

THE APPLICATION OF ESCONDIDO RESOURCES II, LLC TO AMEND FIELD RULE NOS. 2 AND 3 AND ADOPT FIELD RULE NO. 5 FOR THE OWEN (OLMOS) FIELD, LA SALLE AND WEBB COUNTIES, TEXAS

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

DATE OF HEARING: July 12, 2011

APPEARANCES:

REPRESENTING:

APPLICANT:

Bill G. Spencer
Cary McGregor

Escondido Resources II, LLC

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Owen (Olmos) Field were originally adopted in Final Order No. 4-61,763, effective May 23, 1972, as amended. The Field Rules in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 5,050' to 7,014' as shown on the Induction log of the Tesoro Petroleum Corporation - Webb County School Land Lease, Well No. 1 (API No. 42-479-30249);
2. 467'-660' well spacing, no minimum between well spacing between vertical and horizontal wells with special provisions for "take points" and "off-lease" penetration point for horizontal drainhole wells;
3. 320 acre gas units with optional 40 acre density with a formula for the assignment of additional acreage to horizontal drainhole wells;
4. Allocation based on 50% deliverability and 50% acres with AOF status.

Escondido Resources II, LLC ("Escondido") requests that Field Rule Nos. 2 and 3 be amended to provide for 467' lease line spacing, no between well spacing with special provisions for "take points", a "box rule" and "off-lease" penetration point for horizontal drainhole wells and no requirement for the filing of individual proration unit plats. Escondido also requests that Field Rule No. 5 be adopted to provide for "stacked laterals"

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for horizontal drainhole wells and that the allocation formula remain suspended.

The application was unopposed and the examiner recommends that Field Rule Nos. 2 and 3 be amended and Field Rule No. 5 be adopted for the Owen (Olmos) Field, as proposed by Escondido.

DISCUSSION OF EVIDENCE

The Owen (Olmos) Field was discovered in November 1971 at an average depth of 7,000 feet. The field is designated as an associated field with 296 producing gas wells, no oil wells and eight operators carried on the proration schedules. The field operates under Special Field Rules that provide for 467'/660' well spacing, 0' between vertical and horizontal wells with special provisions for "take points" and "off-lease" penetration point for horizontal drainhole wells and 320 acre gas units with optional 40 acre density with a formula for the assignment of additional acreage to horizontal drainhole wells. The allocation formula is currently suspended. Cumulative production from the field through April 2011 is 157.4 BCFG and 448.0 MBO.

Escondido is proposing to drill additional horizontal wells and requests horizontal rules in order to promote the efficient and effective development of the remaining hydrocarbons. Escondido requests a spacing rule that requires 467' lease line spacing, no between well spacing with special provisions for "take points", off-lease penetration point and a "box rule" for horizontal drainhole wells. 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.

Escondido proposes a tolerance "box rule" for horizontal drainhole wells that would allow drainholes to deviate 50 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 also requests that a Field Rule be adopted to accommodate the drilling of stacked horizontal lateral wells. The gross thickness of the Olmos interval is almost 2,000 feet. Escondido believes that several separate laterals may be necessary to effectively develop the various reservoirs with horizontal wells. The rule would allow stacked horizontal laterals within the Olmos correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes. It is proposed that a stacked lateral be defined to be multiple horizontal drainholes which are drilled from different surface locations. Similar horizontal drainhole well rules have already been adopted in the Briscoe Ranch (Eagleford), Carthage (Haynesville Shale) and Indio Tanks (Pearsall) Fields.

The allocation formula is currently suspended and Escondido requests that it remain suspended, as there is a 100% market demand for all of the gas produced from the field.

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Additionally, Escondido requests that proration unit plats not be required for individual wells, but that Form P-15 be filed to designate the number of acres to be assigned to each well.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Owen (Olmos) Field was discovered in November 1971 at an average depth of 7,000 feet. The field is designated as an associated field with 296 producing gas wells, no oil wells and eight operators carried on the proration schedules.
3. Field rules for the Owen (Olmos) Field provide for 467'/660' well spacing, 0' between vertical and horizontal wells with special provisions for "take points" and "off-lease" penetration point for horizontal drainhole wells and 320 acre gas units with optional 40 acre density with a formula for the assignment of additional acreage to horizontal drainhole wells.
4. The Owen (Olmos) Field is actively being developed with horizontal drainhole wells.
5. Field Rules that provide for 467' lease line spacing and no between well spacing with special provisions for "take points", "off-lease" penetration point, a "box rule" and "stacked laterals" for horizontal wells will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
6. The proposed 50 foot "box rule" is necessary to allow operators reasonable minor deviations from the wellbore track that has been permitted.
7. The proposed "stacked lateral" rule will allow stacked horizontal laterals within the Olmos correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes, which will facilitate the additional recovery of gas.
8. Similar horizontal drainhole well rules have already been adopted in the Briscoe Ranch (Eagleford), Carthage (Haynesville Shale) and Indio Tanks (Pearsall) Fields.
9. Continued suspension of the allocation formula is appropriate, as there is a 100% market demand for all of the gas produced from the field.

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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 Rule Nos. 2 and 3 and adopting Field Rule No. 5 for the Owen (Olmos) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends that the Commission amend Field Rule Nos. 2 and 3 and adopt Field Rule No. 5 for the Owen (Olmos) Field, as proposed by Escondido Resources II, LLC.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner