

OIL AND GAS DOCKET NO. 02-0248769

THE APPLICATION OF KCS RESOURCES, INC. TO CONSIDER NEW FIELD DESIGNATION AND FIELD RULES FOR THE (PROPOSED) AUSTIN (WILCOX 12,300) FIELD, GOLIAD COUNTY, TEXAS

HEARD BY: Donna K. Chandler, Technical Examiner
James M. Doherty, Hearings Examiner

APPEARANCES:

APPLICANT:

George Neale
Rick Johnston
Jim Travillo
Pete Greene

REPRESENTING:

KCS Resources, Inc.

PROTESTANTS:

Michael Gray
Jerry Brock
Clifton Simmons

The Simmons family

PROCEDURAL HISTORY

Application Filed:	August 16, 2006
Request for Hearing:	August 22, 2006
Notice of Hearing:	September 8, 2006
Date of Hearing:	October 6, 2006
Transcript Received:	October 12, 2006
Proposal For Decision Issued:	October 23, 2006

EXAMINERS' REPORT AND PROPOSAL FOR DECISION

STATEMENT OF THE CASE

KCS Resources, Inc. ("KCS") requests that a new field designation called the Austin (Wilcox 12,300) Field be approved for its Kathleen Jackson No. 2. KCS also requests that the following rules be adopted for the Austin (Wilcox 12,300) Field:

1. Designation of the field as the correlative interval from 12,140 feet (TVD) to 13,579 feet (TVD) as shown on the log of the Kathleen Jackson No. 2;
2. Well spacing a minimum of 467 feet from lease lines and 660 feet between wells; 40 acre drilling units;
3. Allocation based on 95% deliverability and 5% per well.

KCS also requests that the Kathleen Jackson Nos. 3 and 4 and M. E. Martin No. 1 be set up in the Austin (Wilcox 12,300) Field for proration purposes. These three wells are recent completions which were permitted as Wildcat.

The application was protested by numerous members of the Simmons family who own mineral rights in various shallower fields. The Simmons' are concerned that their producing wells will be drained by wells in this proposed new field designation.

DISCUSSION OF EVIDENCE

Applicant's Case

KCS Resources, Inc. drilled its Kathleen Jackson No. 2 to a total depth of 14,500 feet. The well is perforated in several Wilcox sands between 12,198 feet (TVD) and 13,559 feet (TVD). The well produced at a rate of 8,658 MCFD on initial test and the calculated bottomhole pressure was 8,833 psi, based on the shut-in wellhead pressure. This pressure is virgin pressure.

There are 165 wells within a 2½ radius of the Kathleen Jackson No. 2. Only nine of the 165 wells are drilled below a depth of 12,100 feet. Three of the nine wells are the Kathleen Jackson Nos. 3 and 4 and the M. E. Martin No. 1, which produce from the same correlative interval as the No. 2 well. The remaining six deeper wells encountered Wilcox intervals which are faulted out in the Kathleen Jackson wells and the M. E. Martin well. These reservoirs which are faulted out include the Austin (Wilcox G-9th Austin), Austin (Wilcox Massive E), Austin (Wilcox Massive) and Austin (Nita) Fields. Likewise, none of the six wells are drilled deep enough to encounter the deeper Wilcox sands which are productive and completed in the Kathleen Jackson Nos. 2, 3 and 4 and the M.E. Martin No. 1.

KCS requests that a spacing rule be adopted for the new field which provides for a minimum of 467 feet to lease lines and 660 feet between wells on the same lease in the same reservoir. This 660 foot spacing is closer than the 993 foot spacing normally associated with 40 acre drilling units. KCS requests this additional flexibility due to the fact that the sands within the proposed correlative interval for the field are lenticular in nature, and closer spacing will allow wells to be drilled at optimum locations to encounter the maximum number of sands.

KCS requests that the entire correlative interval between 12,140 and 13,579 feet (TVD) in the Kathleen Jackson No. 2 be considered a single field. This interval includes all of the perforated intervals in all four wells which are proposed to be carried in the new field. Because the proposed field interval includes multiple productive zones, Texas Natural Resources Code §81.081(b)(ii) requires that a two factor allocation formula be adopted for the interval to be considered a single field. KCS requests that allocation be based on 95% deliverability and 5% per well for the field.

Protestant's Case

The Simmons family is concerned that the Kathleen Jackson Well Nos. 2, 3 and 4 and the M. E. Martin No. 1 will adversely affect the production from wells in which the family owns royalty. There are producing wells on the Simmons lease which currently produce from the Austin (Wilcox Massive) and Austin (Wilcox Massive E) Fields. In the past, there have been wells on the Simmons lease which have produced from the Austin (Nita) and Austin (Wilcox G-9th Austin) Fields. These four fields were all discovered in the late 1990's. The closest producing well on the Simmons lease to any of the four wells proposed for the new field is the Simmons No. 5, which is about 1,000 feet west of the Kathleen Jackson No. 4. The Simmons No. 5 is the primary concern of the Simmons family regarding drainage by the wells proposed for the new field.

EXAMINERS' OPINION

The examiners recommend approval of the new field designation and the proposed field rules for the Austin (Wilcox 12,300) Field. The evidence demonstrates that the Kathleen Jackson Nos. 2, 3 and 4 and the M. E. Martin No. 1 are completed in a Wilcox interval which has not yet been produced by any other well. The Simmons wells produce from a portion of the Wilcox which is faulted out in the Jackson and Martin wells. Additionally, the Simmons wells were not drilled deep enough to encounter the portion of the Wilcox completed in the Jackson and Martin wells.

KCS requests a slightly closer than normal well spacing rule for the new field. This will provide some additional flexibility in locating wells to encounter the maximum number of lenticular sands within the correlative interval.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice at least ten days prior to the date of hearing.
2. The Kathleen Jackson No. 2 is entitled to a new field designation.
 - a. There is no comparable production within a 2½ mile radius of the Kathleen Jackson No. 2.

- b. The Wilcox production in the area is from sands which are faulted out in the Kathleen Jackson Nos. 2, 3, and 4 and the M. E. Martin No. 1
- c. The Kathleen Jackson No. 2 encountered virgin bottomhole pressure.
- 3. The entire correlative interval from 12,140 feet (TVD) to 13,579 feet (TVD) as shown on the log of the Kathleen Jackson No. 2 includes several lenticular sands and should be designated as the Austin (Wilcox 12,300) Field.
- 4. Allocation based on 95% deliverability and 5% per well will protect correlative rights and meets the requirements of Texas Natural Resources Code §81.081(b)(ii) for combining multiple productive zones into a single field.
- 5. Well spacing a minimum of 467 feet between lease lines and 660 feet between wells in the Austin (Wilcox 12,300) Field is necessary to provide flexibility in drilling wells at optimum locations to encounter the maximum number of sands within the correlative interval.

CONCLUSIONS OF LAW

- 1. Proper notice of this hearing was issued.
- 2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.
- 3. Approval of the requested new field designation and adoption of field rules will prevent waste, protect correlative rights and promote the orderly development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings and conclusions, the examiners recommend that the new field designation and field rules be approved as set out in the attached Final Order.

Respectfully submitted,

Donna K. Chandler
Technical Examiner

James M. Doherty
Hearings Examiner