



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

August 31, 2010

Rule 37 Case No. 0265672
District 5

APPLICATION OF FAIR OIL, LTD. FOR AN EXCEPTION TO STATEWIDE RULE 37 FOR WELL NO. 1 ON ITS MURPHREE LEASE, PENWELL (RODESSA GLOYD), SCHENECKER (PETTIT) AND WILDCAT FIELDS, HENDERSON COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT FAIR OIL, LTD.:

Dick Marshall
John Hills

FOR PROTESTANT MAP PRODUCTION CO, INC.:

George Neale
Johnnie Wanger
Scott Hudson
Rick Johnston

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:	April 27, 2010
NOTICE OF HEARING:	June 8, 2010
HEARD BY:	Mark Helmueller - Hearings Examiner Andres Treviño - Technical Examiner
HEARING DATE :	July 23, 2010
TRANSCRIPT RECEIVED:	August 10, 2010
PFD CIRCULATION DATE:	August 31, 2010

STATEMENT OF THE CASE

Fair Oil, Ltd. ("Fair" or "Applicant"), seeks an exception to Statewide Rule 37 to drill its No. 1 well on its Murphree Lease, in the Penwell (Rodessa Gloyd), Schenecker (Pettit) and Wildcat Fields, Henderson County, Texas. The Penwell (Rodessa Gloyd) and Wildcat fields are subject to spacing requirements of 467 feet minimum spacing to the nearest lease line and 1200 feet minimum spacing between wells. The Schenecker (Pettit) Field is subject to spacing requirements of 933 feet to the nearest lease line and 1867 feet between wells.

The Murphree Lease is a 160 acre irregular pooled unit as outlined on the plat attached to the Form W-1 (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) submitted by Fair on April 27, 2010. The proposed location is 467 feet west of the eastern lease line and therefore regular in the Penwell (Rodessa Gloyd) and Wildcat Fields. The pooled unit is irregular, but does include locations regular to lease-lines in the Schenecker (Pettit) Field. A copy of the plat is attached to this proposal for decision for reference purposes. No other wells have been completed in the applied-for fields on the Murphree Lease.

Fair's application is protested by Map Production Co, Inc. ("Map"). Map is the operator of the Penn-Deason Well No. 1 on the offset tract to the east.

APPLICANT'S POSITION AND EVIDENCE

Fair seeks a Rule 37 exception to prevent confiscation in the Schenecker (Pettit) Field. Fair believes that drilling a well on the Murphree Lease at a more regular location west of the proposed location will have a greater risk of hitting a fault which cuts across the Schenecker (Pettit) and Penwell (Rodessa Gloyd) Fields. Fair argues that the proposed location is necessary for it to have a reasonable opportunity to develop its fair share of minerals

Fair's structure maps of the Schenecker (Pettit) Field and the Penwell (Rodessa Gloyd) Field depict a large growth fault cutting across both fields in the northern portion of the Murphree Lease from the northeast to the southwest. The structure map depicts the target Pettit reservoir as a perpendicular bar to the fault. Fair acknowledges that regular locations exist on the Murphree Lease, however, it believes that regular locations in the southern portion of the unit will be located outside of the bar and will not encounter any porosity.

Fair also acknowledges that there is limited geologic data in the area for wells which penetrate the Pettit formation on the upthrown fault section. The discovery well for the field, the Penn-Deason Well No. 1, is located approximately 1550 feet to the northeast of the proposed location. Two wells drilled to the northeast of the Penn-Deason Well No. 1, the TXO Production Whatley Well No. 1 and the S. Chandler No. 1 define the northeastern limit of the reservoir. The Whatley Well encountered a productive interval in the Pettit, but only three feet of porosity. The S. Chandler Well did not encounter any porosity. To the south and southwest of the proposed location no wells have been drilled on the upthrown fault section which have penetrated the Pettit.

Fair believes the Pettit is a solution gas drive reservoir. Based on its structure map and production data from the Penn-Deason Well No. 1, Fair estimates between 32,700 to 54,600 barrels of oil, and between 72,000 and 120,000 Mcf of gas would be recovered by the proposed well.

