



# RAILROAD COMMISSION OF TEXAS

## OFFICE OF GENERAL COUNSEL

December 22, 2009

Rule 37 Case No. 0258300

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APPLICATION OF PHOENIX HYDROCARBONS OPERATING FOR AN EXCEPTION TO STATEWIDE RULE 37 FOR ITS WELL NO. 1, REEVES UNIT, JARVIS DOME (PECAN GAP), JARVIS DOME (WOODBINE) AND WILDCAT FIELDS, ANDERSON COUNTY, TEXAS.

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### APPEARANCES:

#### FOR APPLICANT:

David Gross, Attorney  
William Smith, President  
Henry Bailey, Consultant & Limited Partner  
Wayne Adams, Consulting Engineer  
Gregg Baiano, President  
Robert Johnson, Consultant

#### APPLICANT:

Phoenix Hydrocarbons Operating  
Wilcox Oil & Gas  
Wilcox Oil & Gas  
Phoenix Hydrocarbons Operating  
“  
“

#### FOR PROTESTANTS:

Thomas Warner, Attorney  
Millie Montgomery  
Schulonda Pace Dibble

#### PROTESTANT:

Emma Jean Woodard  
Millie Pace Estate  
Robert Woodard

### PROPOSAL FOR DECISION

#### PROCEDURAL HISTORY

APPLICATION FILED: July 9, 2008  
NOTICE OF HEARING: July 31, 2008  
HEARD BY: Marshall Enquist - Hearings Examiner  
Andy Trevino - Technical Examiner  
HEARING DATE : April 22, 2009  
HEARING CLOSED: April 22, 2009  
TRANSCRIPT RECEIVED: April 29, 2009  
PFD CIRCULATION DATE: December 22, 2009

### STATEMENT OF THE CASE

Phoenix Hydrocarbons Operating ("Phoenix" or "Applicant"), seeks an exception to Statewide Rule 37 for its Well No. 1 on the Reeves Unit in Anderson County. The subject fields [Jarvis Dome (Pecan Gap), Jarvis Dome (Woodbine) and Wildcat] all have minimum lease line spacing requirements of 467 feet to the nearest lease line and 1200 foot between well spacing on 40 acres. The proposed location is regular to all external unit boundaries. However, the proposed location of the subject well is 188 feet southwest of, and irregular to, the southwest lease line of Tract 3 of this three tract pooled unit (see Attachment I). Phoenix has 100% of the mineral interest under Tracts 1 and 2, but only 84% of the mineral interest under Tract 3. There is an outstanding unleased 16% interest in Tract 3 that Phoenix has been trying to lease, so far unsuccessfully. Thus, a Rule 37 exception is required based on an internal lease line spacing issue. Notice of application was published in the Palestine Herald Press, a newspaper of general circulation in Anderson, Houston and Leon Counties on March 25 and April 1, 8 and 15, 2009.

Phoenix desires to drill a horst block (an upthrown block) with bounding faults on the north and southeast. Its primary target is the Jarvis Dome (Woodbine) Field, which is known to be a strong water-drive reservoir. Phoenix presented evidence contrasting its projected recovery of hydrocarbons from a well at a location 467 feet from and regular to the unleased interest in Tract 3 and its proposed Rule 37 location only 188 feet from Tract 3. Phoenix's case is based upon prevention of waste.

The application is protested by several of the owners of the 16% unleased mineral interest in Tract 3. The protestants have not been able to agree on lease terms with Phoenix and argue that the exception location requested should not be approved because it will cause drainage of their minerals.

The hearing was scheduled to be called at 9:00 A.M. on April 22, 2009, but the parties requested time to continue negotiations. That afternoon, the hearing was called and evidence placed in the record. The parties asked that no PFD be issued until the parties indicated further negotiations were exhausted. By letter dated July 29, 2009, counsel for Phoenix stated that negotiations had failed and requested that the examiners issue a PFD.

### SUMMARY OF PHOENIX'S POSITION AND EVIDENCE

Phoenix acquired this project from Wilcox Oil & Gas, which generated the subject prospect from a 3-D seismic survey licensed through Echo Geophysical Corporation. From the seismic data, Wilcox Oil and Gas generated Arbitrary Line A and Lines 174 and 177 through its 40 acre unit. Arbitrary Line A transects the unit from the northeast to the southwest such that a location 467 feet from the protestants and the applied-for exception location appear on the line. Lines 174 and 177 cross the Arbitrary Line at an angle of roughly 80 degrees and show the positions of the well located 467 feet from protestants and the well located at the exception location relative to the target horst block and its bounding faults (see Attachment II). Phoenix notes that a well location 467 feet from the protestants' unleased mineral interest would be irregular to the unit lines.

