



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 03-0291829

**APPLICATION OF ENERVEST OPERATING, LLC FOR AN EXCEPTION TO
STATEWIDE RULE 86 FOR THE MARLENE, LILI LEASE, WELL NO. 2H,
GIDDINGS (AUSTIN CHALK-3) AND GIDDINGS (AUSTIN CHALK, GAS) FIELDS,
WASHINGTON COUNTY, TEXAS**

HEARD BY: Laura Miles-Valdez, Hearings Examiner
Karl Caldwell, Technical Examiner

DATE OF HEARING: September 29, 2014

APPEARANCES:

James M. Clark
Kyle Ries, Landman

REPRESENTING:

Enervest Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Enervest Operating, LLC (Enervest) for an exception to Statewide Rule 86 for the Marlene, Lili Lease, Well No. 2H, Giddings (Austin Chalk-3) and Giddings (Austin Chalk, Gas) Fields, Washington County, Texas. The examiners recommend approval. Enervest seeks a between well exception and an exception to Rule 3 of the Giddings (Austin Chalk-3) Field.

DISCUSSION OF THE EVIDENCE

The Giddings (Austin Chalk) Field was discovered in 1960 at approximately 7,500 feet and 9,000' subsurface depth. Special field rules provide for minimum well spacing of 467'/1200' (leaseline/between well), 160/optional 80 acre proration unit density and no double assignment of acreage. Special horizontal drainhole field rules were adopted in 1992 and 1993.¹ Rule No. 3 for the Giddings (Austin Chalk-3) Field provides in part "... No double assignment of acreage will be accepted." Rule No. 5(3) states: "All points on the Horizontal Drainhole must be within the

¹ For the Giddings (Austin Chalk-3) Field Order No. 3-98,177 effective September 28, 1992. For the Giddings (Austin Chalk, Gas) Field Order No. 03-0200424 effective January 12, 1993.



proration and drilling unit." Rule No. 5(3) for the Giddings (Austin Chalk -3) Field regarding Proration Units for Horizontal Drainhole Wells states: "All points on the Horizontal Drainhole must be within the proration and drilling unit." The field rules have not changed since then.

The Lili Marlene Lease Unit comprises 400.00 acres. Enervest re-entered a vertical well, the Lili Marlene Well No. 1RE, in 2003. The re-entered well was re-completed as an open-hole horizontal lateral well. The horizontal lateral well was drilled to an interval that is recognized as the "D" Zone within the Austin Chalk Formation. There has been extensive research in the Austin Chalk and the "D" Zone (an upper horizon but within the recognized correlative interval for the Austin Chalk) has proven to be quite prolific. Enervest proposes to target the lower productive "A" Zone interval with another open-hole horizontal drainhole well. Enervest is seeking a permit to drill a horizontal well, the Lili Marlene Well No. 2H. The horizontal lateral (in the "A" Zone) will cross below the lateral for the existing 1RE well. Enervest filed for a permit for its proposed Well No. 2H in July of 2014. Notice of the exception was provided to all affected parties. Enervest is now ready to proceed with the drilling of the proposed Well No. 2H. (See attached plat).

Because the horizontal wellbore paths for the subject wells will overlap, an exception to the special field rules is necessary. The full 400 acres is currently assigned to the Well No. 1RE. Enervest can not designate specific proration unit acreage exclusively to either wellbore because the horizontal drainhole laterals "crisscross" each other at two points. Enervest requests that the Commission grant authority necessary to allow it to complete a second well and grant the wells whatever authority necessary to permit Enervest to produce both wells for the recovery of oil and gas that otherwise may not be recovered. It is proposed that the assignable allowables be based on TWO wells on the 400 acres ($\frac{1}{2}$ the assignable acreage for each well). A similar approval was granted under similar conditions in Final Orders issued in April 2005 for Oil and Gas Docket No. 03-0241487 and in June 2012 for Oil & Gas Docket 03-0275290. The 2005 order approved exceptions to Statewide Rule 86 and Special Field Rule No. 4(3) to drill the J.E.T. No. 2RE in the "D" Zone above the 1RE in the "B" Zone. The 2012 order also approved exceptions to Statewide Rule 86 and Special Field Rule 4(3) providing that all points on the horizontal drainhole must be within the proration and drilling unit.

EXAMINERS' OPINION

The examiners believe Statewide Rule 86 and the special field rules for the Giddings (Austin Chalk) Field, specifically, Special Rule Nos. 3 and 5(3), are the governing authority. Neither Statewide Rule 86 or the special field rules contemplated the subject scenario. The purpose of SWR 86 was to allow an operator to use a single wellbore with multiple laterals. However, if an operator seeks to re-enter or drill another well instead of seeking additional multi-laterals from a single wellbore, it should not be punished/prohibited from pursuing such recovery of hydrocarbons especially if the offsetting parties do not object. As Enervest pointed out, every time that an operator proposes such a well configuration or even close to it, a Rule 37 Exception will be required. Thus, all affected persons, including offset operators, will be provided notice of the Rule 37 Exception and possible Rule 38 exception.

