



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0292311

THE APPLICATION OF JENEX PETROLEUM CORPORATION TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 11 REQUIRING THE FILING OF A DIRECTIONAL SURVEY FOR VARIOUS WELLS ON ITS JANE "A" BURNS LEASE (NO. 14885), BIG FOOT (OLMOS D-3 SAND) FIELD, FRIO COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Cecile Hanna – Hearings Examiner

HEARING DATES: December 22, 2014, October 12, 2015

CONFERENCE DATE: January 12, 2016

APPEARANCES:

REPRESENTING:

Casey Amsler
Brett Jensen
Britthaney Smith
Kent Caruthers

Jenex Petroleum Corporation

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Jenex Petroleum Corporation ("Jenex") is requesting an exception to Statewide Rule 11 (16 Tex. Admin. Code §3.11) for 10 wells on its Jane "A" Burns Lease (No. 14885) in the Big Foot (Olmos D-3 Sand) Field, Frio County, Texas. Jenex asserts its belief that the wells were compliant with Rule 11 when it acquired the wells in October, 2013. Specifically, Jenex believed the Commission issued a final order granting a field-wide, or blanket, exception to Rule 11 for the Big Foot (Olmos D-3 Sand) Field. Although a previous operator in the field made several attempts to obtain such an exception, the Examiners find that no such order has been issued by the Commission.

The application was not protested. The Examiners recommend that the 10 subject wells be granted an exception to Rule 11. The Examiners also recommend overproduction on the lease be cancelled.

APPLICABLE LAW

Statewide Rule 3.11 (16 Tex. Admin. Code §3.11) states:

(a) General. All wells shall be drilled as nearly vertical as possible by normal, prudent, practical drilling operations. Nothing in this section shall be construed to permit the drilling of any well in such a manner that the wellbore crosses lease and/or property lines (or unit lines in cases of pooling) without special permission.

(b)(1)(A) An inclination survey made by persons or concerns approved by the commission shall be filed on a form prescribed by the commission for each well drilled or deepened with rotary tools, except as hereinafter provided, or when, as a result of any operation, the course of the well is changed. The first shot point of such inclination survey shall be made at a depth not greater than 500 feet below the surface of the ground, and succeeding shot points shall be made either at 500-foot intervals or at the nearest drill bit change thereto, but not to exceed 1,000 feet apart.

(b)(1)(E) Inclination surveys shall not be required on wells deepened with rotary tools if the well is deepened no more than 300 feet or the distance from the surface location to the nearest lease or boundary line, whichever is the lesser, and provided that the well was not intentionally deviated from the vertical at any time before or after the beginning of deepening operations.

DISCUSSION OF EVIDENCE***History***

The Big Foot Field was discovered February 2, 1949, at a depth of 3,280 feet. The Big Foot (Olmos D-3 Sand) Field was discovered on June 17, 1953, at a depth of 3,504 feet. In 1964 the Commission unitized a portion of the Big Foot Field by establishing the Big Foot Olmos B Sand Unit ("Unit")(lease no. 01-03380), which included an area of about 4,800 acres. About 400 wells have been drilled and completed in the Unit. The Olmos D Sand was not part of the unitized formation.

Maverick Energy Group, Inc. ("Maverick") became the operator of the Unit on January 1, 2004. In 2007 Maverick began a project to deepen many wells in the field from the Olmos B Sand into the Olmos D Sand. This project included squeezing off the unitized formation in the Olmos B Sand. Maverick established the Jane "A" Burns Lease (No. 01-14885), Big Foot (Olmos D-3 Sand) Field for the deepened wells because the Olmos D Sand was not part of the unitized formation. The number of deepened wells included 20 wells on the Jane "A" Burns Lease. Recompleting (deepening) the wells below the Unit and into the Big Foot (Olmos D-3 Sand) Field included the requirement for the wells to comply with the 233-foot field rule lease line spacing requirement of the new field.

After deepening the wells and recompleting them in the Big Foot (Olmos D-3 Sand) Field, Commission staff declined to approve the recompletions and assign allowables to a number of wells in the field because: (1) the wells were deepened more than 300 feet; and (2) Maverick did not perform and/or submit to the Commission documentation of inclination surveys on the deepened wellbores. Maverick requested a hearing to resolve the issues.

A hearing in Oil and Gas Docket No. 01-0263041¹ was called to order on November 17, 2009. The Examiners in that case found Maverick's evidence to be incomplete and inadequate. Maverick had no explanation for why inclination surveys were not performed on the deepened wells pursuant to Rule 11. The Examiners met with Maverick after the hearing, and left the record open for more than six months to afford Maverick additional time to support its case. Maverick was unresponsive to the Examiners requests for more information. The Commission denied Maverick's application on September 21, 2010. Maverick's motion for re-hearing was denied on November 2, 2010.