Line 174 (see Attachment III) shows the horst bounded by a dark purple fault line on the north

and a magenta fault line on the southeast. A well located 467 feet from the protestants would penetrate the horst block on its southeast side, very near the magenta colored fault. Phoenix believes this penetration is too close to the fault line and carries a serious risk of fault related interference with the well. Line 177 (see Attachment IV) again shows the horst block bounded on the north by a dark purple fault line and on the southeast by the magenta fault line. This line shows the proposed exception location centered in the horst block, as far from the bounding faults as possible. Phoenix also presented a Subsea Depth map (see Attachment V) showing the top of the Woodbine to be higher at the Rule 37 exception location than at the well location 467 feet from the protestants' unleased interest. The map shows that the top of the Woodbine at the Rule 37 exception location is 38 feet higher than the top of the Woodbine at the alternate location 467 feet from the protestants' unleased interest. The nearest well to the proposed location is the Bayou City Swanson Well No. 1, a dry hole in the Woodbine which is 2,000 feet west of the proposed Rule 37 location in the Reeves Unit and 80 feet lower structurally.

Calculating the difference in reservoir volumes attributable to the two well locations, Phoenix calculates 301,700 stock tank barrels of oil will be recovered by a well drilled at the Rule 37 exception location that would not be recovered by a well drilled 467 feet from the protestant's unleased interest or by any existing well or by a well drilled at a regular location. Phoenix believes 301,700 barrels of oil is a substantial volume of hydrocarbons and that the location of the horst block and its bounding faults, combined with the vertical displacement trapping oil, qualifies as an unusual condition.

#### **PROTESTANTS' POSITION AND EVIDENCE**

The protestants note that Phoenix has addressed the quantity of hydrocarbons recoverable from the Rule 37 location as opposed to the location 467 feet from the protestants' unleased interest, but did not address the total amount of hydrocarbons that might be recovered by the well. Protestants also noted that Phoenix does not know where the oil-water contact is in the Woodbine.

#### **EXAMINERS' OPINION**

Phoenix did not present a case for a Rule 37 exception location based on prevention of confiscation. Phoenix's case was based solely on prevention of waste. To establish entitlement to an exception to Statewide Rule 37 to prevent waste, an applicant must demonstrate that: (1) unusual conditions, different from conditions in adjacent parts of the field, exist on the tract for which the exception is sought; and (2) as a result of these conditions, a substantial volume of hydrocarbons will be recovered by the well for which a permit is sought that would not be recovered by any existing well or by additional wells drilled at regular locations.

Phoenix has presented persuasive evidence that there is a horst block beneath its 40 acre unit and that there is approximately 38 feet of vertical displacement between the top of the Woodbine at a location 467 feet from the protestants' unleased interest and the Rule 37 exception location 188 feet from the protestants unleased interest. The horst block and its associated faults create an unusual condition, different from conditions in adjacent parts of the field. Phoenix has also demonstrated that a well at the requested exception location will potentially recover an additional 301,000 barrels of oil that a regularly located well, 467 feet from the protestant's unleased interest, will not recover. Bound and limited by

faults, the oil in this horst block cannot be recovered by any other well at a regular distance from the protestants' interest nor can it be recovered by any other well on or off the unit. 301,000 barrels of oil is a substantial volume of hydrocarbons. The examiners recommend Phoenix's request for a Rule 37 application for the Jarvis Dome (Woodbine) Field be approved.

Although Phoenix proved its case for its primary target, the Jarvis Dome (Woodbine) Field, Phoenix did not present any evidence supporting a Rule 37 exception location for the Jarvis Dome (Pecan Gap) Field. Accordingly, the examiners recommend that Phoenix's application for a Rule 37 exception location in the Jarvis Dome (Pecan Gap) Field be denied.

Based on the record in these dockets, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law:

#### FINDINGS OF FACT

1. At least 10 days notice of this hearing was given to the designated operator, all offset operators, all lessees of record for tracts that have no designated operator, and all owners of record of unleased mineral interests for each affected adjacent tract.
2. Phoenix Hydrocarbons Operating submitted a Publisher's Affidavit demonstrating that notice of this application was published in a newspaper of general circulation in Anderson County, the Palestine Herald Press, on March 25 and April 1, 8 and 15, 2009.
3. Phoenix Hydrocarbons Operating ("Phoenix" or "Applicant"), seeks an exception to Statewide Rule 37 for its 40 acre Reeves Unit, Well No. 1, in the Jarvis Dome (Pecan Gap), Jarvis Dome (Woodbine) and Wildcat Fields, Anderson County. Each of the fields has rules requiring spacing of wells 467 feet from property lines. The application was protested by unleased mineral owners of Tract 3 within the Reeves Unit.
4. The rectangular Reeves Unit is composed of three tracts, two of which are 100% leased by Phoenix. Tract 3 is 84% leased to Phoenix with the remaining 16% unleased. The proposed well location is on Tract 2 only 188 feet from the boundary between Tracts 2 and 3. The proposed location is more than 467 feet from all external unit boundaries.
5. Phoenix demonstrated the presence of a horst block (an upthrown block) under the Reeves Unit. The horst block is bound by two faults, the first trending east-west and the second trending southwest to northeast, which intersect near the eastern edge of the Phoenix Reeves Unit.
6. The Woodbine is a strong water-drive reservoir.
7. The requested Statewide Rule 37 exception location is 38 feet higher on structure in the Woodbine than the location 467 feet from the protestants' unleased mineral interest.

