

DISCUSSION OF EVIDENCE

The Seminole Draw (San Andres) Field was discovered in July 1990 at an average depth of 5,000 feet. There are three producing oil wells carried on the oil proration schedule and Texland is the only operator in the field. The field operates under Statewide Field Rules. Cumulative production from the field through June 2013 is 158.5 MBO and 2.7 MMCFG.

There is currently no defined correlative interval for the field. Texland requests that the Seminole Draw (San Andres) Field be defined as the correlative interval from 4,690 feet to 5,699 feet as shown on the log of the Forest Oil Corporation - Barron Lease, Well No. 1-R (API No. 42-165-31963), Section 13, Block A21, PSL Survey, A-2006, Gaines County, Texas. The correlative interval includes all of the productive portion of the San Andres formation.

Texland is developing the field with horizontal drainhole wells and requests that Field Rules be adopted to promote the efficient and effective development of the remaining hydrocarbons. Texland proposes 330'-0' well spacing with special provisions for "take points", 100' lease line spacing for the first and last take points, 33' "box" rule and "off-lease" penetration point for horizontal drainhole wells. Similar Field Rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Spring, Cotton Valley and Barnett Shale formations.

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

Texland also proposes a 33' "box rule" for horizontal drainhole wells that would allow drainholes to deviate 33 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. Texland 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 500 feet of additional producing drainhole,

which will result in the recovery of additional reserves. The Commission has adopted similar rules allowing offsite penetration points in other fields, after the operator has given notice to the mineral owners of the off-lease tract on which the penetration point is to be located and received no protest.

The Seminole Draw (San Andres) Field is located in the Midland Basin and the San Andres formation is correlative across the entire area. The San Andres formation is a low permeability dolomite reservoir that requires fracture stimulation and has a solution gas drive as the primary drive mechanism. Texland is requesting that the first and last take points of a lateral be as close as 100' to lease lines. The San Andres reservoir has oriented fractures and most of the drainage is along the fracture orientation with little contribution from the matrix in a perpendicular direction. A wellbore can be presumed to be drilled to encounter the maximum number of fractures and, therefore, be perpendicular to the fracture direction. The end points of such a lateral will not drain over 100' from the matrix in a direction perpendicular to fracture direction. The 100' leaseline spacing for the first and last take points will result in the additional recovery of hydrocarbons.

Texland requests 40 acre oil units with optional 20 acre density. The closest San Andres formation field is the Robertson, N. (San Andres) Field, which also has 40 acre oil units with optional 20 acre density. For purposes of the assignment of additional acreage pursuant to Statewide Rule 86, it is proposed that the distance between the first and last take points in a horizontal drainhole well be used. Texland also 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 with no maximum diagonal limitation. Texland proposes allocation based on 100% acres with a top oil allowable based on the 1965 Yardstick Allowable of 102 barrels of oil per day.

FINDINGS OF FACT

1. Notice of this hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing and no protests were received.
2. The Seminole Draw (San Andres) Field was discovered in July 1990 at an average depth of 5,000 feet.
 - a. There are three producing oil wells carried on the oil proration schedule and Texland is the only operator in the field.
 - b. The field operates under Statewide Field Rules.
 - c. The Seminole Draw (San Andres) Field is actively being developed with horizontal drainhole wells.

3. The Seminole Draw (San Andres) Field should be defined as the correlative interval from 4,690 feet to 5,699 feet as shown on the log of the Forest Oil Corporation - Barron Lease, Well No. 1-R (API No. 42-165-31963), Section 13, Block A21, PSL Survey, A-2006, Gaines County, Texas. The correlative interval includes all of the productive portion of the San Andres formation.
4. A spacing rule which utilizes "take-points" in a horizontal well for determination of distances to lease lines will prevent waste and will not harm correlative rights.
 - a. A take-point in a horizontal well in this field may be a perforation in a horizontal well that is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased portion of the wellbore.
 - b. Adoption of the proposed rule will allow the horizontal drainhole length on a lease to be maximized.
5. The proposed 33' "box rule" is necessary to allow operators reasonable minor deviations from the wellbore track that has been permitted.
6. Allowing an "off-lease" penetration point will result in maximum producing drainhole length, thereby increasing ultimate recovery from horizontal drainhole wells. To protect correlative rights, prior notice and opportunity to object should be given to the mineral owners of "off-lease" surface locations.
7. A 100' leaseline spacing for the first and last take points will result in an additional recovery of reserves.
 - a. The San Andres formation is a low permeability dolomite reservoir that requires fracture stimulation.
 - b. The San Andres reservoir has oriented fractures and most of the drainage is along the fracture orientation with little contribution from the matrix in a perpendicular direction.
 - c. A wellbore can be presumed to be drilled to encounter the maximum number of fractures and, therefore, be perpendicular to the fracture direction.
 - d. The end points of such a lateral will not drain over 100' from the matrix in a direction perpendicular to fracture direction.

8. Adoption of 40 acre oil units with optional 20 acre density is appropriate for the Seminole Draw (San Andres) Field.
 - a. The closest San Andres formation field is the Robertson, N. (San Andres) Field, which also has 40 acre oil units with optional 20 acre density.
 - b. For purposes of the assignment of additional acreage pursuant to Statewide Rule 86, it is proposed that the distance between the first and last take points in a horizontal drainhole well be used.
9. Similar Field Rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Springs, Cotton Valley and Barnett Shale formations.
10. Allocation based on 100% acres with a top oil allowable based on the 1965 Yardstick Allowable of 102 barrels of oil per day is appropriate for the Seminole Draw (San Andres) Field.
11. The filing of Form P-15 to designate the number of acres to be assigned to each well for proration purposes with no proration unit plats will eliminate unnecessary paperwork.

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. Adopting Field Rules for the Seminole Draw (San Andres) 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 that the Commission adopt Field Rules for the Seminole Draw (San Andres) Field, as proposed by Texland Petroleum, LP.

Respectfully submitted,



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