



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 8A-0306237

THE APPLICATION OF ELK MEADOWS RESOURCES LLC TO AMEND THE FIELD RULES FOR THE DEMPSEY CREEK (SAN ANDRES) FIELD, ANDREWS AND GAINES COUNTIES, TEXAS

HEARD BY: Paul Dubois - Technical Examiner
Jennifer Cook - Administrative Law Judge

DATE OF HEARING: October 30, 2017

CONFERENCE DATE: December 5, 2017

APPEARANCES:

APPLICANT:

George C. Neale
Rick Johnston, P.E.
Gary Alsobrook

OBSERVER:

Jeffrey Noto

REPRESENTING:

Elk Meadows Resources LLC

Sheridan Production Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Elk Meadows Resources LLC ("Elk Meadows") seeks to amend the existing field rules for the Dempsey Creek (San Andres) Field (the "Field"). The Field was discovered in 1955, had field rules adopted in 2011, which were amended again shortly thereafter in February 2012. Specifically, Elk Meadows requests amendment of the existing "take point" rule, the optional drilling/proration units, and requests cancellation of any overproduction. The application was not protested. The technical examiner and administrative law judge ("Examiners") recommend that the amended Field Rules be adopted for the Dempsey Creek (San Andres) Field, as requested by Elk Meadows.

The current "take point" rule reads as follows:

- a. A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced from the reservoir/field interval.

The first take point may be at a different location than the penetration point, and the last take point may be at a location different than the terminus point.

- b. All take points in a horizontal drainhole well shall be a minimum of THREE HUNDRED THIRTY (330) feet from any property line, lease line, or subdivision line. A permit or an amended permit is required for all take points closer to the property line, lease line, or subdivision line than the lease line spacing distance, including any perforation added in the vertical position or the curve of a horizontal drainhole well.

The proposed rule amendment reads as follows:

- a. A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced from the reservoir/field interval. The first take point may be at a different location than the penetration point, and the last take point may be at a location different than the terminus point. (No change to current rule)
- b. No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take point are nearer than ONE HUNDRED (100) feet to any property line, lease line, or subdivision line. (New insertion)
- c. For each horizontal drainhole well, the perpendicular distance from any take point on such horizontal drainhole to any point on any property line, lease line, or subdivision line shall be a minimum of THREE HUNDRED THIRTY (330) feet. (Amendment to current rule)

In addition, Elk Meadows requests that Rule 3 of the Field Rules be amended from the current rule of TWENTY (20) acre optional drilling/proration units to TEN (10) acre optional drilling/proration units.

Finally, Elk Meadows requests cancellation of the accumulated overproduction for all wells completed in the Field as of the first of the month after the issuance of a Final Order in this matter, if necessary.

All operators with wells in the Field were notified of the hearing. No operators appeared in protest of the application, and one operator with wells in the Field, Sheridan Production Company, appeared at the hearing in support of the subject application. Another operator, Texland Petroleum, LP, initially protested the proposed field rule amendments, but withdrew its protest on the condition that the "take point" language noted above be proposed.¹

DISCUSSION OF EVIDENCE

The Field was discovered in September 1955 with the Nick Alley No. 1 Well, at an average depth of 4,300'. Field Rules were adopted in December 2011 with a field interval of 4,316 - 4,738' as shown on the log for the Texland Petroleum - Twilight No. 1 Well (API No. 42-003-41219). There are multiple operators with multiple producing wells on the proration schedule. Field Rules currently provide for 330' lease line spacing, 0' between well spacing, 40-

¹ See Elk Meadows Late-Filed Exhibit No. 21.

acre density with optional 20-acre units. Gas allocation is based on 100% acreage, and the oil allowable is based on the 1947 Yardstick of 93 BOPD. In addition, there is a "take point" rule, a 33' drill box rule, and an off-lease penetration point rule. Cumulative production from the field through June 2017 is 1.41 million barrels of oil ("MMBO") and 392.39 million cubic feet of gas ("MMCFG").

Elk Meadows plans to further develop the Field by drilling more horizontal wells and requests amendment to the existing take point rule by allowing the first and last take points to be no closer than 100 feet to any property, lease, or subdivision line. Such a rule will increase the total completable drainhole length of each horizontal well by an additional 460 feet, as compared to the current rule, which requires that first and last take points must be no closer than 330 feet from property, lease, or subdivision lines. This amendment to the "take point" rule will facilitate production of additional resources.

