

OIL AND GAS DOCKET NO. 04-0271443

THE APPLICATION OF ESCONDIDO RESOURCES II, LLC TO AMEND FIELD RULE NO. 2 FOR THE LAS TIENDAS (OLMOS) FIELD, WEBB COUNTY, TEXAS

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

DATE OF HEARING: July 27, 2011

APPEARANCES:

REPRESENTING:

APPLICANT:

Bill Spencer
Cary McGregor

Escondido Resources II, LLC

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Las Tiendas (Olmos) Field were originally adopted in Final Order No. 4-71,315, effective February 12, 1979, as amended. The Field Rules in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 6,675 feet to 6,877 feet as shown on the log of the Mormac Oil & Gas Company - Cox Lease, Well No. 1 (API No. 42-479-30484);
2. 467'-933' well spacing;
3. 320 acre gas units with optional 40 acre density;
4. Allocation based on 100% deliverability with AOF status.

Escondido Resources II, LLC ("Escondido") requests that Field Rule No. 2 be amended to provide for 467'-933' well spacing with no between well spacing between vertical and horizontal wells and special provisions for "take points", "off-lease" penetration point and a "box rule" for horizontal drainhole wells. Escondido also requests that the allocation formula remain suspended.

The application was unopposed and the examiner recommends that Field Rule No. 2 be amended for the Las Tiendas (Olmos) Field, as proposed by Escondido.

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DISCUSSION OF EVIDENCE

The Las Tiendas (Olmos) Field was discovered in April 1974 at an average depth of 6,700 feet. The field is designated as non-associated with 598 producing gas wells and eleven operators carried on the proration schedule. The field operates under Special Field Rules that provide for a designated interval, 467'/933' well spacing and 320 acre gas units with optional 40 acre density. The allocation formula is currently suspended. Cumulative production from the field through April 2011 is 183.9 BCFG and 230.0 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'/933' well spacing with no between well spacing between vertical and horizontal wells and special provisions for "take points", "off-lease" penetration point and a "box rule" for horizontal drainhole wells. Similar horizontal drainhole well rules have already been adopted in the Briscoe Ranch (Eagleford), Owen (Olmos) and Indio Tanks (Pearsall) Fields.

Escondido requests that a field rule be adopted which includes language relevant to the measurement of well spacing for horizontal drainhole wells. Escondido's proposed rule specifies that, for purposes of well spacing, the nearest "take point" in a horizontal well be used. This take-point could be a perforation, if a horizontal well is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased well.

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.

In some cases, it is beneficial to penetrate the reservoir off lease, while still having "take points" no closer to lease lines than allowed under the field rules. Escondido requests that Field Rules for the subject field provide for an "off-lease" penetration point. Statewide Rule 86 requires that the penetration point of a horizontal drainhole be on the lease. In this field, a well generally requires approximately 600 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 about 600 feet from the lease line. The proposed rule will allow approximately 200 feet of additional producing drainhole, resulting in the recovery of additional oil and gas reserves. Similar rules allowing offsite penetration points have been adopted in other fields, after notice to the mineral owners of the off-lease tract on which the penetration point is to be located and if no protest is received.

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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FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Las Tiendas (Olmos) Field was discovered in April 1974 at an average depth of 6,700 feet. The field is designated as non-associated with 598 producing gas wells and eleven operators carried on the proration schedule.
3. Field rules for the Las Tiendas (Olmos) Field provide for a designated interval, 467'/933' well spacing and 320 acre gas units with optional 40 acre density. The allocation formula is currently suspended.
4. The Las Tiendas (Olmos) Field is actively being developed with horizontal drainhole wells.
5. Field Rules that provide for 467'/933' well spacing with no between well spacing between vertical and horizontal wells and special provisions for "take points", "off-lease" penetration point and a "box rule" for horizontal drainhole wells will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
6. A spacing rule which utilizes "take-points" in a horizontal well for the determination of well spacing will not harm correlative rights.
 - a. The Olmos formation is a tight formation and is not commercially productive unless fracture-stimulated.
 - b. A "take-point" in a horizontal drainhole well in this field may be a perforation, if a horizontal well is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased portion of the wellbore.
 - c. "Take points" will allow the horizontal drainhole length on a lease to be maximized.
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. The proposed rule will allow approximately an additional 200 feet of producing drainhole. To protect correlative rights, prior notice and

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opportunity to object should be given to the mineral owners of offsite surface locations.

9. Similar horizontal drainhole well rules have already been adopted in the Briscoe Ranch (Eagleford), Owen (Olmos) and Indio Tanks (Pearsall) Fields.
10. Continued 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 issued.
2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.
3. Amending Field Rule No. 2 for the Las Tiendas (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 No. 2 for the Las Tiendas (Olmos) Field, as proposed by Escondido Resources II, LLC.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner