



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0277308

THE APPLICATION OF ESCONDIDO RESOURCES II, L.L.C. TO AMEND FIELD RULES FOR THE A.W.P. (OLMOS) FIELD, MCMULLEN AND LA SALLE COUNTIES, TEXAS

HEARD BY: Brian Fancher, P.G. - Technical Examiner
Marshall F. Enquist - Legal Examiner

HEARING DATE: August 06, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Bill Spencer
Cary McGregor

Escondido Resources II, L.L.C.

OBSERVER:

Mike Younger

BlackBrush O&G, LLC

EXAMINERS' REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

Permanent Field Rules for the A.W.P. (Olmos) Field were adopted February 8, 1988, per Oil and Gas Final Order 1-88,712. The Notice of Hearing, dated July 16, 2012, for the subject application indicates that Escondido Resources II, L.L.C. ("Escondido") requests that the Field Rules for the A.W.P. (Olmos) Field be amended to provide for the following:

1. No change;
2. 467'-933' well spacing and no minimum between well spacing limitation between horizontal drainhole wells and vertical wells. Special provisions for horizontal well spacing based on 100 foot "take points", a 50 foot "box" rule, "NPZs", and "off-lease" penetration points;
3. No change;
4. No change.

At the hearing, the examiners opined that the requested 100 foot “take points” for the first and last take point, with respect to the perpendicular lease lines to the horizontal wellbore path, was inappropriate to provide horizontal well bores a normal location due to insufficient evidence. Alternatively, the examiners believed it appropriate for the first and last “take points” to be 467 feet from the perpendicular lease line. In response, Escondido requested additional time to provide sufficient evidence for support of the 100 foot “take points”. By correspondence dated October 18, 2012, Escondido withdrew its request for 100 foot “take points”.

Subsequent to the hearing, it came to light that the field rules in effect for the subject field lacked a designated, correlative field interval. As a result, the examiners requested that Escondido submit a proposed correlative interval for the subject field. By letter dated October 24, 2012, Escondido submitted a type log to demonstrate its proposed correlative interval for the subject field. Escondido requests that the subject field be defined as the interval from 9,900 feet to 10,154 feet, as shown on the log for the Escondido Resources II, LLC, Nichols Lease, Well No. 1H (API No. 311-34298) (“Nichols No. 1H”).

By letter dated November 08, 2012, the examiners mailed supplemental notice, along with a copy of the proposed type log, to the service list included with the Notice Of Hearing dated July 16, 2012. The supplemental notice provided operators on the service list the opportunity to review and respond to Escondido’s proposed correlative field interval.

By letter dated November 15, 2012, Layline Petroleum I, LLC (“Layline”) responded to the notice regarding Escondido’s proposed correlative interval for the subject field. Layline believes there is variability in the top of the correlative interval proposed by Escondido. Therefore, Layline requested the subject field be defined as the interval from 9,000 feet to 10,154 feet, as shown on the type log for the Nichols No. 1H.

By letter dated November 28, 2012, the examiners provided notice of Layline’s response to the operators identified on the service list for the Notice Of Hearing dated July 16, 2012. No additional response was received by the examiners.

By correspondence dated January 02, 2013, Escondido indicated it did not consider Layline’s requested correlative field interval for the subject field adverse to its application.

Ultimately, the application is unopposed and the examiners recommend that Field Rules for the A.W.P. (Olmos) Field be amended, as modified by the examiners.

DISCUSSION OF THE EVIDENCE

The A.W.P. (Olmos) Field is an associated-prorated field that was discovered in December 1981 at an average depth of 9,800 feet. The July 2012 oil and gas proration schedules indicate there are multiple operators in the field, 357 oil wells and 4 gas wells producing from the field.

Escondido proposes to drill horizontal infill wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. Escondido requests special field rules be adopted to provide horizontal wellbores more flexibility when requesting permits for normal locations. Escondido requests to amend the current field rules to provide for 467'-933' well spacing with no minimum between well spacing limitation between horizontal drainhole wells, a 50 foot "box" rule, non-perforated zones ("NPZs"), and "off-lease" penetration points for horizontal drainhole wells.

Currently, no correlative interval defines the subject field. Escondido requests that the subject field be defined as the correlative interval from 9,000 feet to 10,152 feet, as shown on the log for the Escondido Resources II, LLC, Nichols Lease, Well No. 1H (API No. 311-34298) ("Nichols No. 1H"), located in McMullen County, Texas.

For purposes of horizontal well spacing, Escondido proposes a tolerance "box rule" for horizontal drainhole wells that would allow drainholes to deviate fifty feet from either side of their permitted track without the necessity of obtaining a Statewide Rule 37 exception. As-drilled wells for which all points are located within the "box" would be considered in compliance with their drilling permits.

Escondido seeks to incorporate off-lease penetration points for horizontal wells in the subject field. Escondido testified that in certain instances it is beneficial to penetrate the reservoir off lease while remaining compliant with the lease line spacing requirement. 16 Texas Admin. Code ("TAC") §3.86 requires that the penetration point of a horizontal drainhole be on the lease. Escondido testified that a horizontal well in the subject field generally requires hundreds of feet of horizontal displacement to make the 90 degree turn from vertical to horizontal. If the penetration point is required to be on the lease, then the first point of production would be considerably less than if the first point of production were the minimum lease line spacing requirement. The proposed rule will allow approximately 500 feet of additional producing drainhole, resulting in the recovery of additional oil and gas reserves. The Commission has adopted similar rules allowing offsite penetration points in other fields, after the operator has given notice to the mineral owners of the off-lease tract on which the penetration point is to be located and received no protest. For purposes of the assignment of additional acreage pursuant to Statewide Rule 86, it is proposed that the distance between the first and last take-point in a horizontal drainhole well be used.

FINDINGS OF FACT

1. Notice of this application and hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing.
2. The A.W.P. (Olmos) Field is an associated-prorated field that was discovered in December 1981 at an average depth of 9,800 feet.
3. Escondido Resources II, L.L.C. ("Escondido") requests to amend Field Rules adopted in Oil and Gas Final Order 1-88,712.

4. Escondido seeks Field Rules that provide for a designated correlative field interval, 467'-933' well spacing and no minimum between-well spacing limitation between horizontal drainhole wells and vertical wells. Special provisions for horizontal well spacing that provide a 50 foot "box" rule, non-perforated zones ("NPZs"), and "off-lease" penetration points for horizontal drainhole wells.
5. The A.W.P. (Olmos) Field should be defined as the correlative interval from 9,000 feet to 10,154 feet, as shown on the log for the Escondido Resources II, LLC, Nichols Lease, Well No. 1H (API No. 311-34298) ("Nichols No. 1H"), located in McMullen County, Texas.
6. The A.W.P. (Olmos) Field is actively being developed with horizontal drainhole wells.
7. The proposed 50 foot "box" rule is necessary to allow operators reasonable minor deviations from the wellbore track that has been permitted.
8. Allowing an "off-lease" penetration point will result in maximum producing drainhole length, thereby increasing ultimate recovery from horizontal drainhole wells. To protect correlative rights, prior notice and opportunity to object should be given to the mineral owners of "off-lease" surface locations.

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. Amending Field Rules for the A.W.P. (Olmos) Field is necessary to prevent waste, protect correlative rights, and promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission amend Field Rules for the A.W.P. (Olmos) Field, as modified by the examiners.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Marshall F. Enquist
Legal Examiner