



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 02-0297430

THE APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY LP TO AMEND FIELD RULES FOR THE SUGARKANE (AUSTIN CHALK) FIELD, ATASCOSA, BEE, DE WITT, LIVE OAK, AND KARNES COUNTIES, TEXAS

OIL AND GAS DOCKET NO. 02-0297703

THE APPLICATION OF STATOIL TEXAS ONSHORE PROPERTIES LLC TO AMEND FIELD RULES FOR THE SUGARKANE (AUSTIN CHALK) FIELD, ATASCOSA, BEE, DE WITT, LIVE OAK, AND KARNES COUNTIES, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
John Dodson – Legal Examiner

HEARING DATE: August 27, 2015
CONFERENCE DATE: January 12, 2016

APPEARANCES:

APPLICANT:

Jamie Nielson
Greg Cloud
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APPLICANT:

Kelli Kenney
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OBSERVER

Mark Hanna

REPRESENTING:

Burlington Resources Oil & Gas Company LP

Statoil Texas Onshore Properties LLC

Marathon Oil EF LLC

EXAMINERS' REPORT AND RECOMMENDATION**STATEMENT OF THE CASE**

Both Burlington Resources Oil & Gas Company LP (Burlington) and Statoil Texas Onshore Properties LLC (Statoil Texas Onshore) request to amend the field rules for the Sugarkane (Austin Chalk) Field, Atascosa, Bee, De Witt, Live Oak, and Karnes Counties, Texas. The current field rules are summarized as follows:

1. Designated correlative interval from 11,360 feet to 11,450 feet as shown on the log of the Kunde Lease, Well No. 1 (API No. 297-34621);
2. 330' lease line spacing and no minimum between well spacing with special provisions for "take points", a 33' "box" rule, an "off-lease" penetration point rule for horizontal drainhole wells, and non-perforation zone language;
3. 320 acre gas units, with special provisions for multiple drainholes, and the assignment of additional acreage to horizontal drainhole gas wells. Language to obtain an exception to Statewide Rule 38 for gas wells less than 320 acres but not less than 40 acres with a 1,500' notice provision.

80 acre oil units, with optional 40 acre units, and the ability to assign additional acreage assigned to each horizontal well per Statewide Rule 86.
4. Allocation based on 100% acreage, with AOF status for gas wells, top oil allowable of 2,000 BOPD for oil wells.

In addition, the Sugarkane (Austin Chalk) Field has been granted an exception to semi-annual G-10 deliverability testing in Final Order No. 02-0264837.

Burlington proposes the following field rule amendments:

- Rule 3: Amend the current rule to reduce the notice requirement for an exception to Statewide Rule 38 from 1,500 feet to 660 feet; and

Adopt a new Rule 5 addressing stacked lateral wells for drainholes within a 660-foot wide rectangle.

Statoil Texas Onshore proposes the following field rule amendment:

- Rule 3: Adopt optional gas proration units of 80 acres.

Both applications are unopposed and the Examiners recommend approval of these two applications to amend the field rules for the Sugarkane (Austin Chalk) Field.

DISCUSSION OF THE EVIDENCE

The Sugarkane (Austin Chalk) Field was created on June 22, 2012 when the Sugarkane (Cretaceous) Field was separated into the Sugarkane (Eagle Ford) Field and the Sugarkane (Austin Chalk) Field. The Austin Chalk interval is present in all wells in the field, although the thickness varies. The Eagleford Formation is located directly below the Austin Chalk Formation. Numerous Statewide Rule 10 exceptions have been granted to commingle production for wells completed in both the Sugarkane (Austin Chalk) and Sugarkane (Eagle Ford) Fields.

Statoil Texas Onshore is requesting to adopt optional gas proration units of 80 acres in the Sugarkane (Austin Chalk) Field. Adopting optional 80 acre units for gas wells in Sugarkane (Austin Chalk) Field would mirror the current gas proration unit provisions in the Sugarkane (Eagle Ford) Field.

Additional evidence to support 80 acre optional units for gas wells include the number of Statewide Rule 38 exceptions that have been granted in the field. A total of 232 permits have been issued in Sugarkane (Austin Chalk) Field. Of these 232 permits, 92 permits have had Statewide Rule 38 exceptions approved. The number of Statewide Rule 38 exceptions have increased year-over-year. In 2013, 3 Statewide Rule 38 exceptions were approved. In 2014, a total of 8 Statewide Rule 38 exceptions were approved, and as of August 2015, 38 have been approved in 2015. A specific example is the Phillippe GU 1-A5H well. Assuming Austin Chalk petrophysical properties, a volumetric calculation for the well indicates a drainage area of 68 acres.

