

**OIL AND GAS DOCKET NO. 10-0261739**

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**APPLICATION OF SANGUINE GAS EXPLORATION TO CONSOLIDATE THE MILLS RANCH (GRANITE WASH) AND MILLS RANCH (GRANITE WASH, K.C.) FIELDS INTO A SINGLE FIELD CALLED THE MILLS RANCH (GRANITE WASH CONS.) FIELD AND TO ADOPT FIELD RULES FOR THE MILLS RANCH (GRANITE WASH CONS.) FIELD, WHEELER COUNTY, TEXAS**

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

**DATES OF HEARING:** July 28, 2009 and January 4, 2010

**APPEARANCES:**

**REPRESENTING:**

**Applicant:**

Flip Whitworth  
Mark Hanna  
Wayman Gore  
Buddy Richter  
Von Martin

Sanguine Gas Exploration

**Protestants:**

Gregg Owens  
John Hays  
Rob Hargrove  
Don High  
Rex Howell

Beth High, Henry High, deceased,  
and Neely Children Partnership

**EXAMINER'S REPORT AND RECOMMENDATION****STATEMENT OF THE CASE**

Sanguine Gas Exploration ("Sanguine") requests that the Mills Ranch (Granite Wash) Field and the Mills Ranch (Granite Wash, K.C.) Field be consolidated into a single field called the Mills Ranch (Granite Wash Cons.) Field. Sanguine also requests that the following field rules be adopted for the Mills Ranch (Granite Wash Cons.) Field:

1. Designation of the field as the entire correlative interval from 10,297 feet to 11,512 feet as shown on the log of the Sallie Well No. 505;
2. 467'-0' well spacing;
3. 160 acre density for both oil and gas wells; optional 20 acre units;
4. Allocation based on 95% acreage and 5% deliverability, with AOF status for the gas field.

This application was initially protested by mineral owners of an undivided 50% interest in the Granite Wash interval underlying 200 acres in the field area. At the re-convened hearing on January 4, 2010, the protest was withdrawn.

The examiners recommend approval of the application for field consolidation and field rules.

**DISCUSSION OF THE EVIDENCE**

The Mills Ranch (Granite Wash) Field was discovered in 1977 and is an associated field with 12 producing oil wells and 3 producing gas wells. The field operates under rules providing for 933'-1,867' well spacing and 160 acre density for oil wells. The associated gas field operates under Statewide Rules. The rules were adopted effective September 19, 1977 by Docket No. 10-67,684.

The Mills Ranch (Granite Wash, K.C.) Field was discovered in 1980 and is an oil field with 4 producing wells. The field operates under Statewide Rules currently. From April 1981 to January 1983, the field operated under the same spacing and density rule as the Mills Ranch (Granite Wash) Field.

Cumulative production from the Mills Ranch (Granite Wash) Field is 10.2 BCF of gas and 2.5 million BO. Cumulative production from the Mills Ranch (Granite Wash, K.C.) Field is 408 MMCF of gas and 193,000 barrels of oil.

Wells completed in the Mills Ranch (Granite Wash) Field produce from a Granite Wash interval approximately 400 feet deeper than the Kansas City Granite Wash interval from which wells completed in the Mills Ranch (Granite Wash, K.C.) Field produce. Generally, the top of the Kansas City ranges from approximately 9,800 feet to 10,300 feet.

A total of 18 Rule 10 exceptions have been approved by the Commission for the two subject fields, 15 of which are wells operated by Sanguine. For Sanguine's wells, the Rule 10 exceptions already granted are expected to result in the recovery of an additional 122,500 BO and 354 MMCF of gas. Sanguine's exceptions have all been granted within the last year.

Fluid compatibility of fluids from the two zones are not anticipated and have not been an issue so far. Water analyses from the two zones indicate only remote possibilities of scaling if the two waters are combined. Cross-flow is not expected to occur because of similar pressures.

Consolidation of the fields and adoption of a single set of field rules is preferential to individual Rule 10 exceptions. There are numerous existing wellbores which would require Rule 37 exceptions (either lease line or between-well) to be recompleted from the Kansas City to the Granite Wash, assuming that Rule 10 exceptions are individually requested. The elimination of a between-well spacing requirement and the adoption of a 467 foot lease line spacing rule would allow operators to maximize use of existing wellbores and fully develop both sands, without drilling new wells.

Sanguine requests that the consolidated field be designated as the correlative interval from 10,297 feet to 11,512 feet as shown on the log of the Sallie Well No. 505. Because the proposed consolidated field contains multiple sands, a two factor allocation formula is required by statute. Sanguine believes that proposes that allocation be based on 95% acreage and 5% deliverability/potential. Sanguine further requests that the allocation formula be suspended in the consolidated field as there is a market for all gas produced from the fields.

#### **FINDINGS OF FACT**

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. The Mills Ranch (Granite Wash) Field was discovered in 1977 and is an associated field with 12 producing oil wells and 3 producing gas wells. The field operates under rules providing for 933'-1,867' well spacing and 160 acre density for oil wells. The associated gas field operates under Statewide Rules.
3. The Mills Ranch (Granite Wash, K.C.) Field was discovered in 1980 and is an oil field with 4 producing wells. The field operates under Statewide Rules currently.
4. Both of the subject fields produce from Granite Wash intervals. The Mills Ranch (Granite Wash) Field produces from an interval approximately 400 feet deeper than the Mills Ranch (Granite Wash, K.C.) Field produce.

5. Consolidation of the fields will result in the recovery of additional reserves.
  - a. Numerous Rule 10 exceptions have been administratively approved by the Commission.
  - b. The estimated additional recovery as a result of a single Rule 10 exception is 18,000 BO and 52 MMCF of gas.
6. Fluid compatibility of fluids from the two zones is not anticipated and cross-flow is not expected to occur.
7. The proposed spacing rule for the consolidated field will provide for maximize use of existing wellbores, allowing for ease of further development of both sands without drilling new wells.
8. The Mills Ranch (Granite Wash Cons.) Field should be designated as the correlative interval from 10,297 feet to 11,512 feet as shown on the log of the Sallie Well No. 505.
9. Because the proposed designated interval contains multiple sands, a two factor allocation formula is required by statute. Allocation be based on 95% acreage and 5% deliverability/potential is a reasonable formula which will protect correlative rights.
10. Suspension of the allocation formula in the consolidated field is appropriate because there is a market for all gas produced from the field.

#### **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. Consolidation of the fields and adopting field rules for the Mills Ranch (Granite Wash Cons.) Field is necessary to prevent waste and protect correlative rights.
4. Suspension of the allocation formula in the Mills Ranch (Granite Wash Cons.) Field is appropriate pursuant to Statewide Rule 31(j).

**EXAMINER'S RECOMMENDATION**

Based on the above findings and conclusions of law, the examiners recommend approval of the proposed field consolidation and field rules for the Mills Ranch (Granite Wash Cons.) Field.

Respectfully submitted,

Donna K. Chandler  
Technical Examiner