



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

RULE 37 CASE NO. 0269352

STATUS NO. 710178

DISTRICT 03

APPLICATION OF SANDALWOOD EXPLORATION, L.P. FOR A RULE 37 EXCEPTION FOR THE AUSTIN COLLEGE LEASE, WELL NO. 1, WILDCAT FIELD, AUSTIN COUNTY, TEXAS

APPEARANCES:

FOR APPLICANT:

Doug Dashiell
David Swenson
Michael Francisco

APPLICANT:

Sandalwood Exploration, L.P.

FOR PROTESTANT:

George C. Neale

PROTESTANT:

Wilbert L. Ullrich

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE APPLICATION FILED:

February 11, 2011

DATE OF AMENDED NOTICE OF HEARING:

April 5, 2011

DATE OF HEARING:

June 20, 2011

HEARD BY:

James M. Doherty, Hearings Examiner
Andres J. Trevino, Technical Examiner

DATE TRANSCRIPT RECEIVED:

July 5, 2011

DATE PFD CIRCULATED:

August 5, 2011

STATEMENT OF THE CASE

This is a case wherein Sandalwood Exploration, L.P. ("Sandalwood") seeks a Rule 37 exception for Well No. 1, a vertical well on the 1,232-acre Austin College Lease in the Wildcat Field, Austin County, Texas. The First Wilcox, Second Wilcox, and Third Wilcox Sands are Sandalwood's target sands. The surface location of the proposed well is in the extreme southwest corner of the Austin College Lease, 374 feet from the northwest line and 562 feet from the southwest line of the lease and 374 feet from the northwest line and 10,759 feet from the northeast line of the

Harvey, W. Survey, A-46, in Austin County. A copy of a well location plat attached to the Form W-1 (Application for Permit to Drill, Recomplete, or Re-Enter) filed by Sandalwood is attached to this Proposal for Decision as Appendix 1. A Rule 37 exception is needed for the proposed well because the surface location of the well is 374 feet from the northwest line of the Austin College Lease and the Wildcat Field is subject to Statewide Rules providing for lease line spacing of 467 feet. The Sandalwood application is protested by Wilbert L. Ullrich, an unleased mineral interest owner in an adjacent tract to the northwest of the Austin College Lease which is 374 feet from the proposed well location.

A hearing was held on June 20, 2011. Sandalwood appeared and presented evidence in support of the application. Mr. Ullrich did not appear at the hearing in person or present evidence, but did make an appearance through his attorney who cross-examined applicant's witnesses and made an opening and closing statement on behalf of Mr. Ullrich.

DISCUSSION OF THE EVIDENCE
AND THE POSITIONS OF THE PARTIES

Sandalwood's Position

Sandalwood asserts that the requested Rule 37 exception for the proposed well is necessary to prevent the waste of hydrocarbons and to prevent confiscation. The target wildcat reservoirs are Wilcox sands within a very small fault block in the southwest corner of the Austin College Lease. Sandalwood contends that within this fault block, a well cannot be drilled at a regular location without a substantial risk of drilling a dry hole due to faulting out of the target reservoirs. One dry hole, the Pan Am Austin College #1, was drilled by a previous operator at a location less than 300 feet from the surface location of Sandalwood's proposed well, and there are several other dry holes in the area. Sandalwood estimates that there are about 45,000 barrels of recoverable oil in the target reservoirs beneath the particular fault block on the Austin College Lease where the proposed well will be drilled, constituting Sandalwood's "fair share" of oil in these reservoirs. According to Sandalwood, denial of Sandalwood's right to recover this oil would amount to confiscation.

In addition, Sandalwood asserts that a Rule 37 exception is required to prevent the waste of hydrocarbons because no existing well or any future well drilled at a regular location will recover the oil in the target Wilcox reservoirs in the fault block where Sandalwood's well is proposed to be drilled. Sandalwood believes that faulting in the area constitutes an unusual reservoir condition and that a substantial amount of oil will be wasted unless the requested Rule 37 exception is granted.

Sandalwood's Evidence

The Austin College Lease is in the Raccoon Bend area of Austin County. Sandalwood has drilled 14 wells in the Raccoon Bend area, ten of which are producers. A Sandalwood geologist presented a plat showing well control in the area of Sandalwood's proposed well. Four wells are

shown on this plat, the Maguire Paulus #1 to the northwest, the Union Gas Hale #1 to the west, the Pan Am Austin College #1 just to the east, and the Hawkins Ueckert #1 to the southeast. All of these wells surrounding the proposed location for Sandalwood's well were dry holes in the Wilcox.

