

OIL AND GAS DOCKET NO. 10-0248910

THE APPLICATION OF HOLMES EXPLORATION, LLC TO AMEND THE FIELD RULES FOR THE KIOWA CREEK (CLEVELAND) FIELD, LIPSCOMB AND OCHILTREE COUNTIES, TEXAS

Heard by: Donna K. Chandler on October 26, 2006

Appearances:

Clark Jobe
Daniel Hawe

Bill Spencer

Representing:

Holmes Exploration, LLC

Chesapeake Operating, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The only field rule currently in effect for the Kiowa Creek (Cleveland) Field is the designated interval for the field. The field is defined as the correlative interval from 7,248 feet to 7,400 feet as shown on the log of the Brillhart 852 Well No. 3. Holmes Exploration, Inc. requests that the following rules be added to the field rules:

2. 467' - 933' well spacing for vertical and horizontal wells;
3. 160 acre oil and gas units with a maximum diagonal of 4,500 feet; optional 40 acre units with a maximum diagonal of 2,100 feet; additional acreage assignments for horizontal wells;
4. 100% acreage allocation.

This application was unopposed and the examiner recommends that the field rules for the Kiowa Creek (Cleveland) Field be adopted as proposed by Holmes Exploration, LLC.

DISCUSSION OF EVIDENCE

The Kiowa Creek (Cleveland) Field was discovered as an oil field in 1960. In 1979, the first gas well was completed in the field. There are currently three active oil wells and five active gas wells in the field. The gas field is classified as associated-prorated and the allocation formula is suspended. The field currently operates under Statewide Rules, although the gas field has operated under 640 acre/optional 320 acre rules in the past.

Besides the eight active wells, four other wells produced from this field and have been plugged and abandoned. All of the wells have been vertical wells until Holmes drilled its Bailey No. 9392. This well is a horizontal well with a drainhole lateral of about 2,500 feet. Holmes completed the well in June 2006 and plans to drill additional horizontal wells.

For the gas wells, ultimate recoveries for the vertical wells range from 45 MMCF to 1,774 MMCF. The Gray 853 No. 3 is the most prolific well in the field to date, with 1,774 MMCF estimated ultimate recovery. The calculated drainage area for this well is 146 acres. Because the other wells in the field have significantly lower ultimate recoveries, Holmes requests 160 acre/optional 40 acre density for the field. Additionally, the Cleveland is highly compartmentalized, both vertically and horizontally and the reservoir properties vary from well to well. There is no way to predict whether a well at a particular location will be an oil well or a gas well. Holmes therefore requests that the 160/optional 40 acre rules apply to both oil and gas wells.

Additional horizontal wells are planned for the field and the proposed horizontal rules are consistent with those adopted previously by the Commission for many other fields.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Kiowa Creek (Cleveland) Field was discovered in 1960 as an oil field and the first gas well was completed in 1979. The field is associated-prorated and operates under Statewide Rules.
3. There are currently three oil wells and five gas wells in the field six producing oil wells in the field. The most recent well is a horizontal well, the Bailey No. 9392, completed by Holmes Exploration, LLC.
4. The Cleveland Formation is heterogeneous, both vertically and horizontally. There is no way to predict whether a well will be classified as an oil well or gas well.
5. Wells in the field have varying reservoir properties and drainage capabilities.
 - a. Estimated ultimate recoveries for vertical Cleveland gas wells range from 45 MMCF to 1,774 MMCF.
 - b. The Gray 853 No. 3 is the most prolific well in the field to date and has a calculated drainage area of 146 acres.
 - c. The Cleveland Formation is highly compartmentalized, both vertically and horizontally and the reservoir properties vary from well to well.

6. Well spacing a minimum of 467 feet from lease lines and 933 feet between wells will provide flexibility in developing this field using horizontal drainhole wells.

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 Kiowa Creek (Cleveland) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends that the Commission amend the field rules for the Kiowa Creek (Cleveland) Field as proposed by Holmes Exploration, LLC.

Respectfully submitted,

Donna K. Chandler
Technical Examiner