



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 04-0290062

THE APPLICATION OF SMITH PRODUCTION, INC. FOR A NEW FIELD DESIGNATION FOR THE CHARAMOUSCA (COLE CONS.) FIELD AND TO ADOPT FIELD RULES FOR THE PROPOSED CHARAMOUSCA (COLE CONS.) FIELD DUVAL COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Laura Miles-Valdez – Legal Examiner

DATE OF HEARING: August 1, 2014

APPEARANCES:

REPRESENTING:

APPLICANT:

Smith Production, Inc.

David Gross
Dale Miller

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Smith Production, Inc. ("Smith") requests a new field designation for the proposed Charamousca (Cole Cons.) Field and to adopt field rules for the proposed field. Smith proposes to adopt the following field rules:

1. A correlative interval from 700 feet to 1,180 feet as shown on the Smith Production, Inc. – Smith Production DCRC 295 No. 2, Duval County, Texas to be designated as a single reservoir for proration purposes and be designated as the Charamousca (Cole Cons.) Field;
2. 330'-660' (lease line, between well spacing);
3. 20 acre oil proration units; with a 20 acre tolerance assigned to the last well on the lease;

4. A two factor allocation formula based on 95% acreage and 5% per well.
5. A discovery allowable remain in effect for the first two years or until the eleventh well is drilled in the field, whichever occurs first. After that time, Smith requests that the 1965 Yardstick be adopted for all wells in the field.

Notice of the application was sent to all operators with active wells within 2.5 miles of the discovery well. The application is not protested. The examiners recommend approval of a new field designation for the proposed Charamousca (Cole Cons.) Field and to adopt field rules for the field, as proposed by Smith.

DISCUSSION OF THE EVIDENCE

Smith is requesting a new field designation for the proposed Charamousca (Cole Cons.) Field with the discovery well being the DCRC – Section 295 Lease, Well No. 2 API No. 42-131-39314, Duval County, Texas (“Smith Well No. 2”). This well is completed in the Cole Sand Formation with perforations from 995 feet to 1,003 feet. The requested correlative interval for the proposed new field is 700 feet to 1,183 feet as shown on the on the Smith Well No. 2 log. The initial potential of Smith Well No. 2 tested at 92 BOPD of 20.6 API gravity, with no gas and no water on November 13, 2013. The calculated initial bottomhole shut-in pressure of the discovery well was 476 psi, which is considered to be virgin pressure for a well completed at this depth. Smith Well No. 2 produces from a new, separate fault block than wells previously drilled in this area.

The nearest production to Smith Well No. 2 is the DCRC – Section 295 Lease, Well No. 1, and (“Smith Well No. 1”). Smith Well No. 1 produces from the same stratigraphic member as Smith Well No. 2, but Well No. 1 is on the up-dip side of a northwest to southeast trending fault line. Smith believes that Smith Well No. 1 is properly carried on the proration schedule for the Casa Blanca, West Field. The discovery well for the Casa Blanca, West Field produced from intervals from 1,043 feet to 1,048 feet, however, there have been numerous dry holes drilled and fault blocks identified between the discovery well for the Casa Blanca, West Field and the proposed discovery well for the new field.

A regional area map shows that the proposed new field is not any part of the Charamousca Field, which is located one mile south of the proposed new field, or the Casa Blanca, West Field, which is located approximately three miles south of the proposed new field. The proposed new field is separated from these nearby fields by numerous dry holes that penetrated the proposed correlative interval of the new field. A structural cross-section of the area indicates that the proposed discovery well for the new field produces from a separate and distinct interval than the Charamousca Field

and the Casa Blanca, West Field, as faults isolate the various fields from each other. Furthermore, the virgin pressure encountered by Smith Well No. 2 indicates that the proposed new field is "fault-separated" from other fields and the proposed new field is a separate and distinct reservoir. Smith concludes that a fault to the north of the proposed new field separates wells to the north of the fault from the proposed new field, which include the Smith DCRC – Section 295 Lease, Well No.1, which Smith agrees is not located in the new proposed field. Smith DCRC – Section 295 Lease, Well Nos. 4 and 5 (API Nos. 131-39341, and 131-39371, respectively) are located in the same fault block as the discovery well for the proposed field. If the application for a new field designation is approved, Smith requests that these wells be transferred to the new proposed field. Commission staff has reviewed the new field designation application, however the application cannot be administratively approved as staff believes the proposed correlative interval for the new field requires a multi-factor allocation formula, pursuant to Section 85.053 of the Texas Natural Resources Code.

