

**OIL AND GAS DOCKET NO. 03-0275290**

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**APPLICATION OF WCS OIL & GAS CORPORATION TO CONSIDER APPROVAL OF OVERLAPPING PRORATION UNITS FOR THE 276.87 ACRE UNIT WOLZ LEASE, WELL NO. 1H, GIDDINGS (AUSTIN CHALK-3) AND GIDDINGS (AUSTIN CHALK, GAS) FIELDS, LEE COUNTY, TEXAS**

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**HEARD BY:** Andres J. Trevino, P.E., Technical Examiner  
James M. Doherty, Hearings Examiner

**DATE OF HEARING:** April 17, 2012

**APPEARANCES:**

James M. Clark

**REPRESENTING:**

WCS Oil & Gas Corporation

**EXAMINERS' REPORT AND RECOMMENDATION**  
**STATEMENT OF THE CASE**

This is the unprotested application of WCS Oil & Gas Corporation for the Commission to permit the overlapping of proration units for two horizontal drainhole wells. The examiners recommend approval.

**DISCUSSION OF THE EVIDENCE**

The Giddings (Austin Chalk) Field was discovered in 1960 at approximately 7,500 feet and 9,000' subsurface depth. Special field rules provide for minimum well spacing of 467'/1200' (leaseline/between well), 160/optional 80 acre proration unit density and a 100% acreage allocation formula. Special horizontal drainhole field rules were adopted in 1992 and 1993.<sup>1</sup> Rule No. 2 for the Giddings (Austin Chalk, Gas) Field provides in part "... No double assignment of acreage will be accepted." Rule No. 4(3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit." Rule No. 1 for the Giddings (Austin Chalk -3) Field provides in part "...and the other rules to follow are for the purpose of permitting only one well to each proration unit..." Rule No. 4(3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit." The field rules have not changed since then.

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<sup>1</sup> For the Giddings (Austin Chalk-3) Field Order No. 3-98,177 effective September 28, 1992. For the Giddings (Austin Chalk, Gas) Field Order No. 03-0200424 effective January 12, 1993.

The WCS Oil & Gas, Wolz Lease comprises 276.87 acres. WCS re-entered a vertical well, the Wolz No. 2RE, in 2004. The re-entered well was re-completed as a horizontal well. The horizontal drainhole was drilled to an interval at that time that was recognized as the "B" Zone within the Austin Chalk formation. Since that time, there has been extensive research in the Austin Chalk and the "D" Zone (an upper horizon but within the recognized correlative interval for the Austin Chalk) has proven to be quite prolific. WCS proposes to test this upper interval with another horizontal drainhole well. WCS was recently granted a permit to drill a horizontal well, the Wolz No. 1H. The horizontal lateral (in the "D" Zone) will cross ABOVE the lateral for the existing 2RE well. WCS filed for a Rule 37 Exception for its Well No. 1H in February 2012. Notice of the exception was provided to all affected parties. WCS understood at the time, and made it known, there would be a proration unit designation problem and WCS would address this issue in this hearing, again giving notice to all affected parties. No protests were received by the Notice of Application deadline of March 15, 2012. WCS is now ready to proceed with the drilling of the well. (See attached plat)

Because the horizontal drainholes for the subject wells will overlap, an exception to the special field rules is necessary. WCS asserts that no exception would have been required if the horizontal laterals had originated from a single wellbore. Only, because another wellbore is being used to drill horizontal laterals, has the problem come into being. The full 276.87 acres is currently assigned to the Well No. 2RE. WCS can not designate specific proration unit acreage exclusively to either wellbore because the horizontal drainhole laterals in effect form an "X". WCS requests that the Commission grant authority necessary to allow it to complete its second well and grant the wells whatever authority necessary to permit WCS to produce both wells for the recovery of oil and gas that otherwise may not be recovered. It is proposed that the assignable allowables be based on TWO wells on 276.87 acres ( $\frac{1}{2}$  the assignable acreage for each well). A similar approval was granted under similar conditions in a Final Order issued on April 5, 2005 for Oil and Gas Docket No. 03-0241487. The order approved exceptions to Statewide Rule 86 and Special Field Rule No. 4(3) to drill the J.E.T. No. 2RE in the "D" Zone above the 1RE in the "B" Zone.

### **EXAMINERS' OPINION**

The examiners believe Statewide Rule 86 and the special field rules for the Giddings (Austin Chalk) Field, specifically, Special Rule No. 2 and 4(3), are the ruling authority. Neither Statewide Rule 86 or the special field rules contemplated the subject scenario. The purpose of SWR 86 was to allow an operator to use a single wellbore with multiple laterals. However, if an operator seeks to re-enter or drill another well instead of seeking additional multi-laterals from a single wellbore, it should not be punished/prohibited from pursuing such recovery of hydrocarbons especially if the offsetting parties do not object. As WCS pointed out, every time that an operator proposes such a well configuration or even close to it, a Rule 37 Exception will be required. Thus, all affected persons, including offset operators, will be provided notice of the Rule 37 Exception and possible Rule 38

exception.

