

THE APPLICATION OF PIONEER NATURAL RESOURCES USA, INC. FOR EXCEPTION TO STATEWIDE RULE 39 TO INCLUDE NON-CONTIGUOUS ACREAGE ASSIGNMENTS WITHIN ITS MASTERSON LEASE, PANHANDLE, WEST (RED CAVE) FIELD, MOORE AND POTTER COUNTIES, TEXAS

Heard by: Margaret Allen, Technical Hearings Examiner

Procedural history

Application received: December 22, 2005

Hearing held: August 24, 2006

Appearances

	Representing
Brian Sullivan	Pioneer Natural Resources USA, Inc.
George C. Neale	
Matthew Poole	
Cary McGregor	

Rex White, Jr.	Gould Oil Co.
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EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pioneer Natural Resources USA, Inc. ("Pioneer") is seeking to have the Commission allow non-contiguous acreage to be assigned to wells within its Masterson Lease in the Panhandle, West (Red Cave) Field. Gould Oil Co. withdrew its protest after Pioneer agreed that it would not include any acreage from Sections 72, 73, 74 and 76 as part of any non-contiguous acreage assignment.

DISCUSSION OF THE EVIDENCE

The Panhandle, West (Red Cave) Field produces from an anticline draped over a deeper structural high. There are producing Red Cave wells on all sides of the Masterson Lease, indicating that the Red Cave Formation is productive throughout the lease. The Red Cave thins to the southeast but is nowhere less than 200' thick on this lease. The Red Cave was deposited in ephemeral stream beds and has discontinuous sandstone lenses. There are limited connections in the producing sandstones of each well. Pioneer was able to show that an infill well discovered sandstones that were not productive in any of the offsetting wells.

The Panhandle, West (Red Cave) Field was discovered in 1960 and has 31 operators. The field rules for the Panhandle, West (Red Cave) Field require wells to be at least 330' from lease lines and 660' apart, and located on 640 acre units. Pioneer has 153 wells on the Masterson Lease which comprises 84,965 acres. Fifty-three of these wells are shut-in.

In 1997-1998, Pioneer began a program of infill drilling to determine if infill wells could recover incremental oil. To do so, it shut-in numerous wells in the most densely drilled part of the Masterson Lease and replaced these wells with another well on the same 640 acre proration unit. Pioneer presented a study of 24 new wells drilled during the 1997-1998 infill period. All of the new wells initially produced at higher rates than the well they replaced. The 24 original wells were producing 2.2 MMCFD and the new wells produced 8 MMCFD. Based on the decline curves of the original wells, Pioneer believes that the infill drilling increased the lease's ultimate recovery by 5 to 7 BCF though both the original and infill wells will have to continue producing to prove the reserves are actually incremental. If the infill wells are proved to increase ultimate recovery, Pioneer expects to propose changing the field rules for this multi-operator field.

All of the production from the Masterson Lease is salvage. The average producing rate is only 35 MCFD. Because of the low producing rates, it is unlikely that the infill wells will be able to drain all of the gas remaining around the original (now shut-in) wells. Returning the original wells to production would prevent waste and allow Pioneer to recover all of the reserves underneath the Masterson Lease.

Pioneer could bring 38 of the shut-in wells back on production without requiring exceptions to Statewide Rules 37 or 38. However, it would be difficult to reconfigure the proration units to be able to assign 640 contiguous acres to each well and would require units that greatly exceed the maximum diagonal of 8500'. Between September, 2003 and February, 2004, the Commission approved the assignment of non-contiguous acres administratively. It now requires a hearing.

To prevent possible abuse, Pioneer proposes that each well, either original or infill, must be assigned 320 contiguous acres around it, and that this 320 acre 'contiguous' unit have a maximum diagonal of 6500'. Such a well would then be assigned another 320 acre unit from somewhere else on the lease and this 'non-contiguous' unit would also be subject to a maximum diagonal of 6500'.

FINDINGS OF FACT

1. Notice of this hearing was given to all operators in the Panhandle, West (Red Cave) Field on January 4, 2006.
2. Notice of this hearing was published in the *Amarillo Globe-News* on January 5, 12, 19 and 26, 2006.
3. Pioneer Natural Resources USA, Inc. ("Pioneer") operates 153 wells on the Masterson Lease in the Panhandle, West (Red Cave) Field--95 of which are active and 58 are shut-in.
4. The Masterson Lease contains 84,965 acres.
5. The field rules for the Panhandle, West (Red Cave) Field require 330-660' well spacing and 640 acre gas proration units.
6. It would require 133 wells for the Masterson Lease to be fully developed, and permitting Pioneer to assign non-contiguous acreage will allow another 38 wells to be added to production..
7. Pioneer initiated an infill drilling program in the late 1990's which appears to be increasing

ultimate recovery though it is too early to be certain.

8. The shut-in wells on the Masterson Lease are salvage wells and will be able to produce reserves no other well is capable of producing.
9. There are productive wells in the Red Cave Formation on all sides of the Masterson Lease showing that the entire lease is productive.
10. The non-contiguous acreage assigned to a well will be limited by requiring that each producing well have at least 320 contiguous acres around it with a maximum diagonal of 6500', and that a single parcel of up to 320 non-contiguous acres be assigned.
11. The assignment of non-contiguous acres to wells on the Masterson Lease will not cause waste and will protect correlative rights as long as no wells in Sections 72, 73, 74 and 76 are assigned non-contiguous acres.

CONCLUSIONS OF LAW

1. Proper notice was given as required by statute.
2. All things have been done or occurred to give the Railroad Commission jurisdiction to resolve this matter.
3. The requested exception to Statewide Rule 39 will prevent waste and promote orderly development of the lease.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiner recommends approval of the requested exception to Statewide Rule 39 to allow non-contiguous acreage assignments for all wells within the Pioneer Natural Resources USA, Inc. Masterson Lease, except Sections 72, 73, 74 and 76 of this lease, in the Panhandle, West (Red Cave) Field.

Respectfully submitted,

Margaret Allen
Technical Hearings Examiner