

TENNECO OIL CO.
TEXACO, INC.

IBLA 81-75

Decided August 24, 1981

Appeal from decision of the Director, Geological Survey, affirming an order of an area conservation manager directing holders of offshore oil and gas leases to subscribe to and operate under a unit plan allocating production on the basis of net acre-feet. GS-167-O&G.

Affirmed.

1. Oil and Gas Leases: Operating Agreements -- Oil and Gas Leases: Production -- Oil and Gas Leases: Unit and Cooperative Agreements -- Outer Continental Shelf Lands Act: Oil and Gas Leases -- Outer Continental Shelf Lands Act: Unit Plans

Determinations by Geological Survey delineating two communicating gas-bearing structures or sands and providing that unitization of leases producing gas from these sands is in the interest of conservation will be affirmed where the record shows that these determinations were reasonably based on facts of record.

2. Oil and Gas Leases: Operating Agreements -- Oil and Gas Leases: Production -- Oil and Gas Leases: Unit and Cooperative Agreements -- Outer Continental Shelf Lands Act: Oil and Gas Leases -- Outer Continental Shelf Lands Act: Unit Plans

A challenge to decisions by Geological Survey (1) that various outer continental shelf wells are producing from common reservoirs, i.e., that they are "competitive," and (2) that unitization of these wells is necessary in the interest of conservation, will not be sustained where there is a preponderance of substantial and persuasive evidence to support the Survey's findings.

3. Oil and Gas Leases: Operating Agreements -- Oil and Gas Leases: Production -- Oil and Gas Leases: Unit and Cooperative Agreements -- Outer Continental Shelf Lands Act: Oil and Gas Leases -- Outer Continental Shelf Lands Act: Unit Plans

Where Geological Survey has ordered all outer continental shelf lessees with producing wells in two delineated competitive reservoirs to comply with a plan to allocate production on the basis of percentage of original net acre-feet of gas sand, this order will be affirmed in the absence of a clear showing that another method of allocation is superior.

APPEARANCES: W. S. Waller, Esq., Lafayette, Louisiana, for Tenneco Oil Company; Shirley C. Friend, Jr., Esq., New Orleans, Louisiana, for Texaco, Inc.; M. Hampton Carver, Esq., New Orleans, Louisiana, for respondent Chevron, U.S.A., Inc.; Gene W. Lafitte, Esq., New Orleans, Louisiana, for respondents Mobil Oil Exploration and Production Southeast, Inc., Pennzoil Oil & Gas, Inc., Pennzoil Producing Company, and Pogo Producing Company; John H. Kelly, Esq., Office of the Solicitor, U.S. Department of the Interior, for Geological Survey.

OPINION BY ADMINISTRATIVE JUDGE STUEBING

This matter concerns several outer continental shelf (OCS) oil and gas leases located in the adjoining West Cameron and East Cameron areas in the Gulf of Mexico offshore Louisiana. The following leases and lessees are affected:

<u>Lease</u>	<u>Block</u>	<u>Lessee(s)</u>
OCS-G	2224	WC 532 Chevron, Mobil, Pennzoil, Pogo, and Plato <u>1/</u>
OCS-G	2225	WC 533 Chevron, Mobil, Pennzoil, Pogo, and Plato
OCS-G	2226	WC 534 Chevron
OCS-G	2050	EC 281 Tenneco, Texaco
OCS-G	2864	EC 298 Chevron

The history of this dispute is fully set out in the decision of the Acting Chief, Conservation Division, Geological Survey (GS), which

1/ "Pogo" is apparently Pennzoil Offshore Gas Operators, Inc. "Pogo Producing Company" has appeared as a respondent in this appeal -- "Plato" is apparently the acronym derived from Pennzoil Louisiana and Texas Offshore, Inc., which has not appeared as such.

is on appeal to this Board. Briefly, Tenneco Oil Company (Tenneco) and Texaco, Inc. (Texaco) (appellants), take issue with the Acting Chief's decision of August 11, 1980, affirming the March 2, 1978, order by the Conservation Manager, Gulf of Mexico Region, requiring all lessees with producing wells in two competitive reservoirs (the 3,200-foot and 3,500-foot Sands), as delineated by the Oil and Gas Supervisor, to comply with a plan to allocate production from their wells as follows:

Allocation of unitized substances shall be based upon the percentage of original net acre-feet of gas sand, in each unitized reservoir, underlying each lease relative to the total original net acre-feet of gas sand assigned to each unitized reservoir by the Geological Subcommittee. The net gas isopachs for the 3500' Sand and the 3200' Sand, as prepared by the Geological Subcommittee and submitted to this office on June 29, 1977, will be employed and accepted as the basis for participation and for delineation of the unit area.

