



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0303144

THE APPLICATION OF CML EXPLORATION, LLC TO ADOPT TEMPORARY FIELD RULES FOR THE PENA CREEK (GEORGETOWN) FIELD, ZAVALA & DIMMIT COUNTIES TEXAS

HEARD BY:

Brian Fancher, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

APPEARANCES:

REPRESENTING:

APPLICANT:

William Osborn, Attorney
Phil Buch
Travis Wadman

CML Exploration, LLC

OBSERVER:

George Neale, Attorney
Tim Jurco

NGL Water Solutions Eagle Ford, LLC

HEARING DATE: February 13, 2017

SUBMISSION DATE: April 10, 2017

CONFERENCE DATE: April 25, 2017

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The Pena Creek (Georgetown) Field ("Field") is currently governed by statewide rules. CML Exploration, LLC ("CML") seeks to adopt temporary field rules for the Field that provide the following:

1. A designated correlative interval that defines the Field from 6,784 feet to 7,287 feet, measured depth, as shown on the log of the Mestena Operating Company's, Thompson

Lease, Well No. 1 (API No. 42-507-32657), Narciso Aguirre Survey (A-3), Zavala County, Texas;

2. 467' minimum property, lease, or subdivision line spacing, and 0' minimum between well spacing for vertical wells, take points, 100' first and last take points, 467' minimum perpendicular spacing for all take points from any property, lease, or subdivision line, 3,250' minimum between well spacing for all take points between horizontal wells, No Perf Zones ("NPZs"), 33' box-rule, and off-lease penetration points;
3. 80-acre oil proration units with up to 40-acre tolerance, additional acreage assignment to horizontal drainholes based on a specialized formula, assignment of additional acreage using the distance between the first and last take point, filing of Form P-15 for acreage assignment, 3,250 maximum diagonal;
4. 80-acre gas proration units with 10% tolerance;
5. Oil well allowable based on the 1965 Yardstick with unlimited net gas-oil ratio authority, and allocation based on 95% acreage and 5% allowable;
6. Gas allowable based on 95% per well and 5% maximum allowable;
7. A six-month exception to the tubing requirements for oil wells, pursuant to Statewide Rule 13(b)(5)(A), and good cause shown thereafter;
8. A six month exception to Statewide Rule 51(a) to provide for backdating allowables
9. Stacked lateral well provisions.

The subject application is unopposed. CML was the only party to present evidence at the hearing. The Administrative Law Judge and Technical Examiner ("Examiners") recommend that the application be approved.

DISCUSSION OF THE EVIDENCE

Mr. Phil Buch testified as an expert geologist on behalf of CML. Mr. Buch is the Exploration Manager at CML.

Notice of the Subject Application was sent by U.S. Mail to all operators in the Field on January 18, 2017.

Horizontal wells drilled in the Field differ in their completion techniques when compared to horizontal wells completed in other unconventional fields that utilize hydrofrack technologies because horizontal wells in the Field are drilled and completed in a manner that exploits naturally fractured carbonate reservoirs.

CML submitted copies of the Commission's Oil and Gas Proration Schedules for the Field.¹ CML, along with several other operators, operate wells in the Field. The Field was discovered between 2003 and 2004. CML submitted a copy of a map demonstrating the surface locations for all wells in the Field.² The Field is spread out across parts of northwestern Dimmit County, southwestern Zavala County, and southern Maverick County. All wells completed in the Field are currently governed by statewide rules. In other words, no special field rules have been adopted for the Field. CML seeks to change that, however, by proposing special field rules, as previously described, on a temporary basis for two years.

CML recently drilled, and completed, the Vermillion Lease, Well No. 1 ("Vermillion No. 1.") in the Field.³ The Vermillion No. 1 was completed on October 22, 2016. A 24-hour initial potential test ("IP") was performed on that well on October 24, 2016. The results of that IP test demonstrated that the Vermillion No. 1 produced 270 barrels of oil per day, 1,200 MCF of gas per day, a gas-oil ratio of 4,444 standard cubic feet of gas per stock tank barrel of oil, and 200 barrels of water per day. Mr. Buch stated, however, that well is currently shut-in because otherwise it produces gas that contains 550 parts per million ("ppm") of hydrogen-sulfide gas ("sour gas"). As a result, CML has applied for authority in a separate application to construct a sour-gas pipeline that will handle sour gas from the Field.⁴

CML submitted a copy of the type log it used to define the Field's correlative interval.⁵ That log is based on the Mestena Operating, Thompson Lease, Well No. 1, which is roughly three miles northwest of the Vermillion No. 1. Again, CML seeks to designate the Field as existing from 6,784 feet to 7,287 feet, based on the Thompson Lease, Well No.1's well log.