8. There are potentially 301,000 barrels of recoverable oil in the 38 foot vertical interval between the requested Statewide Rule 37 exception location and the location 467 feet from the protestants' unleased mineral interest.
  - a. The 301,000 barrels of recoverable oil in the 38 foot vertical section is attic oil that cannot be recovered from a location 467 feet from the protestants' unleased mineral interest.
  - b. The 301,000 barrels of recoverable oil in the 38 foot vertical section cannot be recovered from a regular location on the 40 acre Reeves Unit.
  - c. There is no regular well location or existing well off the 40 acre Reeves Unit capable of recovering the 301,000 barrels of oil in the 38 foot vertical section associated with the horst block under the Reeves Unit.
9. Phoenix did not provide any estimate of the recoverable reserves in place under the 40 acre Reeves Unit for the Jarvis Dome (Pecan Gap) Field. Phoenix did not present evidence of confiscation or prevention of waste for the Jarvis Dome (Pecan Gap) 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. Phoenix has established that it is entitled to a Statewide Rule 37 exception to prevent waste in the applied-for location in the Jarvis Dome (Woodbine) Field on its 40 acre Reeves Unit.
  - a. Phoenix established the presence of an unusual condition, different from conditions in adjacent parts of the field, under its 40 acre Reeves Unit.
  - b. Phoenix established that, as a result of the unusual condition, a substantial quantity of hydrocarbons will be recovered by the well for which a permit is sought that cannot be recovered by any existing well or by a well drilled at a regular location.
4. Phoenix is not entitled to a Rule 37 exception in the Jarvis Dome (Pecan Gap) Field.

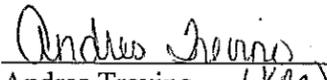
**RECOMMENDATION**

Phoenix established that it is entitled to a Statewide Rule 37 exception in order to prevent waste in its applied-for location in the Jarvis Dome (Woodbine) Field. The examiners therefore recommend that the subject application be **approved** as to that specific interval. Phoenix did not establish that it is entitled to a Rule 37 exception in the Jarvis Dome (Pecan Gap) Field. The examiners recommend that the subject application be **denied** as to that field.

Respectfully submitted,



Marshall Enquist  
Hearings Examiner



Andres Trevino (Reg)  
Technical Examiner

Distances shown are not intended to be definitive in establishing actual title boundaries. Plat compiled from ownership maps and data furnished by others.



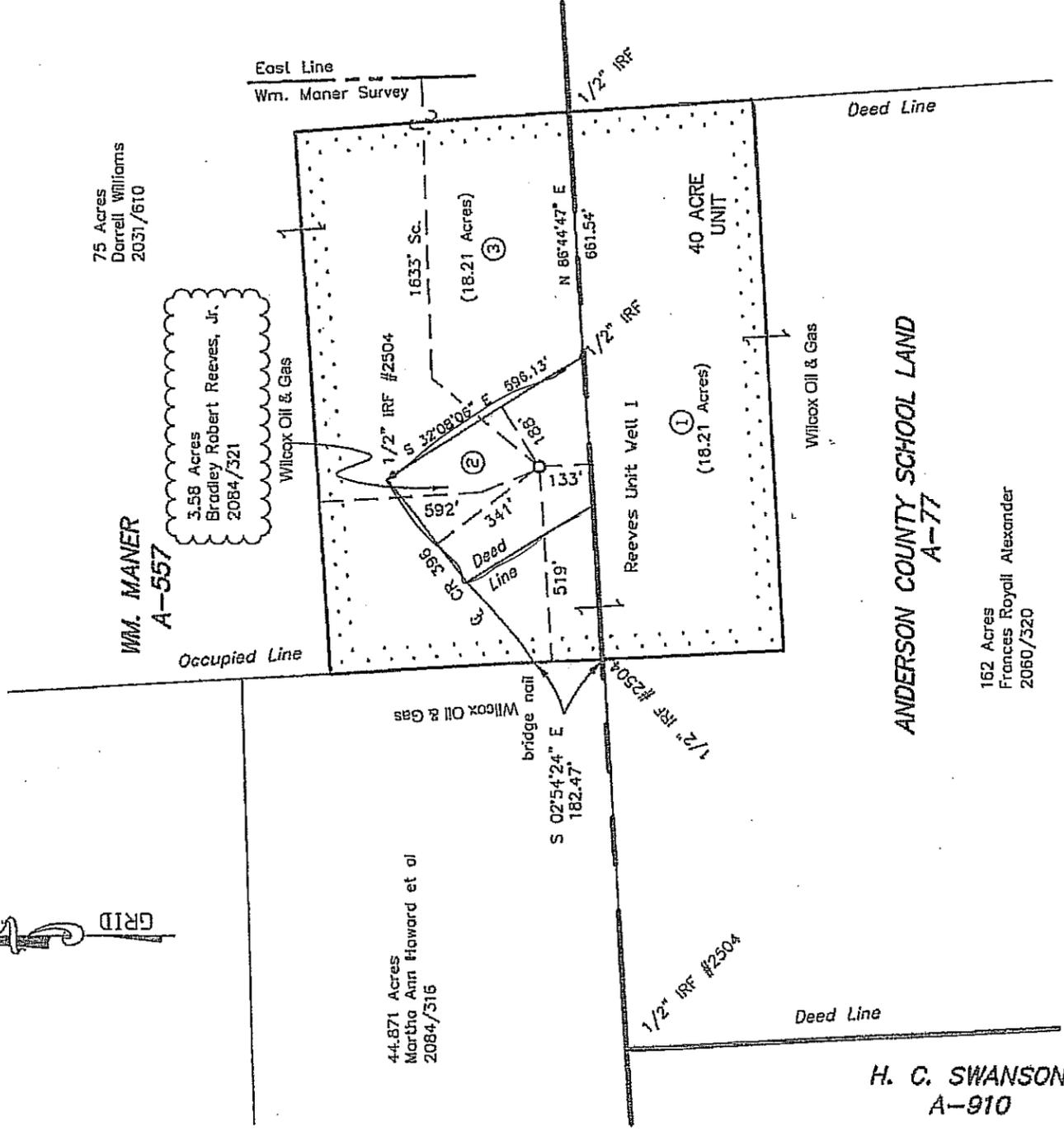
**ATTACHMENT I**  
Rule 37 Case No. 0258300  
Phoenix Hydrocarbons Operating

