

June 22, 2007

OIL & GAS DOCKET NO. 03-0248648

APPLICATION OF DEEP ROCK RESOURCES, INC., FOR APPROVAL UNDER STATEWIDE RULE 38(d)(3) FOR DIVISION OF THE ZINGARA LEASE, WELL NO. 2A, INTO ITS SEPARATE TRACTS WITH THE RULES OF THE COMMISSION APPLICABLE TO EACH TRACT, IOLA (GEORGETOWN) FIELD, GRIMES COUNTY, TEXAS

APPEARANCES:

REPRESENTING:

FOR APPLICANT:

Glenn George

Deep Rock Resources, Inc.

FOR PROTESTANTS:

Jeremy Brown, Attorney
Jeannette Benfer

Benfer Children's Trust
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PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:

August 2, 2006

NOTICE OF HEARING:

November 9, 2006

DATE CASE HEARD:

May 4, 2007

TRANSCRIPT RECEIVED:

No Transcript

PFD CIRCULATION DATE:

June 22, 2007

HEARD BY:

Mark J. Helmueller, Legal Examiner

Donna Chandler, Technical Examiner

CURRENT STATUS:

Protested

STATEMENT OF THE CASE

Deep Rock Resources, Inc. (“Deep Rock”) has applied for dissolution under Statewide Rule 38(d)(3) of the 2771.33 acre Zingara Lease, Well No. 2 Unit in Grimes County into its separate component tracts so that a new pooled unit can be formed for the Zingara Well No. 2A Unit. The Zingara Well No. 2 Unit produced from the Iola (Georgetown) Field for only one month, December 2004. Several tracts within the original 2771.3 acre unit are smaller than the minimum requirement under the field rules for the Iola (Georgetown) Field. The Zingara Well No. 2A Unit is a proposed pooled unit consisting of 680 acres. Copies of the plats depicting the 2771.33 acre unit for the Zingara Well No. 2 and the proposed 680 acre unit for the Zingara Well No. 2A are attached for reference.

The application is protested by the Benfer Childrens Trust (“Benfer”). Benfer is a mineral interest owner in a tract which was part of the Zingara Well No. 2 Unit. Benfer believes its acreage should participate in the Zingara Well No. 2A Unit.

The applicable field rules for the Iola (Georgetown) Field require lease line spacing of 933 feet and between well spacing of 1867 feet. Density rules require minimum density of 160 acres. If the unit dissolution is approved, the Zingara No. 2A Well will be at a regular location on the 680 acre proposed pooled unit.

DEEP ROCK’S POSITION AND EVIDENCE

On May 25, 2004, the Commission granted a drilling permit to Deep Rock for its Zingara Well No. 2 on a 2771.33 acre pooled unit in the Iola (Georgetown) and Wildcat Fields. The horizontal well included a lateral 6704 feet in length toward the southeast. Drilling was completed in July 12, 2004.

In August 2005 the well was plugged back to the vertical hole. A new lateral was drilled to the northwest and designated as the Zingara Well No. 2A. The total length of that lateral was 2429 feet. In April 2006, the northwest lateral was plugged back limiting the new lateral to approximately 200 feet. In August 2006, Deep Rock filed a re-entry permit for the northwest lateral designating the 680 acre new unit.

Deep Rock contends that the dissolution is appropriate as the southeast lateral proved to be unsuccessful and is now plugged back. It believes Benfer should not participate in the new 680 acre unit because its acreage is over a mile away from the northwest lateral and clearly would not contribute to any potential production from the Zingara Well No. 2A.

PROTESTANT'S POSITION AND EVIDENCE

Protestant believes its acreage should be included in any unit producing from the Zingara Well. Protestant's mineral interests were identified in a 102 acre tract originally included in the 2771.33 acre pooled unit for the Zingara No. 2 Well as Tract No. 22. However, the original Commission Form P-12 (Certificate of Pooling Authority) filed for the unit did not identify the Benfer Children's Trust as the mineral interest owner. A Form P-12 filed with the August 2006 permit application and request for dissolution properly identified the Benfers Children's Trust as a mineral interest owner in the 2771.33 acre Zingara Well No. 2 Unit.