Maverick again sought relief through a hearing and Commission final order. In Oil and Gas Docket No. 01-0263041.² Maverick presented new evidence based on 10 wells with new inclination surveys covering the deepened wellbores. Maverick also requested a future permanent exception on all wells deepened less than 500 feet in the field. However, in a letter dated April 19, 2011, Hearings Section Director Colin Lineberry reviewed both dockets. Mr. Lineberry found that the matter was fully heard in the earlier 2010 decision of the Commission, and Maverick had not demonstrated a compelling cause to re-open the matter. This was based in large part on: (1) the Applicant's weak case in the earlier docket; and (2) incomplete and unconvincing evidence offered as "new" in the latter. Mr. Lineberry informed Maverick that Docket No. 01-0263041 would be administratively closed and no action would be taken on the application. Maverick did not appeal Mr. Lineberry's ruling. However, Maverick did submit the new Form W-12s to the Commission and these forms were accepted administratively, bringing 10 of the Jane "A" Burns Lease wells (Nos. 223A, 233, 234A, 235A, 242A, 244A, 245A, 246A, and 264) into compliance with Commission rules.

White Oak Operating Company LLC became operator of the wells on May 10, 2012, as a bankruptcy receiver. Jenex Petroleum Corporation, became operator of the subject wells effective November 1, 2013.

¹ The Application of Maverick Energy Group, Inc. for Exceptions to Statewide Rule 11 for all Deepenings Performed Since May 5, 2007 in the Big Foot (Olmos D-3 Sand) Field, Frio County.

² The Application of Maverick Energy Group, Inc. for Exceptions to Statewide Rule 11 on Various Wells in the Big Foot (Olmos D-3 Sand) Field, Frio County.

The Present Matter

On July 21, 2014 and again on September 2, 2014, Jenex was notified by the Commission that the wells on the Jane "A" Burns Lease (Well Nos. 220, 221, 222, 235, 242, 243, 254, 255, 256, and 263) were not in compliance with Commission rules and that the lease had accrued overproduction. Jenex's representatives testified that it acquired the subject wells (and others in Lease Nos. 03380 and 14885) with the understanding that a field-wide exception to Statewide Rule 11 had been granted by the Commission in Docket No. 01-0268735; Jenex did not realize that the Commission never issued a final order in that docket. As Jenex's representatives testified at the hearing, it understood the denial of Maverick's second application to be the result of Maverick's first failed application; while Maverick was not entitled to a second bite at the apple, a subsequent operator of the same wells, Jenex, should be afforded the relief sought by Maverick—without any additional evidence or the completion of inclination surveys. The Examiners in this matter informed Jenex that it would need to present its own case, and could not simply rely on the arguments made by a previous operator.

On October 12, 2015, Jenex presented its case to the Examiners. The prior operator of the lease, Maverick, had deepened 20 wells on the Jane "A" Burns Lease. Commission staff has accepted completed Form W-12 Inclination Reports for 10 of the deepened wells. Ten wells remain out of compliance and are the subject of this hearing. Jenex testified that the subject wells are marginal, low-producing wells (~ 1 barrel of oil per day). To bring the wells into compliance would require the wells to be shut in, and directional surveys would cost up to \$10,000 per well. Inclination surveys would cost less. Nonetheless, Jenex testified that without the proposed relief, the economic situation would require the wells to be plugged, and remaining reserves would be lost.

Jenex provided a tabulation of well completion data for the 10 wells³ to demonstrate whether it is geometrically possible for any of these wells, as deepened, to cross lease lines. This information unambiguously indicates the following:

- Well No. 220 was drilled in 1964 and is located 813 feet from the nearest lease line. In 2008 the well was deepened 407 feet. The bottom-hole location of this well is on lease.
- Well No. 221 was drilled in 1964 and is located 815 feet from the nearest lease line. In 2008 the well was deepened 373 feet. The bottom-hole location of this well is on lease.
- Well No. 222 was drilled in 1964 and is located 1,886 feet from the nearest lease line. In 2008 the well was deepened 376 feet. The bottom-hole location of this well is on lease.

³ Exhibit No. 1B, October 12, 2015 Hearing.

- Well No. 242 was drilled in 1964 and is located 742 feet from the nearest lease line. In 2008 the well was deepened 370 feet. The bottom-hole location of this well is on lease.
- Well No. 243 was drilled in 1964 and is located 825 feet from the nearest lease line. In 2008 the well was deepened 412 feet. The bottom-hole location of this well is on lease.

Four of subject the wells (Nos. 235, 254, 255, and 256) were originally drilled from 1950 to 1952, and Jenex asserts Commission records do not contain any wellbore inclination reports for these wells. Jenex stated that inclination reports were not required by the Commission when those wells were drilled. Arguing that those wells are compliant with Commission spacing rules, Jenex asserted that: (1) the average inclination of the 10 wells on the lease for which complete Form W-12s are available is 50.43 feet, and the maximum reported cumulative deviation was 81.53 feet; (2) Jenex is the only operator of wells in the field; (3) Jenex is the operator of all wells in the field on the adjoining offset leases; and (4) The mineral interest ownership on the Jane "A" Burns Lease and the adjacent offset leases is identical.

