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HERAINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0281889

THE APPLICATION OF PRIMEXX OPERATING CORPORATION FOR MER ALLOWABLE ON THE SILVER LEASE IN THE CLAYTON RANCH, N. (SPRABERRY) FIELD, BORDEN COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Marshall Enquist - Legal Examiner

HEARING DATE: May 29, 2013

APPEARANCES:	**REPRESENTING:**
Dale Miller	Primexx Operating Corporation

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Primexx Operating Corporation requests an MER allowable or capacity oil allowable for its wells on the Sliver lease in the Clayton Ranch, N. (Spraberry) Field. Primexx also requests that all accumulated overproduction be cancelled for the Silver lease. Primexx had originally requested MER authority for wells on the leases. At the hearing, it was determined that a capacity oil allowable was more appropriate for the circumstances.

The application is unprotested and the examiners recommend approval of the requested capacity allowables and cancellation of overproduction.

DISCUSSION OF EVIDENCE

The Clayton Ranch, N. (Spraberry) Field was discovered in 1985 at a depth of approximately 5,700 feet. There are 21 producing wells in the field and there have been waterflooding operations on several leases. The top allowable in the field is 171 BOPD.

The Silver lease operated by Primexx has one producing oil well, and an application for two injection wells. Injection on an adjacent lease, the Nan Martin "A" lease was initiated in July 2007. The Nan Martin "A" lease had a Capacity Oil Allowable approved under Oil and Gas Docket 8A-0260472 on February 26, 2009. The oil allowable allows wells to produce as much oil without restriction as the waterflood temporarily increases oil production. The average oil production on the Nan Martin "A" lease was 95 BOPD prior to waterflooding. During the peak, after a waterflood response, production increased to 257 BOPD.

The Silver No. A327 was completed by Primexx in June 2012 with an initial potential test rate of 265 BOPD. The well had a peak production rate of 310 BOPD in August 2012. The well currently is producing 150 BOPD. As the waterflood is initiated on the Silver lease and surrounding waterfloods begin to affect the Silver No. A327 oil production is expected to increase above the 171 BOPD allowable. After production peaks, water will encroach the well and begin to water it out. The Silver lease will need a capacity allowable soon after injection operations begin to produce the well without allowable restriction. The well produces with a low average GOR of 298 scf/bbl. Restricting the production to produce within the yardstick allowable is not necessary to prevent waste. Producing the wells at capacity is necessary to maximize recovery.

Cumulative overproduction is approximately 26,243 BO as of March 1, 2013. It is requested that all overage be canceled.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.

2. The Clayton Ranch, N. (Spraberry) Field was discovered in 1985 and the top allowable in the field is 171 BOPD.

3. The Silver lease operated by Primexx has one oil well, and an application for two injection wells.

4. Injection on an adjacent lease, the Nan Martin "A" lease was initiated in July 2007.

   a. The Nan Martin "A" lease had a Capacity Oil Allowable approved under Oil and Gas Docket 8A-0260472 on February 26, 2009.

   b. The oil allowable allows wells to produce as much oil without restriction as the waterflood temporarily increases oil production.

   c. The average oil production on the Nan Martin "A" lease was 95 BOPD prior to waterflooding. During the peak, after a waterflood response, production increased to 257 BOPD.

5. The Silver No. A327 was completed by Primexx in June 2012 with an initial potential test rate of 265 BOPD.

a. The well had a peak production rate of 310 BOPD in August 2012. The well currently is producing 150 BOPD.

b. As the waterflood is initiated on the Silver lease and surrounding waterfloods begin to affect the Silver No. A327 oil production is expected to increase above the 171 BOPD allowable.

6. Producing the wells on the Silver lease at capacity is necessary to maximize secondary recovery from the leases.

7. The Silver lease is overproduced approximately 26,243 BO as of March 1, 2013.

CONCLUSIONS OF LAW

1. Notice of this hearing was given as specified in the provisions of all regulatory codes.

2. All things have occurred or been accomplished to give the Commission jurisdiction in this matter.

3. Approval of capacity allowables pursuant to Rule 48 for the Silver lease in the Clayton Ranch, N. (Spraberry) Field is necessary to prevent waste.

4. Cancellation of overproduction for the Silver lease in the Clayton Ranch, N. (Spraberry) Field will not harm correlative rights.

RECOMMENDATION

Based on the above findings and conclusions of law, the examiners recommend approval of capacity oil allowables for the Silver lease in the Clayton Ranch, N. (Spraberry) Field. It is further recommended that all overproduction for the Silver lease be cancelled.

Respectfully submitted,

Andres J. Trevino, P.E.
Technical Examiner

Marshall Enquist
Legal Examiner

Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 9871, (Gas Utils. Div. July 14, 2009).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2008 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 9996, (Gas Utils. Div. December 14, 2010).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2009 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 10035, (Gas Utils. Div. March 8, 2011).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2010 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 10127, (Gas Utils. Div. January 24, 2012).

The chart below provides key information from each of the five IRA filings:

Table 5.4
Annual IRA Key Information

IRA Year GUD No.	2006[1] 9800	2007 9871	2008 9996	2009 10035	2010 10127	TOTAL
Increase in Net Investment (1)	$4,359,680[2]	2,432,982[3]	2,477,820	5,033,281	5,608,759	19,912,522
Change in Revenue Requirement (1)	$684,904[2]	417,939	435,853	647,212	800,788	2,986,696
Environs Allocated Share of Revenue Requirement (2)	43,868[4]	26,069	29,155[5]	43,293[6]	55,869	198,254

(1) Annual IRA filings, Schedule, IRA-3, lines 2 and 8. Examiners' Exhibits 3,5,7, and 9.
(2) Annual IRA filings, TGS RGVSA GRIP Rate Adjustments for the Unincorporated RGVSA. Examiners' Exhibits 1,4,6, and 10.

TGS witness, Janet Buchanan, testified that because most of the cost of distributing natural gas to customers is fixed, the cost of providing service does not vary with the amount of

1 15 month period ending 12/31/06

2 Examiners' Exhibit No. 19, GUD No. 9800, RGVSA IRA 2006, TGS 2006 GRIP Rate Adjustment for the Unincorporated RGVSA filed April, 30, 2008, IRA-3, lines 2 and 8.

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4 Examiners' Exhibit No. 20, GUD No. 9800, RGVSA IRA 2006, TGS 2006 GRIP Rate Adjustment for the Unincorporated RGVSA filed April, 30, 2008, page 2.

5 Examiners' Exhibit No. 20, GUD No. 10035, RGVSA IRA 2009, TGS 2009 GRIP Rate Adjustment for the Unincorporated RGVSA filed November 19, 2010, page 2, footnote 1.

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