

000392 0759

CHARLES E. MATTHEWS, CHAIRMAN
LARRY WILSON, COMMISSIONER
MICHAEL KEITH RYLANDER, COMMISSIONER



LINDA C. FOWLER, JR., GENERAL COUNSEL
LARRY BORELLA, ASST. DIRECTOR
CR. & GAS SECTION

RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

RULE 37 CASE NO. 0217028

APPLICATION OF EXXON CORPORATION FOR AN EXCEPTION TO STATEWIDE RULES 37 AND 38 FOR WELL NO. 1, KENNETH L. POWELL ESTATE "F" LEASE, LATHEM (CANYON GRANITE WASH) FIELD, HARTLEY COUNTY, TEXAS.

RULE 37 CASE NO. 0213585

APPLICATION OF EXXON CORPORATION FOR AN EXCEPTION TO STATEWIDE RULE 37 TO DRILL WELL NO. 1, KENNETH L. POWELL ESTATE UNIT, LATHEM (CANYON GRANITE WASH) AND WILDCAT FIELDS, HARTLEY COUNTY, TEXAS.

RULE 37 CASE NO. 0216038

APPLICATION OF EXXON CORPORATION FOR AN EXCEPTION TO STATEWIDE RULES 37 AND 38 FOR WELL NO. 1, LATHEM FAMILY UNIT, LATHEM (CANYON GRANITE WASH) FIELD, HARTLEY COUNTY, TEXAS.

RULE 37 CASE NO. 0217037

APPLICATION OF EXXON CORPORATION FOR AN EXCEPTION TO STATEWIDE RULES 37, 38 AND 39 FOR WELL NO. 1, LATHEM FAMILY UNIT "B", LATHEM (CANYON GRANITE WASH) FIELD, HARTLEY COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT:

Tim George (Atty.)
Duane Sackett
Ronny Platt
Robert Dreyfing
J. Lamar Williams

APPLICANT:

Exxon Corporation
-
-
-
-

IN SUPPORT OF APPLICANT:

Frank Douglass (Atty.)
Barrett Pierce

Frank Douglass (Atty.)
Rodney Henckel
Kent Johnston

INTERESTED PARTY:

Rio Petroleum
"

Goldston Oil Corporation
"
"

FOR PROTESTANT:

Lloyd Muenink (Atty.)
Christopher W. Barnes (Atty.)
Edward F. Haye
William R. Hamby

PROTESTANT:

Edward F. Haye
"
"
"

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:

Rule 37 Case No. 0217028: Aug. 1, 1997
Rule 37 Case No. 0213585: Sept. 4, 1997
Rule 37 Case No. 0216038: May 6, 1997
Rule 37 Case No. 0217037: Aug. 1, 1997

NOTICE OF HEARING:

Rule 37 Case No. 0217028: Aug. 7, 1997
Rule 37 Case No. 0213585: July 23, 1997
Rule 37 Case No. 0216038: Aug. 6, 1997
Rule 37 Case No. 0217037: Aug. 7, 1997

DATE CASE HEARD:

Aug. 22 & 25, Sept. 8 & 9, 1997

HEARD BY:

Marshall Enquist, Hearings Examiner
Donna Chandler, Technical Examiner

TRANSCRIPT DATE:

Volume I -- September 22, 1997
Volume II -- September 29, 1997
Volume III -- October 15, 1997
Volume IV -- October 28, 1997

HEARING CLOSED DATE:

December 8, 1997

PFD CIRCULATION DATE:

March 19, 1998

STATEMENT OF THE CASE

Each of the four cases in this consolidated hearing involves the Lathem (Canyon Granite Wash) Field, which has field rules requiring spacing of 660 feet from leaselines and 1320 feet between wells, on 80 acre units. Although the field is already developed to density under the

existing field rules, Exxon is attempting to drill additional wells by decreasing unit sizes for several existing wells in order to release acreage that can be assigned to new 80 acre units. Of the four present applications, only one is for a new well, and that well is located very near the structural high of the reservoir. The subject field is a faulted anticline, with gentle dips to the west, south and north, bounded on the east by a fault (see Attachment I). The field is subject to a strong water-drive, with the wells lowest on the structure experiencing high water cuts.

Three of the four applications, Rule 37 Case Nos. 0217028, 0213585 and 0216038, were protested by Edward F. Haye. Rule 37 Case No. 0217037 was not protested. For ease of reference, the cases will be referred to as Applications 1-4, respectively.

