

**THE APPLICATION OF BANNER OPERATING, LLC TO AMEND AND RENUMBER
FIELD RULES FOR THE FUNK (SAN ANDRES) FIELD, IRION AND TOM GREEN
COUNTIES, TEXAS**

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

HEARING DATE: October 5, 2011

APPEARANCES:

REPRESENTING:

APPLICANT:

Keith B. Masters

Banner Operating, LLC

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Funk (San Andres) Field were adopted in Final Order No. 7-25,042, effective December 8, 1952, as amended. The Field Rules are summarized as follows:

1. 330'-660' well spacing;
2. Permitted gas-oil ratio of 2,000 cubic feet per barrel;
3. 10 acre oil units;
4. Allocation based on 75% acres and 25% per well with an MER oil allowable of 35 BOPD;
5. Surface casing requirements.

Banner Operating, LLC ("Banner") requests that Field Rules for the Funk (San Andres) Field be amended and renumbered as follows:

1. Designation of the field as the correlative interval from 724 feet to 1,084 feet, as shown on the log of the Banner Operating, LLC - Livingston 30 Lease, Well No. 1 (API No. 42-451-32719);
2. 233'-467' well spacing;

3. 40 acre oil units with optional 10 acre density;
4. Allocation based on 100% acres with an MER oil allowable of 35 BOPD.

The application was unopposed and the examiner recommends that Field Rules for the Funk (San Andres) Field be amended and renumbered, as proposed by Banner.

DISCUSSION OF THE EVIDENCE

The Funk (San Andres) Field was discovered in February 1952 at an average depth of 750 feet. There are four producing oil wells and four operators carried on the proration schedule. Current Field Rules provide for 330'-660' well spacing and 10 acre oil units. Cumulative production from the field through August 2011 is 463.4 MBO.

There is currently no defined correlative interval for the field. Banner requests that the field be defined as the correlative interval from 724 feet to 1,084 feet, as shown on the log of the Banner Operating, LLC - Livingston 30 Lease, Well No. 1 (API No. 42-451-32719), Section 30, Block 5, H&TC RR Co. Survey, A-7189, Tom Green County, Texas. This interval includes the entire San Andres formation.

Banner is planning on drilling infill wells and requests Field Rules that provide for 233'-467' well spacing and 40 acre oil units with optional 10 acre density to provide consistency in developing the field and allow greater flexibility in selecting future drilling locations. From the available reservoir data, Banner estimated an average porosity of 8%, an average water saturation of 45%, an average net pay of 16 feet and a recovery factor of 15%. Banner calculated drainage areas for three wells in the field. The drainage areas were 46 acres, 30 acres and 11 acres, with an average of 29 acres. Banner opined that these drainage areas supported the requested 233'-467' well spacing and 40 acre oil units with optional 10 acre density.

Since the field produces from the San Andres reservoir, Banner did not believe a two factor allocation formula was necessary. As a result, Banner requests allocation based on 100% acres and that the MER allowable of 35 BOPD be retained. Banner also requests that any overproduction in the field be canceled.

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 Funk (San Andres) Field was discovered in February 1952 at an average depth of 750 feet.
 - a. There are four producing oil wells and four operators carried on the

proration schedule.

- b. Current Field Rules provide for 330'-660' well spacing and 10 acre oil units.
3. The Funk (San Andres) Field should be defined as the correlative interval from 724 feet to 1,084 feet, as shown on the log of the Banner Operating, LLC - Livingston 30 Lease, Well No. 1 (API No. 42-451-32719). This interval includes the entire San Andres formation.
4. Adoption of 233'-467' well spacing and 40 acre oil units with optional 10 acre density for the Funk (San Andres) Field is appropriate.
 - a. From the available reservoir data, Banner estimated an average porosity of 8%, an average water saturation of 45%, an average net pay of 16 feet and a recovery factor of 15%.
 - b. Banner calculated drainage areas for three wells in the field. The drainage areas were 46 acres, 30 acres and 11 acres, with an average of 29 acres.
 - c. Banner is planning on drilling infill wells and Field Rules that provide for 233'-467' well spacing and 40 acre oil units with optional 10 acre density will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
5. Allocation based on 100% acres and an MER allowable of 35 BOPD is appropriate for 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 and renumbering the Field Rules for the Funk (San Andres) Field is necessary to prevent waste, protect correlative rights and promote development of the field.
4. Canceling any overproduction in the Funk (San Andres) Field will not cause waste and will not harm correlative rights.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends that the Commission amend and renumber the Field Rules for the Funk (San Andres) Field and cancel any overproduction in the field, as requested by Banner Operating, LLC.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner