

THE APPLICATION OF ESCONDIDO RESOURCES II, LLC TO AMEND FIELD RULES FOR THE TRES ENCANTO (ESCONDIDO) FIELD, LA SALLE COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Marshall F. Enquist - Legal Examiner

HEARING DATE: June 8, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Cary McGregor

Escondido Resources II, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Tres Encanto (Escondido) Field were originally adopted in Final Order No. 01-0274130, effective February 28, 2012. The Field Rules currently in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 6,624 feet to 7,124 feet as shown on the log of the Escondido Resources II, LLC - Storey Lease, Well No. 9 (API No. 42-283-32160);
2. 467'-1,200' well spacing, no minimum between well spacing between vertical and horizontal drainhole wells and special provisions for "take points" and a 50 foot "box" rule for horizontal drainhole wells;
3. Allocation based on 100% acres with an oil allowable based on the 1965 Yardstick Allowable of 111 barrels of oil per day.

Escondido Resources II, LLC ("Escondido") requests that the Field Rules be amended to eliminate the between well spacing requirement. The application was unopposed and the examiners recommend that Field Rules for the Tres Encanto (Escondido) Field be amended, as proposed by Escondido.

DISCUSSION OF THE EVIDENCE

The Tres Encanto (Escondido) Field was discovered in November 2005 at an average depth of 6,800 feet. There are five producing oil wells and three operators carried

on the proration schedule. The field operates under Field Rules that provide for 467'-1,200' well spacing and 40 acre oil units. The top oil allowable is the 1965 Yardstick Allowable of 111 barrels of oil per day. Cumulative production from the field through April 2012 is 107.5 MBO and 460.0 MMCFG.

Escondido is drilling horizontal wells in opposite directions from the same surface location (heel to heel), or alternately, Escondido may drill its wells toe to toe. A no minimum between well spacing requirement is necessary in order to promote the efficient and effective development of the remaining hydrocarbons. Escondido requests 467'-0' well spacing and proposes that the density remain on Statewide Rules with 40 acre oil units. Escondido argues that the proposed spacing is necessary to allow drilling of horizontal wells which may have to be placed very near each other in some cases. A no minimum between well spacing requirement rule has already been adopted in the deeper Eagleville (Eagle Ford-1) Field.

Based on available reservoir data, Escondido estimated an average matrix porosity of 11%, an average water saturation of 12%, an average net pay of 22 feet and a recovery factor of 15%. From this information, Escondido calculated the volumetric recoverable oil for 10, 20 and 40 acre units. The recoverable oil was 15, 31 and 62 MBO, respectively. The three Escondido wells have an average projected recovery of 16 MBO per well.

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 Tres Encanto (Escondido) Field was discovered in November 2005 at an average depth of 6,800 feet.
 - a. There are five producing oil wells and three operators carried on the proration schedule.
 - b. The field operates under Field Rules that provide for 467'-1,200' well spacing and 40 acre oil units.
 - c. The top oil allowable is the 1965 Yardstick Allowable of 111 barrels of oil per day.
3. The Tres Encanto (Escondido) Field is actively being developed with horizontal drainhole wells.
4. A no minimum between well spacing requirement is appropriate for the field.
 - a. Escondido is drilling horizontal wells in opposite directions from the same surface location (heel to heel), or alternately, Escondido may drill its wells toe to toe.

- b. A no minimum between well spacing requirement is necessary in order to promote the efficient and effective development of the remaining hydrocarbons.
- c. The proposed spacing is necessary to allow drilling of horizontal wells which may have to be placed very near each other in some cases.
- d. A no minimum between well spacing requirement rule has already been adopted in the deeper Eagleville (Eagle Ford-1) Field.

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 Tres Encanto (Escondido) 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 Tres Encanto (Escondido) Field, as requested by Escondido Resources II, LLC.

Respectfully submitted,

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Technical Examiner

Marshall F. Enquist
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