



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0303145

THE APPLICATION OF CHAMPION LONE STAR OPERATING, LLC FOR AN UNLIMITED MER ALLOWABLE FOR ITS CLS WALTON AGGREGATE LEASE, KERMIT FIELD, WINKLER COUNTY, TEXAS

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Clayton J. Hoover – Administrative Law Judge

HEARING DATE: May 3, 2017

CONFERENCE DATE: August 15, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

Champion Lone Star Operating, LLC

Brian Sullivan
Christopher Liles
Nathan Brown

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Champion Lone Star Operating, LLC ("Champion") initially requested an unlimited maximum efficient rate ("MER") allowable for its CLS Walton Aggregate Lease, in the Kermit Field (the "Field"), Winkler County, Texas. During the hearing, Champion modified that request, and now seeks an MER allowable of 250 barrels of oil per day ("BOPD") for the Field. Proper notice was given and the application is not protested. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend Champion's application be granted.

DISCUSSION OF THE EVIDENCE

The Kermit Field was discovered in 1928 and is under special field rules adopted in 1937, that were most recently amended in 1963. The current Field rules allow for 54 BOPD, 330 feet lease line and 660 feet between-well spacing. Cumulative production

from the Field was reported on the April 2017 proration schedule as 113,969,692 barrels of oil.

Champion presented several exhibits that describe the geology, structure, stratigraphy, paleogeography, and basin orientation of the Field.¹ The Tansill, Yates, Seven Rivers, and Queen Formations make up the Artesia Group. These formations were proximally deposited on the eastern side of the Capitan Reef, and the western flank of the Central Basin Platform. The structure of the project area is a traditional anticline and all formations are conformable to deep structures that were present during time of deposition. Cross sections show the formations are correlative in the Field which is within the Artesia Platform Sandstone Play.

Champion purchased the wells from Merit Energy Company, and plans to develop zones within the Field that were previously considered unproductive. Historically, lower portions in the Field produced large cuts of water with limited recovery of oil. Improved drilling techniques along with multistage fracking will likely produce more than the current allowable of 54 BOPD. Their initial request of an unlimited MER was modified at the hearing, and Champion is now requesting 250 BOPD based on their testing and projections for the Field.

Champion provided evidence demonstrating that wells could be efficiently operated at the requested MER. Champion reported that all their wells in the Field are rate sensitive and will not flow without the aid of artificial lift created by using rod pumps. Champion performed a step-rate test where the production rate of the CLS Walton 35SE #02 Well was systematically varied while monitoring the reservoir response. The test was conducted between February 2, 2017 and February 28, 2017, with oil production rates ranging from 2 to 138 BOPD. There was no indication that the gas-oil ratio ("GOR") or percent oil cut were negatively affected. Champion determined the GOR decreased and percent oil cut increased with increasing oil production rate.² Champion reported the results indicate that increasing the oil production rate does not promote water or gas coning and is not detrimental to the reservoir.³ Champion continues to evaluate their recovery technique, and considers 250 BOPD an optimal MER for now.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of the hearing and no protests were received.
2. During the hearing, Champion modified their request of an unlimited MER, and now seeks an MER allowable of 250 BOPD.
3. The Field was discovered in 1928 and the current allowable is 54 BOPD.

¹ Champion Exhibits Nos. 3 – 11.

² Champion Exhibit No. 17.

³ Champion Exhibit No. 19.

4. Champion plans to develop zones within the Field that were previously considered unproductive.
5. Champion presented several exhibits that describe the geology, structure, stratigraphy, paleogeography, and basin orientation of the Field.
6. Champion provided evidence demonstrating that wells could be efficiently operated at the requested MER of 250 BOPD.
7. Results of step-rate tests indicate that increasing the oil production rate does not promote water or gas coning and is not detrimental to the reservoir.
8. At the hearing, the applicant agreed on the record that the 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. All notice requirements have been satisfied. 16 Tex. Admin. Code §§ 1.43 and 1.45.
3. An MER allowable of 250 BOPD 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, the Final Order is effective when a Master Order relating to the Final Order is signed on August 15, 2017.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Champion for an MER allowable of 250 barrels of oil per day for its CLS Walton Aggregate Lease, Kermit Field, Winkler County, Texas.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Clayton J. Hoover
Administrative Law Judge