The Special Field Rule 4(3) regarding horizontal drainhole wells tracks Statewide Rule 86. The intent of the special horizontal drainhole field rules and SWR 86 is to encourage the drilling and completion of horizontal drainhole wells to prevent waste and to protect correlative rights. Consideration of the crossing of horizontal drainhole laterals is a matter of first impression for the Commission. The purpose of special field rules No. 2 and 4(3) is to prevent the double assignment of acreage for allowable purposes and to confine proration units to acreage likely to be drained by the well to which the proration unit is assigned. The P-15 and proration unit plat indicate the acreage to be assigned to a well and thus quantify the assignable allowable. In the instant case, the entire 276.87 acre unit is being assigned as the proration unit for both wells with each well being assigned one-half the acreage for allowable purposes.

It is the examiners' opinion that the WCS should be granted an exception to Special Field Rule No. 4(3) and Statewide Rule 86 providing that all points on the horizontal drainhole must be within the proration and drilling unit. The allowable for each well should be based on  $\frac{1}{2}$  of the 276.87 acre lease. For proration unit plat purposes, the 276.87 acre lease is the proration unit plat. For proration purposes, a P-15 can be filed for each well designating  $\frac{1}{2}$  of 276.87 acres as the assigned acreage. The allowable for each well calculated by the Commission will be based on  $\frac{1}{2}$  of 276.87 acres.

#### **FINDINGS OF FACT**

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Giddings (Austin Chalk) Field was discovered in 1960 between approximately 7,500 feet and 9,000' subsurface depth.
  - a. Special field rules provide for minimum well spacing of 467'/1200' (leaseline between well), 160/optional 80 acre proration unit density and a 100% acreage allocation formula.
  - b. Special horizontal drainhole field rules were adopted in 1992 and 1993. Rule No. 2 for the Giddings (Austin Chalk, Gas) Field provides in part "... No double assignment of acreage will be accepted." Rule No. 4(3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit." Rule No. 1 for the Giddings (Austin Chalk -3) Field provides in part "...and the other rules to follow are for the purpose of permitting only one well to each proration unit..." Rule No. 4(3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit."

4. The WCS Oil & Gas, Wolz Lease comprises 276.87 acres. WCS re-entered a vertical well, the Wolz No. 2RE, in 2004. The re-entered well was re-completed as a horizontal well. The horizontal drainhole was drilled to an interval at that time that was recognized as the "B" Zone within the Austin Chalk formation.
5. WCS has applied to drill a new horizontal well, the Wolz No. 1H.
  - a. The horizontal lateral of proposed Well No. 1H (in the "D" Zone) will cross above the lateral for the existing 2RE well and WCS has given notice to its offset operators.
  - b. An exception to statewide Rule 38 is not required as this will be the second well on the 276.87 acre Wolz Lease and field rules provide for 80 acre options.
  - c. The requested exception will allow WCS to access the "B" and "D" zones within the Austin Chalk, of the applied-for fields without unnecessarily shutting-in its existing Well No. 2RE.
  - d. No protests, by adjacent operators, were received by the Notice of Application deadline of March 15, 2012.
6. The entire Wolz unit, 276.87 acres, should be assigned as the base proration unit.
  - a. The allowable for each well calculated by the Commission should be based on  $\frac{1}{2}$  of 276.87 acres.
  - b. For proration purposes, a P-15 shall be filed for each well designating  $\frac{1}{2}$  of 276.87 acres as the assigned acreage.
7. Similar authority was granted under similar conditions in a Final Order issued on April 5, 2005 for Oil and Gas Docket No. 03-0241487. The order approved exceptions to Statewide Rule 86 and Special Field Rule No. 4(3) to drill the J.E.T. No. 2RE in the "D" Zone above the 1RE in the "B" Zone.

#### **CONCLUSIONS OF LAW**

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Granting the exception to Special Field Rule No. 4(3) of the Giddings (Austin Chalk-3) Field and Statewide Rule 86 will prevent waste and will not harm correlative

rights.

**EXAMINERS' RECOMMENDATION**

Based on the above findings and conclusions of law, the examiners recommend approval of an exception to Special Field Rule No. 4(3) of the field rules for the Giddings (Austin Chalk-3) and Giddings (Austin Chalk, Gas) Fields and Statewide Rule 86 as stated in the attached order.

Respectfully submitted,

Andres J. Trevino, P.E.  
Technical Examiner

James Doherty  
Legal Examiner