Fair also noted that it would not drill the Penwell (Rodessa Gloyd) Field as a separate prospect. The estimated reserves from the Rodessa at the proposed location would be 12,000 barrels of oil and 180,000 Mcf of gas, which is less than the estimated drilling and completion costs for the proposed well of \$1.5 million. Further, because the Rodessa is structurally higher than the Pettit, the growth fault crosses over the Murphree Lease closer to the proposed location in the Rodessa, limiting the available locations which would encounter both zones.

PROTESTANT'S POSITION AND EVIDENCE

Map is the operator of the offset tract to the east of the subject lease where the only well in the Schenecker (Pettit) Field, the Penn-Deason Well No. 1 is located. Map agrees the field is a solution gas drive reservoir based on the production history to date. Map also agrees with the location and type of fault which Fair depicted crossing through its Murphree Lease.

Where Map disagrees with Fair is in its depiction of the Schenecker (Pettit) Field as a bar perpendicular to the growth fault in the area. Map's structure maps interpret the Pettit structure as a bar oriented parallel to the growth fault. If the bar is parallel to the fault, regular locations exist in the southern portion of the unit which would allow Fair to recover its fair share of reserves. Further, Map believes that there are numerous irregular locations on the Murphree Lease which are more reasonable as they would encounter both the Schenecker (Pettit) Field and the Penwell (Rodessa Gloyd) Field.

Map's geologists submitted isopach maps showing the structure oriented parallel to the growth fault. The structural orientation is consistent with a typical marine bar deposition model where the bar is located parallel to the structural high which now exists subsurface as a growth fault. Map's geologists further testified that the marine bar deposition model is supported by the presence of oolites in a core sample from a well on the upthrown side of the fault. Finally, Map claims that there is no depositional model which would support Fair's interpretation that the bar is located perpendicular to the fault.

With respect to the location of the growth fault, Map used three existing wells on the upthrown side of the fault to solve three point problems confirming the location of the fault as it crosses the Murphree Lease. Both Map and Fair generally agree on the location of the fault.

EXAMINERS' OPINION

To establish entitlement to an exception to Rule 37 to prevent confiscation, an applicant must show that absent the applied-for well, it will be denied a reasonable opportunity to recover its fair share of hydrocarbons currently in place under the lease, or its equivalent in kind. The applicant must satisfy a two pronged test: 1) the applicant must show that it will not be afforded a reasonable opportunity to recover its fair share of hydrocarbons currently in place by drilling a well at a regular location; and 2) the applicant must show that the proposed irregular location is reasonable.

It is the basic right of every landowner or lessee to a fair and reasonable chance to recover the oil and gas under his property as recognized by the Texas Supreme Court in *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939). Denial of that fair chance is confiscation within the meaning of Rule 37. *Id.* Because an application cannot seek redress for past drainage, an applicant must provide evidence that it will not be afforded an opportunity to recover the reserves currently in place under its lease - this is its "fair share".

The question of whether viable regular locations or more reasonable irregular locations exist on the Murphree Lease is the subject of competing geologic interpretations concerning the structure of the Schenecker (Pettit) Field. Fair does not believe a well at a regular location in the southern portion of the unit will encounter the Schenecker (Pettit) Field based on its interpretation of the structure with an orientation perpendicular to the growth fault. Additionally, Fair claimed that it would not be comfortable drilling at a more westerly location which Map would agree with because of the proximity of a growth fault which cuts through the Schenecker (Pettit) Field. Fair believes that drilling at the more reasonable location due west could result in the well being located on the wrong side of the fault.

Exceptions to Rule 37 are not granted to eliminate all risk for an operator, but to provide a reasonable opportunity to recover the oil and gas on an operator's lease. The examiners believe that Map's depiction of the Schenecker (Pettit) Field is the more accurate model, supported by both a recognized deposition model, and the presence of oolites in a core sample from a well on the upthrown side of the fault. This model depicts the productive horizon in the Pettit as a bar parallel to the growth fault. Under this depiction, both regular locations in the southern portion of the Murphree Lease, and more reasonable locations further to the west of the lease line exist which would provide Fair with a reasonable opportunity to recover its fair share of the minerals underlying its lease. Additionally, Fair's evidence that the bar in the Pettit is oriented perpendicular to the growth fault is not supported by any recognized geologic deposition model. Accordingly, Fair failed to establish that an exception was necessary at the proposed location in order to afford it a reasonable opportunity to recover the reserves on its Murphree Lease.