The proposed discovery well for the new field, as well as the two wells that Smith requests be transferred to the new field are all currently permitted in the Casa Blanca, West Field and carried on the proration schedule. Smith received a Notice of Intent to Cancel P-4, severance letter, dated May 28, 2014 as a result of the DCRC – Section 295 Lease (Lease ID No. 13744) having a cumulative over-production of 25,912 BO. The letter gave a 30 day notice to Smith to resolve the issue. The deadline date has been suspended, pending the result and action of the application for a new field designation. Smith requests that a new field designation be approved and an oil discovery allowable be assigned to the new field for the first two years, or the eleventh well is drilled, whichever occurs first, as per Statewide Rule 42. Smith also requests that all over-production incurred by the DCRC – Section 295 Lease be cancelled.

The Smith Well No. 2 is estimated to drain 22 acres based on drainage calculations. Smith proposes 20 acre oil proration units for the new field, with a 20 acre tolerance assigned to the last well on the lease. Drainage calculations for Well Nos. 4 and 5 result in estimated drainage areas of 11 acres and 1 acre, respectively. Smith is proposing 330 ft. lease line and 660 ft. between well spacing. Smith proposes a two factor allocation formula, based on 95% acreage and 5% per well. This formula satisfies the requirement of a multi-factor allocation formula, pursuant to Sections 85.053 and 86.089 of the Texas Natural Resources Code.

Smith is requesting that the field rules adopted for the new field be made permanent. Smith has approximately two years of production data for the wells to be assigned to the new field and expressed that sufficient field information has been acquired during this time period for the field rules to be made permanent.

FINDINGS OF FACT

1. Notice of the application was sent to all operators with active wells within 2.5 miles of the discovery well at least ten days prior to the date of hearing and no protests were received.
2. Smith requests a new field designation for the Charamousca (Cole Cons.) Field and to adopt field rules for the proposed field.
3. The discovery well for the Charamousca (Cole Cons.) Field is the DCRC – Section 295 Lease, Well No. 2 API No. 42-131-39314, Duval County, Texas.
4. Calculated initial bottomhole shut-in pressure of the discovery well was 476 psi, which is considered to be virgin pressure for a well completed at this depth.
5. The proposed new field is “fault-separated” from other fields and the proposed new field is a separate and distinct reservoir.
6. Smith Well No. 2 produces from a new, separate fault block than wells previously drilled in this area.
7. Smith DCRC – Section 295 Lease, Well Nos. 4 and 5 (API Nos. 131-39341, and 131-39371, respectively) are located in the same fault block as the discovery well for the proposed field.
8. Adoption of a two factor allocation formula is appropriate. TEX. NAT. RES. CODE ANN. § 85.053 and § 86.089.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Granting a new field designation for the Charamousca (Cole Cons.) Field and adopting special field rules will promote conservation and protect correlative rights.

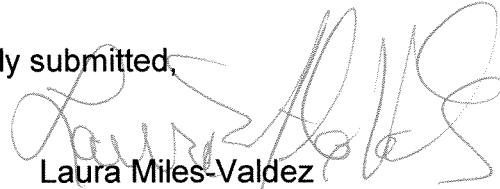
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve the new field designation and adopt field rules for the proposed Charamousca (Cole Cons.) Field, Duval County, Texas as requested by Smith Production, Inc.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Laura Miles-Valdez
Legal Examiner