CML submitted copies of maps that show seismic attributes of the Buda and Georgetown Formations near the Vermillion No. 1.⁶ Those maps basically show faults and fractures in that area. Mr. Buch testified that he observed faults that extend from the Buda Formation to the lowerlying Georgetown Formation. Exhibit No. 10 also includes well path locations for CML's Carolpick Lease, Well No. 1 ("Carolpick"), and the Dale Lease, Well No. 1. In July 2014, the Carolpick was measured for bottom-hole pressure that resulted in 3,305 psi. Six months later, the Dale was drilled. It was measured at 1,905 psi bottom-hole pressure. The resulting conclusion showed that those two wells, being 3,800 feet apart, communicated with one another due to the naturally occurring fractures in those formations. Therefore, CML proposed a between-well spacing that it believes will sufficiently account for sub-surface communication between horizontal wells in the Field. In other words, CML believes its proposed well spacing will prevent the drilling of unnecessary wells due to the naturally occurring fractures in the Field because they will be adequately spaced apart from one another.⁷

¹ CML Exh. Nos. 1 and 2.

² CML Exh. No. 5.

³ CML Exh. No. 3.

⁴ See Copy of Application for Permit to Operate a Pipeline in Texas (Form T-4) for CML Exploration, LLC's Zavala Amine Plant with CML Exh. Nos. 7 and 8.

⁵ CML Exh. No. 6.

⁶ CML Exh. Nos. 9 and 10.

⁷ Testimony of audio recording at 21:00 to 22:45.

CML submitted copies of Examiners' Reports and Recommendations for other Commission-designated fields in the Georgetown Formation.⁸ The field rules for the Doering Ranch (Georgetown) Field utilizes the same acreage formula that CML seeks in the subject application. The correlative interval for the Two M (Georgetown) Field is the same as what CML proposes for the Field.

In summary, CML seeks to adopt its proposed special field rules on a temporary basis to provide for more modern horizontal-type field rules. Except for the between-well spacing, the field rules CML seeks in the subject application are substantially similar to field rules approved for other Commission-designated fields that include the Georgetown Formation. Lastly, due to the Field's relatively young development, CML requests that the Field be designated as temporary field rule status for 24 months so that additional data can be acquired to determine appropriate permanent field rules. At the hearing, CML agreed on the record that a Final Order in this case is to be effective when the Master Order is signed.

FINDINGS OF FACT

1. CML Exploration, LLC ("CML") seeks to adopt special field rules for the Pena Creek (Georgetown) Field (the "Field"), Zavala and Dimmit Counties, Texas ("Subject Application").
2. Notice of the Subject Application was sent by U.S. Mail to all operators in the Field on January 18, 2017.
3. The Subject Application is unopposed.
4. CML seeks the following special field rules for the Field on a temporary basis for a period of two years ("Proposed Field Rules"):
 - a. A designated correlative interval that defines the Field from 6,784 feet to 7,287 feet, measured depth, as shown on the log of the Mestena Operating Company's, Thompson Lease, Well No. 1 (API No. 42-507-32657), Narciso Aguirre Survey (A-3), Zavala County, Texas;
 - b. 467' minimum property, lease, or subdivision line spacing, and 0' minimum between well spacing for vertical wells, take points, 100' first and last take points, 467' minimum perpendicular spacing for all take points from any property, lease, or subdivision line, 3,250' minimum between well spacing for all take points between horizontal wells, No Perf Zones ("NPZs"), 33' box-rule, and off-lease penetration points;
 - c. 80-acre oil proration units with up to 40-acre tolerance, additional acreage assignment to horizontal drainholes based on a specialized formula, assignment of

⁸ CML Exh. Nos. 11, 12, and 13. O&G Docket Nos. 03-0214259; 01-0276980; and 01-0275213 were for the Iola (Georgetown), Doering Ranch (Georgetown), and Two M (Georgetown) Fields, respectively.

- additional acreage using the distance between the first and last take point, filing of Form P-15 for acreage assignment, 3,250 maximum diagonal;
- d. 80-acre gas proration units with 10% tolerance
 - e. Oil well allowable based on the 1965 Yardstick with unlimited net gas-oil ratio (“GOR”) authority, and allocation based on 95% acreage and 5% allowable;
 - f. Gas allowable based on 95% per well and 5% maximum allowable;
 - g. A six-month exception to Statewide Rule 13(b)(5)(A) for oil wells, and good cause shown thereafter;
 - h. A six month exception to Statewide Rule 51(a) to provide for backdating allowables
 - i. Stacked lateral well provisions.
5. Adopting the Proposed Field Rules is appropriate, and will provide for orderly development of the Field.
 6. At the hearing, CML agreed on the record that a Final Order in this case is to be effective when the Master Order is signed.

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. Legally sufficient notice has been provided to all affected persons.
3. Amending the special field rules for the Pena Creek (Georgetown) Field, as proposed by CML Exploration, LLC., will prevent waste and protect correlative rights.
4. Pursuant to §2001.144(a)(4)(A), of the Texas Government Code, and the agreement of the applicant, this Final Order is effective when a Master Order relating to this Final Order is signed on April 25, 2017.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the special field rules for the Pena Creek (Georgetown) Field be adopted, as proposed by CML Exploration, LLC, for a temporary term of two years.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Jennifer Cook
Administrative Law Judge