Sandalwood's geologist also presented a structural cross section of the Wilcox extending northwest to southeast from the Maguire Paulus #1 on the northwest, to the Pam Am Austin College #1 near Sandalwood's proposed location, to the Hawkins Ueckert #1 on the southeast. The First Wilcox, Second Wilcox, and Third Wilcox sands were shown to be present in the Maguire Paulus #1 and Hawkins Ueckert #1 but apparently were non-productive in these two wells. These same sands were faulted out of the Pan Am Austin College #1 by an upthrown fault.

Sandalwood's geologist also presented two structure maps on top of the First Wilcox Sand for the area of the fault block where Sandalwood's well is proposed to be drilled, representing two possible structural interpretations depending on where the Pan Am Austin College #1 penetrated the fault that faulted out the Wilcox sands. Sandalwood Exhibit No. 6, attached to this Proposal for Decision as Appendix 2, is a structural interpretation based on the assumption that the Pan Am Austin College #1 penetrated the fault directly beneath the surface location of this well. Sandalwood Exhibit No. 7, attached to this Proposal for Decision as Appendix 3, is a structural interpretation based on the assumption that the Pan Am Austin College #1 had drifted 150 feet to the west at the point where it penetrated the fault. These assumptions are made because the well was drilled in 1943 and no inclination survey or directional survey could be found. In drilling the Wilcox in the Raccoon Bend area, it has been Sandalwood's experience that every well drifts some distance away from the surface location. Sandalwood recently drilled the Austin College Lease #2 in another fault block and a gyro survey run at 5,000 feet showed the well had drifted 70 feet to the west at that depth. Another area well drilled by Sandalwood drilled to a depth of 6,500 feet, the Payne #1, drifted 150 feet to the northwest.

Sandalwood's Exhibit No. 6 structure map (Appendix 2 to this Proposal for Decision) includes dashed black lines that are 467 feet from lease lines. A regular location in the Wildcat Field would be north and east of these lines. The faults around the surface location of Sandalwood's proposed well are shown in red, and the green area around this surface location represents Sandalwood's interpretation of the productive Wilcox sands in this fault block. The productive Wilcox in this fault block is defined on the down dip edge at minus 7,159 feet. This is the point between two sands in the Pan Am Austin College #1 that tested wet, which Sandalwood assumes is a reasonable point for the water contact. According to this interpretation, the productive Wilcox reservoirs in this fault block are almost entirely on Sandalwood's Austin College Lease, and a regular location would be very near to the fault. The productive area of this fault block consists of about ten surface acres, based on the Exhibit No. 6 interpretation.

Sandalwood's Exhibit No. 7 structure map (Appendix 3 to this Proposal for Decision) is a different structural interpretation based on possible drift of the Pam Am Austin College #1 to the west at the point where it penetrated the fault. This interpretation moves the fault WNW, as

compared to the Exhibit No. 6 interpretation, and places the fault very near to the surface location of Sandalwood's proposed well. Under this interpretation, any location east of the proposed location would be faulted out in the Wilcox sands. Based on the available well logs, Sandalwood cannot be certain which of its two structural interpretations is more accurate, but the proposed location for Sandalwood's well would encounter the target Wilcox sands under either interpretation. Although a regular location to encounter the Wilcox exists very near to the fault under the Exhibit No. 6 interpretation, Sandalwood would not drill a well at this location because the risk would be too great that the Wilcox sands would be faulted out.

Sandalwood's geologist did not know of any other fault block on the Austin College Lease containing the target Wilcox sands, but the Wilcox has not been mapped over the entire lease. According to this geologist, Sandalwood intends to steer the proposed well with directional tools to a target bottomhole location within a 25 foot radius of the proposed surface location.¹ In the opinion of Sandalwood's geologist, the proposed well will not drain any hydrocarbons from the Ullrich tract to the west.

