OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 7C-0273988

THE APPLICATION OF BANNER OPERATING, LLC TO CONSOLIDATE THE JUNE ANN (CISCO NO. 3 SD) AND JUNE ANN (CISCO NO. 6 SD) FIELDS INTO THE (PROPOSED) JUNE ANN (CISCO) FIELD AND ADOPT FIELD RULES, IRION AND TOM GREEN COUNTIES, TEXAS

HEARD BY: Andres J. Trevino P.E., Technical Examiner
Marshall F. Enquist, Hearings Examiner

DATE OF HEARING: February 14, 2012

APPEARANCES:	**REPRESENTING:**
Keith Masters	Banner Operating, LLC

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

Banner Operating, LLC requests to consolidate the June Ann (Cisco No. 3 SD) and the June Ann (Cisco No. 6 SD) Fields into a new field to be known as the June Ann (Cisco) Field.

Banner Operating requests that the following rules be adopted for the new field:

1. Designation of the June Ann (Cisco) Field as the correlative interval from 5,512 feet to 6,298 feet as shown on the Compensation Density Neutron Microlog log of the Energy From Texas - Turner T.D. Lease Well No. 3;

2. Minimum well spacing of 467'/933' (lease line/between well);

3. 320 acre gas units, maximum diagonal of 6,500', with 10% tolerance, 40 acre optional units, maximum diagonal of 2,100; 80 acre oil units, maximum diagonal of 3,250', with 20 acre tolerance, 40 acre optional units, maximum diagonal of 2,100;

4. An allocation formula based on 90% deliverability and 10% acreage.

Banner Operating requests the field be classified as associated-prorated and the allocation formula remain suspended. The examiners recommend approval of the proposed rules.

DISCUSSION OF THE EVIDENCE

The June Ann (Cisco No. 3 SD) Field was discovered in July 2006 at a depth of 6,208 feet. The field is governed by Statewide field rules. Banner Operating operates one gas well in the field. Cumulative production from the field is 150.1 MMCF and 8,213 BC.

The June Ann (Cisco No. 6 SD) Field was discovered in July 2006 at a depth of 6,155 feet. The field is governed by Statewide field rules and is classified as an associated field. The field has 5 gas wells and one oil well on the proration schedule. Cumulative production from the field is 3.6 BCF, 39,499 BC, and 7,884 BO.

The proposed correlative interval for the June Ann (Cisco) Field is from 5,512 feet to 6,298 feet as shown on the Compensation Density Neutron Microlog log of the Energy From Texas - Turner T.D. Lease Well No. 3. The interval includes the entire Cisco series sands which includes the Cisco 3 Sand and the Cisco 6 Sand. Additional sands are included that may be productive in future wells drilled. By adding all Cisco sands to the interval Banner believes additional reserves will be recovered by commingling all productive sands that would otherwise be uneconomic to produce individually. The June Ann (Cisco) consolidated interval consists of a thick, 786 foot interval of stratigraphically complex fluvial channel sand deposits. The pay zones are of high permeability and porosity. Most single zone completions are only marginally economic. Banner Operating is proposing to commingle all reservoirs and drill additional wells. Vertical consolidation of the reservoirs will improve drilling economics by allowing multiple stage fracs upon initial completion of new wells. Consolidating the fields will also facilitate the recovery of additional reserves by lowering the economic limit of each well and extending its life.

Banner Operating requests that the well density for gas wells be 320 acre units with optional 40 acre units. P/Z vs Gp (gas produced) data demonstrates that gas wells will drain large areas. Pressure data from gas wells completed in the Cisco 6 Sand shows wells as far away as 2,550 feet are in communication with the original well in the field, the Teague 9 No.1. With a drainage radius of 2,550 feet the effective drainage area is 468 acres. Drainage calculations performed on two gas wells, the Turner, T.D. Well No. 24-4 and Well No. 26-1 demonstrate the need for optional 40 acre units. With an estimated ultimate recovery of 1.1 BCF and 160 MMCF, a 85% recovery factor, the Turner, T.D. Well No. 24-4 will drain 82 acres and Well No. 26-1 will drain 26.2 acres.