75 Acres  
Dorrell Williams  
2031/610

WM. MANER  
A-557

3.58 Acres  
Bradley Robert Reeves, Jr.  
2084/321

44.871 Acres  
Martha Ann Howard et al  
2084/316



ANDERSON COUNTY SCHOOL LAND  
A-77

162 Acres  
Frances Royall Alexander  
2060/320

H. C. SWANSON  
A-910



FOR THE EXCLUSIVE USE OF  
PHOENIX HYDROCARBONS OPERATING CORP.

STATE OF TEXAS - COUNTY OF SMITH  
I, E. L. Sartain, Registered Professional  
Land Surveyor, do hereby certify the above  
plat to be true and correct to the best of  
my knowledge.  
Date: June 24, 2008 Tyler, Texas  
E.L.S. SURVEYING & MAPPING, INC.  
HARRY L. JOHNSON & ASSOCIATES

Registered Professional Land Surveyor No. 1978

Location is approximately 5.3 miles E of Palestine,  
Texas "NORTHEAST PALESTINE" Quadrangle

WELL DATA 1927 DATUM  
TEXAS CENTRAL ZONE

X = 3,496,532.00'  
Y = 797,232.04'  
Lat: 31°46'10.51"  
Long: 95°30'59.49" W  
Elev: 423'

WELL LOCATION PLAT  
PHOENIX HYDROCARBONS  
OPERATING CORP.  
REEVES UNIT  
WELL No. 1  
WM. MANER SURVEY  
ABSTRACT No. 557  
ANDERSON COUNTY, TEXAS

0' 400' 800' 1200'



From the Office of ELS Surveying & Mapping, Inc. / Harry L. Johnson & Associates - Tyler, Texas

Drafters: J.R.R

1617/2 (TM)

