



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 6E-0294347

THE APPLICATION OF SCOUT ENERGY MANAGEMENT, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 11 AND CANCELLATION OF OVERPRODUCTION, LAIRD, S.S. -A- LEASE, WELL NO. 26R, EAST TEXAS FIELD, RUSK COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Cecile Hanna – Legal Examiner

REVIEWED BY: Laura Miles-Valdez – Legal Examiner

HEARING DATE: March 11, 2015
RECORD CLOSED: November 6, 2015
SUBMISSION DATE: November 18, 2015
CONFERENCE DATE: December 8, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

Cruz J. Abila, Jr.

Scout Energy Management, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

This application was originally filed by Zone Energy (Zone). Representatives on behalf of Zone did not appear at the March 11, 2015, hearing. At the March 11th hearing, however, representatives of Scout Energy Management, LLC (Scout) informed the Examiners that Scout purchased the Laird, S.S. -A- Lease, Well No. 26R, East Texas Field, Rusk County, Texas (Subject Well) from Zone prior to the hearing.

This application centers on the Subject Well. At the hearing, Scout indicated it seeks the following relief: (1) that it be granted an exception from filing an inclination survey for the Subject Well (*i.e.* Statewide Rule 11(b)); and (2) cancellation of all overproduction accrued by the Subject Well (Subject Application).

Notice of hearing (NOH) was issued for the Subject Application on February 18, 2015 to the service list provided by Zone. The Subject Application's NOH, however, did not indicate that the applicant's requested relief included cancellation of overproduction from the Subject Well.

On October 27, 2015, an Examiner letter was issued to the operators in the East Texas Field to inform them that Scout seeks cancellation of overproduction in the subject application, in addition to its request for an exception to Statewide Rule 11(b). The Examiner's October 27th letter also provided those operators with an opportunity to submit a written protest within 10 days from the date of the letter. No protest was received by the Examiners.

The application is unprotested and the Examiners recommend that it be granted, as requested by Scout.

DISCUSSION OF THE EVIDENCE

Cruz Abila Jr., Scout's Vice President of Operations, testified on behalf of Scout as a fact witness.

Inclination Survey Exception

The Subject Well is a vertical well that was originally drilled to a total depth of 3,900 feet and completed in the East Texas Field (Field) on December 27, 1933. The well subsequently produced from the Field for the next forty-five years and was plugged and abandoned (P&A'd) on April 10, 1978.

The Subject Well is one of numerous wells on the Laird, S.S. -A- Lease (Lease). Commission records indicate that the Lease is composed of 230.0-acres. The Subject Well's surface location is described as being located 923 feet from the north lease line and 969 feet from the west lease line, Ruddle, I. Survey (A-913), Rusk County Texas.¹ Commission records indicate that the Subject Well is surrounded by other lease-wells that are producing from the Field, or produced in the Field and are currently P&A'd.

Commission records indicate that Zone obtained a drilling permit to reenter the Subject Well, effective October 17, 2011 (Drilling Permit No. 724220). The Examiners note that Zone's October 17th drilling permit also granted a between-well spacing exception, pursuant to Statewide Rule 37(h)(2)(A).

On March 6, 2015, a dual-signature Form P-4 (Certificate of Compliance and Transportation Authority) between Zone and Scout was submitted to the Oil & Gas Division (O&G) to transfer ownership of the Lease's wells from Zone to Scout. The March 6th P-4 was approved, effective March 5, 2015.

By letter dated October 29, 2014, O&G issued a letter to Zone stating that the Lease is in violation of Commission rules due to "overproduction and forms lacking". In response, Zone

¹ Scout Exh. No. 1, Pg. 2 – Location map.

submitted a letter on November 17, 2014, requesting a hearing on the Subject Application. Mr. Abila testified that Scout acquired the Subject Well from Zone through an acquisition of the Lease, effective March 2015.

Mr. Abila testified that a Form W-12 (Inclination Survey) was never filed for the Subject Well, likely due to its historic age. Statewide Rule 11's requirement, with regard to the filing of inclination surveys, originally went in to effect in January 1976. Nonetheless, he testified that the well was reentered in 2012 and recompleted the well's originally producing zone in the Field.

