2 miles of the proposed location. Ginger then estimated an ultimate recovery of 6.59 MMCFe (million cubic feet equivalent)/acre for the offsetting wells. Accordingly, Ginger's fair share analysis indicates that Poff's fair share of the underlying oil is approximately 527 MMCFe, or about 53,000 barrels of oil, but that Poff can expect to recover 828 MMCFe, or 57% more than its fair share, from a horizontal well at a regular location on its Stamper Lease.

Ginger's witness, Hillhouse, testified that he had reviewed drilling data from the Schumacher Unit Well No. 1-H and the U.P.R.C. Garnet Unit Well No. 1. Ginger's witness reviewed increased drilling rates, increased torque and increased temperatures at depths which indicate that the U.P.R.C.

and the Schumacher wells are draining the fracture zone which extends along the southeast lease line of the Stamper Lease. Ginger's witness also suggested that the large amounts of hydrocarbons actually produced by the Schumacher Unit No. 1-H and U.P.R.C.'s Garnet Unit No. 1 indicate that said wells are draining hydrocarbons from the fracture zone. Accordingly, Ginger argues that if the Schumacher and the U.P.R.C. wells are draining the fracture zone under the southeast lease line of the Stamper lease, then waste will not result if Poff's application is denied.

**Stable Energy and Anchor Operating Company's positions:**

Anchor Operating Company and Stable Energy appeared at the hearing through a consultant, Jerry Russell. Russell asserted that Anchor owns a mineral interest in and has a permit for a well on a tract adjacent to the Stamper Lease and that Stable owns an interest in the Schumacher No. 1 Well. Neither Anchor nor Stable offered evidence at the hearing. Anchor and Stable support Ginger's protest to the proposed Rule 37 exception.

**EXAMINERS' OPINION****Standing:**

Ginger offered testimony that it has obtained an extension to its Cooke Wilson Lease adjacent to the subject lease. Ginger has also filed a permit application to drill on its lease. Poff offered no rebuttal to Ginger's evidence of its good faith claim to title. Therefore, Ginger has standing to protest Poff's application, as do Anchor and Stable.

**Correlative rights:**

An exception to Statewide Rule 37 may be granted to prevent waste or to protect correlative rights. Poff offered no testimony or other evidence regarding his fair share of reserves and did not argue that an exception is necessary to protect its correlative rights. Instead, the record reflects that regular locations exist on the Stamper Lease and that Poff may reasonably expect to recover 57% more than its fair share of the underlying reserves from a well drilled at a regular location. Therefore, an exception to Rule 37 is not necessary to protect Poff's correlative rights.

**Prevention of waste:**

An applicant for an exception to Rule 37 based on waste must show three elements:

1. That unusual conditions, different from conditions in adjacent parts of the field, exist under the tract for which the exception is sought;

2. That, as a result of the unusual conditions, hydrocarbons will be recovered by the well for which an exception is sought that would not be recovered by any existing well or by additional wells drilled at a regular location; and
3. That the volume of hydrocarbons which will be recovered if the exception is granted is substantial.

Although the width, length, and exact orientation of the fracture zones are uncertain, the examiners believe that the Schumacher and U.P.R.C. wells are likely draining the fracture zone which lies under the southeast boundary of the Stamper Lease. The examiners in a previous application for an exception to Rule 37 for the same subject lease made a similar determination.<sup>1</sup> The examiners conclude that Poff has not proven that the hydrocarbons present under the southeast lease line of the Stamper Lease will be wasted if the proposed exception is denied. Accordingly, the examiners recommend that Poff's Rule 37 exception application be denied.

### **FINDINGS OF FACT**

1. At least 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 Stamper Lease ("subject lease") and each tract nearer to the proposed well location than the prescribed minimum distance.
2. The application for a Rule 37 exception was filed by H. Bryan Poff on Form W-1 (Application to Drill, Deepen, Plug Back or Re-Enter) on July 23, 1997.
3. H. Bryan Poff ("Poff" or "applicant") seeks an exception to Statewide Rule 37 to drill a horizontal well, the Stamper Well No. 1-H on the Stamper Lease in the Giddings (Austin Chalk-3) Field and Giddings (Austin Chalk - Gas) Field, Fayette County, Texas. Both Austin Chalk Fields have lease line spacing rules of 467 feet, with 1200 feet between-well spacing on 160 acre units with 80 acre options.
4. Poff proposes to drill its well at a surface location 135 feet FNWL and 505 feet FSWL of the unit, and 6,820 feet FNWL and 14,505 feet FSWL of the survey with a terminus 50 feet FSEL and 530 feet FSWL of the unit, and 331 feet FSEL and 14,530 feet FSWL of the survey. The proposed horizontal well is 50' from the nearest lease line at its terminus and the proposed surface location is 135' from the nearest lease line.

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<sup>1</sup> On January 3, 1997, Ginger filed an application (the "Stamper-Wilson application") under Docket No. 0214723 for an exception to Rule 37 on a 132.62-acre unit, including the subject 80.755-acre Stamper Lease. In that proceeding, the applicant argued that an exception to Rule 37 was necessary to prevent waste because hydrocarbons trapped in fracture zones under the Stamper and Wilson Leases could not be recovered from wells at regular locations. The examiners did not agree. The proposal for decision states that an exception to Rule 37 is not necessary to prevent waste. On October 21, 1997, the Commission entered a Final Order denying Ginger's application for an exception to Rule 37 on the Stamper-Wilson Unit.

5. The Stamper Lease, the proposed tract, includes 80.755 acres. A regular location is available on the Stamper Lease.
6. Ginger Petroleum Company ("Ginger") owns an interest in the minerals in a tract adjacent to the Stamper Lease. Ginger protests Poff's application for the proposed exception location.
7. Anchor Operating Company ("Anchor") owns an interest in the minerals in a tract adjacent to the Stamper Lease. Anchor protests Poff's application for the proposed exception location.
8. Stable Energy ("Stable") owns an interest in the minerals in a tract adjacent to the Stamper Lease. Stable protests Poff's application for the proposed exception location.
9. Poff can produce his fair share of the hydrocarbons located under the Stamper Lease from a regular location.
10. U.P.R.C.'s Garnet Unit Well No. 1 and the Schumacher Unit Well No. 1-H are draining hydrocarbons from the fracture zone under the southeast lease line of the Stamper Lease, thus preventing any physical waste.

#### **CONCLUSIONS OF LAW**

1. Proper notice of hearing was timely issued by the Railroad Commission to the 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. Ginger Petroleum Company, Anchor Operating Company, and Stable Energy all have the necessary standing to protest the instant application.
4. Approval of a permit to drill a well at the proposed exception location is not necessary to give the mineral interest owners of the subject lease a reasonable opportunity to recover their fair share of hydrocarbons in the applied-for field underlying the subject tract.
5. Approval of a permit to drill a well at the proposed location is not necessary to protect the correlative rights of the mineral interest owners or prevent waste underlying the subject tract.

**EXAMINERS' RECOMMENDATION**

The examiners recommend that H. Bryan Poff's request for an exception to Statewide Rule 37 for its Stamper Lease, Well No. 1-H, for completion in the Giddings (Austin Chalk-3) Field and Giddings (Austin Chalk-gas) Fields be denied.

Respectfully submitted,

Mickey R. Olmstead  
Hearings Examiner

Margaret Allen  
Technical Examiner

D. W. Ortman  
Hearings Examiner