DATE: 6/24/08

PLAT NO. 0258300

CV:  
East

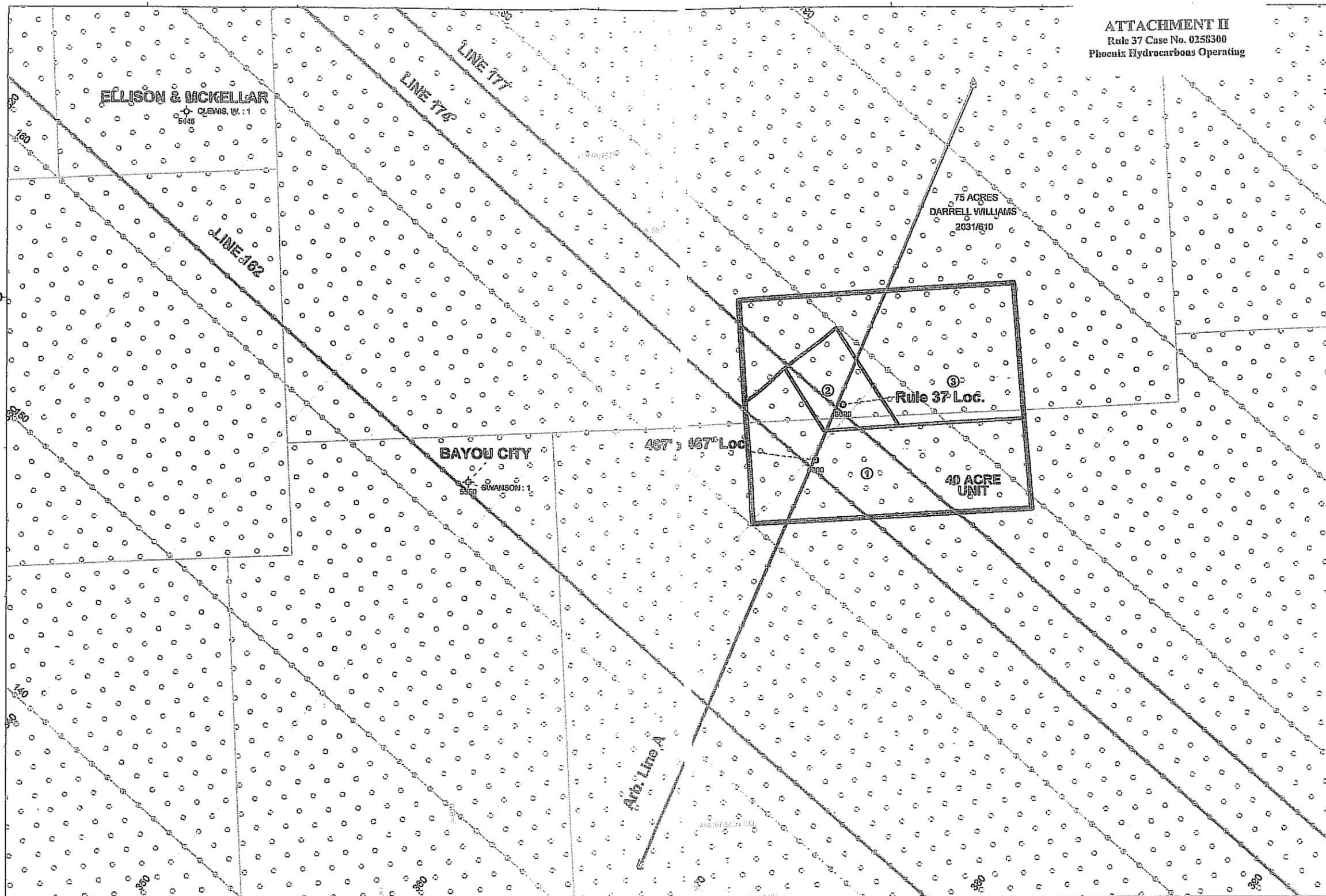


3488800

ATTACHMENT II  
Rule 37 Case No. 0258300  
Phoenix Hydrocarbons Operating

797800

797800



3496800

Phoenix Hydrocarbons Reeves Unit Well #1
Seismic Shot Point Map
Anderson County, Texas
Scale = 1:4800