EXAMINERS' OPINION

Dissolution of a unit is governed by Statewide Rule 38(d)(3)(A) which provides:

(A) If two or more separate tracts are joined to form a unit for oil or gas development, the unit is accepted by the Commission, and the unit has produced hydrocarbons in the preceding twenty (20) years, the unit may not thereafter be dissolved into the separate tracts with the rules of the commission applicable to each separate tract if the dissolution results in any tract composed of substandard acreage for the field from which the unit produced, unless the Commission approves such dissolution.

Dissolution of a unit pursuant to Rule 38(d)(3) may be granted if the dissolution of the unit will not cause waste or confiscation and will not result in the circumvention of Commission rules. The primary purpose of an application under Rule 38(d)(3) is the restoration of each individual tract's pre-pooling status.

In this case, it appears that the 2771.33 acre unit formed for the purpose of drilling the southeast lateral in the Iola (Georgetown) Field was abandoned as non-productive shortly after the well was completed. This lateral was plugged and a new lateral drilled to the northwest has proven to be only partially successful. Deep Rock seeks to produce the new northwest lateral on a 680 acre pooled unit.

Much of the protestant's confusion and suspicions of Deep Rock's intent is due to Deep Rock's failure to file the appropriate forms with the Commission in a timely fashion. Ideally, Deep Rock should have filed a drilling permit to re-enter the well identifying the 680 acre unit in August 2005 before the new lateral was drilled.

It does not appear that Deep Rock is attempting to circumvent Commission rules in this application. The 680 acre unit for the Zingara Well No. 2A has more acreage that required under the field rules. The well is regular to lease lines and between well spacing requirements. Additionally, the Zingara Well No. 2A is over a mile distant from the acreage in which Benfer has

an interest. Accordingly, the examiners believe that Deep Rock's application for dissolution of the 2771.33 acre unit for the Zingara Well No. 2 should be granted and recommend adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. At least ten (10) days notice of hearing was sent to all current lessees and unleased mineral interest owners of each tract within the Zingara Well No. 2 Unit. Notice of the hearing was published in the Navasota Examiner on April 4, 11, 18 and 25, 2007.
2. Deep Rock Resources, Inc. ("Deep Rock") has applied for approval under Statewide Rule 38(d)(3) for division of the 2771.33 acre Zingara Well No. 2 Unit into its separate tracts, with the rules of the Railroad Commission applicable to each tract.
3. Protestant Benfer Children's Trust's mineral interests were identified in a 102 acre tract originally included in the 2771.33 acre pooled unit for the Zingara No. 2 Well as Tract No. 22. The Benfer tract is located approximately 1 mile from the surface location for the Zingara Well.
4. On May 25, 2004, the Commission granted a drilling permit to Deep Rock for its Zingara Well No. 2 on a 2771.33 acre pooled unit in the Iola (Georgetown) and Wildcat Fields. The horizontal well included a lateral 6704 feet in length toward the southeast. Drilling was completed in July 12, 2004. The well reported production only in December 2004.
5. The applicable field rules for the Iola (Georgetown) Field require lease line spacing of 933 feet and between well spacing of 1867 feet. Density rules require minimum density of 160 acres.
6. In August 2005 the southeast lateral was plugged. A new lateral was drilled to the northwest and designated as the Zingara Well No. 2A. The total length of that lateral was 2429 feet.
7. In April 2006, the northwest lateral was plugged back limiting the lateral to approximately 200 feet. In August 2006, Deep Rock filed a re-entry permit for the northwest lateral designating the 680 acre new unit.
8. Dissolution of the Zingara Well No. 2 Unit will not cause waste or confiscation.
9. Dissolution of the Zingara Well No. 2 Unit will not prevent the interest owners of any tract previously within the Zingara Well No. 2 Unit from having a reasonable opportunity to recover the hydrocarbons underlying their tracts in the Iola (Georgetown) Field.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. The Zingara Well No. 2 Unit should be dissolved into its separate tracts for regulatory purposes with the rules of the Railroad Commission applicable to each tract.
4. The approval of this application will allow for the orderly and efficient development of the subject tracts.
5. Dissolution of the Zingara Well No. 2 Unit will not result in the circumvention of Commission rules.

EXAMINERS' RECOMMENDATION

The examiners recommend approval of Deep Rock's application for the dissolution of the 2771.3 acre Zingara Well No. 2 Unit, Iola (Georgetown) Field, Grimes County, Texas, such that the rules of the Railroad Commission are applicable to each separate tract.

Respectfully submitted,

Mark J. Helmueller
Hearings Examiner

Donna Chandler
Technical Examiner