Mr. Abila testified that Commission records indicate Form W-12s were submitted for three nearby lease-wells (*i.e.*, Well Nos. 25, 32, and 38). He testified that those W-12's report a maximum vertical displacement of 118.74 feet, 91.42 feet, and 106.57 feet, respectively. Mr. Abile concluded that it is unlikely the Subject Well drifted inside the minimum lease-line distance of 330 feet² because the maximum displacement observed in nearby Well Nos. 25, 32, and 38 was 118.74 feet. Commission records indicate that Well Nos. 25 is completed in the Field, and that Well Nos. 32 and 38 are currently P&A'd.

The Examiners note that the Subject Application follows precedent set by Oil & Gas Final Order 08-0252138 – Application of Imperial Gas Resources, LLC to Consider an Exception to Statewide Rule 11 to Allow Completion without an Inclination Survey for the Doran Lease, Well No. 4, T.C.I., West (Seven Rivers) Field, Pecos County, Texas.

Cancellation of Overproduction

As previously mentioned, the Subject Application's NOH did not indicate that the applicant sought to cancel overproduction accrued by the Subject Well. As a result, on April 1, 2015, issued a letter to Scout seeking further information to support its this request. On April 8, 2015, Scout submitted its response to the Examiners' April 1 letter. Scout's April 8th correspondence indicated that the Subject Well had accrued roughly 7,300 barrels of overproduction at that time.

On October 27, 2015, an examiner letter was issued to the operators in the East Texas Field to inform them that Scout seeks cancellation of overproduction in the subject application, in addition to its request for an exception to Statewide Rule 11(b). The Examiner's October 27th letter also provided those operators with an opportunity to submit a written protest within 10 days from the date of the letter. No protest was received by the Examiners.

FINDINGS OF FACT

1. Scout Energy Management, LLC (Scout) seeks an exception to filing an inclination survey for the Laird, S.S. -A- Lease, Well No. 26R, East Texas Field, Rusk County, Texas (Subject Well), and cancellation of overproduction from the Subject Well (Subject Application).

² Commission records indicate that the Field is governed by special field rules which in part provide that no well be drilled closer than 330' to the nearest lease line.

2. Proper notice of hearing was issued to all persons or parties entitled to receive notice.
3. The Subject Application is unprotested.
4. The Subject Well is a vertical well that was originally drilled to a total depth of 3,900 feet and completed in the East Texas Field (Field) on December 27, 1933.
5. The Subject Well produced from the Field for the next forty-five years and was plugged and abandoned (P&A'd) on April 10, 1978.
6. The Subject Well is one of numerous wells on the Laird, S.S. -A- Lease (Lease).
7. The Lease is composed of 230.0-acres.
8. The Subject Well's surface location is described as being located 923 feet from the north lease line and 969 feet from the west lease line.
9. The Subject Well is surrounded by other lease-wells that are producing from the Field, or produced in the Field and are currently P&A'd.
10. Effective October 17, 2011, Zone Energy (Zone) obtained a drilling permit to reenter the Subject Well (Drilling Permit No. 724220).
11. Drilling Permit No. 724220 was approved for a between-well spacing exception, pursuant to Statewide Rule 37(h)(2)(A).
12. On March 6, 2015, a dual-signature Form P-4 (Certificate of Compliance and Transportation Authority) between Zone and Scout was submitted to the Oil & Gas Division (O&G) to transfer ownership of the Lease's wells from Zone to Scout.
13. The March 6th P-4 was approved by O&G, effective March 5, 2015.
14. By letter dated October 29, 2014, O&G issued a letter to Zone stating that the Lease is in violation of Commission rules due to "overproduction and forms lacking".
15. On November 17, 2014, representatives of Zone requested a hearing on the Subject Application.
16. Scout acquired the Subject Well from Zone through an acquisition of the Lease, effective March 2015.
17. An inclination survey for the Subject Well is not on file with Commission records.
18. Inclination surveys for Laird, S.S. -A- Lease, Well Nos. 25, 32, and 38 (Analogous Wells) indicate that maximum vertical displacement in the Analogous Wells is 118.74, 91.42, and 106.57 feet, respectively.

19. Exception for Scout to perform an inclination survey on the Subject Well is reasonable and appropriate.
20. Cancellation of overproduction from the Subject Well is appropriate.

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.
3. Exception from filing an inclination survey on the Subject Well [16 Tex. Admin. Code §3.11(b)], and cancellation of overproduction from the Subject Well will prevent waste and protect correlative rights.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that Scout be granted an exception from performing an inclination survey on the Subject Well, and that all accrued overproduction from the Subject Well be cancelled.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Laura Miles-Valdez
Legal Examiner