A petroleum engineer retained by Sandalwood presented a volumetric calculation of current recoverable reserves in the First Wilcox, Second Wilcox, and Third Wilcox sands beneath the Austin College Lease in the fault block where Sandalwood's well is proposed to be drilled. This volumetric calculation was based on reservoir parameters provided by Sandalwood's geologist. Net acre feet in the first three Wilcox sands were based on the structural interpretation in Sandalwood's Exhibit No. 6. Sandalwood's petroleum engineer estimated that oil in place in the first three Wilcox sands beneath the Austin College Lease in this fault block is 150,000 barrels. Assuming a 20% recovery factor, current recoverable oil is 29,639 BO. Assuming a 30% recovery factor, current recoverable oil is 44,458 BO. Assuming a 40% recovery factor, current recoverable oil is 59,278 BO. Although Sandalwood's petroleum engineer did not have the benefit of any well recovery data for this fault block to work with, he had the opinion that a 30% recovery factor was the most reasonable, and estimated that current recoverable oil is about 45,000 BO in this fault block.²

The cost to drill Sandalwood's proposed well will be about 1.3 to 1.4 million dollars. Sandalwood's petroleum engineer confirmed the opinion of Sandalwood's geologist that Sandalwood would not drill a regular location in this fault block because the risk of unknown faulting at such a location would be too great. According to this petroleum engineer, there are no existing wells, and no regular locations where future wells might be drilled, that will recover the

¹ In his closing statement, counsel for Sandalwood stated that Sandalwood would have no objection to a condition on any permit granted as a result of this hearing requiring that Sandalwood use directional tools to steer the proposed well to a bottom hole location no closer to the northwest line of the Austin College Lease than 324 feet (374 feet proposed in Sandalwood's Form W-1 minus a 50 foot "fudge factor").

² Sandalwood's petroleum engineer agreed that if Sandalwood's Exhibit No. 7 structure map is the more accurate interpretation, net acre feet would be reduced and the amount of current recoverable oil calculated on the basis of the Exhibit No. 6 structure map would be reduced by 30-40%.

current recoverable 45,000 BO in the first three Wilcox sands in this fault block. Sandalwood's petroleum engineer also testified that there are no reserves in the target Wilcox sands beneath the Ullrich tract to the west of the Austin College Lease.

Ullrich's Position

Counsel for Mr. Ullrich stated that if Sandalwood steers the proposed well with directional tools to a bottom hole location within a 25 foot radius of the proposed surface location of the well, this would alleviate some of Mr. Ullrich's concerns about random deviation that might cause the bottom hole to be close to Mr. Ullrich's tract.

Ullrich asserts that Sandalwood is required to condemn all regular locations on the entire 1,232-acre Austin College Lease. Ullrich believes there may be other fault blocks on the lease where wells could encounter the Wilcox from regular locations and recover Sandalwood's fair share of hydrocarbons. Ullrich takes the position that Sandalwood has improperly focused on condemnation of regular locations only in the fault block in the southwest corner of the Austin College Lease.³

Ullrich also argues that because there are, at most, only about ten surface acres in the productive part of the Wilcox in the fault block where Sandalwood's well is proposed to be drilled, Sandalwood should not be permitted to assign 40 productive acres to an oil completion for allowable purposes. Ullrich suggests that the order in this case should limit the number of acres that can be assigned to the proposed well for proration purposes.⁴

EXAMINERS' OPINION

The examiners recommend that a Rule 37 exception for the Sandalwood Austin College Lease, Well No. 1, Wildcat Field, Austin County, Texas, be granted as necessary to prevent the waste of hydrocarbons and to prevent confiscation.

Waste Standard. If a substantial amount of hydrocarbons will be produced by a proposed Rule 37 well that otherwise would ultimately be lost, a permit to drill the well may be justified to prevent waste. *Hawkins v. Texas Co.*, 209 S.W.2d 338, 343 (Tex. 1948). An applicant seeking an

³ Sandalwood responded to this contention by saying that Sandalwood is not required to condemn regular locations in other fault blocks where the Wilcox sands might be encountered because each Wildcat Field in each separate fault block is a separate reservoir, and Sandalwood is entitled to an opportunity to recover its fair share of hydrocarbons in each separate reservoir beneath the Austin College Lease.

⁴ Sandalwood responded to this contention by saying that Sandalwood has plenty of gross acres in the Austin College Lease to form a drilling unit for the well without needing a density exception. If Sandalwood encounters productive Wilcox sands in this fault block, this will be a new field discovery and the proposed well will get a discovery allowable which is not acreage prorated. Sandalwood believes a productive acreage hearing would be more appropriate for any challenge to Sandalwood's assignment of acres to the proposed well for allowable purposes.

exception to Rule 37 based on waste must show that: (1) unusual conditions, different from conditions in adjacent parts of the field, exist under the tract for which the exception is sought; and (2) as a result of these unusual conditions, hydrocarbons will be recovered by the well for which the exception is sought that would not be recovered by any existing well or by an additional well drilled at a regular location; and (3) the amount of otherwise unrecoverable hydrocarbons is substantial.

