

# Oil & Gas Law

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## Class 4:

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**RoC: Regulatory Responses (1 of 4) –  
Intro & Well Spacing / Density**

# Regulatory Responses to RoC

- **What agency governs oil & gas issues in Texas?**
  - **Texas Railroad Commission (“RRC”)**
- **Other States:**
  - **OK: OK Corp. Comm.**
  - **KS: Oil and Gas Conservation Comm’n.**
  - **LA: Dept. of Natural Resources**
  - **CO: Oil and Gas Conservation Comm’n.**
  - **NM: Energy Conservation and Management Div. of Energy, Minerals and Natural Resources Department**
- **What other government agencies / levels of government can affect oil & gas operations in Texas?**
- A bit of history about the RRC ...
- Admin law – good basic summary on [pp. 628-631](#)
  - Agency Orders presumed to be valid // must show “arbitrary and capricious” decision to overturn
  - “Primary jurisdiction” – part of what [Gregg v. Delhi-Taylor](#) addressed

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# RRC History

- 1891: RRC established
  - ❑ Has jurisdiction over rates and operations of RRs, terminals, wharves and express companies
  - ❑ To encourage railroad construction and development, the Fed. Gov't. gave them ROWs and also gave them land (including mineral rights)
- 1917: Legislature declares PLs to be common carriers, and gives RRC jurisdiction.
  - ❑ First act to designate the RRC as agency to administer O&G conservation laws.

# RRC Jurisdiction / Authority

- What the RRC DOES regulate:
  - ❑ Drilling
  - ❑ Well spacing / density
  - ❑ Production rates / allowables
  - ❑ Pooling
  - ❑ Unitization
  - ❑ P & A
  - ❑ Completions
  - ❑ Intrastate PLs
  - ❑ Disposal of oilfield waste
  - ❑ Chemical injections into producing reservoirs
  - ❑ “Gas well” vs. “Oil well”
- What the RRC DOES NOT regulate:
  - ❑ Transportation
  - ❑ Noise
  - ❑ Environmental
  - ❑ Insurance
  - ❑ Interstate PLs

# Vocab Terms (pp. 40-41; 647-650)

- Plugging and Abandonment (“P&A”)
- Completion of a well: end of the drilling process, down the target depth / transition from drilling to production (by installing producing equipment)
  - Dual completion: 2 formations / zones
  - Multiple completion: >2 formations / zones
- Recompletion of a well: after a well has been completed and has produced, it can be “completed” into a different (usually shallower) producing formation

# Well Spacing and Density

- These are the most “significant” limits
- **What are the purposes of well spacing and density rules?**
- See p. 652, FN 26, to see how broadly “waste” is defined in the Model Act
- **What is well spacing?**
- It’s how far away from section boundary lines / lease lines and from other wells a particular well can be
- **What is density?**
- How many wells are allowed per acre (or, put another way, how many acres one well will cover)
- **What is an “allowable”?** (from Wronski)

# TX: Statewide Spacing (Rule 37) – 1

- **First enacted in 1919; TX is 1<sup>st</sup> state to promulgate a well spacing rule**
- **Purpose:**
  - **reduce waste by preventing excessive or disproportionate withdrawal rates from parts of a reservoir where wells would be clustered**

# TX: Statewide Spacing (Rule 37) – 2

- **467 feet** to any property line, lease line, or subdivision line and **1,200 feet** to any well completed in or drilling to the **same horizon** on the same tract
  - Exceptions can be granted to “prevent waste or to prevent the confiscation of property”
  - Field Rules can be larger or smaller
- This spacing limitation gives rise to a **drilling unit** (a/k/a **spacing unit**)



# TX: Statewide Density (Rule 38) – 1

- Assigns the number of acres you have to have before you can drill a well
- Acreage size given: “proration unit”
  - ❑ Std. size for oil well proration unit is 40 acres
  - ❑ Std. size for gas well proration unit is 160 acres