Rule 37 Case No. 0217028 (Application #1)

Exxon seeks a Rule 38 exception, and contingently, a Rule 37 exception, for its existing Well No. 1 on the Kenneth L. Powell Estate "F" Lease. Well No. 1 currently has 80 acres assigned to it. If this application is granted, the existing well will be on a reduced unit consisting of 30 acres and will be 55 feet from the east line and 24 feet from the north line of the unit. The reduction of the unit size would release 50 acres for assignment to another well. This 50 acres, in combination with 30 additional acres, would create the new 80 acre drilling unit applied for in the following case, Rule 37 Case No. 0213585.

Rule 37 Case No. 0213585 (Application #2)

Exxon seeks an exception to Statewide Rule 37 to drill its Well No. 1 on the proposed 80 acre Kenneth L. Powell Estate Unit. Of the four present applications, this is the only one seeking a permit to drill a new well. Exxon proposes to combine 50 acres released under the previous application (Rule 37 Case No. 0217028), if approved, with 30 acres from the Kenneth L. Powell Estate Lease in order to create the new unit. A rule 37 exception is necessary because the requested well location is 100 feet from the south line of the unit and 225 feet from the east line of the unit, distances substantially less than the 660 foot spacing required for a regular location.

Rule 37 Case No. 0216038 (Application #3)

Exxon seeks an exception to Statewide Rule 38 for its existing Well No. 1 on the Lathern Family Unit and, contingently, a Rule 37 exception. If the application is granted, the existing well will be on a reconfigured unit consisting of 20 acres. If the Rule 38 exception is granted, the well will be 102 feet from the east line, 195 feet from the south line and 631 feet from the north line of the unit, distances substantially less than the 660 foot spacing required for a regular location.

Rule 37 Case No. 0217037 (Application #4)

Exxon seeks exceptions to Statewide Rules 37, 38 and 39 for its existing Well No. 1 on

the Lathem Family Unit "B" Lease. If the exception is granted, the well will be on a reconfigured unit consisting of 19.79 acres, which is divided into two tracts: a wellsite tract of 10 acres and non-contiguous tract of 9.79 acres. The two tracts are separated by approximately 1600 feet. If the Rule 38 exception is granted, the well will be 98 feet from the south line and 75 feet from the east line of the unit, distances substantially less than the 660 foot spacing required for a regular location.

DISCUSSION OF THE EVIDENCE

EXXON'S EVIDENCE

Exxon presented four expert witnesses, 51 direct exhibits and one cross exhibit in a combined presentation of four applications in the Lathem (Canyon Granite Wash) Field. Exxon's exhibits consisted of a structure map, numerous plats showing past, present, and requested future unit boundaries, reservoir volumetric data, and a computer model of the reservoir comparing currently recoverable reserves with estimated recoveries from the individual wells in the field, both existing and applied-for. Due to the structure of the field and the influence of the water drive, Exxon believes its lessors are experiencing net uncompensated drainage.

A.) Rule 37 Case No. 0217028 (Application #1)

Exxon's computer model indicates there are currently recoverable reserves of 345,759 BBLs of oil beneath the 80 acre Kenneth L. Powell Estate "F" Lease. However, the model projects that the existing Well No. 1 on that lease will only recover 145,673 BBLs of oil in the future. Exxon argues that these figures show that it is suffering net uncompensated drainage in the amount of 200,086 BBLs of oil.

B.) Rule 37 Case No. 0213585 (Application #2)

Exxon's computer model indicates that there are currently recoverable reserves of 2,417,953 BBLs of oil beneath the 160 acre Kenneth L. Powell Estate Lease. The model projects that the existing Kenneth L. Powell Estate Well Nos. 1 and 2 will only recover 1,148,693 BBLs of oil in the future. There are currently recoverable reserves of 345,759 BBLs of oil beneath the adjoining 80 acre Kenneth L. Powell Estate "F" Unit, but Exxon estimates that the existing Kenneth L. Powell Estate "F" Well No. 1 will only recover 145,673 BBLs of oil in the future. Exxon argues that these figures demonstrate that it is suffering net uncompensated drainage of oil.

C.) Rule 37 Case No. 0216038 (Application #3)

Exxon's computer model indicates that there are currently recoverable reserves of 578,487 BBLs of oil beneath the 80 acre Lathem Family Unit. Exxon's computer model projects that the Lathem Family Unit Well No. 1, by itself, will recover only 179,557 BBLs of oil. Exxon argues that the difference, 398,930 BBLs of oil, will be lost to net uncompensated drainage.

