

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
OIL AND GAS SECTION**

RULE 37 CASE NO. 0230661

DISTRICT 6

**APPLICATION OF LARGO OIL COMPANY TO
CONSIDER AN EXCEPTION TO STATEWIDE
RULE 37 TO PLUG BACK WELL NO. 1,
SEARS LEASE, IN THE HENDERSON, S.
(PETTIT 7445) FIELD, HENDERSON, S.
(TRAVIS PEAK, UP.) FIELD, AND WILDCAT
FIELD, IN RUSK COUNTY, TEXAS**

FINAL ORDER

The Commission finds that, after statutory notice in the above-numbered docket, heard on May 7, 2002, the examiners have made and filed a proposal for decision containing findings of fact and conclusions of law, which was served on all parties of record, and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the proposal for decision and the findings of fact and conclusions of law contained therein, and any exceptions and replies thereto, hereby adopts as its own the findings of fact and conclusions of law contained therein, save and except finding of fact 5 and conclusion of law 4, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

The Commission declines to adopt finding of fact 5 and conclusion of law 4 contained in the proposal for decision and alternatively adopts as its own the following finding of fact and conclusion of law:

SUBSTITUTE FINDING OF FACT

5. An exception to recomplete the subject well at the applied-for location is necessary to prevent waste.
 - A. There are approximately 116 MMCF of recoverable gas and 1,163 barrels of condensate in the wildcat field and approximately 73 MMCF of recoverable gas and 730 barrels of condensate in the Henderson, S. (Travis Peak, Up.) Field underlying the applicant's Sear's (14673) Lease.
 - B. Requiring the applicant to drill a new well at a regular location would result in an estimated drilling cost of \$687,564, or approximately \$4.61/mcf of gas recovered.

- C. Recompleting the Sears Lease Well No. 1 would result in an estimated workover cost of \$199,760, or approximately \$1.34/mcf of gas recovered.

SUBSTITUTE CONCLUSION OF LAW

4. An exception to Statewide Rule 37 to plug back the subject well is necessary to prevent waste in the wildcat field from the interval shown in the well log from the Sears #1 well between 7,300' to 7,330' under the doctrine of economic waste, as adopted in *Exxon Corp. v. Railroad Commission*, 571 S.W.2d 497 (Texas 1978) and *Schlachter v. Railroad Commission of Texas*, 825 S.W.2d 732 (Tex.Civ.App-Austin 1992, writ denied).

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the application of Largo Oil Company for an exception permit under the provisions of Statewide Rule 37 to recomplete its Sears Lease No. 1 Well, in the Henderson, S. (Travis Peak, Up.), and wildcat fields, Rusk County, Texas, be and is hereby **APPROVED** at the following location:

LOCATION: 82' from the western lease line and 744' from the southern lease line and 998' from the eastern survey/section line and 744' from the southern survey/section line of the James Smith Survey, A-709, in Rusk County, Texas.

It is further **ORDERED** that the operator **MUST** limit its wildcat designation to an interval between 7,300' and 7,330', as this permitted interval includes both the 2 feet of pay identified in the well log from the Sears No. 1 well and additional footage above and below that pay interval. The wildcat designation granted by this permit may not be used for a completion outside of this interval.

CONDITIONS

1. **Fresh Water Sand Protection.** The operator must set and cement sufficient surface casing to protect all usable-quality water as defined by the Texas Natural Resource Conservation Commission. Before drilling a well, the operator must obtain a letter from the Texas Natural Resource Conservation Commission stating the depth to which water needs protection. Write: Texas Natural Resource Conservation Commission, Surface Casing, P. O. Box 13087, Capitol Station, Austin, Texas 78711-3087. File a copy of the Texas Natural Resource Conservation Commission letter with the appropriate district office.
2. **Permit at Drilling Site.** A copy of the Form W-1 (Drilling Permit Application), the location plat, a copy of Statewide Rule 13 alternate surface casing setting depth approval from the district office, if applicable, and this drilling permit must be kept at the permitted well site throughout the drilling operations.

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3. **Notification of Setting Casing.** The operator MUST call in notification to the appropriate district office a minimum of eight (8) hours prior to the setting of surface casing, intermediate casing, AND production casing. The individual giving notification MUST be able to advise the district office of the docket number.
 4. **Producing Well.** Statewide Rule 16 requires that the operator submit a Form W-2 (oil well) or Form G-1 (gas well) to the appropriate Commission district office within thirty (30) days after completion of such well. Completion of the well in a field authorized by this order voids the order for all other fields included in the order unless the operator indicates on the initial completion report that the well is to be a dual or multiple completion and promptly submits an application for multiple completion. All zones are required to be completed before the expiration date of this order.
 5. **Dry or Noncommercial Hole.** Statewide Rule 14(b)(2) prohibits suspension of operations on each dry or noncommercial well without plugging unless the hole is cased and the casing is cemented in compliance with Commission rules. If properly cased, Statewide Rule 14(b)(2) requires that plugging operations must begin within a period of one (1) year after drilling or operations have ceased. Plugging operations must proceed with due diligence until completed. An extension to the one year plugging requirement may be granted under the provisions stated in Statewide Rule 14(b)(2).
 6. **Intention to Plug.** The operator must file a Form W-3A (Notice of Intention to Plug and Abandon) with the district office at least five (5) days prior to beginning plugging operations. If, however, a drilling rig is already at work on location and ready to begin plugging operations, the district director or the director's delegate may waive this requirement upon request, and verbally approve the proposed plugging procedures.
 7. **Notification of Plugging a Dry Hole.** The operator MUST call to notify the appropriate district office a minimum of four (4) hours prior to beginning plugging operations. The individual giving notification MUST be able to advise the district office of the docket number and all water protection depths for that location as stated in the Texas Natural Resource Conservation Commission letter.
 8. **Plugged Wells.** Should this well ever be plugged and abandoned, the Commission will consider such plugging and abandonment as prima facie evidence that production from said well is no longer necessary to prevent confiscation of applicant's property or to prevent waste; and upon such plugging and abandonment, the authority for such well as granted under this permit shall cease.
 9. **Permit Expiration.** This permit expires two (2) years from the date this order becomes administratively final, unless actual drilling operations have begun. The permit period will not be extended.

Each exception to the examiners' proposal for decision not expressly granted herein is overruled. All requested findings of fact and conclusions of law which are not expressly adopted

herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

Done this ____ day of _____, 2002.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN MICHAEL L. WILLIAMS

COMMISSIONER CHARLES R. MATTHEWS

COMMISSIONER TONY GARZA

ATTEST:

SECRETARY