



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

PROPOSAL FOR DECISION

Rule 37 Case No. 0283553
Status No. 758867
District 09

APPLICATION OF SOUTHERN EXPLORATION, INC. FOR RULE 37 LEASE LINE AND BETWEEN-WELL SPACING EXCEPTIONS FOR THE NEW-DRILL (VERTICAL) WELL NO. 26, ST OF TEX-SEI LEASE IN THE WEATHERBEE (MISS), ANCELL (ELLENBURGER), WILBARGER COUNTY REGULAR, BILLIE JO (CADDO) AND WILDCAT FIELDS, WILBARGER COUNTY, TEXAS

AND

Rule 37 Case No. 0283554
Status No. 758868
District 09

APPLICATION OF SOUTHERN EXPLORATION, INC. FOR RULE 37 LEASE LINE AND BETWEEN-WELL SPACING EXCEPTIONS FOR THE NEW-DRILL (VERTICAL) WELL NO. 24, ST OF TEX-SEI LEASE IN THE WEATHERBEE (MISS), ANCELL (ELLENBURGER), WILBARGER COUNTY REGULAR, BILLIE JO (CADDO) AND WILDCAT FIELDS, WILBARGER COUNTY, TEXAS

APPEARANCES

FOR APPLICANT SOUTHERN EXPLORATION, INC.
Lloyd Muennink, Attorney at Law
Glenn Weatherbee, President
Mike Stowbridge, Geologist
Noonan A. Prince, Petroleum Engineer

FOR PROTESTANT W. T. WAGGONER ESTATE
J. Todd Thomas, Geologist

FOR THE TEXAS GENERAL LAND OFFICE
Mark Havens, Staff Attorney

PROCEDURAL HISTORY

DATE OF APPLICATION:	March 18, 2013
DATE OF NOTICE OF HEARING	August 16, 2013
DATE OF HEARING	September 11, 2013
TRANSCRIPT RECEIVED	November 13, 2013
HEARD BY	Terry J. Johnson, Legal Examiner Andres J. Trevino, Technical Examiner

STATEMENT OF THE CASE

In this consolidated proceeding, Southern Exploration, Inc. (Southern) seeks Rule 37 lease-line and between-well exceptions for two new vertical wells to be completed in the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular, Billie Jo (Caddo) and Wildcat Fields, Wilbarger County, Railroad Commission District 09. In each case, the proposed location is less than 330 feet from Southern's western lease boundary. Field rules call for 330 feet minimum lease-line spacing. The proposed locations also require between-well spacing exceptions for completion in the Billie Jo (Caddo), because they would be less than 933 feet apart, the minimum between-well distance for the field. Protestant W. T. Waggoner Estate owns the unleased mineral acreage adjoining the western boundary of Southern's tract. The Texas General Land Office appeared in support of the applications, but presented no evidence.

It is recommended that the applications be denied for all fields except the Billie Jo (Caddo).

APPLICANT'S CASE

The subject tract is composed of 154.8 acres, the bulk of which takes the shape of a narrow rectangle approximately 500 feet wide with the long sides running northwest to southeast.¹ Southern expects to produce what it calls "attic oil"--isolated pockets of oil trapped by structural highs in these largely watered-out fields.

¹For reference, Southern's Exhibit 1 is attached as Appendix A.

Well No. 24

The proposed location for Southern's Well No. 24 is 153 feet from Southern's west lease line. Southern presented evidence showing that this location is bracketed by two off-lease wells—the Trice Production, State of Texas No. 1 approximately 500 feet to the east and the Trice Production, Waggoner G-2 some 500 feet to the west. These wells have been abandoned since 1992 when they were plugged after watering out.

Relying on structure maps for the tops of the Ellenburger, Palo Pinto and Caddo Limestone formations, Southern's geologist, Mike Stowbridge, testified that No. 24 is sited on the upthrown side of an east-west fault that runs through the area. The well, said Mr. Stowbridge, is expected to come in structurally higher than the plugged wells that bracket it. He further testified that there is no well in the area able to recover the reserves that are expected from the No. 24.

