



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS CASE NO. 0297082
STATUS NO. 806374
DISTRICT 03

**APPLICATION OF ENERVEST OPERATING, LLC FOR AN EXCEPTION TO
STATEWIDE RULE 37 AND RULE 86 FOR THE LUCKY UNIT, WELL NO. 3,
GIDDINGS (AUSTIN CHALK-3) AND GIDDINGS (AUSTIN CHALK, GAS) FIELDS,
WASHINGTON COUNTY, TEXAS**

HEARD BY: Laura Miles-Valdez, Hearings Examiner
Paul Dubois, Technical Examiner

DATE OF HEARING: September 16, 2015

APPEARANCES:

Mark Hanna, Attorney
James M. Clark, Engineer
Robert Sgovio, Landman

REPRESENTING:

Enervest Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the untested application of Enervest Operating, LLC (Enervest) for an exception to Statewide Rule 37 and Rule 86 for the Lucky Unit, Well No. 3, Giddings (Austin Chalk-3) and Giddings (Austin Chalk, Gas) Fields, Washington County, Texas. No protestants appeared at the hearing. The Examiners recommend approval. Enervest seeks a lease line exception, 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 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 Lucky Unit comprises 669.06 acres. A vertical well, the Lucky Unit No. 1, was re-entered in 1994. A horizontal well, the Lucky Unit No. 2, was drilled in 2004. Both wells were completed as open hole horizontal wells. The horizontal lateral in Well No. 1 was drilled to an interval that is recognized as the "B" Zone within the Austin Chalk Formation. Updip and downdip horizontal laterals in Well No. 2 were drilled to intervals that are recognized as the "B" Zone and a third lateral in this 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" and "B" Zones (upper and middle horizons, respectively, but within the recognized correlative interval for the Austin Chalk) have 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 Lucky Unit, Well No. 3. The horizontal lateral (in the "A" Zone) will cross below the updip "B" Zone lateral for the existing No. 2 well. Enervest filed for a permit for its proposed Well No. 3 in May of 2015. Notice of the exception was provided to all affected parties. Enervest is now ready to proceed with the drilling of the proposed Well No. 3. (See attached plat).

Because the horizontal wellbore paths for the existing Well No. 2 and proposed Well No. 3 will overlap, an exception to the special field rules is necessary. The full 669.06 acres is currently assigned to the two existing wells. Enervest can not designate specific proration unit acreage exclusively to either wellbore because the proposed Well No. 3 horizontal drainhole lateral will cross underneath the existing Well No. 2 horizontal drainhole at one point. Enervest requests that the Commission grant authority necessary to allow it to complete a third well and grant the wells whatever authority necessary to permit Enervest to produce the three wells for the recovery of oil and gas that otherwise may not be recovered. It is proposed that the assignable allowables be based on THREE wells on the 669.06 acres (1/3 the assignable acreage for each well). A similar approval was granted under similar conditions in November 2014 for Oil and Gas Docket No. 03-0291829. The 2014 order approved exceptions to Statewide Rule 86 and Special Field Rule No. 5(3) to drill the Marlene, Lili No. 2H in the Austin Chalk "A" Zone below the No. 1RE in the "D" Zone.

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

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.

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 669.06 acre unit is being assigned as the proration unit for the three wells with each well being assigned one-third 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 an exception to the extent that the prohibition on double assignment of acreage runs contrary to Enervest's request, though EnerVest will not assign more than the total number of acres available to the wells..

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 1/3 of the 669.06 acre unit. For proration unit plat purposes, the 669.06 acre unit is the proration unit plat. For proration purposes, a P-16 can be filed for each well designating 1/3 of 669.06 acres and each well's allowable will be based on 1/3 of 669.06 acres, or as otherwise specified by EnerVest, but assigning no more than the total acres in the unit.

Because no protestants appeared in opposition of EnerVest's application for an exception to Rule 37, the exception to Rule 37 was granted at hearing without the need for evidence specific to that application.

FINDINGS OF FACT

1. Notice of this hearing was sent to all offset operators and known offset unleased mineral owners to the Lucky Unit in the subject field at least ten (10) days prior to the subject hearing.
2. Notice of this hearing was also published in *The Brenham Banner-Press*, a paper of general circulation in Washington County and Fayette County, on August 11, August 18, August 25, and September 1, 2015.

3. There was no protest at the call of the hearing.
4. 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' (lease line 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."
5. The Enervest Oil & Gas, Lucky Unit comprises 669.06 acres. A vertical well, the Lucky Unit No. 1, was re-entered in 1994. The re-entered well was re-completed as a horizontal well in the "B" Zone within the Austin Chalk Formation. A horizontal well, the Lucky Unit No. 2, was drilled in 2004 in the "B" and "D" Zones within the Austin Chalk Formation.
6. Enervest has applied to drill a new horizontal well, the Lucky Unit No. 3.
 - a. The horizontal lateral of proposed Well No. 3 (in the "A" Zone) will cross below the lateral for the existing No. 2 well and Enervest has given notice all offset operators and unleased mineral owners.
 - b. An exception to statewide Rule 38 is not required as this will be the third well on the 669.06 acre Lucky Unit and field rules provide for 80 acre options.
 - c. The requested exception will allow Enervest to access the "A", "B" and "D" zones within the Austin Chalk, of the applied-for fields without unnecessarily shutting-in its existing Well No. 2.
7. The entire Lucky Unit, 669.06 acres, should be assigned as the base proration unit.
 - a. The allowable for each well calculated by the Commission should be based on 1/3 of 669.06 acres, or as otherwise set out in a Form P-16 filed by EnerVest.
 - b. For proration purposes, a P-16 shall be filed designating the number of acres assigned to each well out of the total 669.06 acres in the unit.

8. Similar authority was granted under similar conditions in a Final Order issued on November 13, 2014 for Oil and Gas Docket No. 03-0291829. The order approved exceptions to Statewide Rule 86 and Special Field Rule No. 5(3) to drill the Marlene, Lili No. 2H in the "A" Zone below the No. 1RE in the "D" Zone.

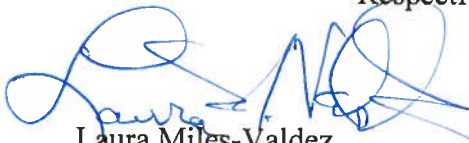
CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes. No one appeared in protest, so the exception to Rule 37 should be granted without the need for evidence.
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 Giddings (Austin Chalk, Gas) Fields and Statewide Rule 86 will prevent waste and will not harm correlative rights.

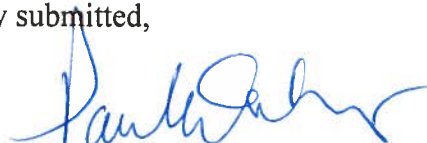
EXAMINERS' RECOMMENDATION

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 Rules 37 and 86 as stated in the attached order.

Respectfully submitted,



Laura Miles-Valdez
Legal Examiner



Paul Dubois
Technical Examiner