

September 4, 2001

RULE 37 CASE NO. 0227643

District 3

**APPLICATION OF STROUD OIL PROPERTIES, INC., FOR AN EXCEPTION TO
STATEWIDE RULE 37 TO DRILL WELL NO. 1-H, SEBESTA LEASE, GIDDINGS
(AUSTIN CHALK - 3) FIELD, BURLESON COUNTY, TEXAS.**

APPEARANCES:

FOR APPLICANT:

Glenn Johnson, Attorney
Nicholas Spence, Petroleum Engineer

APPLICANT:

Stroud Oil Properties, Inc.
“ ”

FOR PROTESTANTS:

William Osborn, Attorney

PROTESTANT:

Anadarko Petroleum Corporation

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:

February 19, 2001

NOTICE OF HEARING:

April 4, 2001

HEARING DATE:

April 25, 2001

HEARD BY:

Mark Helmueller - Hearings Examiner

Donna Chandler - Technical Examiner

TRANSCRIPT RECEIVED:

July 12, 2001

PFD CIRCULATION DATE:

September 4, 2001

Statement of the Case

Stroud Oil Properties, Inc. (“Applicant” or “Stroud”) seeks an exception to Statewide Rule 37 to drill Well No. 1-H on the Sebesta Lease in the Giddings (Austin Chalk - 3) Field. The Sebesta Lease is an irregularly shaped 324.48 acre tract. The proposed well will include a single lateral leg with a penetration point at the same distance from the lease line as the surface location. The penetration point of the lateral is 219 feet from the northeast lease line boundary. The terminus of the lateral is 50 feet from the southwest lease line. The proposed well is regular to all other lease line boundaries. A copy of the plat filed with Applicant’s W-1 Application for Permit to Drill, Deepen, Plug Back or Re-Enter is attached. The applied-for field is subject to spacing requirements of 467 feet minimum distance to the nearest lease line and 1200 feet minimum distance between wells.

The application is protested by Anadarko Petroleum Corporation. Anadarko is the operator on offsetting wells to the southwest and northeast of the Sebesta Lease.

Applicant’s Position and Evidence

Stroud claims that the applied-for well is necessary to prevent waste of a significant volume of hydrocarbons as the proposed well would be the only well capable of producing any hydrocarbons underlying approximately 56.5 acres of the 324 acre Sebesta Lease in the Giddings (Austin Chalk - 3) Field. Stroud contends that the fracture orientation of the Austin Chalk in this area and the configuration of the Sebesta Lease are an unusual condition, different from conditions in adjacent parts of the field. Specifically, acreage in the southernmost corner of the Sebesta Lease and along the northeastern lease line would not be drained unless the lease line exceptions are granted.

Additionally, Stroud presented maps depicting the drainage patterns of the existing wells adjacent to its Sebesta Lease. Based on these maps, Stroud asserted that no regular well could produce the hydrocarbons from the undrained acreage. Stroud’s maps also show that due to: 1) the fracture orientation, 2) the lease configuration and; 3) the well location, a well with a lateral limited to a penetration point and terminus consistent with lease line spacing requirements would still drain some reserves underlying the leases to the northwest, southeast and west of the Sebesta Lease.

Stroud estimated that an additional 47,000 barrels of oil or its equivalent (“BOE”) would be recovered if the exception to lease line spacing is granted for both the penetration point and terminus of the lateral. Stroud based its estimate on an analysis of the estimated cumulative production from 10 vertical wells and 6 horizontal wells completed on offsetting leases in the Giddings (Austin Chalk - 3) Field. Stroud calculated an average estimated production of 824.3 BOE per acre. This estimated average production was then applied to both the well as proposed and a well with a lateral consistent with lease line spacing requirements. Comparison of the estimated production yields the additional 47,000 BOE.

Protestant's Position and Evidence

Anadarko did not present a direct case, but cross-examined Stroud's witness and entered four cross-examination exhibits into evidence. Anadarko argued that Stroud failed to establish that an unusual condition, different from conditions in adjacent parts of the field, exists underlying the Sebesta Lease. Anadarko claims that Stroud's evidence was limited to a generic discussion of field-wide conditions in the Austin Chalk, as opposed to specific conditions related to the subject tract. Anadarko also cited the Proposal for Decision in *Rule 37 Case No. 0221407, Application of Tex-Lee Operating, Co. for an exception to Statewide Rule 37 to Drill Well No. 1 RE, Mikeska Lease, Giddings (Austin Chalk - Gas) and Giddings (Austin Chalk -3) Fields, Fayette County, Texas* (Final Order entered January 11, 2000) as persuasive authority for denying Stroud's current application.

Anadarko operates horizontal wells on the immediately adjacent leases to the southwest and northeast of the Sebesta Lease. Those two wells were completed with both the penetration point and terminus of the laterals at regular locations. Anadarko contends that it would be unfair for Stroud to obtain exceptions where the wells it operates were drilled at regular locations.

EXAMINERS' OPINION

An applicant seeking an exception based on waste must establish 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 these conditions, hydrocarbons will be recovered by the well for which a 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 hydrocarbons is substantial. The examiners recommend that Stroud's application for an exception to Rule 37 to prevent waste be granted.