We have recently affirmed the propriety of using the net acre-feet method of allocation of production from offshore wells on various OCS leases sharing a competitive reservoir, although we recognized that situations would arise in which recourse to net acre-feet allocation would not fairly treat all unit participants. Texaco, Inc., 51 IBLA 332, 87 I.D. 648 (1980). However, we held that the burden was on the party seeking to compel GS to use a different method of allocation to establish clearly the superiority of its method. Id.

[1, 2] Appellants challenge GS's underlying determination that the various wells are producing from common reservoirs, i.e., that they are "competitive." If it were shown that appellants were producing from a separate geologic structure, GS's decision to allocate production by use of the net acre-feet method would be inappropriate, as this method rests on the concept of fair allocation and efficient production of resources from a single source.

We are satisfied that GS correctly determined that the parties were all producing from two communicating gas-bearing structures or sands underlying these leases. In view of the obvious problems involved in undersea drilling, it is frequently impossible to gain a completely clear picture of geologic conditions beneath a large area such as that encompassed by these leases. However, the data available at the time GS made these findings were the product of extensive study and vigorous debate, and reasonably demonstrated the existence of competitive reservoirs. We find the fact that 50 wells in a five-block area encountered the same 3,200-foot and 3,500-foot sands convincing that two common structures exist there. Similarly, the fact that pressure drops recorded at wells during shutin may be attributed to production from other wells signifies that there is gas communication throughout the area. Data developed subsequent to 1976 corroborate GS's findings as well. We conclude that there is a preponderance of

substantial and persuasive evidence which supports GS's finding that there are two competitive reservoirs underlying these leases, and that this finding is reasonable. Accordingly, we adopt the decision of the Acting Chief on this question. 2/

Appellants also assert that units may not be created under applicable authority unless it is in the interest of conservation to do so, and that there was no such conservation purpose involved here. We agree with the Acting Chief that unitization of these reservoirs did further the interest of conservation, adopt this holding, and reject appellants' assertion. As he said,

Where a unitization agreement is in effect, the participating lessees share in unit production without regard to the location of the wells generating the production. For this reason, unitization enables the lessees to maximize the efficient production of hydrocarbons with complete disregard of the competitive interests of the lessees under the individual leases. Thus, unitization promotes development and operating procedures designed to conserve resources without detriment to the legitimate interests of the different leaseholders.

Unitization is particularly appropriate in a situation involving a large common reservoir where, as here, the operator of a lease overlying a small part of the original reserves drills early and aggressively along the lease boundary. In the absence of unitization, development of the leases overlying the remainder of the reservoir would have become a race designed to protect the opposing interest of the lessees. Development plans would have been geared to the protection of correlative rights instead of being oriented towards the maximum production of hydrocarbons from the common reservoir with the least number of wells. Accordingly, unitization prevented the drilling of unnecessary wells and was in the interest of conservation.

Moreover, * * * the area leased by Mobil et al. is traversed by shipping fairways and the drilling of additional wells in the vicinity of the fairways would have posed further risks to the environment which were avoided by unitization.

2/ However, in the context of the scope of review of this appeal by the Board, we are in full accord with the position adopted by appellants. Contrary to the assertions of counsel of the Office of the Solicitor and those of Chevron, et al., this Board is not limited to any standard of review less than the full, independent, de novo, review authority of the Secretary. 43 CFR 4.1. See United States v. Dunbar Stone Co., 56 IBLA 61, 68 (1981).

It follows that an order requiring unitization in this case was proper.

(Decision at 16). Accord, Placid Oil Co., 46 IBLA 392, 396-97 (1980).

Appellants raise a "laundry list" of objections to the procedures employed by the Conservation Manager during unitization negotiations, arguing that they have been denied due process. We adopt the decision of the Acting Chief, Conservation Division, on these points. Appellants have had ample opportunity, both during unitization negotiations and afterward, to participate in the decisionmaking process and have not been denied due process.

[3] As the reservoirs are competitive and unitization was proper, it devolves upon appellants to demonstrate that net acre-feet is not an appropriate method of allocating production by offering a clearly superior alternative. Texaco Oil Co., *supra*. They have failed to do so.

Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is affirmed.

Edward W. Stuebing
Administrative Judge

We concur:

Douglas E. Henriques
Administrative Judge

Bruce R. Harris
Administrative Judge