000392 0773

D.) Rule 37 Case No. 0217037 (Application #4)

Exxon's computer model indicates that there are currently recoverable reserves of 245,439 BBLs of oil beneath the 80 acre Lathem Family Unit "B" Lease. The model projects that the Lathem Family Unit "B" Well No. 1, by itself, will recover only 32,131 BBLs of oil. Exxon argues the difference, 213,308 BBLs of oil, will be lost to net uncompensated drainage.

RIO PETROLEUM'S AND GOLDSTON OIL CORPORATION'S PARTICIPATION

Rio Petroleum and Goldston Oil Corporation did not present any witnesses or exhibits. They participated in the hearing by cross-examining witnesses of both the applicant and the protestant.

HAYE'S EVIDENCE

Haye presented two expert witnesses, 43 direct exhibits and nine cross exhibits. The exhibits include a description of the depositional history of the subject field and its subsequent faulting, well log analysis, a comparison of water levels (both original and current) in the wells, and calculations of original oil in place and currently recoverable oil. Haye argues that the field is already "drilled to density" and that Exxon is attempting to drill to a higher density by exception rather than by changing the field rules. In Haye's view, 40 acre rules would result in more efficient drainage of the reservoir, because the reservoir is compartmentalized into units less than 80 acres by small faults and by shale drapes.

EXAMINERS' OPINION

I. Exceptions to Statewide Rule 38 Based on Confiscation

Exceptions to Statewide Rule 38 may be granted to prevent waste or to protect correlative rights/prevent confiscation.

The applicant presented its case claiming net uncompensated drainage, a form of confiscation. Uncompensated drainage is the "Local migration of oil or gas which cannot be prevented by the landowner being drained because of the operation of proration and/or spacing rules." Howard R. Williams & Charles Meyers, Manual of Oil and Gas Terms, pp. 792-3, fifth edition (1981). Net uncompensated drainage, as to a particular lease, occurs when drainage off of the lease exceeds drainage onto the lease.

To obtain an exception to Statewide Rule 38 to protect correlative rights/prevent confiscation, 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.

Exceptions to Statewide Rule 38 based on confiscation are not available to units which violate the voluntary subdivision rule. Statewide Rule 38(d)(2)(A)-(B) specifically address that situation:

(2) Density exception required. An exception to the density provision is required, and may be granted only to prevent waste, for a well on a lease, pooled unit, or unitized tract that is composed of substandard acreage and that:

(A) took its present size and shape after the date of attachment of the voluntary subdivision rule (§3.37 of this title (relating to the Statewide Spacing Rule)); and

(B) was composed of substandard acreage in the field according to the density rules in effect at the time it took its present size and shape. (emphasis added)

(T.A.C. §3.38, West 1997).

Rule 37 Case No. 0217028 (Application #1)

The existing Well No. 1 on the Kenneth L. Powell Estate "F" Lease is on an 80 acre unit, as required by the current field rules (see Attachment II). Exxon's argument that it cannot recover the currently recoverable reserves on its tract, if proved, would be sufficient to entitle it to drill a second well on the existing 80 acre unit without any necessity to reform that unit. However, that is not what Exxon is proposing to do. The existing well is already near the structurally highest location on the unit. Instead, Exxon wishes to reconfigure and reduce the unit for the existing well to 30 acres (see Attachment III), thus releasing 50 acres which will be combined with 30 acres in a separate application (Rule 37 Case No. 0213585). If that application is granted, Exxon will then drill a new well on the Powell Estate Lease (see Attachment III). Exxon is arguing, then, that because it cannot recover its fair share of minerals under its Powell Estate "F" Lease, it must be allowed to reconfigure its units and drill an additional well on its Powell Estate Lease. Thus, Exxon is taking the unusual position that it can only recover its fair share of oil under one lease by drilling a new well on an adjacent lease. Exxon did not present any evidence that the mineral ownership of the two leases is identical or that the attempted reconfiguration will not act to the detriment of the mineral interest owners rights.

The 30 acre unit that Exxon proposes in this application took its present size and shape on July 30, 1997, long after field rules attached on July 8, 1985. The proposed 30 acre unit is less than the 80 acres required under the field rules and is a voluntary subdivision. As such, is not entitled to a Rule 38 exception based on confiscation.

Rule 37 Case No. 0213585 (Application #2)

Exxon did not notice this case for a Rule 38 exception, but Rule 38 questions do arise.