Drainage calculation performed on a recently completed oil well, the Turner, T.D. Well No. 43-1 demonstrate the need for 80 acre density and optional 40 acre units. The well had an initial potential of 83 BOPD 72 MCF with a flowing tubing pressure of 140 psi

on November 18, 2011. Due to the short production history an accurate decline rate can not be established. Banner calculated with a 20% oil decline rate, the Turner, T.D. Well No. 43-1 will produce 140,910 BO and drain 118 acres. With a 50% oil decline rate, the Turner, T.D. Well No. 43-1 will produce 48,120 BO and drain 40 acres. Banner Operating believes these densities are necessary to provide for the efficient and effective depletion of the subject field. Banner Operating plans to drill additional wells and produce any productive sands encountered within the designated interval.

Banner Operating requests the field be classified as associated prorated as any oil wells drilled are likely to be separate accumulations of oil not connected to gas production. There is no evidence there exists an oil rim adjacent to any gas production. Because the proposed designated intervals contains multiple productive zones, a two factor allocation formula is required by statute. Banner Operating proposes that allocation be based on 90% deliverability and 10% acreage. Banner Operating requests the allocation formula be suspended as there is market demand for 100% of the gas produced.

FINDINGS OF FACT

1. Notice of this hearing was sent to all persons legally entitled to notice at least ten days prior to the date of hearing.

2. There was no protest at the call of the hearing.

3. The June Ann (Cisco No. 3 SD) Field was discovered in July 2006 at a depth of 6,208 feet.

    a. The field is governed by Statewide Rules.

    b. Banner Operating operates one gas well in the field. The field is classified as a non associated gas field.

    c. Cumulative production from the field is 150.1 MMCF and 8,213 BC.

4. The June Ann (Cisco No. 6 SD) Field was discovered in July 2006 at a depth of 6,155 feet.

    a. The field is governed by Statewide Rules.

    b. The field has 5 gas wells and one oil well on the proration schedule. The field is classified as an associated field.

    c. Cumulative production from the field is 3.6 BCF, 39,499 BC, and 7,884 BO.

5. The June Ann (Cisco) Field should be designated as the entire correlative interval between 5,512 feet to 6,298 feet as shown on the Compensation Density Neutron

Microlog log of the Energy From Texas - Turner T.D. Lease Well No. 3. The interval includes the entire Cisco series sands which includes the Cisco 3 Sand, the Cisco 6 Sand and other Cisco sands.

6. Gas proration units of 320 acres with optional 40 acres should provide for the effective and efficient depletion of the reservoir.

    a. P/Z vs Gp (gas produced) data demonstrates that gas wells will drain up to 468 acres. Pressure data from gas wells completed in the Cisco 6 Sand shows a well as far away as 2,550 feet are in communication with the original well in the field.

    b. With an estimated ultimate recovery of 1.1 BCF, a 85% recovery factor, the Turner, T.D. Well No. 24-4 will drain 82 acres .

    c. With an estimated ultimate recovery of 160 MMCF, a 85% recovery factor, the Turner, T.D. Well No. 26-1 will drain 26.2 acres.

7. Oil proration units of 80 acres with optional 40 acres should provide for the effective and efficient depletion of the reservoir.

    a. The Turner, T.D. Well No. 43-1 had an initial potential of 83 BOPD, 72 MCF with a flowing tubing pressure of 140 psi on November 18, 2011. Due to the short production history an accurate decline rate can not be established.

    b. Banner calculated with a 20% oil decline rate, the Turner, T.D. Well No. 43-1 will produce 140,910 BO and drain 118 acres.

    c. With a 50% oil decline rate, the Turner, T.D. Well No. 43-1 will produce 48,120 BO and drain 40 acres.

8. Consolidation of the fields will result in the recovery of additional reserves from the two fields as a result of improved drilling and completion economics of fracture stimulating multiple zones and lowering the economic limit of each well.

9. The proposed minimum well spacing, 467'/933' (leaseline/between well) will allow additional flexibility to locate wells along fluvial deposited sands.

10. The field should be classified as associated prorated as existing oil wells and any future oil wells drilled are likely to be separate accumulations of oil not connected to gas production. There is no evidence there exists an oil rim adjacent to any gas production.

11. Allocation based on 90% deliverability and 10% acreage is a reasonable allocation formula which satisfies statutory requirements.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.

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

3. Consideration of field rules, a determination of their effectiveness and appropriate actions is a matter within the Commission jurisdiction.

4. Consolidation of the subject field and adoption of the proposed field rules will prevent waste, foster conservation and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiners recommend approval of the proposed field consolidation and the adoption of field rules for the June Ann (Cisco) Field.

Respectfully submitted,

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Technical Examiner

Marshall F. Enquist
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