Burlington is seeking two field rule amendments for the Sugarkane (Austin Chalk) Field. The first amendment is a reduction of the notice requirement for Statewide Rule 38 exceptions in field rule 3 from the current 1,500 feet to 660 feet. Secondly, Burlington proposes a stacked lateral well rule for drainholes within a 660-foot wide rectangle. Both of these rule amendments have been previously adopted in the Sugarkane (Eagle Ford) Field in Final Order No. 02-0295357. The De Witt (Eagle Ford Shale) Field in De Witt, Gonzales, Lavaca, and Karnes Counties also contains the Statewide Rule 38 exception with the notice requirement distance of 660 feet. Burlington's engineering witness stated that the requested rule change to provide notice to required parties within 660 feet is a distance that is twice the minimum current lease line spacing distance of 330 feet for the field. To-date, only one Statewide Rule 38 application in the field has been protested. The Statoil Falks' Gas Unit 1, Well No. B 3H (Drilling Permit No. 4799325) was protested on December 2, 2014. The protests were subsequently withdrawn and the permit was administratively issued on March 4, 2015.

Burlington is requesting a stacked lateral well rule for the Sugarkane (Austin Chalk) Field similar to that adopted in the underlying Sugarkane (Eagle Ford) Field. Stacked lateral well rules have been previously adopted in fields with horizontal well development to prevent waste, for instance, when a single lateral cannot effectively drain the entire correlative interval for a field.

The underlying Sugarkane (Eagle Ford) Field rules contain language in which all take points of a stacked lateral well's horizontal drainholes shall be within a rectangular area the width of which is 660 feet, and the length of which is the distance from the two most distant take points. Staff has interpreted this language to be the two most distant take points on the longest lateral. Burlington's interpretation is that the language does not specifically state that the two most distant take points must be on the same horizontal drainhole. As a result, Burlington provided alternative language for instances when two laterals may be offset by 100 feet, and therefore, would not qualify as stacked lateral wells under Staff's interpretation of the field rule language as stated in the Sugarkane (Eagle Ford) Field. To address the Applicant's concern with Staff's interpretation that the take points must be on the same horizontal drainhole, the Examiners recommended alternative language that the Applicant considered to be acceptable. A stacked lateral rule will aid in recovering reserves from the entire productive interval, preventing waste.

FINDINGS OF FACT

1. Notice of the hearings was provided to all operators in the field at least ten (10) days' prior to the date of the hearings and no protests were received.
2. The Sugarkane (Austin Chalk) Field was created when the Sugarkane (Cretaceous) Field was separated into the Sugarkane (Eagle Ford) Field and the Sugarkane (Austin Chalk) Field.
3. Numerous Statewide Rule 10 exceptions have been granted to commingle production for wells completed in both the Sugarkane (Austin Chalk) and Sugarkane (Eagle Ford) Fields.
4. Adopting optional 80 acre units for gas wells in Sugarkane (Austin Chalk) Field would mirror the current gas proration unit provisions in the Sugarkane (Eagle Ford) Field.
5. A volumetric calculation for the Phillippe GU 1-A5H well indicates a drainage area of 68 acres.
6. A total of 92 permits with Statewide Rule 38 exceptions have been approved for the Sugarkane (Austin Chalk) Field.

7. Only one Statewide Rule 38 application in the field has been protested. The protests were subsequently withdrawn and the permit was administratively issued on March 4, 2015.
8. The underlying Sugarkane (Eagle Ford) Field rules contains language in which all take points of a stacked lateral well's horizontal drainholes shall be within a rectangular area the width of which is 660 feet.
9. Additional laterals may be required if a single horizontal lateral cannot effectively drain the entire correlative interval.
10. Recovering reserves from the entire productive interval will prevent waste.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Amending the field rules for the Sugarkane (Austin Chalk) Field will prevent waste.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission amend the field rules for the Sugarkane (Austin Chalk) Field.

Respectfully submitted,



Karl Caldwell
Technical Examiner



John Dodson
Legal Examiner