Confiscation Standard. An owner of oil and gas is entitled to an opportunity to recover the reserves underlying his tract, and any denial of that opportunity amounts to confiscation. *Atlantic Refining Co. v. Railroad Commission*, 346 S.W.2d 801 (Tex. 1961); *Imperial American Resources Fund, Inc. v. Railroad Commission*, 557 S.W.2d 280 (Tex. 1977). When the subject tract is capable of supporting a regular location, the applicant for a Rule 37 exception based on confiscation must prove that the proposed irregular location is necessary because of surface or subsurface conditions and that the proposed location is reasonable. To do this, the applicant must show that it is not feasible to recover its fair share of hydrocarbons from regular locations.

The examiners agree with Sandalwood that faulting beneath the Austin College Lease creating a separate fault block where the proposed well will be drilled constitutes an “unusual” reservoir condition of the type necessary to establish a “waste” justification for a Rule 37 exception. The evidence shows that there is no existing well that can recover oil in the target Wilcox sands from this fault block. The only regular location identified in the evidence where a well might be drilled to encounter the target Wilcox sands in this fault block is the regular location on the Austin College Lease shown on Sandalwood’s Exhibit No. 6 structure map. To move from the proposed location to this regular location would be moving toward the fault and the location of the Pan Am Austin College #1 in which the target Wilcox sands were faulted out. The accuracy of the location of the fault in Exhibit No. 6 depends on an assumption that the Pan Am Austin College #1 penetrated the fault directly beneath the surface location of this well. This assumption is doubtful because the evidence is to the effect that all wells in the area drift away from the surface location, most often to the west or northwest. Even if the Exhibit No. 6 interpretation is correct, the regular location shown on the exhibit is very near to the fault, and the evidence is to the effect that Sandalwood would not spend 1.3 to 1.4 million dollars to drill this regular location because the risk is too great that the well would be faulted out in the Wilcox sands, just like the Pan Am Austin College #1. The only regular location in this fault block would definitely be faulted out in the Wilcox sands if the Exhibit No. 7 structure map, based on assumed drift of the Pan Am Austin College #1, is the more accurate interpretation.

Proof of the productivity of the target Wilcox sands in the fault block where Sandalwood’s well is proposed to be drilled, and the amount of oil in place, is made inherently imprecise because the fault block is wholly undeveloped. Nonetheless, Sandalwood’s experts testified that oil in place is about 150,000 barrels if the Exhibit No. 6 structure map is the correct interpretation, or perhaps 30% to 40% less if the Exhibit No. 7 structure map is the correct interpretation. Based on an assumption of a 30% recovery factor, and depending on which of the two structural interpretations is correct, these experts stated that current recoverable oil in this fault block is in the range of 27,000

BO to 45,000 BO. The testimony of Sandalwood's experts regarding oil in place and current recoverable oil was not contradicted by any evidence produced by the protestant. Even allowing for some imprecision in the evidence as to oil in place and current recoverable oil due to the fact that the target Wilcox sands are wildcat reservoirs, the preponderance of the evidence shows that a substantial amount of oil would be left in the ground and wasted if Sandalwood's Rule 37 well is not drilled.

For basically the same reasons, the examiners are of the opinion that the Rule 37 exception requested by Sandalwood is necessary to prevent confiscation. Based on the only available evidence, current recoverable reserves in the target Wilcox sands in the fault block where Sandalwood's well is proposed to be drilled are in the range of 27,000 BO to 45,000 BO. This is the measure of Sandalwood's "fair share" of oil, and any denial to Sandalwood of an opportunity to recover this "fair share" would result in confiscation. The only possible regular location for the drilling of a well that would encounter the target Wilcox sands in the fault block where Sandalwood's well is proposed to be drilled was condemned by evidence that drilling this location is foreclosed by the great risk of the regularly located well being faulted out in the target sands just like the nearby Pan Am Austin College #1.⁵ Sandalwood's proposed well is at a reasonable location because regardless of which of Sandalwood's two structural interpretations is correct, the well likely will encounter the target Wilcox sands, and the proposed surface location of the well is only 93 feet closer to protestant's offset tract than allowed under the statewide lease line spacing rule applicable in wildcat fields. In addition, Sandalwood's evidence shows that the target Wilcox sands are not productive beneath the protestant's tract, and the proposed well will not drain any hydrocarbons from the protestant's tract.