This case was presented in combination with the preceding Rule 37 Case No. 0217028, which was intended to form a 30 acre unit around the existing Kenneth L. Powell "F" Lease Well No. 1, releasing 50 acres for assignment to the applied-for Kenneth L. Powell Estate Unit in this application (see Attachment III). Because the examiners recommend that the exception application in Rule 37 Case No. 0217028 be denied, Exxon cannot, assuming the Commission accepts the examiners' recommendation, form the intended 80 acre unit in this application as anticipated and would need a Rule 38 exception for the 30 acre drillsite tract. Rule 40, which prevents double assignment of acreage, prohibits Exxon from assigning the same 50 acres to the proposed Kenneth L. Powell Estate Unit that are currently assigned to the Kenneth L. Powell Estate "F" Lease Well No. 1. In addition, Exxon has failed to indicate how the 160 acre Kenneth L. Powell Estate Lease, with Well Nos. 1 and 2 already in existence on it, can release 30 acres for assignment to the applied-for unit without running afoul of either Rule 40 (prohibiting double assignment of acreage) or of Rule 38 by creating a substandard size tract for one of the two existing wells (Exxon has the option to permit the applied-for well as "regular" for Rule 38 if it will "code H" the well).

If the Commission rejects the examiners' recommendation in Rule 37 Case No. 0217028, then Exxon will be able to form an 80 acre unit in the present application, and a Rule 38 exception will not be necessary.

Rule 37 Case No. 0216038 (Application #3)

Originally, the Lathem Family Unit Well No. 1 was assigned 80 acres (see Attachment IV). However, pursuant to an application granted under a Rule 37(h)(2)(B) exception in September, 1996, the 80 acre pooled unit was cut in half: the north 40 acres continued to be assigned to the Lathem Family Unit Well No. 1, while the south 40 acres were assigned to the 80 acre Lathem Mary Kay Unit Well No. 1 (see Attachment V). The reduction of the acreage assigned to the Lathem Family Unit Well No. 1 is an apparent violation of SWR 38 or SWR 40). Exxon has already obtained a drilling permit for its Well No. 1 on the 80 acre Lathem Family Unit No. 2 (see Attachment VI). The granting of the latter permit leaves only 20 acres available for assignment to the Lathem Family Unit Well No. 1 (see Attachment VI).

The 20 acre unit that Exxon proposes in this application took its present size and shape on May 2, 1997, long after field rules attached on July 8, 1985. The proposed unit is smaller than the 80 acres required under the field rules. Thus, it is a voluntary subdivision and, as such, is not entitled to a Rule 38 exception based on confiscation.

Rule 37 Case No. 0217037 (Application #4)

Originally, the Lathem Family Unit "B" Well No. 1 was assigned 80 acres (see Attachment VII). Exxon now proposes that the unit be reduced to 19.79 acres on two tracts: a 10 acre wellsite tract to the south and a 9.79 acre tract to the north, separated by a distance of 1600 feet (see Attachment VIII). The proposed 19.79 acre unit took its present size and shape on May 6, 1997, long after field rules attached on July 8, 1985. The proposed 19.79 acre unit

000392 0/16

is smaller than the 80 acres required under the field rules, thus it is a voluntary subdivision and, as such, is not entitled to a Rule 38 exception based on confiscation.

II. Exceptions to Statewide Rule 38 Based on Waste

An applicant seeking an exception to Statewide Rule 38 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.

Exxon did not make a case based on waste. Its contention that it is suffering net uncompensated drainage is a strong argument that hydrocarbons are being drained off the lease, not that they remain inaccessible from the lease. Furthermore, under cross-examination, Exxon's petroleum engineer stated that the existing wells in the field could recover the oil in the reservoir and that the new wells were being sought to "protect equities". (Transcript Vol. I, p. 117, lines 2-9). The duty to protect equities arises under Amoco Production Company v. Alexander, 622 S.W.2d 563, 568 (Tex. 1981), which holds that a reasonably prudent operator has a duty to protect his lessor from fieldwide drainage, which includes a duty to seek Rule 37 exceptions, and other administrative relief (which must include Rule 38 exceptions), from the Railroad Commission. The testimony of Exxon's witness indicates that Exxon is attempting to protect its lessors from field-wide drainage, not from waste.