Special Field Rule 5(3) regarding horizontal drainhole wells tracks Statewide Rule 86. The intent of the special horizontal drainhole field rules and SWR 86 is to encourage the drilling and completion of horizontal drainhole wells to prevent waste and to protect correlative rights. Consideration of the crossing of horizontal drainhole laterals is a matter of first impression for the Commission. The purpose of special field rules No. 3 and 5(3) is to prevent the double assignment of acreage for allowable purposes and to confine proration units to acreage likely to be drained by the well to which the proration unit is assigned. The P-15 and proration unit plat indicate the acreage to be assigned to a well and thus quantify the assignable allowable. In the instant case, the entire 400.00 acre unit is being assigned as the proration unit for both wells with each well being assigned one-half the acreage for allowable purposes. Further, while Special Field Rule No. 3 for the Giddings (Austin Chalk-3) Field provides in part "... No double assignment of acreage will be accepted;" Enervest seeks to amend it to the extent that the prohibition on double assignment of acreage runs contrary to Enervest's request.

It is the examiners' opinion that the Enervest should be granted an exception to portions of Special Field Rule 3, Special Field Rule No. 5(3) and Statewide Rule 86, provided that all points on the horizontal drainhole must be within the proration and drilling unit. The allowable for each well should be based on $\frac{1}{2}$ of the 400.0 acre lease. For proration unit plat purposes, the 400.00 acre lease is the proration unit plat. For proration purposes, a P-15 can be filed for each well designating $\frac{1}{2}$ of 400.00 will be based on $\frac{1}{2}$ of 400.00 acres.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Giddings (Austin Chalk) Field was discovered in 1960 between approximately 7,500 feet and 9,000' subsurface depth.
 - a. Special field rules provided for minimum well spacing of 467'/1200' (leaseline between well), 160/optional 80 acre proration unit density and a 100% acreage allocation formula.
 - b. Special horizontal drainhole field rules were adopted in 1992, 1993 and 2013. Rule No. 3 for the Giddings (Austin Chalk, Gas) Field provides in part "... No double assignment of acreage will be accepted." Rule No. 5(3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit." Rule No. 5(3) for the Giddings (Austin Chalk-3) states: "All points on the Horizontal Drainhole must be within the proration and drilling unit."

4. The Enervest Oil & Gas, Lili Marlene Lease Unit comprises 400.00 acres. Enervest re-entered a vertical well, the Lili Marlene No. 1RE, in 2003. The re-entered well was re-completed as a horizontal well. The horizontal drainhole was drilled to an interval at that time that was recognized as the "D" Zone within the Austin Chalk formation.
5. Enervest has applied to drill a new horizontal well, the Lili Marlene No. 2H.
 - a. The horizontal lateral of proposed Well No. 2H (in the "A" Zone) will crisscross below the lateral for the existing 1RE well and Enervest has given notice to its offset operator, WCS Oil & Gas Corporation.
 - b. An exception to statewide Rule 38 is not required as this will be the second well on the 400 acre Lili Marlene Lease and field rules provide for 80 acre options.
 - c. The requested exception will allow Enervest to access the "A" and "D" zones within the Austin Chalk, of the applied-for fields without unnecessarily shutting-in its existing Well No. 1RE.
6. The entire Lili Marlene Lease unit, 400 acres, should be assigned as the base proration unit.
 - a. The allowable for each well calculated by the Commission should be based on $\frac{1}{2}$ of 400 acres.
 - b. For proration purposes, a P-15 shall be filed for each well designating $\frac{1}{2}$ of 400 acres as the assigned acreage.
7. Similar authority was granted under similar conditions in a Final Order issued on April 5, 2005 for Oil and Gas Docket No. 03-0241487. The order approved exceptions to Statewide Rule 86 and Special Field Rule No. 4(3) to drill the J.E.T. No. 2RE in the "D" Zone above the 1RE in the "B" Zone.

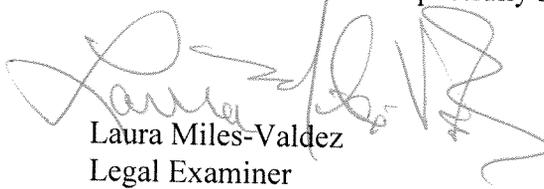
CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Granting the exception to Special Field Rule No. 5(3) of the Giddings (Austin Chalk-3) and Giggings (Austin Chalk, Gas) Fields and Statewide Rule 86 will prevent waste and will not harm correlative rights.

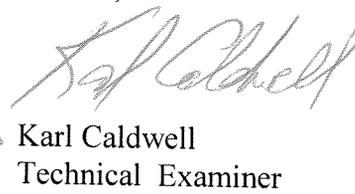
EXAMINERS' RECOMMENDATION

Based on the above findings and conclusions of law, the examiners recommend approval of an exception to Special Field Rule No. 5(3) of the field rules for the Giddings (Austin Chalk-3) and Giddings (Austin Chalk, Gas) Fields and Statewide Rule 86 as stated in the attached order.

Respectfully submitted,



Laura Miles-Valdez
Legal Examiner



Karl Caldwell
Technical Examiner