The examiners have considered the issue of whether the Rule 37 exception permit granted to Sandalwood should be conditioned such that Sandalwood must steer the well with directional tools to a bottom hole location within a target radius of the surface location. However, the examiners have not been referred to any example of a Rule 37 exception permit for a vertical well that has been similarly conditioned. Sandalwood has proposed to drill a vertical well at a specified surface location requiring a Rule 37 exception, and the examiners are reluctant to impose a condition on the

⁵ The examiners disagree with protestant's position that Sandalwood had the burden to condemn regular locations in other fault blocks on the Austin College Lease where the target Wilcox sands might be encountered. No other fault blocks on the lease from which the Wilcox sands might be encountered were identified in the evidence, but even if they exist, the Wilcox sands in such fault blocks would be entirely separate wildcat reservoirs. Sandalwood is entitled to an opportunity to recover its fair share of hydrocarbons from each Commission-designated field beneath the Austin College Lease.

requested permit that would conflict with the principles of Statewide Rule 11 or necessarily implicate the directional deviation provisions of this rule.⁶ The examiners do not believe that the issue of the acreage that can be assigned for allowable purposes to Sandalwood's well in the event it is successfully drilled and completed is an issue that must be decided in this Rule 37 case.

Based on the record in this case, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least ten (10) days notice of this hearing was provided to all affected persons as defined by Statewide Rule 37(a)(2) and 37(a)(3). Notice was provided by first class mail and by publication once each week for four consecutive weeks in the *Bellville Times*, a newspaper having general circulation in Austin County, Texas.
2. Sandalwood Exploration, L.P. ("Sandalwood") seeks a drilling permit pursuant to the provisions of Statewide Rule 37 for Well No. 1, a vertical well on the 1,232-acre Austin College Lease in the Wildcat Field, Austin County, Texas.
3. The First Wilcox, Second Wilcox, and Third Wilcox Sands are Sandalwood's target sands ("target Wilcox sands"). The surface location of the proposed well is in the extreme southwest corner of the Austin College Lease, 374 feet from the northwest line and 562 feet from the southwest line of the lease and 374 feet from the northwest line and 10,759 feet from the northeast line of the Harvey, W. Survey, A-46, in Austin County. A copy of a well location plat attached to the Form W-1 (Application for Permit to Drill, Recomplete, or Re-Enter) filed by Sandalwood is attached to the Proposal for Decision as Appendix 1 which is incorporated into this finding by reference.
4. A Rule 37 exception is needed for the proposed well because the surface location of the well is 374 feet from the northwest line of the Austin College Lease and the Wildcat Field is subject to Statewide Rules providing for lease line spacing of 467 feet. The Sandalwood application is protested by Wilbert L. Ullrich, an unleased mineral interest owner in an adjacent tract to the northwest of the Austin College Lease which is 374 feet from the proposed well location.
5. Well control in the area of Sandalwood's proposed well includes the Maguire Paulus #1 to the northwest, the Union Gas Hale #1 to the west, the Pan Am Austin College #1 just to the

⁶ The need to land the proposed well at the highest structural position in this small fault block that is not faulted out in the Wilcox sands is believed by the examiners to be sufficient incentive for Sandalwood to drill the well as nearly vertical as possible by normal, prudent, and practical drilling operations without any condition regarding directional drilling to a bottom hole within a specified radius of the surface location.

east, and the Hawkins Ueckert #1 to the southeast. All of these wells surrounding the proposed location for Sandalwood's well were dry holes in the target Wilcox sands. The Pan Am Austin College #1 was drilled less than 300 feet from the surface location of Sandalwood's proposed well.

