



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0299546

**THE APPLICATION OF LAREDO ENERGY OPERATING, LLC TO CONSIDER
BLANKET RULE 10 AUTHORITY FOR THE HAWKVILLE (AUSTIN CHALK) FIELD
AND THE HAWKVILLE (EAGLEFORD SHALE) FIELD IN DIMMIT, LA SALLE,
MCMULLEN AND WEBB COUNTY, TEXAS**

HEARD BY: Richard Eyster, P.G. – Technical Examiner
Terry Johnson – Hearings Examiner

REVIEWED BY: Jennifer Cook – Administrative Law Judge

HEARING DATE: May 19, 2015

CONFERENCE DATE: October 25, 2016

APPEARANCES:

James M. Clark, P.E.
Lori Walters

REPRESENTING:

Laredo Energy Operating, LLC

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

This is the application of Laredo Energy Operating, LLC (Laredo), requesting a blanket exception to Statewide Rule 10 allowing downhole commingling of the Hawkville (Austin Chalk) and Hawkville (Eagleford Shale) Fields in Dimmit, La Salle, McMullen and Webb County, Texas. Laredo is currently developing acreage in both fields. Laredo has concurrently requested adopting field rules for the Hawkville (Austin Chalk) Field that mirror the current field rules for the Hawkville (Eagleford Shale) Field (Docket 04-0299807, also heard on March 24, 2016).

This application for blanket Statewide Rule 10 authority for the two fields rules is unopposed and the Technical Examiner and the Administrative Law Judge (collectively the Examiners) recommend approval.

DISCUSSION OF EVIDENCE

Statewide Rule 10(a) provides a general prohibition against the production of hydrocarbons from different strata (*i.e.*, different commission-designated fields) through the same string of tubulars. Statewide Rule 10(b) provides for exceptions to the general prohibition if commingled production will prevent waste or promote conservation or protect correlative rights.

Laredo is actively developing its acreage in Webb County by the drilling and completing of horizontal wellbores. When drilling a horizontal well targeting the Eagle Ford Formation, the driller will begin the curve in or above the Austin Chalk Formation, and the well obtains a horizontal profile after penetrating the Eagle Ford.

In Laredo's acreage, the Austin Chalk formation and the upper Eagle Ford Formation are very similar in terms of lithology, low porosity, and ultra-low permeability. The fluid properties of the two formations are also similar as the Eagle Ford Formation is the source rock for the overlying Austin Chalk Formation. Laredo contends that while the Austin Chalk is not an economic stand alone target at current gas prices, adding the Austin Chalk in the curve of their Eagle Ford horizontals will add recoverable reserves that would otherwise be wasted. The economics of adding the Austin Chalk to an Eagle Ford horizontal are contingent upon completing both formations at the time of initial completion. Otherwise, it will not be economic to complete the Austin Chalk Formation in this area.

Laredo presented evidence that adding an Austin Chalk completion to an Eagle Ford horizontal lateral will result in incremental recovery of 250-600 MMcf per well, as compared to a horizontal completed only in the Eagle Ford.

Of the twelve completions in the Hawkville (Austin Chalk) Field at the time of the hearing, ten are downhole commingling with the Hawkville (Eagleford Shale) Field pursuant to Rule 10 exceptions. Only the first two Hawkville (Austin Chalk) Field completions, which did not penetrate the Eagle Ford Formation, are not downhole commingling the subject two fields. Ten of the twelve completions to date in the Hawkville (Austin Chalk) Field have downhole commingled with the Hawkville (Eagleford Shale) Field.

Various Austin Chalk and Eagle Ford fields have been successfully commingled throughout South Texas. Fluids from the two formations are expected to be compatible and the potential for cross flow between the formations is minimal.

Without commingling, economic constraints would cause a substantial amount of hydrocarbons to remain in the ground, resulting in waste.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in both the Hawkville (Austin Chalk) and Hawkville (Eagleford Shale) Fields at least ten (10) days prior to the hearing.
2. The hearing was not protested.
3. Ten of the twelve completions to date in the Hawkville (Austin Chalk) Field have downhole commingled with the Hawkville (Eagleford Shale) Field.
4. The Austin Chalk and Eagle Ford Formations have been successfully commingled in the immediate area and throughout the State.
5. Adding a completion in the Austin Chalk Formation to a horizontal completion in the Eagle Ford Shale adds 250-600 MMcf of recoverable gas per well. This gas will not be recovered without downhole commingling at the time of initial completion.
6. The proposed blanket exception to Statewide Rule 10 will promote the orderly development of the Hawkville (Austin Chalk) and Hawkville (Eagleford Shale) Fields and protect correlative rights.
7. Without commingling, economic constraints would cause waste.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 3.10(c)
3. The subject application will prevent waste and protect correlative rights. 16 Tex. Admin. Code § 3.10(b)

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Laredo Energy Operating, LLC for a blanket exception to downhole commingle production from the Hawkville (Austin Chalk) and Hawkville (Eagleford Shale) Fields in Dimmit, La Salle, McMullen and Webb Counties, Texas.

Respectfully submitted,

Richard Eyster, P.G.
Technical Examiner

Jennifer Cook
Administrative Law Judge