Well No. 26

The proposed location for Well No. 26 is 262 feet from the west line of Southern's lease and approximately 1500 feet north of No. 24. Mr. Stowbridge testified that it is positioned on the downthrown side of the fault. He stated that Southern expects to complete No. 26 structurally high to the W.T Waggoner Estate, Waggoner "JJ"-16. That well, abandoned as a dry hole in 1942, is located approximately 1500 feet east of the proposed location for No. 26.

Southern's petroleum engineer, Noonan Prince, testified that the subject fields have "gone to water" and that Southern plans to complete the wells structurally high to known watered-out wells. He stated that the proposed locations will result in the prevention of waste. "They'll recover oil that no other wells ever recovered or will recover if this well—if these wells aren't drilled," he said. Mr. Prince testified that each well is estimated to recover between 60,000 and 100,000 barrels of oil from the Billie Jo (Caddo) field.

PROTESTANT'S CASE

The W. T. Waggoner Estate (Waggoner) is represented by geologist Todd Thomas, manager of the estate's oil division. Mr. Thomas stated that Southern ought to amend the field rules rather than seek spacing exceptions. On cross-examination, he testified that Waggoner will share royalties 50/50 with the state of Texas on production from the proposed wells.

Waggoner does not contend that the proposed wells are ill-situated. "Those are good locations," Mr. Thomas testified, "There are reasons—geological reasons, structural

reasons to drill—see the wells drilled; yes, sir.” Neither does Waggoner challenge proof that the lease will not support a regular location on the acreage that lies above the targeted fields.

Waggoner protests these applications because it wants its acreage included in the unit. “The moment that these acreages are pooled,” Mr. Thomas stated, “all opposition goes away.” Under cross-examination, he testified that Waggoner could drill its own well, but the financial return would not justify the effort.

DISCUSSION AND RECOMMENDATION

This is a Rule 37 case grounded on prevention of the waste of hydrocarbons. To justify a recommendation that the Commission grant the pending applications to prevent waste, the record must support a favorable holding on three issues. First, the subject tract’s subsurface conditions must be shown to be different from those in adjacent parts of the relevant fields. Next, the proof must show that because of these conditions the applied-for well will produce oil not otherwise recoverable by an existing well or by a well sited at a regular location on the tract. On these two points the record is quite settled.

It is undisputed that the proposed locations are situated to produce the hydrocarbons that lie captured in upstructure stratigraphic traps not present elsewhere beneath Southern’s lease. Neither is it disputed that the subject wells require Rule 37 permits because these reserves cannot be produced from a regular location on the lease. In other words, not only is there no dispute that oil is under Southern’s acreage, there is also no dispute that it will take a Rule 37 wellsite to reach it.

Finally, the record must show that a substantial amount of oil will be recovered. Southern’s principal, Glenn Weatherbee, testified without challenge that the applied-for wells are expected to produce a total of 60-70,000 barrels each in the Billie Jo (Caddo). This estimate reflected a rough averaging of historical production from wells in the field.

“We’ve looked at the historical values there. And basically the Billie Jo (Caddo) Field was basically about a 12-well field and we don’t think that all of the—the oil data that was reported was completely accurate.”

“But the majority of that . . . oil [from the Billie Jo (Caddo)] came from probably between eight and 10 wells, which was well over close to 800,000 barrels of total oil. So this gives you at least somewhere in the neighborhood of 60 to 70,000 barrels of oil per well.”

In the examiners’ opinion, this volume constitutes a substantial amount of oil. But

when asked about the reserves of the other applied-for fields, Mr. Weatherbee said, "The other zones, I don't have valid calculation numbers on." The record contains evidence of no other reserves.

Accordingly, the record in this case supports the conclusion that approval of a Rule 37 exception for Well No. 26 and Well No. 24 is justified, but only for the Billie Jo (Caddo) field.