6. A structural cross section extending northwest to southeast from the Maguire Paulus #1 on the northwest to the Pam Am Austin College #1 near Sandalwood's proposed location, to the Hawkins Ueckert #1 on the southeast showed that the target Wilcox sands were present in the Maguire Paulus #1 and the Hawkins Ueckert #1, but were faulted out of the Pan Am Austin College #1 by an upthrown fault.
7. Sandalwood has two possible structural interpretations of the fault block where Sandalwood proposes to drill the Austin College Lease, Well No. 1 shown in the structure maps attached to the Proposal for Decision as Appendix 2 (Sandalwood Exhibit No. 6) and Appendix 3 (Sandalwood Exhibit No. 7) which appendices are incorporated into this finding by reference. Each interpretation shows that area of the Austin College Lease where Sandalwood proposes to drill the Austin College Lease, Well No. 1 is bounded on the southeast, east, north, and northwest by a fault. The productive area of the target Wilcox sands in this fault block is defined on the down dip edge to the west and southwest at minus 7,159 feet, which is the point between two sands in the Pam Am Austin College #1 that tested wet and is a reasonable point for the water contact. The productive area of the target Wilcox sands in this fault block is ten surface acres or less.
 - a. The structural interpretation in Appendix 2 to the Proposal for Decision is based on an assumption that the Pam Am Austin College #1 penetrated the fault directly beneath the surface location of the well.
 - b. The structural interpretation in Appendix 3 to the Proposal for Decision is based on an assumption that the Pan Am Austin College #1 had drifted 150 feet to the west at the point where it penetrated the fault.
8. The Pan Am Austin College #1 was drilled in 1943 and no inclination survey or directional survey for the well could be found to establish whether the well had drifted away from the surface location at the point where the well penetrated the fault. However, every well that Sandalwood has drilled in the Raccoon Bend area has drifted some distance away from the surface location. Sandalwood recently drilled the Austin College Lease #2 in another fault block and a gyro survey run at 5,000 feet showed the well had drifted 70 feet to the west at that depth. Another area well drilled by Sandalwood drilled to a depth of 6,500 feet, the Payne #1, drifted 150 feet to the northwest.
9. Sandalwood's proposed well would encounter the productive area of the target Wilcox sands under either of Sandalwood's structural interpretations.

10. According to the structural interpretation in Appendix 2 to the Proposal for Decision, there is a highly limited area within the subject fault block where a well theoretically could be drilled at a regular location. However, this regular location would be very close to the bounding fault and near the location of the Pan Am Austin College #1 that was faulted out in the target Wilcox sands. Sandalwood would not drill a well at the regular location shown on Appendix 2 to the Proposal for Decision because the risk is too great that the well would be faulted out in the target Wilcox sands, just like the Pan Am Austin College #1.
11. According to the structural interpretation in Appendix 3 to the Proposal for Decision which is based on assumed westerly drift of the Pam Am Austin College No. 1 at the point where it penetrated the fault, there is no regular location in the subject fault block that would not be faulted out in the target Wilcox sands.
12. Based on the structural interpretation in Appendix 2 to the Proposal for Decision, volumetrically calculated oil in place in the target Wilcox sands is 150,000 BO. Assuming a 20% recovery factor, current recoverable oil is 29,639 BO. Assuming a 30% recovery factor, current recoverable oil is 44,458 BO. Assuming a 40% recovery factor, current recoverable oil is 59,278 BO. Based on the structural interpretation in Appendix 3 to the Proposal for Decision, oil in place and current recoverable oil would be 30% to 40% less.
13. The fault bounding the subject fault block in the southwest corner of the Austin College Lease is an unusual reservoir condition.
14. No existing well, and no future well drilled at a regular location, will recover the oil in the target Wilcox sands in the subject fault block. Unless Sandalwood's proposed well is drilled, a substantial amount of oil will be left in the ground.
15. The proposed well is necessary to provide Sandalwood with an opportunity to recover its fair share of oil from the wildcat reservoirs in the subject fault block beneath Sandalwood's lease.
16. The target Wilcox sands are not productive beneath protestant's tract, and Sandalwood's proposed well will not drain hydrocarbons from protestant's tract.
17. The proposed location of the Austin College Lease, Well No. 1 is reasonable.

CONCLUSIONS OF LAW

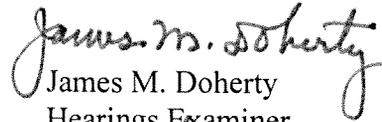
1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.

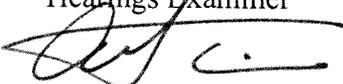
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. The granting of a Rule 37 exception for the drilling of the Sandalwood Exploration, L.P. Austin College Lease, Well No. 1, Wildcat Field, Austin County, Texas, is required to prevent the waste of hydrocarbons.
4. The granting of a Rule 37 exception for the drilling of the Sandalwood Exploration, L.P. Austin College Lease, Well No. 1, Wildcat Field, Austin County, Texas, is required to protect correlative rights and prevent the confiscation of hydrocarbons.

RECOMMENDATION

The examiners recommend that the application of Sandalwood Exploration, L.P. for a Rule 37 exception to drill the Austin College Lease, Well No. 1, Wildcat Field, Austin County, Texas, be granted.

Respectfully submitted,


James M. Doherty
Hearings Examiner


Andres J. Trevino
Technical Examiner