



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

PROPOSAL FOR DECISION

Rule 37 Case No. 0287347
Status No. 777488
District 8A

APPLICATION OF SEABOARD OPERATING CO. FOR A RULE 37 LEASE-LINE SPACING EXCEPTION FOR THE NEW DRILL (VERTICAL) WELL NO. 2, MARILEE LEASE IN THE MARILEE (SAN ANDRES) FIELD, GAINES COUNTY, TEXAS

APPEARANCES

FOR APPLICANT SEABOARD OPERATING CO.
Ed Runyan, CEO Seaboard Operating Co.

FOR PROTESTANT OCCIDENTAL PERMIAN, LTD
John Soule, Attorney at Law
Peter Senior, Staff Geologist, Occidental Permian, LTD

PROCEDURAL HISTORY

DATE OF NOTICE OF HEARING	April 4, 2014
DATE OF HEARING	May 30, 2014
TRANSCRIPT RECEIVED	June 18, 2014
HEARD BY	Terry J. Johnson, Legal Examiner Brian Fancher, Technical Examiner

SUMMARY OF THE CASE

Seaboard Operating Co. (Seaboard) applies for a Statewide Rule 37¹ lease-line spacing exception to authorize the drilling of a new vertical well on its Marilee Lease in Gaines County. The well would be completed

¹ 16 Tex. Admin Code § 3.37 (Statewide Spacing Rule)

in the Marilee (San Andres) Field. The well requires a Rule 37 exception because it would be located 149 feet from the lease line of protestant Occidental Permian, LTD (Oxy). The current field rules require minimum lease-line spacing of 467 feet. Because the operator failed to prove that an exception is necessary either to prevent waste or to prevent confiscation, it is recommended that the application be denied.

APPLICANT'S CASE

Seaboard's 324-acre Marilee Lease forms a narrow rectangle running east to west. Oxy's lease adjoins the Seaboard tract on the south.² Petroleum engineer and Seaboard CEO Ed Runyan testified that his company had a prior agreement with Oxy allowing the operators to drill, without protest, a series of wells along Seaboard's southern line, all of which would be closer to the line than the field rule minimum of 467 feet. Under the agreement, all wells were to be completed in the Clearfork Formation at approximately 7,300 feet beneath the surface.

One of the wells drilled by Seaboard—the No. 513L--encountered what Mr. Runyan described as a “very, very attractive San Andres section”. The San Andres is a separate formation that lies above the Clearfork at approximately 5600 feet.³ His evaluation of the petrophysical data led him to conclude that the 513L had transited a reef-like San Andres structure that was possibly comparable to the pay interval in Chevron's prolific Blackwater (San Andres) Unit located three miles to the north. Well No. 513L is located 150 feet from the lease line. Seaboard proposes to drill from a site approximately 150 feet due east of the 513L, maintaining the same distance from the line.

Mr. Runyan testified that Seaboard has encountered the San Andres when drilling to the Clearfork on wells to the north, east and west of the 513L, all without a commercial showing in the shallower formation.

“We find the San Andres up there on the structure, it's oil saturated, but we cannot—even with fracking we cannot get oil out of it at a commercial rate.”

[. .]

² A copy of Seaboard's Exhibit 2, showing the orientation of the properties, is included as Appendix A.

³ Throughout the hearing, the parties referred to the subject Marilee (San Andres) Field as the “San Andres”.

“The San Andres . . . is very widespread . . . throughout this region. Most of the time it does not have sufficient permeability to produce [. . .].”

There is no evidence of current production from the Marilee (San Andres) Field.

Mr. Runyan testified that if the proposed location is comparable to the Chevron Blackwatch Unit, Seaboard might recover as much as 130,000 barrels of oil. He admitted, however, that he had made no attempt to calculate an amount of recoverable reserves beneath the Marilee Lease.

PROTESTANT'S CASE

Peter Senior, Oxy staff geologist, testified that after evaluating a contour map constructed from 32 data points in the San Andres Formation in the area, he found no greater probability of making a commercial well at the proposed location than at a regular location on the Marilee Lease. Mr. Senior also analyzed two structural cross-sections, one running from southwest to northeast and the other from southeast to northwest through Seaboard's acreage. His evaluation of the neutron and sonic porosity logs for the 13 wells in the two cross-sections led him to the conclusion that the same reservoir is present in comparable quality all along the length of both cross-sections.

Mr. Senior testified that the entire 324-acre Marilee Lease is productive in the Marilee (San Andres) Field. Any well at a regular location on the lease, he said, will have a reasonable opportunity to produce whatever oil may lie beneath it.

DISCUSSION AND RECOMMENDATION

The record in this case shows that the Marilee (San Andres) Field, at least in the vicinity of Seaboard's Marilee Lease, is a less than obliging source of bounty. “I have considerable scars,” said Mr. Runyan, “from trying to make the San Andres produce in that area.” The proof also shows that the San Andres is widespread--“You can drill San Andres wells almost anywhere in Gaines County,” Mr. Runyan testified—but lacks the permeability required for commercial production.