FINDINGS OF FACT

1. At least ten (10) days' notice of hearing was provided to all affected persons.
2. In Rule 37 Case No. 0283553, Southern Exploration, Inc. (Southern) seeks a drilling permit authorizing an exception to the minimum lease-line and between-well spacing requirements for St of Tex-SEI lease, Well No. 26, to be completed in the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular, Billie Jo (Caddo) and Wildcat fields, Wilbarger County, Texas.
3. In Rule 37 Case No. 0283554, Southern seeks a drilling permit authorizing an exception to the minimum lease-line and between-well spacing requirements for St of Tex-SEI lease, Well No. 24, to be completed Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular, Billie Jo (Caddo) and Wildcat fields, Wilbarger County, Texas.
4. The bulk of Southern's 154.8-acre lease is a rectangle 500 feet wide with the long sides running northwest to southeast.
5. The proposed location for Well No. 26 is 262 feet from the west line of Southern's lease and 660 feet from the nearest well completed in the Billie Jo (Caddo) field.
6. The proposed location for Well No. 24 is 153 feet from the west line of Southern's lease and 672 feet from the nearest well completed in the Billie Jo (Caddo) field.
7. Each proposed location requires a lease-line exception for all subject fields, which call for 330-foot minimum spacing.
8. Each proposed location requires a between-well exception only for the Billie Jo (Caddo) field, which calls for 933-foot spacing.
9. Southern prosecutes its lease-line and between-well spacing exceptions on a theory of prevention of waste.
10. There are current recoverable reserves (target reserves) in the Billie Jo (Caddo) field beneath Southern's lease in the amount of approximately 140,000 barrels of oil.

11. The amount of target reserves in the Billie Jo (Caddo) field beneath Southern's lease is a substantial amount.
12. The target reserves are captured in upstructure stratigraphic traps in the Billie Jo (caddo) field that are not present elsewhere beneath Southern's lease.
13. No existing well and no well drilled at a regular location will recover the target reserves.
14. The proposed locations for Well No. 26 and Well No. 24 are reasonable locations.
15. The record contains no evidence of the amount of current recoverable reserves for the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular and Wildcat fields.
16. The evidence of record provides no basis to determine whether the amount of current recoverable reserves for the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular and Wildcat fields is a substantial amount.
17. The applied-for exceptions are necessary to prevent the ultimate loss of substantial hydrocarbons in the Billie Jo (Caddo) field.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued by the Railroad Commission to affected 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 record in the case supports approval of the applied-for Rule 37 spacing exceptions for the Tex-SEI lease, Well No. 24 in the Billie Jo (Caddo) field, Wilbarger County, Texas.
4. The record in the case does not support approval of the applied-for Rule 37 spacing exceptions for the Tex-SEI lease, Well No. 24 in the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular and Wildcat fields, Wilbarger County, Texas.
5. The record in the case supports approval of the applied-for Rule 37 spacing exceptions for the Tex-SEI lease, Well No. 26 in the Billie Jo (Caddo) field, Wilbarger County, Texas.

6. The record in the case does not support approval of the applied-for Rule 37 lease-line spacing exceptions for the Tex-SEI lease, Well No. 26 in the Weatherbee (Miss), Ancell (Ellenburger), Wilbarger County Regular and Wildcat fields, Wilbarger County, Texas.