# TX: Density (Rule 38) – Std. Units

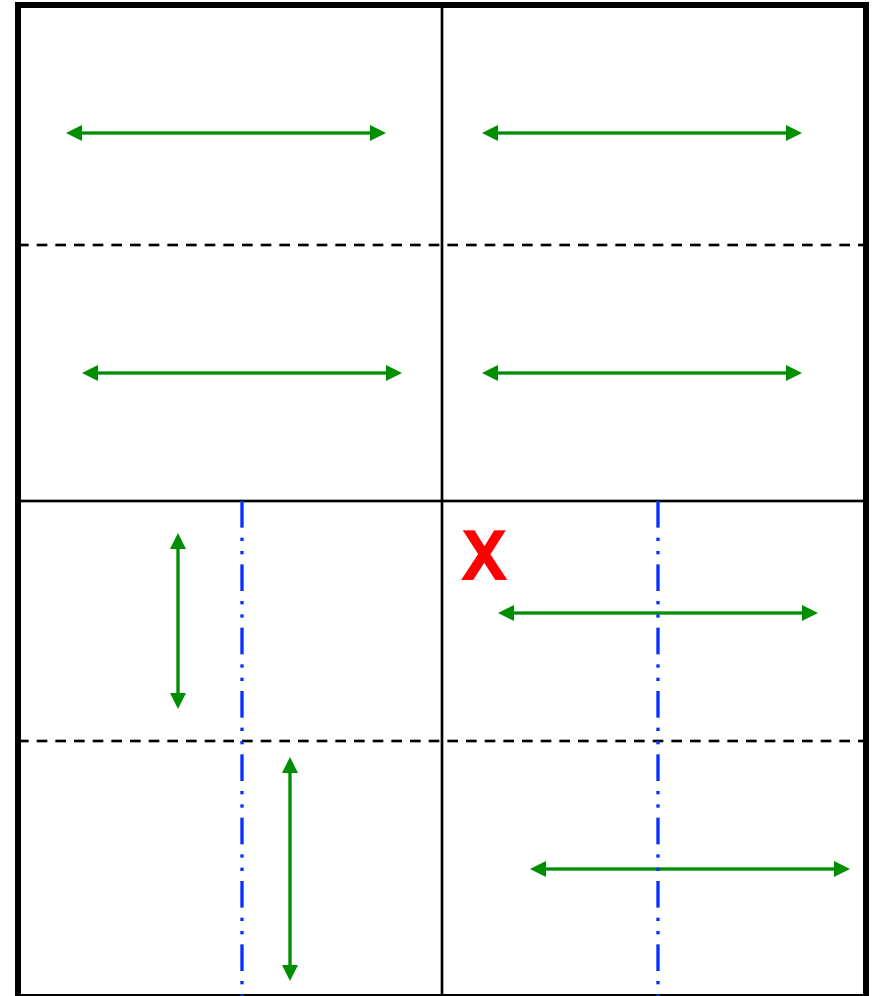
<u>Spacing Rule</u>	<u>Acreage Requirement</u>
150 – 300	2
200 – 400	4
330 – 660	10
330 – 933	20
467 – 933	20
<u>467 – 1200</u>	<u>40</u>
660 – 1320	40

# Want to drill a well?

- Process ...
- Apply for a “drilling permit”
  - ❑ In the application, you have to put down how many acres you have (Rule 38) and where the nearby property lines / other wells are, that are drilling in your objective formation (Rule 37)
  - ❑ If you meet the requirements of both Rules – you get the permit and you can drill
  - ❑ If not enough acreage, or someone else is too close, **NO PERMIT!!**
    - ... unless you ask for some relief – an exception

# Larsen v. WY O&G Cons. Comm'n.

- 1<sup>st</sup> thing to notice:  
picture on p. 658
- **What's the fight really about?**
- The direction of the 80-acre spacing units
- Appellants own
  - W/2 SE/4; SE/4 SE/4
  - SW/4 NE/4; SW/4
- Findings of fact & “economic waste”



# Larsen v. WY O&G Cons. Comm'n.

- P. 656: “**insofar as it is reasonably practicable to do so ...**”
  - When a field is 1<sup>st</sup> developed, not much is known about the reservoir and its production characteristics
  - t/f, the agency will often issue “temporary” rules initially to create relatively large units
  - Later, it reduces them as more info is known

# Larsen v. WY O&G Cons. Comm'n.

- WY Ct: no economic waste
- But most states allow the agency to consider economic waste
- Should conservation agencies consider economic waste?
- Reasons:
  - ❑ Well spacing rules = reservoir effectively and efficiently drained
  - ❑ If operator believes that a well won't provide enough of a return on investment, they won't drill a well → could cause underground waste
  - ❑ See p. 659 Note 2

# Spacing and Density Exceptions

- Rule 37(a)(3):
  - the burden shall be on the applicant to establish that an exception to this section is necessary either to prevent waste or to prevent the confiscation of property. Such determination will be made only upon written request and a showing by the applicant that:
    - competent, conclusive geological or engineering data indicate that no drainage of hydrocarbons from the particular tract(s) subject to the request will occur due to production from the applicant's proposed well
- Rule 38(h)(1)(B): to get an exception to a density rule, applicant must file
  - engineering and/or geological data, including a written explanation of each exhibit, showing that the drilling of a well on substandard acreage is necessary to prevent waste or to prevent the confiscation of property;

# Pattie v. Comm' n.

- Looking for oil but found gas
- **So what? What' s the problem?**
- **See p. 667, 3<sup>rd</sup> ¶**
- **Why are the spacing rules different for oil and gas? Why larger for gas?**
- **What' s the difference / How do you decide if a well is a gas well or an oil well?**
- **“GOR”: the “gas-oil ratio”**
  - **If > 10,000 cf/bbl, it's a gas well**
  - **If < 10,000 cf/bbl, it's an oil well**



# Exxon v. RRC

- Different formations / depths
- BTA claiming that allowing the exception location will prevent economic waste → by prolonging the life of an existing well
- What this dispute is *really* about
  - Are Exxon's correlative rights really at issue?
  - Oil being produced from lower zone ... Exxon has a shallower gas well ... impact from BTA's recompletion on Exxon?

## Next Class:

- **Small Tracts and Compulsory Pooling**
  - Ch. 4 Sec. B 5: pp. 696 – 717 and 733 – 746
- **ALSO ...**
  - 2 supplemental cases (Ryan & Halbouty) and
  - Text of Rule 37(g) (a/k/a the “Voluntary Subdivision” Rule)