Elk Meadows' expert consulting petroleum engineer, Mr. Rick Johnston, P.E., testified that the additional completable drainhole length of 460 feet would result in incremental recovery of reserves. In addition, Mr. Johnston calculated a weighted average of 43.9 barrels of oil per foot of completable drainhole length from decline curves for multiple wells from multiple operators in the Field. Based on the 460 feet of additional completable drainhole length, the estimated incremental recovery would be approximately 20,233 barrels for each well drilled under the amended "take point" rule.

Mr. Johnston presented the volumetric drainage area calculation for the C. F. Qualia Operating, Inc. - Allar 'A' No. 1 Well, a vertical well from the Field. The parameters used in the calculation were porosity of 8%, water saturation of 25%, net pay height of 10 feet, and a recovery factor of 10%. The result of the calculation was that the drainage area for the well was 10.5 acres. Elk Meadows requests that the current rule of twenty-acre optional units be amended to ten-acre optional units.

Mr. Johnston also presented the Oil Lease Ledger Status Inquiry printout from the Commission mainframe, which shows allowable and production data for the Elk Meadows Goen Lease (RRC No. 70588). The well produced for several months without an allowable, and as of June 2017, the cumulative overproduction was 24,541 barrels. Since the allowable was assigned, cumulative overproduction declined to 765 barrels as of August 2017. Elk Meadows requests that if any overproduction exists on the first day of the month after a Final Order in this matter being issued, that it be cancelled.

The Examiners conclude that the proposed amendments to the take point and density rules will allow for future development of the Field. Horizontal rule amendments like the proposed provisions have been requested and approved for other San Andres fields, including the nearby Shafter Lake (San Andres) and Shafter Lake, N (San Andres) Fields.

The Examiners consider the requested amendments for the Field to be appropriate and consistent with previous rules adopted for similar fields. Elk Meadows has demonstrated that the proposed amendments are necessary to continue development of the Field, and will allow for the efficient and effective additional recovery of resources and prevention of waste.

FINDINGS OF FACT

1. Notice of hearing was given to all persons entitled to notice, and no persons appeared at the hearing in protest. One operator with wells in the Field appeared at the hearing in support of the application.
2. The Dempsey Creek (San Andres) Field was discovered in September 1955 in the Nick Alley No. 1 Well, at an average depth of 4,300'.
3. Field Rules were adopted for the Field in December 2011 with a field interval of 4,316-4,738' as seen in the Texland Petroleum - Twilight No. 1 Well (API No. 42-003-41219).
 - a. There are multiple operators in the Field with multiple producing wells on the proration schedule.
 - b. Cumulative production from the Field through June 2017 is 1.41 MMBO and 392.39 MMCFG.
4. Under the "take point" rule, item "a" is to read as follows: A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced from the reservoir/field interval. The first take point may be at a different location than the penetration point, and the last take point may be at a location different than the terminus point.
5. Under the "take point" rule, item "b" is to read as follows: No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take point are nearer than ONE HUNDRED (100) feet to any property line, lease line, or subdivision line.
6. Under the "take point" rule, item "c" is to read as follows: For each horizontal drainhole well, the perpendicular distance from any take point on such horizontal drainhole to any point on any property line, lease line, or subdivision line shall be a minimum of THREE HUNDRED THIRTY (330) feet.
7. The 10-acre optional drilling/proration units will allow for orderly development of the Field.
8. Elk Meadows anticipates further development in the Field by drilling additional horizontal wells.
9. Horizontal rule amendments like the proposed provisions have been adopted for other San Andres fields, including the nearby Shafter Lake (San Andres) and Shafter Lake, N (San Andres) Fields.
10. At the hearing, the applicant 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. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred or have been accomplished that are necessary to give the Commission jurisdiction in this matter.
3. The proposed field rules will prevent waste, protect correlative rights, and promote the orderly development of the Field.
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 November 7, 2017.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission adopt permanent field rules for the Dempsey Creek (San Andres) Field, as proposed by Elk Meadows Resources LLC.

Respectfully submitted,



Paul Dubois
Technical Examiner



Jennifer Cook
Administrative Law Judge