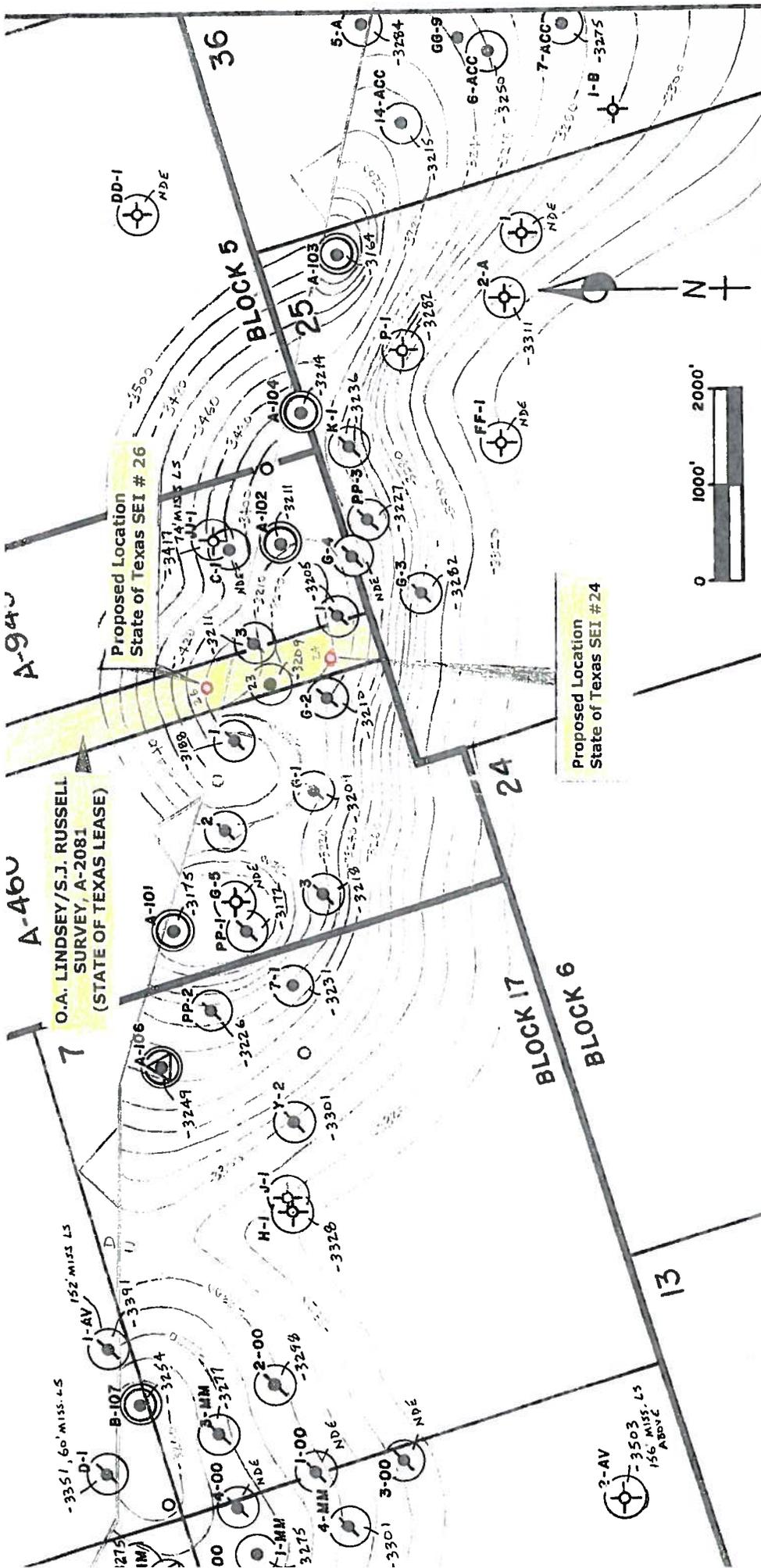
Respectfully submitted on this the 9th day of June,
2014.



Terry J. Johnson
Hearings Examiner



Andres J. Trevino
Technical Examiner



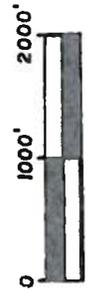
SOUTHERN EXPLORATION, INC.

STATE OF TEXAS LEASE
WILBARGER COUNTY, TEXAS

TOP OF ELLENBURGER

STRUCTURE MAP

5111



Appendix A

Proposed Location
State of Texas SEI # 26

Proposed Location
State of Texas SEI # 24

O.A. LINDSEY/S.J. RUSSELL
SURVEY, A-2081
(STATE OF TEXAS LEASE)

A-940

A-460

36

BLOCK 5

25

24

BLOCK 17

BLOCK 6

13

23