OPERATOR: PHOENIX HYDROCARBONS OPERATING  
 EXHIBIT NO.: 5  
 RULE 37 CASE NO.: 0258300  
 DATE: APRIL 22, 2009

NW

SE

**ATTACHMENT III**  
 Rule 37 Case No. 0258300  
 Phoenix Hydrocarbons Operating

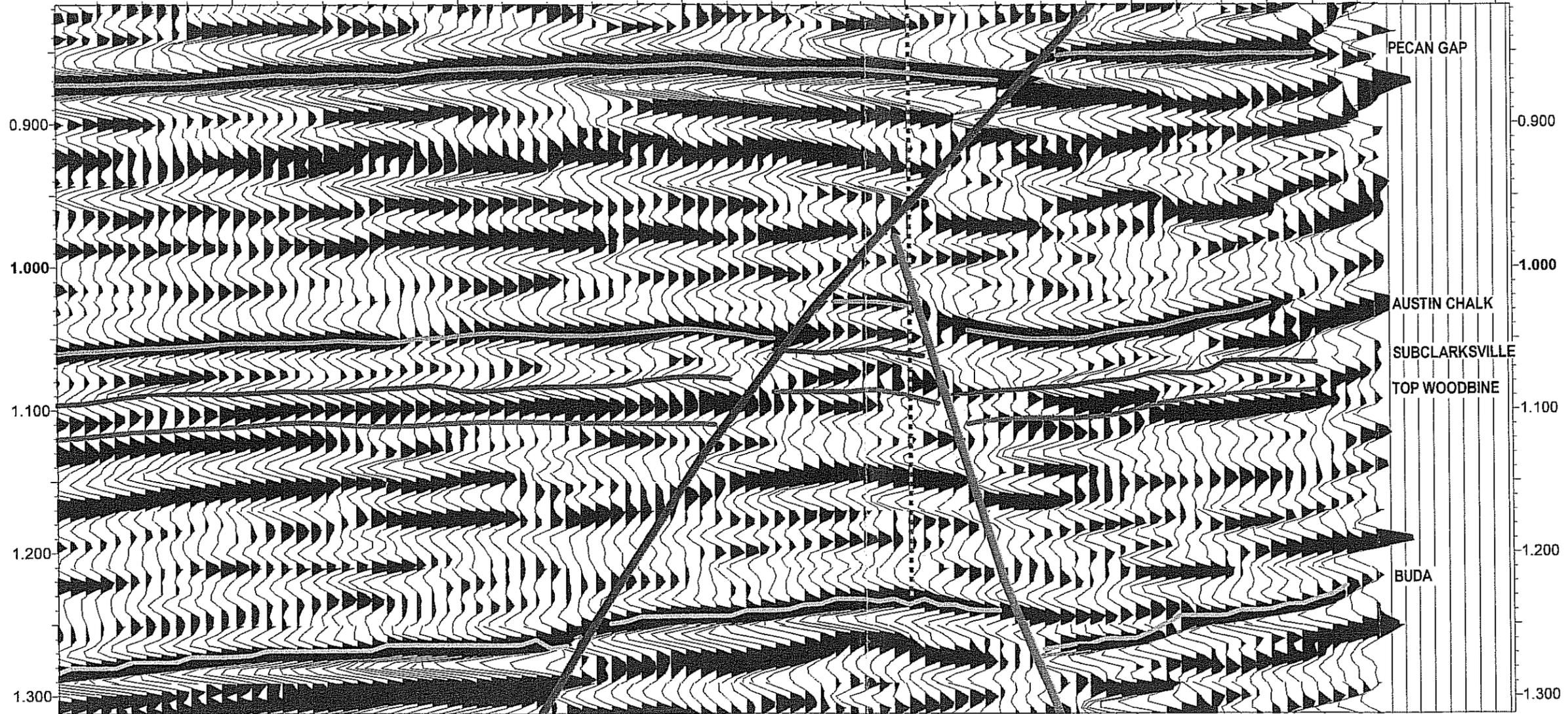
467' x 467' Loc.

174.0  
360.0

Line:  
Trace:

174.0  
330.0

174.0  
390.0



Phoenix Hydrocarbons Reeves Unit Well #1

Line 174

Anderson County, Texas

Horizontal Scale : 8 Traces/Inch  
 Vertical Scale : 12 Inches/Second

OPERATOR: PHOENIX HYDROCARBONS OPERATING  
 EXHIBIT NO.: 9  
 RULE 37 CASE NO.: 0258300  
 DATE: APRIL 22, 2009

NW

SE

ATTACHMENT IV

Rule 37 Case No. 0258300  
Phoenix Hydrocarbons Operating

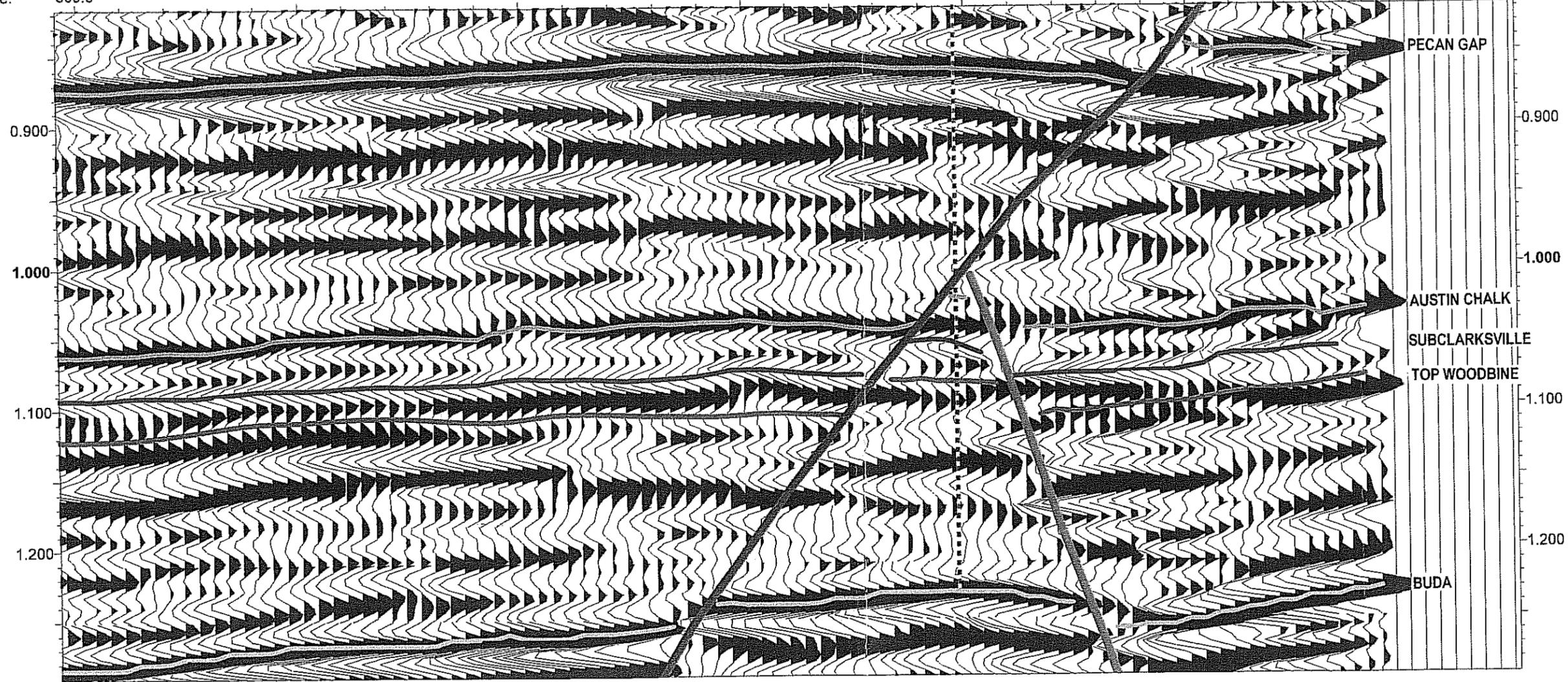
Rule 37 Loc.

