

OIL AND GAS DOCKET NO. 10-0269117

THE APPLICATION OF HOLMES EXPLORATION, LLC TO CONSOLIDATE VARIOUS (CLEVELAND) FIELDS INTO THE PAN PETRO (CLEVELAND) FIELD AND TO AMEND FIELD RULES FOR THE PAN PETRO (CLEVELAND) FIELD, HANSFORD, HUTCHINSON, LIPSCOMB, OCHILTREE AND ROBERTS COUNTIES, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner

DATE OF HEARING: March 23, 2011

APPEARANCES:

REPRESENTING:

APPLICANT:

Michael McElroy
James M. Clark

Holmes Exploration, LLC

OBSERVERS:

Mickey R. Olmstead

Courson Oil & Gas, Inc.
Natural Gas Anadarko Co.

Bob Tierney

Latigo Petroleum, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Holmes Exploration, LLC ("Holmes") requests to consolidate Various (Cleveland) fields into the Pan Petro (Cleveland) Field (ID No. 68735 120). The fields proposed for consolidation are as follows:

FIELD NAME

FIELD NUMBER

Buler, North (Cleveland)
Dutcher (Cleveland)
Ellis Ranch (Cleveland)
Horizon (Cleveland)
Lips, West (Cleveland)

13207 110
26801 333
28506 152
42597 332
53854 500

FIELD NAME

FIELD NUMBER

Perryton, West (Cleveland)
R. H. F. (Cleveland)

70750 111
74035 200

Stekoll (Cleveland)

85878 500

Field Rules for the Pan Petro (Cleveland) Field were originally adopted by Final Order No. 10-79,758, effective July 11, 1983, as amended. The rules currently in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 7,120 feet to 7,268 feet as shown on the log of the Apache Corporation - Robert H. Urban "A" Lease, Well No. 1, (API No. 42 357 00551);
2. 330'-933' well spacing, no minimum well spacing between horizontal and vertical wells and special provisions for "take points" in horizontal wells;
3. 160 acre oil units with a formula for assigning additional acreage to horizontal wells;
4. Allocation based on 100% acres with a top oil allowable of 353 BOPD and an allowable gas-oil ratio of 2,000 standard cubic feet per barrel.

Holmes requests that the Field Rules be amended as follows:

3. 160 acre oil and gas units with a formula for assigning additional acreage to horizontal wells and optional 40 acre density;
4. Field classified as associated-prorated with AOF status, allocation based on 100% acres with a top oil allowable of 353 BOPD and unlimited net gas-oil ratio authority for each oil well.

This application was unopposed and the examiner recommends approval of the field consolidations and amending the Field Rules for the Pan Petro (Cleveland) Field, as requested by Holmes.

DISCUSSION OF THE EVIDENCE

The Pan Petro (Cleveland) Field was discovered in March 1974 at a depth of 7,200 feet. There are 37 producing oil wells and six operators carried on the proration schedule. Cumulative production from the field through December 2010 is 1.8 MMBO and 4.1 BCFG. Horizontal development of the field is expected in the future based on the horizontal development ongoing in this field and in the nearby Kiowa Creek (Cleveland) and Lipscomb, SE (Cleveland) Fields.

The eight fields proposed for consolidation were discovered beginning in September 1957. They operate under either Statewide Field Rules or Field Rules that provide for 160/80 acre oil units and 640 acre gas units. The fields are geographically intermingled and there are no other fields contained within the correlative interval. Since June 2009,

three fields have not had any drilling well permits issued and the remaining fields have mostly had horizontal drilling well permits issued in multiple combinations of the fields to be consolidated.

The Cleveland formation is unique in that it is lenticular and heterogeneous with oil and gas wells intermingled throughout the field. Since the Cleveland formation has limited permeability, Holmes believes that there is no migration of fluids in the reservoir and wells only produce fluids that are contacted by the fracture treatment. As a result, the recovery factor is the same for both oil and gas wells. Holmes requests that the field be classified as associated-prorated with AOF status and that the daily casinghead gas limitation for oil wells be eliminated. This field classification, along with the elimination of the daily casinghead gas limitation for oil wells, would allow both oil and gas wells to produce without being restricted by Statewide Rule 49. A similar rule has been adopted in other fields with horizontal wells, specifically, the Newark, East (Barnett Shale) and Eagleville (Eagle Ford) Fields.

Holmes also requests that the allocation formula be suspended, as there is a 100% market demand for all of the gas produced from the field.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and there were no protests.
2. The eight fields proposed for consolidation were discovered beginning in September 1957.
 - a. They operate under either Statewide Field Rules or Field Rules that provide for 160/80 acre oil units and 640 acre gas units.
 - b. The fields are geographically intermingled and there are no other fields contained within the correlative interval.
 - c. Since June 2009, three fields have not had any drilling well permits issued and the remaining fields have mostly had horizontal drilling well permits issued in multiple combinations of the fields to be consolidated.
3. The eight subject fields should be consolidated into the Pan Petro (Cleveland) Field.
4. No minimum distance between horizontal and vertical wells, 160 acre oil and gas units with a formula for assigning additional acreage to horizontal wells and optional 40 acre density will provide flexibility in locating wells for future

development in the area.

5. The Cleveland formation is unique in that it is lenticular and heterogeneous with oil and gas wells intermingled throughout the field.
6. Since the Cleveland formation has limited permeability, there is no migration of fluids in the reservoir and wells only produce fluids that are contacted by the fracture treatment. The recovery factor is the same for both oil and gas wells.
7. The Pan Petro (Cleveland) Field should be classified as associated-prorated with AOF status and the daily casinghead gas limitation for oil wells should be eliminated.
 - a. This field classification, along with the elimination of the daily casinghead gas limitation for oil wells, would allow both oil and gas wells to produce without being restricted by Statewide Rule 49.
 - b. A similar rule has been adopted in other fields with horizontal wells, specifically, the Newark, East (Barnett Shale) and Eagleville (Eagle Ford) Fields.
8. Suspension of the allocation formula is appropriate, as there is a 100% market demand for all of the gas produced from the field.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was given to all persons legally entitled to notice.
2. All things have occurred or been accomplished to give the Railroad Commission jurisdiction in this matter.
3. Consolidation of the Various (Cleveland) Fields into the Pan Petro (Cleveland) Field and amending the Field Rules for the Pan Petro (Cleveland) Field will prevent waste, protect correlative rights and promote development of the field.

EXAMINER'S RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends that the Commission consolidate the Various (Cleveland) Fields into the Pan Petro (Cleveland) Field. It is further recommended that the Field Rules for the Pan Petro (Cleveland) Field be amended, as requested by Holmes Exploration, LLC.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Hearings Examiner