In addition, Exxon has not presented any estimates of the reserves recoverable from the applied-for locations versus the reserves recoverable from regular spacing locations. Without contrasting estimated recoveries from the applied-for and regular locations, Exxon cannot show that a substantial amount of hydrocarbons will be lost if the applied-for exception is not granted. Admittedly, in three of the applications (Rule 37 Case Nos. 0217028, 0216038 and 0217037) Exxon has configured its applied-for units in such a way that no regular location exists on the applied-for units, but Exxon must still condemn regular locations off the applied-for units for an exception based on waste. Exxon made no attempt to do this. In the remaining application, Rule 37 Case No. 0213585, Exxon did not present any figures condemning the regular location on the proposed unit, nor did it condemn regular locations off the proposed unit.

Exxon did not make a case based on waste and did not present any figures that would justify an exception based on waste. Exxon is not entitled to a Rule 38 exception in any of the four subject applications based on waste.

III. Exceptions to Statewide Rule 37 Based on Confiscation

Although Exxon noticed all four applications for Rule 37 exceptions, Exxon contends that Rule 37 exceptions are not required in Rule 37 Case Nos. 0217028, 0216038, and 0217037. In its opening statement, Exxon stated that "...under Commission policy and practice and rules,

where a well has been drilled under a proper permit and acreage is taken away from it such that it is now closer than a normal spacing distance to the new lease line, a Rule 37 permit is not required in that circumstance." (Transcript Vol. I, pp. 11-12, lines 25 and 1-5). That may be the case when a unit is reformed due to Commission action (i.e., a change in spacing rules from 467 feet to 660 feet), because it makes little sense to penalize an operator for Commission actions that are beyond the operator's control. However, when an operator, through his own voluntary actions, reforms his units in such a way that lease line spacing problems are created, the field rules are subverted (this is the reasoning behind the voluntary subdivision rule). Exxon has presented no correlation between the sizes and shapes of the requested units and the actual drainage patterns of the affected wells. It is clear that the wells will drain across the new unit lines, which are only a subterfuge to create unassigned acreage which will enable Exxon to drill the field to a higher density than allowed by the field rules. In these circumstances, Rule 37 exceptions are required.

To obtain an exception to Statewide Rule 37 to protect correlative rights/prevent confiscation, 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 owner's fair share is measured by the currently recoverable reserves under its property.

Exceptions to Statewide Rule 37 based on confiscation are not available to units which violate the voluntary subdivision rule. Statewide Rule 37(g)(1)-(2) specifically addresses that situation:

(g) Subdivision of property.

(1) In applying Rule 37 (Statewide Spacing Rule) of statewide application and in applying every special rule with relation to spacing in every field in this state, no subdivision of property made subsequent to the adoption of the original spacing rule will be considered in determining whether or not any property is being confiscated within the terms of such spacing rule, and no subdivision of property will be regarded in applying such spacing rule or in determining the matter of confiscation if such subdivision took place subsequent to the promulgation and adoption of the original spacing rule.

(2) Any subdivision of property creating a tract of such size and shape that it is necessary to obtain an exception to the spacing rule before a well can be drilled thereon is a voluntary subdivision and not entitled to a permit to prevent confiscation of property if it were either:

(A) segregated from a larger tract in contemplation of oil, gas, or geothermal development; or

(B) segregated by fee title conveyance from a larger tract after the spacing rule became effective and the voluntary

subdivision rule attached.

(T.A.C. §3.37, West 1997). In three of the four subject applications, Exxon seeks to reduce the acreage assigned to existing wells. Each proposed unit is smaller than required by the field rules:

- Rule 37 Case No. 0217028 --- 30 acres
- Rule 37 Case No. 0216038 --- 20 acres
- Rule 37 Case No. 0217037 --- 19.79 acres

The proposed unit in Docket No. 0217028 took its present size and shape on July 30, 1997. The proposed unit in Docket No. 0216038 took its present size and shape on May 2, 1997. The proposed unit in Docket No. 0217037 took its present size and shape on May 6, 1997. All three are composed of substandard acreage (current field rules require 80 acre units) that took its present size and shape well after field rules attached on July 8, 1985. Therefore each of the three is a voluntary subdivision and is not entitled to a Rule 37 exception based on confiscation.

The remaining Rule 37 exception, requested in Rule 37 Case No. 0213585, was presented in combination with Rule 37 Case No. 0217028, which was intended to form a 30 acre unit around the existing Kenneth L. Powell "F" Lease Well No. 1, releasing 50 acres for assignment to the applied-for well in the 0213585 application. Because the examiners recommend that the exception application in Rule 37 Case No. 0217028 be denied, Exxon cannot form the intended 80 acre unit in this application as anticipated and would need a Rule 38 exception which wasn't applied for. Rule 40, which prevents the double assignment of acreage, prohibits Exxon from assigning the same 50 acres to the proposed Kenneth L. Powell Estate Unit that are currently assigned to the Kenneth L. Powell Estate "F" Lease Well No. 1.