CONCLUSION

The evidence and legal authority presented establish that Fair is not entitled to a Rule 37 exception in order to prevent confiscation in the Schenecker (Pettit) Field. The examiners therefore recommend that the subject application be denied.

Based on the record in this docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. At least 10 days notice of this hearing was given to the designated operator for each affected tract adjacent to the Murphree Lease nearer to the proposed well location than the prescribed minimum distance.
2. An application for an exception to Statewide Rule 37 was originally filed with the Commission by Fair Oil, Ltd. ("Fair") on Form W-1 (Application to Drill, Deepen, Plug Back or Re-Enter) on April 27, 2010.
3. Fair seeks an exception to Statewide Rule 37 to drill its No. 1 well on its Murphree Lease, in the Penwell (Rodessa Gloyd), Schenecker (Pettit) and Wildcat Fields, Henderson County, Texas.
4. The Penwell (Rodessa Gloyd) and Wildcat fields are subject to spacing requirements of 467 feet minimum spacing to the nearest lease line and 1200 feet minimum spacing between wells.
5. The Schenecker (Pettit) Field is subject to the lease line spacing requirements of 933 feet to the nearest lease line and 1867 feet between wells.
6. The proposed location is 467 feet west of the eastern lease line and therefore does not require an exception to the lease line spacing requirements in the Penwell (Rodessa Gloyd) and Wildcat Fields.
7. The proposed location requires an exception to the lease line spacing requirements in the Schenecker (Pettit) Field.
8. The Murphree Lease is depicted as a 160 acre pooled unit as outlined on the plat attached to the Form W-1s (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) submitted by Fair on April 27, 2010. No other wells have been completed into the applied-for fields on the Murphree Lease.

9. The pooled unit is irregular, but does include locations regular to lease lines in the Schenecker (Pettit) Field.
10. Fair's application is protested by Map Production Co, Inc. ("Map"). Map is the operator of the Penn-Deason Well No. 1 on the offset tract to the east.
11. There are regular locations and more reasonable irregular locations on the Murphree Lease that would encounter the Schenecker (Pettit) Field.
 - a. The Schenecker (Pettit) Field is a single well field which underlies the Murphree Lease and the offset tracts to the northeast.
 - b. A growth fault cuts through the Schenecker (Pettit) Field in the area.
 - c. The depositional environment for the reservoir is a marine bar located parallel to the structural high which now exists subsurface as a growth fault.
 - d. No depositional model supports Fair's interpretation that the bar is situated perpendicular to the growth fault.
 - e. The presence of the marine bar parallel to the growth fault results in locations on the Murphree Lease which would be regular in the Schenecker (Pettit) Field.
 - f. The presence of the marine bar parallel to the growth fault results in more reasonable locations further to the west of the proposed location on the Murphree Lease in the Schenecker (Pettit) Field.
12. Regular locations and more reasonable irregular locations exist on the Murphree Lease which would give Fair a reasonable opportunity to recover the reserves currently underlying the Murphree Lease in the Schenecker (Pettit) Field.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred to give the Commission jurisdiction to decide this matter.
3. Fair failed to prove that a well at a location regular to lease lines cannot recover its fair share of the reserves currently in place under the Murphree Lease in the Schenecker (Pettit) Field.

4. A well spacing rule exception for the proposed location is not required to give Fair a reasonable opportunity to recover its fair share of hydrocarbons from the Schenecker (Pettit) Field.
5. An exception to Statewide Rule 37 at the applied-for location is not necessary to prevent confiscation.

RECOMMENDATION

The examiners recommend that the subject application be denied in accordance with the attached Final Order.

Respectfully submitted,



Mark J. Helmueller
Hearings Examiner



Andres Treviño
Technical Examiner