

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 7B-0273413

THE APPLICATION OF PETEX TO CONSIDER A NEW FIELD DESIGNATION AND TO ADOPT TEMPORARY FIELD RULES FOR THE PROPOSED RED DIRT REEF (PALO PINTO) FIELD, HASKELL COUNTY, TEXAS

HEARD BY: Brian K. Fancher- Technical Examiner
Michael Crnich - Legal Examiner

DATE OF HEARING: January 03, 2012

APPEARANCES:
APPLICANT:

REPRESENTING:

Bill Spencer
James M. Clark, P.E.

Petex

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Petex requests that a new field designation be approved for its Cornelius North Unit Lease, Well No. 1. Further, Petex proposes that the following Temporary Field Rules be adopted for the new field, subject to review in 18 months:

1. Designation of the field as the correlative interval from 3,808 feet to 3,882 feet, as shown on the log of the Petex - Cornelius North Unit, Well No. 1 (API No. 42-207-32666);
2. 330'-933' well spacing;
3. 80 acre units with 40 acre tolerance and 20 acre optional units.;
4. Allocation based on 75% acres and 25% per well.

At the hearing, representatives on behalf of Petex indicated its proposed field name Red Dirt Reef (Palo Pinto) Field, as noticed, was unable to be approved as a field name by Commission staff due to naming conventions incorporated when assigning a field name and number to a newly discovered field. Through correspondence dated February 23,

2012, Petex requested a new field name of Just Red Dirt Reef (Palo Pinto) Field (Field ID 47779 500) as its new field designation for the Cornelius North Unit Lease, Well No. 1. There were no protests to this application and the examiners recommend approval of the new field designation and Temporary Field Rules for the Just Red Dirt Reef (Palo Pinto) Field.

DISCUSSION OF EVIDENCE

At the hearing, Petex submitted a Commission Form W-2 for its Cornelius North Unit Lease, Well No. 1 that indicates the well was completed on August 11, 2011 with perforations in the Palo Pinto formation from 3,820 feet to 3,834 feet. The initial well test performed on October 05, 2011, reports the well produced flowing on an 11/64 choke size at a rate of 64 BOPD, 30 MCFGPD, and 476 BWPD. Currently, Petex is the only operator in the newly discovered field. Cumulative production from the field through January 2012 is reported as 2,226 BO and 548 MCFG.

Representatives of Petex provided a copy of a Commission Form P-7 (New Field Designation and/or Discovery Allowable Application) dated November 04, 2011 that includes information from the Cornelius North Unit, Well No. 1. Petex concluded the nearest production to the subject well is the Everett (Strawn -B- Sand) Field, located 4,300 feet southwest of the Cornelius North Unit, Well No. 1 at an interval from 4,551 feet to 4,559 feet below the ground surface. The information presented on the Form P-7 also indicates the nearest comparable production to the subject well from the same stratigraphic member is from the Haskell County Regular Field located 3.75 miles to the southwest of the subject well at an interval from 3,745 feet to 3,790 feet below ground surface.

Petex believes a new field designation should be approved for the Cornelius North Unit, Well No. 1, as there is no comparable production within a 2.5 mile radius of the discovery well. In support of its application, Petex submitted a base map that included the location of the Cornelius North Unit, Well No. 1 surrounded by a 2.5 mile radius circle and locations of surrounding artificial penetrations. The information presented on the base map indicates five oil and gas wells have produced hydrocarbons from a Commission designated field near the Cornelius North Unit, Well No. 1 within the 2.5 mile radial distance. The nearest producing well to the subject well was identified as the Straughan Oil Int, N. L. Everett Lease, Well No. 1, located approximately 1.5 miles southwest of the subject well, and was completed in the Everett (Palo Pinto) Field. The expert witness on behalf of Petex testified that although the Everett Lease, Well No.1 was completed in the Everett (Palo Pinto) Field, the field name itself is a misnomer. Petex submitted a structural cross-section of the area surrounding the Cornelius North Unit, Well No. 1 that includes three wells traversing from northwest to southeast. The cross-section illustrates the Everett (Palo Pinto) Field only includes the Crosscut Lime formation and the Palo Pinto formation. The expert witness further testified the Palo Pinto formation is positioned stratigraphically above the Crosscut Lime formation and the two are separated by approximately thirty-five to fifty-five feet of shaley-carbonate rock.

At the hearing, the examiners inquired if Petex determined a bottom-hole pressure for its Cornelius North Unit, Well No. 1, as required by Statewide Rule 41(a)(3). In response to the examiners' inquiry, representatives on behalf of Petex concluded it was uncertain as to whether a shut-in well-test was performed on the subject well and would provide the necessary bottom-hole pressure data as a late-filed exhibit if the information was available. Through correspondence dated January 03, 2012, Petex submitted a copy of a Commission Form W-7 (Bottom-Hole Pressure Report), dated December 08, 2011, for the Cornelius North Unit, Well No. 1 that indicated an observed bottom-hole pressure of 1,483 psig was measured.