However, because there is a possibility that Exxon may elect to plug its Well No. 1 on the Kenneth L. Powell Estate "F" Lease, thus making available the acreage necessary to complete its proposed 80 acre unit, or that the Commission may reverse the examiner's recommendation, it is necessary to proceed with the analysis of the requested Rule 37 exception in this application.

Exxon proposes to drill on an 80 acre unit composed of 30 acres from the Kenneth L. Powell Estate Lease and 50 acres from the Kenneth L. Powell Estate "F" Lease (see Attachment III). A Rule 37 exception is necessary because the applied-for well location is 100 feet from the south line and 225 feet from the east line of the unit. Exxon has provided estimates of the currently recoverable reserves underlying the 80 acre tract that the existing Kenneth L. Powell Estate "F" Lease Well No. 1 is on. Exxon has also provided estimates of the currently recoverable reserves underlying the 160 acre tract that the existing Kenneth L. Powell Estate Well Nos. 1 and 2 are on. However, estimates of Exxon's fair share under these two tracts, totalling 240 acres, are not relevant to the issue of whether or not Exxon can recover its fair share of the minerals currently in place under its proposed 80 acre tract from the applied-for location. Exxon has not provided an estimate of the currently recoverable reserves under its proposed 80 acre tract, nor did it quantify the amount of hydrocarbons offsetting wells would drain from the subject tract. Exxon has an interest in the Kenneth L. Powell Estate "D" Well No. 3 which is

located only 100 feet north of the lease line of the proposed unit. The Kenneth L. Powell Estate "D" Well No. 3 is draining an unknown quantity of the reserves from the proposed unit. In addition, there is a regular location available on the the NW 50 acres of Exxon's proposed unit, but Exxon made no attempt to prove that it could not recover its fair share from that regular location. The latter location is comparatively low on the structure and would probably have an appreciable water cut, but it still must be considered in combination with other wells on and off the unit in determining whether or not Exxon can recover its fair share of the hydrocarbons under the unit. Exxon is not entitled to a Rule 37 exception based on protection of correlative rights/prevention of confiscation.

IV. Exceptions to Statewide Rule 37 Based on Waste

As stated in subheading II above (Exceptions to Statewide Rule 38 Based on Waste), Exxon did not present a case based on waste. Exxon is not entitled to a Rule 37 exception based on waste in any of the four subject applications.

V. Exceptions to Statewide Rule 39

The proposed 19.79 acre unit in Rule 37 Case No. 0217037 is to be composed of two tracts (a northern 9.79 acre tract and a southern 10 acre wellsite tract) separated by a distance of 1600 feet. A Rule 39 exception is normally granted in cases in which two tracts are separated by a narrow right of way. In this case, the two subject tracts are separated by a distance much greater than would be normal for a right of way. Exxon has not presented any rationale for what is apparently an entirely voluntary separation of the tracts. Exxon is not entitled to a Rule 39 exception for its proposed 19.79 acre unit.

VI. SUMMARY

Exxon's combined applications, if granted, would essentially amend field rules for a selected portion of the field. Exxon's putative justification for these applications (net uncompensated drainage), if proved, would be sufficient to justify the grant of exceptions to drill second and even third wells on the existing 80 acre units, without the necessity of reforming those units. For its own reasons, Exxon has chosen to proceed in a different manner: attempting to release acreage from existing units in order to combine it into newly created 80 acre units configured so as to allow well locations at a higher structural location. However, this course has inherent dangers. If Exxon drills its already permitted Well No. 1 on the Lathem Family Unit No. 2, it will cause incurable Rule 38 violations for the existing Well No. 1 on the Lathem Family Unit and for the existing Well No. 1 on the Lathem Family Unit "B" lease. In addition, if Exxon's exception application in Rule 37 Case No. 0213585 is granted, it will cause an incurable Rule 38 violation for the Kenneth L. Powell Estate "F" Well No. 1, as well as reducing the acreage assigned to either Well No. 1 or Well No. 2 of the 160 acre Kenneth L. Powell Estate Lease to a substandard size.

Exxon's estimates of future recoveries by individual wells are evidence that a single well

on an 80 acre unit will not drain the recoverable reserves under that unit. If this is proved, it is a powerful argument that the field rules are in need of amendment.

