

Bluestem Energy Holdings, LLC ("Bluestem") requests that the field rules be amended and renumbered as shown below:

1. Designated correlative interval from 4,046 feet to 4,154 feet as shown on the log for the Rex Energy Operating Corp. – B.W. Golladay Lease, Well No. 9 (API No. 42-329-35840), Section 1, T Burnam Survey, A-537, Midland County is designated as the Azalea (Grayburg) Field;
2. 330' lease line spacing with no between well spacing;
3. 80 acre oil units with optional 10 acre density, a 10 acre tolerance to the last well on the lease, no maximum diagonal. Proration unit plats not required, filing of Form P-15 to list the number of acres assigned for proration purposes;
4. Allocation based on a salvage classification with no restrictions on oil or casinghead gas production.

The application is unopposed and the examiners recommend that the field rules be amended and renumbered, as proposed by Bluestem.

DISCUSSION OF THE EVIDENCE

The Azalea (Grayburg) Field was discovered October 19, 1967 at a depth of 4,088 feet. The August 1, 2014 oil proration schedule lists Bluestem as a current operator in the subject field. Cumulative production for the field as of August 1, 2014 is 2,384,994 BO.

Bluestem is requesting to designate a correlative interval for the Azalea (Grayburg) Field as there is no designated interval at the present time. Bluestem proposes the correlative interval from 4,046 feet to 4,154 feet as shown on the log for the Rex Energy Operating Corp. – B.W. Golladay Lease, Well No. 9 (API No. 42-329-35840), Section 1, T Burnam Survey, A-537, Midland County to be designated as the Azalea (Grayburg) Field.

Bluestem proposes 330 feet lease line spacing with no between well spacing. Final Order No. 08-0277864 granted Bluestem approval for the Azalea (Grayburg) Unit in the Azalea (Grayburg) Field on November 6, 2012. No between well spacing would allow an operator greater flexibility in planning and drilling new producing and injector wells in the field. Bluestem will be starting an aggressive water flood in the near future

and is planning on drilling 8 new producing wells as well as converting 9 existing wells to injection wells while also drilling new injector wells.

The current field rules provide for 80 acre base oil proration units with 10 acre optional proration units. Bluestem is proposing a 10 acre tolerance provision to the last well on a lease, as the current rule contains a tolerance of 40 acres. Bluestem requests to file Form P-15 with no requirement to file individual proration plats with Form P-15.

Bluestem also requests a salvage classification to allow unlimited allowables in the field to prevent waste. Bluestem is planning a pilot secondary recovery project in the subject field and the current oil allowable for 10 acre proration units may restrict the daily allowable production. Bluestem's witness testified that the highest potential currently is 22 BOPD, but with the planned "aggressive" waterflood, Bluestem is requesting no limitations on allowables when the anticipated water flood starts to positively impact well production. Bluestem's witness considers all oil in the field to be dead oil, necessitating the enhanced recovery project.

Bluestem Exhibit No. 11 listed numerous fields in District 8 that have adopted similar field rules to those proposed by Bluestem for the subject field, including five (5) fields that have been granted salvage classification with no restrictions on oil or casinghead gas in the field. The examiners requested a late-filed exhibit with examples where the salvage classification had been previously granted in field rules. Late-Filed Exhibit No. 14 contained eleven (11) examples of Final Orders granting a salvage classification for fields with no restriction on oil or casinghead gas production. The Final Orders are listed in Table 1.

Table 1: Salvage Classification Granted in Previous Field Rules

Docket No.	Final Order Date
7B-0289290	9/16/2014
08-0289254	8/12/2014
08-0288137	7/8/2014
7B-0281578	5/24/2013
7B-0280427	5/27/2013
7B-0280425	5/7/2013
08-0272539	11/22/2011
02-0257660	8/12/2014
7B-0258188	9/9/2008
08-0256755	6/24/2008
04-0257312	7/29/2008

FINDINGS OF FACT

1. Notice of this hearing was provided to all operators in the field at least ten (10) days prior to the date of the hearing and no protests were received.
2. The Azalea (Grayburg) Field was October 19, 1967 at a depth of 4,088 feet.
3. Field rules for the Azalea (Grayburg) Field were last amended in Final Order No. 8-87,866, effective July 7, 1986.
4. 330 feet lease line spacing and no between well spacing has been adopted in numerous other fields in District 8.
5. Designating a correlative interval for the field is appropriate and will aid operators in determining whether wells are completed in the Azalea (Grayburg) Field.

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. Amending the field rules for the Azalea (Grayburg) Field will prevent waste.

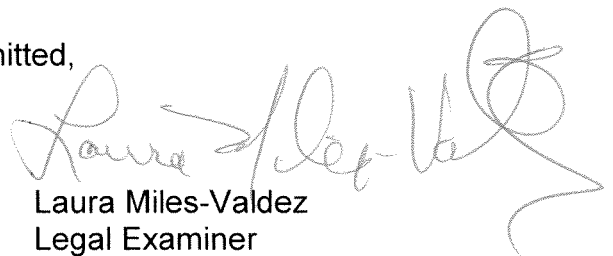
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission amend and renumber the field rules for the Azalea (Grayburg) Field, as proposed by Bluestem Energy Holdings, LLC.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Laura Miles-Valdez
Legal Examiner