- Well No. 235 was drilled in 1952 and is located 1,316 feet from the nearest lease line. In 2007 the well was deepened 418 feet. The bottom-hole location of this well is most likely on lease.
- Well No. 254 was drilled in 1951 and is located 330 feet from the nearest lease line. In 2008 the well was deepened 373 feet. The bottom-hole location of this well is most likely on lease.
- Well No. 255 was drilled in 1950 and is located 300 feet from the nearest lease line. In 2008 the well was deepened less than 500 feet. The bottom-hole location of this well is most likely on lease.
- Well No. 256 was drilled in 1950 and is located 330 feet from the nearest lease line. In 2008 the well was deepened 439 feet. The bottom-hole location of this well is most likely on lease.

However, the wellbore inclination record evidence is not sufficient to establish that Well No. 263 is completed on the Jane "A" Burns Lease. This well was drilled in 1964 to a total depth of 3,360 feet in the Big Foot Olmos D Sand Unit. At that time, a cumulative deviation of 39.05 feet was reported. When this well was deepened, an exception to Statewide Rule 37 was obtained to allow a surface location 28 feet from the nearest lease line in the underlying Big Foot (Olmos D-3 Sand) Field. According to Commission mainframe and online drilling permit system records, on September 6, 2007, Maverick was granted an exception to Statewide Rule 37 (case no. 0253456) based on its assertion that it is the offset operator—at a time when the data available to the operator and Commission

already indicates a potential violation of Rule 11. Nonetheless, at this time a concern with Statewide Rule 11 was not raised by the Commission, and the well was deepened 387 feet. Given the particular history, characteristics and testimony in this case, the Examiners recommend an exception to Statewide Rule 11 be granted for Well No. 256, to allow Jenex to continue to produce the well as completed in the Big Foot (Olmos D-3 Sand) Field and prevent the waste of hydrocarbon reserves.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.
2. Jenex is the only operator of wells in the field.
3. Jenex is the operator of all wells in the field on the adjoining offset leases.
4. The mineral interest ownership on the Jane "A" Burns Lease and the adjacent offset leases is identical.
5. The average inclination of the 10 wells on the lease for which complete Form W-12s are available is 50.43 feet, and the maximum reported cumulative deviation was 81.53 feet.
6. Well No. 220 was drilled in 1964 and is located 813 feet from the nearest lease line. In 2008 the well was deepened 407 feet. The bottom-hole location of this well is on lease.
7. Well No. 221 was drilled in 1964 and is located 815 feet from the nearest lease line. In 2008 the well was deepened 373 feet. The bottom-hole location of this well is on lease.
8. Well No. 222 was drilled in 1964 and is located 1,886 feet from the nearest lease line. In 2008 the well was deepened 376 feet. The bottom-hole location of this well is on lease.
9. Well No. 242 was drilled in 1964 and is located 742 feet from the nearest lease line. In 2008 the well was deepened 370 feet. The bottom-hole location of this well is on lease.
10. Well No. 243 was drilled in 1964 and is located 825 feet from the nearest lease line. In 2008 the well was deepened 412 feet. The bottom-hole location of this well is on lease.

11. Well No. 235 was drilled in 1952 and is located 1,316 feet from the nearest lease line. In 2007 the well was deepened 418 feet. The bottom-hole location of this well is most likely on lease.
12. Well No. 254 was drilled in 1951 and is located 330 feet from the nearest lease line. In 2008 the well was deepened 373 feet. The bottom-hole location of this well is most likely on lease.
13. Well No. 255 was drilled in 1950 and is located 300 feet from the nearest lease line. In 2008 the well was deepened less than 500 feet. The bottom-hole location of this well is most likely on lease.
14. Well No. 256 was drilled in 1950 and is located 330 feet from the nearest lease line. In 2008 the well was deepened 439 feet. The bottom-hole location of this well is most likely on lease.
15. Well No. 263 was drilled in 1964 to a total depth of 3,360 feet in the Big Foot Olmos D Sand Unit. At that time, a cumulative deviation of 39.05 feet was reported.
 - a. An exception to Statewide Rule 37 (case no. 0253456) was obtained to allow a surface location 28 feet from the nearest lease line in the underlying Big Foot (Olmos D-3 Sand) Field. Maverick was granted an exception to Statewide Rule 37 based on its assertion that it is the offset operator—at a time when the data available to the operator and Commission already indicates a potential violation of Rule 11. Nonetheless, at this time a concern with Statewide Rule 11 was not raised by the Commission, and the well was deepened 387 feet.
 - b. Jenex will plug this well if an exception to Rule 11 is not granted, as the cost to bring the well into compliance will exceed the cost to plug the well.
 - c. Plugging the well will result in waste of recoverable reserves.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45
3. Exceptions to Statewide Rule 11 for the 10 subject wells are necessary to prevent waste and protect correlative rights.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend Jenex be granted an exception to Statewide Rule 11 for each of the 10 subject wells on the Jane "A" Burns lease. The depth of each exception should be limited to the current total depth of the well as of the date of the Commission Final Order in this matter, if granted. The Examiners also recommend that accrued overproduction be cancelled.

Respectfully submitted,



Paul Dubois
Technical Examiner



Laura Miles-Valdez
Hearings Examiner