FINDINGS OF FACT

1. Notice of hearing was given on July 23, August 6, and August 7, 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 in Rule 37 Case No. 0217028, Exxon Corporation, seeks an exception to Statewide Rule 38 for its existing Well No. 1 on the Kenneth L. Powell Estate "F" Lease. Applicant proposes a reconfigured unit of 30 acres for the well, leaving the well at a location 55 FEL and 84 F S'y NL of the unit, and 360 FEL and 2280 FNL of the survey. The well is completed in the Lathem (Canyon Granite Wash) Field, which requires spacing of 660 feet from lease-lines and 1320 feet between wells, with 80 acre units.
 - A. Applicant's proposed Kenneth L. Powell Estate "F" Unit is a tract of substandard size, containing 30 acres.
 - B. Applicant's proposed 30 acre Kenneth L. Powell Estate "F" Unit took its present size and shape July 30, 1997.
 - C. Field rules for the Lathem (Canyon Granite Wash) Field attached on July 8, 1985.
 - D. Hydrocarbons that cannot be recovered by the Kenneth L. Powell Estate "F" Lease Well No. 1 can be recovered by existing wells.
 - E. Regular and less irregular locations exist on the present 80 acre Kenneth L. Powell Estate "F" Lease that give the mineral interest owners a reasonable opportunity to recover the tract's hydrocarbons.
 - F. Applicant has an interest in tracts offsetting the unit.
4. The applicant in Rule 37 Case No. 0213585, Exxon Corporation, seeks an exception to Statewide Rule 37 to drill Well No. 1 on the Kenneth L. Powell Estate Unit. Applicant proposes to drill its well at a location 100 feet FS'y SL and 225 feet FE'y EL of the unit, and 1050 feet FWL and 1600 feet FSL of the

survey. Applicant has applied for completion of its proposed well in the Lathem (Canyon Granite Wash) Field, which requires spacing of 660 feet from lease lines and 1320 feet between wells on 80 acre units, and the Wildcat Field, which requires spacing of 467 feet from lease lines and 1200 feet between wells on 40 acre units.

- A. Applicant's proposed unit in Rule 37 case No. 0213585 contains 80 acres.
 - B. The amount of currently recoverable reserves under the proposed 80 acre Kenneth L. Powell Estate Unit is unknown.
 - C. Exxon can recover its fair share of the currently recoverable reserves under its proposed 80 acre unit from a regular location, a less irregular location or from wells off the unit in which it has an interest.
 - D. The applied-for location on the proposed 80 acre Kenneth L. Powell Estate Unit is not reasonable.
 - E. The hydrocarbons that would be recovered by a well at the applied-for location would be recovered by a well at a regular or less irregular location, as well as by existing wells.
 - F. There is a regular location on the northwesterly 50 acre tract of the proposed unit.
 - G. A substantial amount of hydrocarbons would not be lost if a well is drilled at a regular or less irregular location as opposed to the applied-for location.
 - H. Exxon's primary objective is the Lathem (Canyon Granite Wash) Field. Applicant would not drill the well with the Wildcat Field as the sole objective.
 - I. Applicant has an interest in tracts offsetting the unit.
5. The applicant in Rule 37 Case No. 0216038, Exxon Corporation, seeks an exception to Statewide Rule 38 for its existing well No. 1 on the Lathem Family Unit. Applicant proposes a reconfigured unit of 20 acres for its well, leaving the well at a location 102 feet FEL and 195 feet FSL of the unit, and 631 feet FNL and 667 FEL of the survey. Applicant's well is completed in the Lathem (Canyon Granite Wash) Field, which requires spacing of 660 feet from lease lines and 1320 feet between wells, on 80 acre units.