Stroud satisfies the first requirement for an exception to prevent waste based on the uncontradicted evidence that the fracture orientation in the Giddings (Austin Chalk - 3) Field and the lease configuration constitute an unusual condition. The Commission has previously determined that fracture orientation and lease geometry may constitute an unusual condition in support of a lease line exception to prevent waste. *Rule 37 Case No. 0200641, Application of Marathon Oil Company for an Exception to Statewide Rule 37 to Drill its No. 1 Well, Babb-Drawe Lease, Giddings (Austin Chalk -3) and Giddings (Austin Chalk - Gas) Fields, Fayette County, Texas* (Final Order entered May 11, 1993). As in Case No. 0200641, hydrocarbons underlying 56.5 acres located in the southernmost corner of the Sebesta Lease and along the northeastern lease line would not be drained by existing wells or by a well at a regular location due to the fracture orientation and lease geometry.

Stroud satisfies the second requirement for an exception to prevent waste. It is uncontradicted that no other well would recover any hydrocarbons underlying both the southernmost corner of the Sebesta Lease and along the northeastern lease line due to the fracture orientation and lease geometry. Stroud presented several maps depicting the drainage patterns of the existing wells offsetting the Sebesta Lease. These maps show that the existing wells will not recover hydrocarbons

from the 56.5 acres in question. Additionally, no regular locations either on the Sebesta Lease or on any offsetting lease would recover these reserves.

Finally, Stroud satisfies the third requirement for an exception to prevent waste based on the estimated additional 47,000 BOE which would not otherwise be recovered. Reserves of 47,000 barrels constitute a substantial volume of additional hydrocarbons (See Buckley v. Atlantic Refining Co., 146 S.W. 2d 1082, 1085 (Tex. Civ. App. - Beaumont 1940, writ dismissed judgment corrected)).

Protestant's citation of *Rule 37 Case No. 0221407, Application of Tex-Lee Operating, Co. for an exception to Statewide Rule 37 to Drill Well No. 1 RE, Mikeska Lease, Giddings (Austin Chalk - Gas) and Giddings (Austin Chalk -3) Fields, Fayette County, Texas* does not appear to be determinative in this case. In that case an exception was denied because the applicant failed to show that hydrocarbons would not be recovered from additional wells drilled at regular locations. Stroud specifically addressed that issue through engineering testimony and drainage maps submitted into evidence. Accordingly, the Commission's prior decision is not germane to the current application.

Stroud has satisfied all the elements necessary to warrant an exception based on the prevention of waste. The proposed well will recover an additional 47,000 BOE, that no existing or regular well would recover due to the fracture orientation in the field and the lease geometry. Accordingly, the examiners recommend granting the application.

CONCLUSION

Stroud is entitled to an exception to Rule 37 to prevent waste of hydrocarbons underlying its Sebesta Lease in the Giddings (Austin Chalk - 3) Field. Accordingly, the application for an exception to Rule 37 to prevent waste should be granted.

Based on the record in this Docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Stroud Oil Properties, Inc. ("Applicant" or "Stroud") seeks an exception to Statewide Rule 37 to drill Well No. 1-H on the Sebesta Lease in the Giddings (Austin Chalk - 3) Field, Burleson County.
2. The Sebesta Lease is an irregularly shaped 324.48 acre unit. The proposed well will be completed as a horizontal wellbore with a penetration point at the same distance from the lease line as the surface location. The penetration point of the wellbore is 219 feet from the northeast lease line boundary. The terminus of the wellbore is 50 feet from the southwest lease line. The proposed well is regular to all other lease line boundaries.
3. The Giddings (Austin Chalk - 3) Field is subject to spacing requirements of 467 feet minimum distance to the nearest lease line and 1200 feet minimum distance between wells.

4. Stroud's application is protested by Anadarko Petroleum Corporation. Anadarko is the operator on offsetting tracts to the southwest and northeast of the Sebasta Lease.
5. The fracture orientation in the Giddings (Austin Chalk - 3) Field and the lease geometry of the Sebasta Lease together constitute an unusual condition, different from conditions in adjacent parts of the field, under the Sebasta Lease.
6. Hydrocarbons underlying 56.5 acres located in the southernmost corner of the Sebasta Lease and along the northeastern lease line would not be drained by the existing wells offsetting the Sebasta Lease.
7. Wells at regular locations either on the Sebasta Lease or on any offsetting lease would not recover the hydrocarbons underlying the 56.5 acres located in the southernmost corner of the Sebasta Lease and along the northeastern lease line.
8. The proposed well would recover an additional 47,000 BOE which would not otherwise be recovered. Reserves of 47,000 barrels constitute a substantial volume of additional hydrocarbons.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred to give the Commission jurisdiction to decide this matter.
3. An exception to Statewide Rule 37 for a well at the applied-for location is necessary to prevent waste from the Giddings (Austin Chalk - 3) Field.

RECOMMENDATION

The examiners recommend that Stroud's application be granted in the Giddings (Austin Chalk - 3) Field in accordance with the attached final order.

Respectfully submitted,

Mark J. Helmueller
Hearings Examiner

Donna Chandler
Technical Examiner