○  
177.0  
360.0

177.0  
390.0

Line: 177.0  
Trace: 300.0

177.0  
330.0



Phoenix Hydrocarbons Reeves Unit Well #1

Line 177

Anderson County, Texas

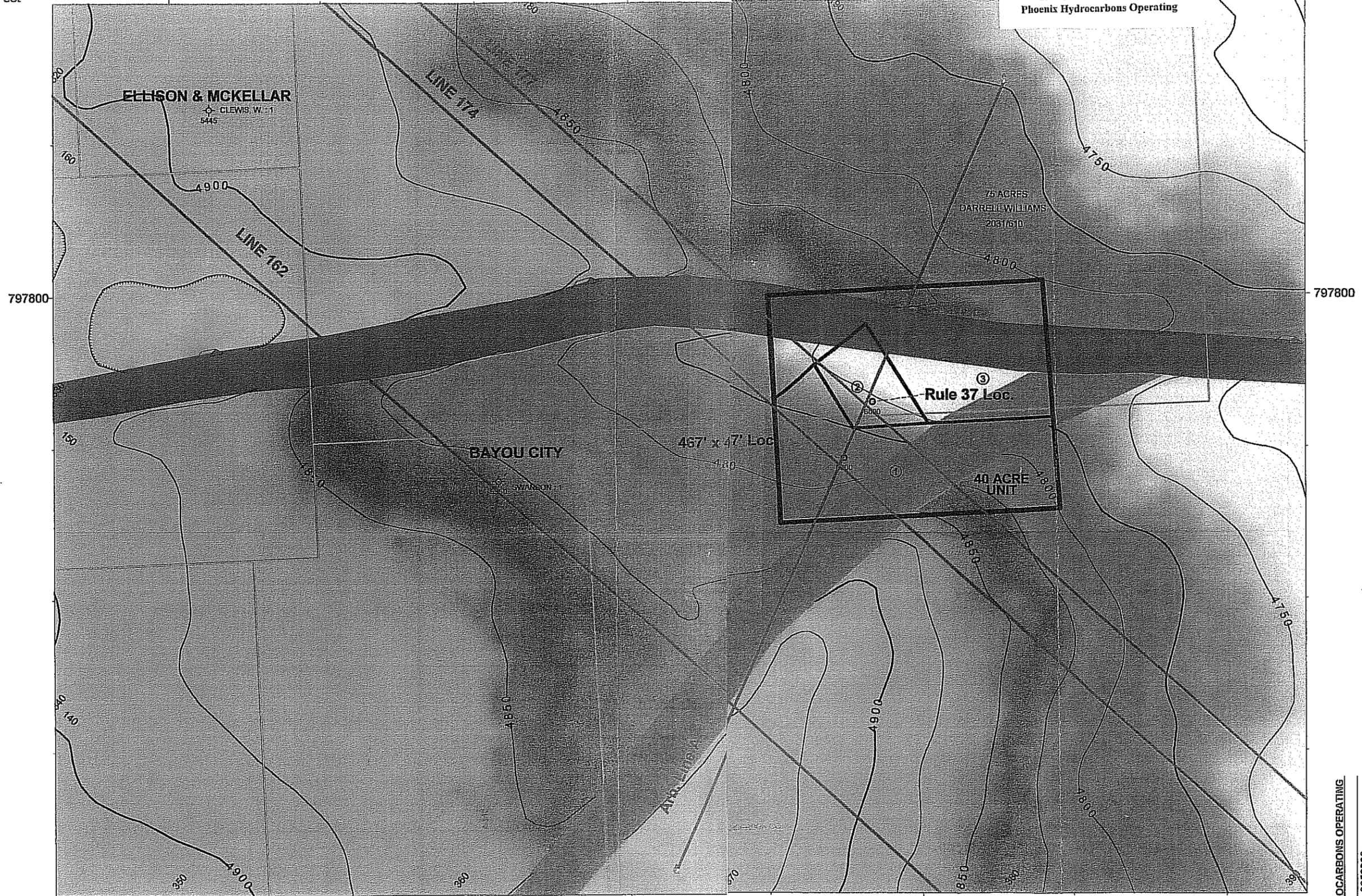
Horizontal Scale : 8 Traces/Inch  
Vertical Scale : 12 Inches/Second