Additionally, Petex is requesting special field rules be adopted on a temporary basis of 18 months for its proposed discovery field. The proposed field rules include a designated correlative interval, 330'-933' well spacing, 80 acre proration units with 40 acre tolerance and optional 20 acre proration units, and allocation on 75% acres and 25% per well.

Petex requests that the entire correlative interval from 3,808 feet to 3,882 feet, as shown on the log of the Petex LTD - Cornelius North Unit Lease, Well No. 1 (API No. 42-207-32666), Toby, T. Survey, A-397, Haskell County, Texas, be considered a single field known as the Just Red Dirt Reef (Palo Pinto) Field.

At the hearing, representatives of Petex testified that three fields were identified within a two and half mile radius from its Cornelius North Unit, Well No. 1. Moreover, Petex indicated that all three fields were producing from depths ranging from 3,001 to 5,000 feet and are governed by County Regular Field Rules which provides for 330'-933' well spacing. In an effort to maintain consistency, Petex is requesting 330'-933' well spacing for its proposed Just Red Dirt Reef (Palo Pinto) Field.

As previously mentioned, representatives of Petex identified the nearest comparable production to its proposed field to be located 3.75 miles to the southeast of the Cornelius North Unit, Well No. 1. However, Petex testified the well control, for wells located in the aforementioned area, was more limited and that available well bores did not fully penetrate the Palo Pinto formation. Therefore, in support of its requested density provisions Petex submitted drainage area calculations based upon wells completed in the Haskell, South Field located on the J.M. Pace Lease and J. E. Kuentler Lease, approximately six miles to the northeast of the Cornelius North Unit, Well No. 1. Petex testified the aforementioned wells were completed in the same Palo Pinto lime formation as its proposed discovery well. Petex submitted petrophysical data based upon well logs located on the J.M. Pace and J.E. Kuentler Leases. The evidence depicts an average net formation thickness of 21 feet, EURs ranging from 810 to 98 MBO, 7.7 percent average porosity, 35 percent average water saturation, and 50 percent formation recovery factor. Based upon these average parameters, Petex concluded wells located on the J.M. Pace Lease are draining 67 acres per well and the well located on the J. E. Kuentler Lease is draining 27 acres. Further, the expert engineer on behalf of Petex testified the wells are subject to a high formation recovery factor due to the strong water drive mechanism associated with the Palo Pinto lime reservoir.

Lastly, Petex requests that a two factor allocation formula based on 75% acres and 25% per well be adopted for the field and that its proposed field rules be adopted temporarily for a period of 18 months.

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. Petex has been identified as the only operator in the area of its proposed new field designation.
3. The Petex, Cornelius North Unit Lease, Well No. 1 was completed on August 11, 2011 through perforations from 3,820 feet to 3,834 feet. On initial test, the well produced flowing on an 11/64 choke size at a rate of 64 BOPD, 30MCFGPD, and 476 BWPD.
4. The Cornelius North Unit Lease, Well No. 1 is entitled to a new field designation. There is no comparable production within a 2.5 mile radius of the discovery well.
5. The correlative interval from 3,808 feet to 3,882 feet, as shown on the log of the Petex LTD - Cornelius North Unit Lease, Well No. 1 (API No. 42-207-32666), Toby, T. Survey, A-397, Haskell County, Texas, should be designated as the Just Red Dirt Reef (Palo Pinto) Field.
6. Petex provided drainage area calculations for four wells completed in the nearby Haskell, South Field. The drainage areas range from 27 acres up to a maximum of 67 acres.
7. The requested 80 acre oil units with optional 20 acre density is justified by the preliminary drainage area calculations.
8. Adoption of 330'-933' well spacing and a density of 80 acre oil units with 40 acre tolerance and 20 acre options are appropriate for the field.
9. The bottom-hole pressure in the Petex, Cornelius North Unit Lease, Well No. 1 reported at 1,483 psig.
10. A two-factor allocation formula based on 75% acreage and 25% per well is a reasonable formula which will protect the correlative rights of mineral owners in the field.

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 Temporary Field Rules for the Just Red Dirt Reef (Palo Pinto) Field will prevent waste, protect correlative rights and promote the orderly development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve the new field designation and adopt Temporary Field Rules, subject to review in 18 months, for the proposed Just Red Dirt Reef (Palo Pinto) Field, as requested by Petex.

Respectfully submitted,

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Technical Examiner

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Legal Examiner