

May 23, 2008

RULE 37 CASE NO. 0252020
DISTRICT 10

APPLICATION OF CHAPARRAL ENERGY, L.L.C. FOR AN EXCEPTION TO STATEWIDE RULE 37 TO DRILL WELL NO. 4H-619 ON THE ROBERT A. DOYLE "A" LEASE, LIPSCOMB (CLEVELAND) AND WILDCAT FIELDS, LIPSCOMB COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT CHAPARRAL ENERGY, L.L.C.:

Dick Marshall
Michael Maroney
John Miller

FOR PROTESTANT JONES ENERGY, LTD.:

Ana Maria Marsland-Griffith
Greg Cloud

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:	May 11, 2007
NOTICE OF HEARING:	July 24, 2007
HEARING DATE:	February 28, 2008
HEARD BY:	Mark Helmueller - Hearings Examiner Donna Chandler - Technical Examiner
TRANSCRIPT RECEIVED:	March 11, 2008
PFD CIRCULATION DATE:	May 23, 2008

STATEMENT OF THE CASE

Chaparral Energy, L.L.C. (“Applicant” or “Chaparral”) seeks an exception to Statewide Rule 37 to drill Well No. 4H-619 on the Robert A. Doyle “A” Lease, Lipscomb (Cleveland) and Wildcat Fields. The Robert A. Doyle “A” Lease is Section 619, Block 43 in the H & TC RR Co. Survey, a square 640 acre tract in Lipscomb County. The proposed horizontal well would be the third well on the section in the Lipscomb (Cleveland) Field. One other new horizontal well has been permitted.

The Lipscomb (Cleveland) Field is subject to spacing requirements of 467 feet minimum distance to the nearest lease line and 1200 feet minimum distance between wells for oil wells and 660 feet minimum distance to the nearest lease line and 1320 feet minimum distance between wells for gas wells.¹ The proposed well is regular to lease line spacing requirements for the Lipscomb (Cleveland) Field, but would be 736 feet at its nearest point from the Doyle Well No. B2, a shut-in vertical well completed in the Lipscomb (Cleveland) Field as an oil well, thereby triggering the between well spacing requirements under the field rules. 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 application is protested by Jones Energy, L.P. (“Jones”), the offset operator of the adjacent eastern tract. Jones is also the owner the Doyle Well No. B2. On December 20, 2007, Jones filed a drilling permit to re-enter its well to drill a horizontal lateral as the Doyle Well No. 2-619H. Because Jones filed its application for a drilling permit after Chaparral, Jones would also require an exception to the between well spacing requirements in the Lipscomb (Cleveland) Field if Chaparral’s permit for the Doyle Well No. 4H-619 is granted.

APPLICANT’S POSITION AND EVIDENCE

Chaparral claims that the Doyle Well No. 4H-619 is necessary to prevent confiscation as neither the Doyle Well No. B2 nor the proposed re-entry to drill the Doyle Well No. 2-619H will recover a significant portion of the remaining recoverable natural gas underlying Section 619.

The Lipscomb (Cleveland) Field underlies all of Section 619 as shown by Chaparral’s Gross Cleveland Sands map for the area. Laterals are drilled with a north-south orientation perpendicular to any naturally occurring fractures in the formation which trend in an east-west orientation.

Chaparral argues that the Doyle Well No. 4H-619 will have a lateral which will extend over the length of the entire section. In contrast, the lateral for Jones’s proposed horizontal re-entry Doyle Well No. 2-619H will only be half the length of Chaparral’s proposed well. Chaparral asserts that the longer lateral of the Doyle Well No. 4H-619 will allow it to recover approximately .3 Bcf of gas and 50,000 barrels of condensate that would not be recovered by the Doyle Well No. 2-619H.

¹Chaparral’s permit application also includes the wildcat field to a depth of 9000 feet. For the wildcat field, the well is regular to both the lease line and between well spacing requirements.

Chaparral also presented evidence that the re-entry into the Doyle Well No. 2-619H would pose a greater risk than its proposed well. Chaparral's proposed well will have a 6 ¼" lateral, but the Jones well will have a 4¼" slim hole lateral. Chaparral believes the larger hole will have a higher success rate and will enable a more effective fracture stimulation.

Chaparral also relies on maps depicting the drainage patterns of the existing wells on and adjacent to the Robert "A" Doyle Unit to support its case. Based on these maps, Chaparral asserts that the acreage in the southeastern quarter of Section 619 has not and will not be drained by its existing well, other existing wells on Section 619 lease, or Jones' proposed Doyle Well No. 2-619H.

PROTESTANT'S POSITION AND EVIDENCE

Jones contends that Chaparral failed to submit the required evidence to support a well at the exception location. Jones urges no evidence was presented by Chaparral showing Section 619 is suffering net uncompensated drainage. Jones further notes that the Lipscomb (Cleveland) Field is present at regular locations on the section as demonstrated by Chaparral's own evidence. Accordingly, Jones argues that Chaparral failed to show an exception to Rule 37 was necessary.

EXAMINERS' OPINION

Chaparral's evidentiary presentation was limited to discussion of the Lipscomb (Cleveland) Field and the need to have its well permitted at the exception location in order to prevent confiscation. Chaparral admitted that there is no specific unusual geologic condition in this part of the reservoir. Accordingly, there is no need to discuss whether the proposed well is necessary to prevent waste.

