

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 08-0274444

THE APPLICATION OF OGX OPERATING, LLC, INC. TO AMEND FIELD RULES FOR
THE F.A. HOGG (PENN DETRITAL) FIELD, WINKLER COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Michael Crnich - Hearings Examiner

HEARING DATE: February 22, 2012

APPEARANCES:

Flip Whitworth
Cary McGregor
Garland Lang

REPRESENTING:

OGX Operating, LLC.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field rules for the F.A. Hogg (Penn Detrital) Field were last amended in Final Order No. 8-82,126, effective May 24, 1984, and are summarized as follows:

1. 660'-1,867' well spacing;
2. 160 acre units with 40 acre tolerance and maximum diagonal of 4,500 feet;
3. Allocation based on 100% acreage.

OGX Operating requests that the rules for the field be amended as follows:

1. Designation of the field as the correlative interval from 8,255' to 9,090' as shown on the Induction-SP Gamma Ray log of the Hillard Oil & Gas, Mitchell "B" Well No. 1;
2. 467'-0' well spacing, special language for "take points" in horizontal wells, 100' first & last take point distance, 50' box rule, and off-lease penetration points;

3. 160 acre units with 40 acre tolerance, No Plats;
4. Allocation based on 95% acreage and 5% per well;
5. Special provisions for stacked lateral wells.

The application was unopposed, and the examiners recommend that the field rules for the F.A. Hogg (Penn Detrital) Field be amended as proposed by OGX Operating.

DISCUSSION OF EVIDENCE

The F.A. Hogg (Penn Detrital) Field was discovered in February 1982 at a depth of 8,813 feet. The field currently has one oil well on the proration schedule. OGX Operating is the only operator in the field and has drilled the first horizontal well in the field. The field operates under Special Rules that allow 160 acre density and 660'/1,867' well spacing.

The F.A. Hogg (Penn Detrital) Field has had four vertical well completions since 1982. The field has produced a cumulative production of 45,485 BO from the four wells. Production from the vertical wells ended in 1990. OGX Operating drilled a recent vertical well, the Softail 10-17 No.1, in November 2009. The Softail 10-17 No.1 had an initial potential of 34 BO and 85 MCF of gas per day. Within two years, through November 2011 production declined to 7.1 BOPD and 68 MCFPD. The well has produced 12,941 BO. OGX Operating completed their first horizontal well, the Springer 10 23 No. 1H, in August 2011. The Springer 10 23 No. 1H had an initial potential of 153 BO and 112 MCF of gas per day with a flowing tubing pressure of 710 psig. Within two months, through November 2011 production increased to 493 BOPD and 388 MCFPD, and the well has produced 40,221 BO and 28.5 MMCF.

OGX Operating requests that the field be designated as the correlative interval from 8,255' to 9,090' as shown on the Induction-SP Gamma Ray log of the Hillard Oil & Gas, Mitchell "B" Well No. 1. This interval includes multiple Pennsylvanian zones including the Penn Detrital, Penn "A", Penn "B", Penn "C", and the Penn Atoka which each may be productive in future wells.

OGX Operating is amending the existing field rules in the F.A. Hogg (Penn Detrital) Field to adopt horizontal rules to allow efficient and orderly development of the F.A. Hogg (Penn Detrital) Field with horizontal wells. The F.A. Hogg (Penn Detrital) Field produces from several Pennsylvanian zones. The proposed horizontal rules are similar to horizontal rules found in other horizontal play fields through out the State. OGX Operating requests adoption of 467' lease line spacing and 0' between well spacing to be consistent with the spacing rules of other fields undergoing horizontal development. The 0' between well spacing will allow the drilling of horizontal wells in between the numerous existing vertical

wells.

OGX Operating requests several standard horizontal well provisions commonly adopted when horizontal well development is anticipated. The provisions include take point language to allow flexible drilling of the laterals and off-lease penetration to allow the additional recovery of reserves by allowing the lateral to be horizontal at a legal lease line location. An additional stage frac will be placed on each lateral if off lease penetration is allowed. OGX Operating requests special spacing for the first and last take points on a horizontal lateral to be as close as 100 feet perpendicular to the lease line. This will allow the recovery of additional reserves as an additional 734 feet of lateral length will recover oil reserves.

It is also requested that spacing rules for the field be adopted to accommodate the drilling of stacked horizontal lateral wells. The gross thickness of the Penn Detrital field interval is over 830 feet. Within the correlative interval there are distinct intervals that are productive. Each interval, the Penn Detrital, Penn "A", Penn "B", Penn "C", and the Penn Atoka, contain oil and may be developed with stacked horizontal laterals in the future. OGX Operating believes that several separate laterals may be necessary to effectively develop the reservoirs with horizontal wells. Similar stacked lateral rules have already been adopted in numerous horizontal play fields in the state. The rule would allow stacked horizontal laterals within the Penn correlative interval that are drilled from different wellbores to be considered a single well for regulatory purposes.

OGX Operating proposes a 50 foot "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.

Because the proposed designated interval contains multiple productive intervals, a two factor allocation formula is required by statute. OGX Operating proposes that allocation be based on 95% acreage and 5% per well.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The F.A. Hogg (Penn Detrital) Field is a oil field which operates under Special Rules that allow 160 acre density and 660'/1,867' well spacing.
3. The F.A. Hogg (Penn Detrital) Field was discovered in February 1982 at a depth of 8,813 feet. The field has had four vertical well completions since 1982.

4. The entire correlative interval between 8,255' to 9,090' as shown on the Induction-SP Gamma Ray log of the Hillard Oil & Gas, Mitchell "B" Well No. 1 should be designated as the F.A. Hogg (Penn Detrital) Field.
5. Field rules that provide for 467 feet lease line spacing, elimination of between well spacing for all wells in the field, take point language, off lease penetration, stacked laterals and a "box rule" for horizontal wells will provide consistency with other horizontal play fields in the State under going horizontal drilling.
6. Adopting field rules that provide for eliminating between well spacing will allow horizontal wells be drilled between existing vertical 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 off-lease penetration will allow an additional stage frac to be placed on each lateral causing the recovery of additional reserves that would otherwise be left in the ground.
9. Given that the gross thickness of the Penn Detrital interval in this field is over 830 feet, multiple stacked laterals may be required to fully develop the reservoir.
10. The proposed "stacked lateral" rule for the F.A. Hogg (Penn Detrital) Field will allow stacked horizontal laterals within the Penn Detrital correlative interval that are drilled from different wellbores to be considered a single well for regulatory purposes.
11. Allocation based on 95% acreage and 5% per well is a reasonable allocation formula which satisfies statutory requirements.

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 the field rules for the F.A. Hogg (Penn Detrital) 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 examiners recommend amendment of the field rules for the F.A. Hogg (Penn Detrital) Field as proposed by OGX Operating, LLC.

Respectfully submitted,

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Technical Examiner

Michael Crnich
Hearings Examiner