



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**OIL & GAS DOCKET NO. 03-0299999**

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**THE APPLICATION OF EARTHSTONE OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 86(e)(3) TO ALLOW ASSIGNMENT OF A 1,208.3 ACRE PRORATION UNIT TO ITS VIVEN UNIT NO. 1H WELL, GIDDINGS (AUSTIN CHALK-3) FIELD, FAYETTE COUNTY, TEXAS**

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**HEARD BY:** Paul Dubois – Technical Examiner  
Marshall Enquist – Administrative Law Judge

**HEARING DATE:** June 15, 2016

**CONFERENCE DATE:** September 12, 2016

**APPEARANCES:**

George Neale  
Lane McKinney  
Tim Merrifield  
Rick Johnston, P.E.

Earthstone Operating, LLC

**EXAMINERS' REPORT AND RECOMMENDATION**

**STATEMENT OF THE CASE**

Earthstone Operating, LLC ("Earthstone") seeks an exception to 16 Tex. Admin. Code §3.86(e)(3) (Statewide Rule ["SWR"] 86) to allow assignment of a 1,208.3 acre proration unit to its Viven Unit Well No. 1H in the Giddings (Austin Chalk-3) Field, Fayette County, Texas. The well is completed with two laterals. Pursuant to Statewide Rule 86 and the current field rules for the Giddings (Austin Chalk-3) Field (see Oil & Gas Docket No. 03-0280185, effective February 23, 2015) the well is limited to a 1,000 acre proration unit. Earthstone provided evidence to show that the well is located adjacent to a bounding fault that limits the drainage area, that a second well is not necessary to drain the reserves underlying the unit, and the correlative rights of the mineral interest owners will be protected by adoption of a 1,208.3 proration unit under the exception to SWR 86. The application was not protested. The Examiners recommend the exception be granted.

### DISCUSSION OF THE EVIDENCE

Earthstone established the 1,208.3 Viven Unit by pooling 297 leases on 23 tracts of land. Well No.1 was completed on July 31, 2015. The well has two open-hole (with uncemented liners) laterals completed in the Giddings (Austin Chalk-3) Field. The laterals were completed from one surface location. The laterals diverge from the surface location at an approximately 50 degree angle. Lateral No. 1 is 7,075 feet long and Lateral No. 2 is 5,578 feet long. The cost to drill the well was about \$4.75 million. The well has significantly underperformed expectations for production. From July 2015 through March 2016 the cumulative production from the well was 6,603 barrels of oil and 2,404 thousand cubic feet (mcf) of casinghead gas.

Field Rules for the Giddings (Austin Chalk-3) Field provide for 160 acre standard proration units with optional 80 acre units. Thus the Viven Unit could be developed with up to 15 wells. Further, the statewide and field rules allow for additional acreage to be assigned to horizontal wells based on the length of a single lateral. With multiple laterals, the rules provide a means of additional acreage being assigned given certain geometric constraints.

Because the two laterals form an acute (less than 90 degree) angle, the length of the longest lateral (Lateral No. 1) is used by Commission staff in accordance with SWR 86 and the current field rules to determine the maximum allowable size of a proration unit that can be assigned to a well. Commission staff determined that the well was eligible for a proration unit not to exceed 1,000 acres. Subsequently, Commission staff notified Earthstone that the well was not compliant with Commission rules. Earthstone has several potential remedies to rectify the situation.

First, Earthstone could drill another well to hold the extra 200 +/- acres. If Lateral No. 2 had been drilled from a separate surface location, then Lateral No. 2, as a separate well, could hold the differential acreage. However, based on the geology of the Austin Chalk Formation in the area, as evidenced by seismic data, geologic interpretation, and historical productivity, Earthstone concludes there is no economic basis to drill a second well; no additional reserves would be recovered.

Second, Earthstone could release the extra 200 +/- acres and allow the mineral owners of those tracts the opportunity to pursue a lease with another operator who could drill a well. Again, however, the geology of the Unit does not suggest ideal candidate tracts for release. This is a low performing area based on the local field bounding by faults; the existing well represents the only reasonable opportunity for those mineral interest owners to participate in any well in the field.

Thirdly, Earthstone could seek an exception to Statewide Rule 86(e)(3), in which a Commission Final Order authorizes the assignment of 1,208.3 acres to the Viven Unit. Earthstone proposes that, for the purposes of acreage allocation in Rule 5(1) of the special field rules for the Giddings (Austin Chalk-3) Field, the Horizontal Drainhole Displacement, or "L" in the formula shall be 9,075 feet, resulting in a calculation of a maximum acreage allocation of 1,240 acres, and allowing the assignment of 1,208.03 acres to the subject well. Earthstone argues this approach prevents waste, prevents the drilling of unnecessary wells, and provides a

fair means for the mineral interest owners currently under lease to Earthstone to participate in a well in the field.

### **FINDINGS OF FACT**

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of the hearing.
2. Earthstone established the 1,208.3 Viven Unit by pooling 297 leases on 23 tracts of land.
3. Well No.1 was completed on July 31, 2015. The well has two open-hole (with uncemented liners) laterals completed in the Giddings (Austin Chalk-3) Field. The laterals were completed from one surface location. The laterals diverge from the surface location at an approximately 50 degree angle. Lateral No. 1 is 7,075 feet long and Lateral No. 2 is 5,578 feet long.
4. From July 2015 through March 2016 the cumulative production from the well was 6,603 barrels of oil and 2,404 thousand cubic feet (mcf) of casinghead gas.
5. The reservoir from which the well produces is limited in size due to faulting.
6. Field Rules for the Giddings (Austin Chalk-3) Field provide for 160 acre standard proration units with optional 80 acre units. Thus the Viven Unit could be developed with up to 15 wells.
7. Because the two laterals form an acute (less than 90 degree) angle, the length of the longest lateral (Lateral No. 1) is used by Commission staff in accordance with SWR 86 and the current field rules to determine the maximum allowable size of a proration unit that can be assigned to a well.
8. Statewide Rule 86 and Field Rules limit the maximum acreage that can be assigned to the well to not exceed 1,000 acres.
9. Drilling a second well on the Viven Unit is not necessary and will not result in additional hydrocarbon recovery.
10. Releasing 208.3 acres from the Unit will deny those mineral interest owners the opportunity to participate in any production from the Giddings (Austin Chalk-3) Field.
11. A Commission Final Order allowing Earthstone to assign 1,208.3 acres to the Viven Unit Well No. 1 prevents waste, prevents the drilling of unnecessary wells, and provides a fair means for the mineral interest owners currently under lease to Earthstone to participate in a well in the field.

**CONCLUSIONS OF LAW**

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45
3. Assignment of a 1,208.3 proration unit to the Viven Unit prevents waste, prevents the drilling of unnecessary wells, and provides a fair means for the mineral interest owners currently under lease to Earthstone to participate in a well in the field.

**EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Earthstone Operating, LLC for an exception to SWR 86 allowing the Viven Unit to be assigned a 1,208.3 acre proration unit in accordance with the attached Final Order.

Respectfully submitted,



Paul Dubois  
Technical Examiner



Marshall Enquist  
Administrative Law Judge