To establish entitlement to an exception to Rule 37 to prevent confiscation, an applicant must show that absent the applied-for well, it will be denied a reasonable opportunity to recover its fair share of hydrocarbons currently in place under the lease, or its equivalent in kind. The applicant must satisfy a two pronged test: 1) the applicant must show that it will not be afforded a reasonable opportunity to recover its fair share of hydrocarbons currently in place by drilling a well at a regular location; and 2) the applicant must show that the proposed irregular location is reasonable.

It is the basic right of every landowner or lessee to a fair and reasonable chance to recover the oil and gas under his property as recognized by the Texas Supreme Court in *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939). Denial of that fair chance is confiscation within the meaning of Rule 37. *Id.* Because an application cannot seek redress for past drainage, an applicant must provide evidence that it will not be afforded an opportunity to recover the reserves currently in place under its lease - this is its "fair share".

Chaparral's own evidence illustrated that viable regular locations exist on the section, as indicated by the proposed reentry to drill Doyle Well No. 2-619H for which Jones filed a permit application in December 2007. The Doyle Well No. 2-619H would not require an exception to Statewide Rule 37 but for Chaparral's proposed Doyle Well No. 4H-619. Additionally, if Jones were to drill a second lateral to the south from its existing well, it would not require a between well spacing exception.

Chaparral tacitly acknowledged the presence of other regular locations on the section, but claimed that its proposed well would be better. Chaparral pointed to two issues to support this claim. First, because Doyle Well No. 4H-619 would have a longer lateral it would encounter more reserves, leading to the recovery of an additional .3 Bcf of natural gas and 50,000 barrels of condensate. Second, because the Chaparral well was a new drill, it would have a larger hole, making it more efficient for the necessary fracture stimulation of the formation. Chaparral urges that the new well would therefore present a lower risk of failure than the re-entry project proposed by Jones.

Exceptions to Rule 37 are not granted to eliminate risk for an operator or to provide it with the best possible well. An exception to Rule 37 to prevent confiscation is granted to provide a reasonable opportunity to recover the oil and gas reserves on an operator's lease which cannot be recovered from a regular location. Chaparral's map of the Lipscomb (Cleveland) Field depicts a regular location within the confines of the reservoir. Chaparral was required to produce evidence to rule out any regular locations in order to justify its application for a Rule 37 exception. The fact that it has plans for a more expensive, and arguably better well is not evidence ruling out the other regular locations on Section 619. In sum, Chaparral failed to produce such evidence and therefore failed to establish that an exception was necessary to afford it a reasonable opportunity to recover the reserves in Section 619.

Finally, Chaparral provided no estimate of the current recoverable reserves for the Lipscomb (Cleveland) Field underlying Section 619. Without an accurate estimate of current recoverable reserves, or "fair share", there is no "benchmark" to measure against to determine whether a regular location will allow an applicant a reasonable opportunity to recover its fair share. The lack of any evidence of the current recoverable reserves is a further basis for denying the requested permit.

CONCLUSION

Chaparral failed to establish that it is entitled to an exception to Rule 37 to prevent confiscation of natural gas underlying the Robert "A" Doyle Lease in the Lipscomb (Cleveland) Field. Accordingly, the application for an exception to Rule 37 should be denied.

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. Chaparral Energy, L.L.C. (“Applicant” or “Chaparral”) seeks an exception to Statewide Rule 37 to drill Well No. 4H-619 on the Robert A. Doyle “A” Lease, Lipscomb (Cleveland) and Wildcat Fields. Chaparral appeared at the hearing and presented evidence in support of its application.
2. Chaparral’s application is protested by Jones Energy, L.P. (“Jones”), the offset operator of the adjacent eastern tract. Jones is also the owner the Doyle Well No. B2. Jones also appeared at the hearing.
3. The Robert A. Doyle “A” Lease is Section 619, Block 43 in the H & TC RR Co. Survey, a square 640 acre tract in Lipscomb County.
4. The Lipscomb (Cleveland) Field is subject to spacing requirements of 467 feet minimum distance to the nearest lease line and 1200 feet minimum distance between wells for oil wells and 660 feet minimum distance to the nearest lease line and 1320 feet minimum distance between wells for gas wells.
5. The proposed well is regular to lease line spacing requirements for the Lipscomb (Cleveland) Field, but would be 736 feet at its nearest point from the Doyle Well No. B2, a shut-in vertical well completed in the Lipscomb (Cleveland) Field as an oil well, thereby triggering the between well spacing requirements under the field rules.
6. Jones is also the owner the Doyle Well No. B2. On December 20, 2007, Jones filed a drilling permit to re-enter its well to drill a horizontal lateral as the Doyle Well No. 2-619H. Because Jones filed its application for a drilling permit after Chaparral, Jones would also require an exception to the between well spacing requirements in the Lipscomb (Cleveland) Field if Chaparral’s permit for the Doyle Well No. 4H-619 is granted.
7. There are regular locations on Section 619 that would encounter the Lipscomb (Cleveland) Field as depicted on Chaparral’s gross Cleveland Sands map for the area.
8. Chaparral did not provide any estimate of the current recoverable reserves underlying Section 619 in the Lipscomb (Cleveland) Field.
9. Regular locations exist on Section 619 which would give Chaparral a reasonable opportunity to recover the reserves currently underlying the subject lease in the Lipscomb (Cleveland) Field.

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. Applicant failed to establish that an exception to Statewide Rule 37 for a well at the applied-for location is necessary to prevent confiscation.

RECOMMENDATION

The examiners recommend that Chaparral's application be denied in accordance with the attached final order.

Respectfully submitted,

Mark J. Helmueller
Hearings Examiner

Donna Chandler
Technical Examiner