OPERATOR: PHOENIX HYDROCARBONS OPERATING  
EXHIBIT NO.: 10  
RULE 37 CASE NO.: 0258300  
DATE: APRIL 22, 2009

XY:  
Feet

3496800

ATTACHMENT V  
Rule 37 Case No. 0258300  
Phoenix Hydrocarbons Operating



- 4675.000
- 4683.125
- 4691.250
- 4699.375
- 4707.500
- 4715.625
- 4723.750
- 4731.875
- 4740.000
- 4748.125
- 4756.250
- 4764.375
- 4772.500
- 4780.625
- 4788.750
- 4796.875
- 4805.000
- 4813.125
- 4821.250
- 4829.375
- 4837.500
- 4845.625
- 4853.750
- 4861.875
- 4870.000
- 4878.125
- 4886.250
- 4894.375
- 4902.500
- 4910.625
- 4918.750
- 4926.875
- 4935.000
- 4943.125
- 4951.250
- 4959.375
- 4967.500
- 4975.625
- 4983.750
- 4991.875
- 5000.000

3496800

<b>Phoenix Hydrocarbons Reeves Unit Well #1</b>
<b>Top Woodbine Structure (Subsea Depth)</b>
<b>Anderson County, Texas</b>
Scale = 1:4800

OPERATOR: PHOENIX HYDROCARBONS OPERATING  
 EXHIBIT NO.: 15  
 RULE 37 CASE NO.: 0258300  
 DATE: APRIL 22, 2009

**RAILROAD COMMISSION OF TEXAS  
OFFICE OF GENERAL COUNSEL  
HEARINGS SECTION**

**RULE 37 CASE NO. 0258300  
DISTRICT 6**

**APPLICATION OF PHOENIX  
HYDROCARBONS OPERATING FOR AN  
EXCEPTION TO STATEWIDE RULE 37 FOR  
ITS WELL NO. 1, REEVES UNIT, JARVIS  
DOME (PECAN GAP), JARVIS DOME  
(WOODBINE) AND WILDCAT FIELDS,  
ANDERSON COUNTY, TEXAS.**

**FINAL ORDER**

The Commission finds that, after statutory notice in the above-numbered docket, heard on April 22, 2009, the examiners have made and filed a report and 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, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the application of Phoenix Hydrocarbons Operating for an exception to Statewide Rule 37 to drill its Reeves Unit, Well No. 1, in the Jarvis Dome (Pecan Gap) Field be and is hereby **DENIED**.

It is further **ORDERED** by the Railroad Commission of Texas that the application of Phoenix Hydrocarbons Operating for an exception to Statewide Rule 37 to drill its Reeves Unit, Well No. 1, in the Jarvis Dome (Woodbine) Field and Wildcat Field be and is hereby **APPROVED** at the following location in Anderson County, Texas:

**LOCATION :** 592' from the north line and 519' from the west line of the unit and 1633' from the east line and 133' from the south line of the Maner, W. Survey, A-557, Anderson County, Texas;

**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 Commission On Environmental Quality. Before drilling a well, the operator must obtain a letter from the Texas Commission On Environmental Quality stating the depth to which water needs protection. Write: Texas Commission On Environmental Quality, Surface Casing, P. O. Box 13087, Capitol Station, Austin, Texas 78711-3087. File a copy of the Texas Commission On Environmental Quality 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.

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 Commission On Environmental Quality 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 parties are notified of the order.

Done this \_\_\_\_ day of \_\_\_\_\_, 2010.

**RAILROAD COMMISSION OF TEXAS**

\_\_\_\_\_  
**CHAIRMAN VICTOR G. CARRILLO**

\_\_\_\_\_  
**COMMISSIONER ELIZABETH A. JONES**

\_\_\_\_\_  
**COMMISSIONER MICHAEL L. WILLIAMS**

**ATTEST:**

\_\_\_\_\_  
**SECRETARY**