In Mr. Runyan's opinion, Well No. 513L shows that Seaboard might encounter a commercial portion of the San Andres with a vertical well

that mimics the position of the 513L–150 feet from the lease line. Since Oxy protests the proposed incursion on lease line spacing, Seaboard must obtain an exception to the requirement that a well must be 467 feet from the line. There are two recognized exceptions to this requirement.

Where an operator can show that production on adjoining acreage is draining hydrocarbons from beneath the operator's tract, a spacing exception may be justified in order to prevent confiscation. In the case at hand, however, the parties agree that there is no production from the subject field and, therefore, no chance that offset production is draining the reserves beneath Seaboard's tract. Accordingly, a confiscation exception is not justified.

Alternatively, if the well is necessary to produce a substantial amount of hydrocarbons that would otherwise go unrecovered, a spacing exception may be justified in order to prevent waste. An exception based on waste is appropriate where an operator demonstrates: (1) that there are conditions affecting the drainage of wells on its tract which are unusual when compared to conditions throughout the field; and (2) that the ultimate loss of a substantial amount of hydrocarbons will occur unless the exception is granted.

The record in the case contains insufficient evidence to support a finding of unusual conditions. Mr. Runyan made fleeting mention of a "reef", but offered no facts to show that such a feature is anomalous to the conditions in the Merilee (San Andres) Field at large. In addition, Seaboard's evidence is insufficient to conclude that a substantial amount of hydrocarbons will go unrecovered. Seaboard offered no proof of the volume of recoverable reserves beneath its lease. Instead, it relied on the reported cumulative production of Chevron's 20-well Blackwatch Unit. This property is at least three miles north of the proposed location and all the wells in it are apparently completed in a different field, the Blackwater (San Andres) Unit. The examiners find that this showing fails to demonstrate that a substantial amount of hydrocarbons is at risk of waste.

It is recommended that the Commission adopt the following Findings of Fact and Conclusions of Law and enter an order denying the pending application.

FINDINGS OF FACT

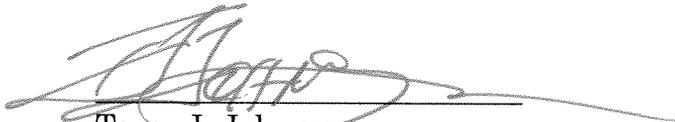
1. At least ten (10) days notice of hearing in this case was provided to all affected persons.

2. Applicant Seaboard Operating Co. (Seaboard) seeks a drilling permit authorizing an exception to the minimum lease-line spacing requirements for Well No. 2, a new vertical well on the Marilee Lease to be completed in the Marilee (San Andres) Field.
3. Protestant Occidental Permian, LTD (Oxy) is the designated operator of wells located on acreage that adjoins the south lease line of the Marilee Lease.
4. The proposed location for the subject well is 149 feet from the south lease line of the Marilee Lease.
5. Applicable field rules require minimum lease-line spacing of 467 feet.
6. The Seaboard tract is composed of 324 acres in the shape of a narrow rectangle running east to west.
7. The Seaboard tract will support a regular location for a well in the Merilee (San Andres) Field.
8. Seaboard has drilled wells to the north, east and west of the proposed location without a commercial showing in the Merilee (San Andres) Field.
9. There is no evidence of offset production that would drain reserves from beneath the Marilee Lease.
10. The record contains no evidence to support a lease-line spacing exception for the purpose of preventing confiscation.
11. The record contains insufficient evidence to support a finding that unusual conditions which are different from conditions in adjacent parts of the Marilee (San Andres) Field underlie the Marilee Lease.
12. The record contains no evidence of the volume of recoverable reserves beneath the Marilee Lease, therefore it cannot be determined whether a substantial amount of hydrocarbons will go unrecovered without the applied-for exception.
13. Evidence offered by Seaboard showing the reported production of wells completed three miles to the north in the Blackwatch (San Andres) Field is entitled to no weight.
14. The record contains insufficient evidence to support a lease-line spacing exception for the purpose of preventing waste.

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. Legally sufficient notice has been provided to all affected persons. 16 TEX. ADMIN. CODE § 3.37(a)(2)(A)
3. Approval of the subject application is not necessary to prevent confiscation. 16 TEX. ADMIN. CODE § 3.37(a)(1)
4. Approval of the subject application is not necessary to prevent waste. 16 TEX. ADMIN. CODE § 3.37(a)(1)
5. An exception to 16 TEX. ADMIN. CODE § 3.37 is not justified by the evidence of record.

Respectfully submitted on this the 12th day of December, 2014.


Terry J. Johnson
Hearings Examiner


Brian Fancher
Technical Examiner



SEABOARD

ROBERTSON N. CLEARFORK L.O. UNIT

ROBERTSON, N. CLFK 7100 FIELD
GAINES CO., TEXAS

Scale: 1" = 1000'
 Remarks:
 C.I.:
 By:
 Date:
 SEABOARD OIL COMPANY P.O. BOX 3120 MIDLAND TX. 79702

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Appendix A

- LEGEND**
- INJECTION WELL (solid circle)
 - PRODUCERS (circle with dot)
 - PROPOSED LOCATIONS (circle with cross)
 - SHUT-IN WELLS 14(b)(2) (circle with slash)

LEASE LINE WELLS