RULE 37 CASE NOS. 0217023, 0213585, 0216038, & 0217837

PAGE 14

- A. Applicant's proposed unit is a tract of substandard size, containing 20 acres.
 - B. Applicant's proposed 20 acre Lathem Family Unit took its present size and shape on May 2, 1997.
 - C. Field rules for the Lathem (Canyon Granite Wash) attached on July 8, 1997.
 - D. Hydrocarbons that cannot be recovered by the Lathem Family Unit Well No. 1 can be recovered by existing wells.
 - E. Regular and less irregular locations exist on the present 40 acre Lathem Family Unit that give its mineral interest owners a reasonable opportunity to recover the tract's hydrocarbons.
 - F. Applicant has an interest in tracts offsetting the unit.
6. The applicant in Rule 37 Case No. 0217037, Exxon Corporation, seeks an exception to Statewide Rule 38 for its existing Well No. 1 on the Lathem Family Unit "B" Lease. Applicant proposes a unit of 19.79 acres, composed of a 10 acre wellsite tract to the south and a 9.79 acre tract to the north, separated by a distance of 1600 feet. The existing well would be at a location 98 FSL and 75 feet FEL of the unit, and 1980 FNL and 1978 feet FEL of the survey. The well is completed in the Lathem (Canyon Granite Wash) Field, which requires spacing of 660 feet from lease lines and 1320 feet between wells, on 80 acre units.
- A. Applicant's proposed Lathem Family Unit "B" is a tract of substandard size, containing 19.79 acres.
 - B. Applicant's proposed 19.79 acre Lathem Family Unit "B" took its present size and shape on May 6, 1997.
 - C. Field rules for the Lathem (Canyon Granite Wash) Field attached on July 8, 1985.
 - D. Hydrocarbons that cannot be recovered by the Lathem Family Unit "B" Well No. 1 can be recovered by existing wells.
 - E. Regular and less irregular locations exist on the present 80 acre Lathem Family Unit "B" Lease that give its mineral interest owners a reasonable opportunity to recover the tract's hydrocarbons.
 - F. Applicant has an interest in wells offsetting the unit.

- G. Applicant's proposed 19.79 acre unit is composed of two tracts separated by a distance of 1600 feet, a distance greater than a narrow right of way.
7. Existing wells will drain the Lathem (Canyon Granite Wash) Field.

CONCLUSIONS OF LAW

1. Proper notice was timely given to all parties legally entitled to notice.
2. The applications on Form W-1 in Rule 37 Case Nos. 0217028, 0213583, 0216038, and 0217037 were properly filed.
3. All things have occurred and have been done to give the Commission jurisdiction to decide these matters.
4. The mineral interest owners of the voluntarily subdivided 30 acre Kenneth L. Powell Estate "F" Lease are not entitled to exceptions to Statewide Rules 37 or 38 for protection from confiscation.
5. The mineral interest owners of the proposed 30 acre Kenneth L. Powell Estate "F" Lease are not entitled to exceptions to Statewide Rules 37 or 38 for protection from waste.
6. An exception to Statewide Rule 37 is not necessary to prevent the confiscation of hydrocarbons under the proposed 80 acre Kenneth L. Powell Estate Unit.
7. An exception to Statewide Rule 37 is not necessary to prevent the waste of hydrocarbons under the proposed 80 acre Kenneth L. Powell Estate Unit.
8. The mineral interest owners of the voluntarily subdivided 20 acre Lathem Family Unit Well No. 1 are not entitled to exceptions to Statewide Rules 37 or 38 for protection from confiscation.
9. The mineral interest owners of the proposed 20 acre Lathem Family Unit Well No. 1 are not entitled to exceptions to Statewide Rules 37 or 38 for protection from waste.
10. The mineral interest owners of the voluntarily subdivided 19.79 acre Lathem Family Unit "B" Well No. 1 are not entitled to exceptions to Rules 37 or 38 for protection against confiscation.
11. The mineral interest owners of the proposed 19.79 acre Lathem Family Unit "B" Well No. 1 are not entitled to exceptions to Rules 37 or 38 for protection from

waste.

- 12. The mineral interest owners of the proposed 19.79 acre Lathem Family Unit "B" Well No. 1 are not entitled to a Statewide Rule 39 exception.

RECOMMENDATION

The examiners recommend:

- 1.) that applicant's request for exceptions to Statewide Rules 37 and 38 for its proposed 30 acre Kenneth L. Powell Estate "F" Unit, Well No. 1, be denied; and
- 2.) that applicant's request for an exception to Statewide Rule 37 for its proposed 80 acre Kenneth L. Powell Estate Unit, Well No. 1, as to the Lathem (Canyon Granite Wash) and Wildcat Fields, Hartley County, Texas, be denied; and
- 3.) that applicant's request for exceptions to Statewide Rules 37 and 38 for its Well No. 1 on the proposed 20 acre Lathem Family Unit be denied; and
- 4.) that applicant's request for exceptions to Statewide Rules 37, 38 and 39 for its proposed 19.79 acre Lathem Family Unit "B", Well No. 1, be denied.

Respectfully submitted,

Marshall F. Enquist

Marshall F. Enquist
Hearings Examiner

Donna Chandler

Donna Chandler
Technical Examiner

MFE