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RAILROAD COMMISSION OF TEXAS HEARINGS DIVISION

OIL AND GAS DOCKET NO. OG-19-00001690

**APPLICATION OF SANDALWOOD EXPLORATION, L.P. (747194) TO CONSIDER
AMENDING THE FIELD RULES FOR THE JOHNS (HOCKLEY) FIELD, DUVAL
COUNTY, TEXAS, DISTRICT 04**

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**APPLICATION OF SANDALWOOD EXPLORATION, L.P. (747194) TO CONSIDER
AMENDING THE FIELD RULES FOR THE JOHNS (HOCKLEY UPPER) FIELD,
DUVAL COUNTY, TEXAS, DISTRICT 04**

HEARD BY: Austin Gaskamp – Technical Examiner
Ezra A. Johnson – Administrative Law Judge

HEARING DATE: January 8, 2020

CONFERENCE DATE: March 4, 2020

APPEARANCES:

Doug J. Dashiell, Attorney
Michael Francisco

REPRESENTING:

Sandalwood Exploration, L.P.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Sandalwood Exploration, L.P. ("Sandalwood") seeks to amend special field rules for the Johns (Hockley) and Johns (Hockley Upper) Fields ("Fields"). Sandalwood requests the following amended rules for each of the Fields:

Rule 1: Sandalwood requests adoption of a special field rule specifying the geologic interval for the Fields as follows:

Johns (Hockley) Field: 3587' to 3632' as shown on the Electrical Log for the Sun Oil Co. William F. Fitzsimmons Well No. 2 (API No. 42-131-01244)

Johns (Hockley Upper) Field: 3568'-3586' as shown on the Electrical Log for the Sun Oil Co. William F. Fitzsimmons Well No. 2 (API No. 42-131-01244)

Rule 2: 330' minimum property, lease or subdivision line spacing and 0' minimum between-well spacing.

Rule 3: For Johns (Hockley) field, 20-acre standard drilling and proration units for oil wells, with up to 10-acres tolerance for the last well on a lease or pooled unit. For Johns (Hockley Upper) field, 10-acre standard drilling and proration units for oil wells. (Both unchanged from existing rules). Proration unit plats not required to be filed but permitted at the operator's option.

Rule 4: Oil allowable of 10 barrels of oil per day ("BOPD") per acre assigned.

Notice was provided to the operators in the Fields. The application is unopposed. The Technical Examiner and Administrative Law Judge ("Examiners") recommend the requested amendments to the field rules as proposed by Sandalwood.

DISCUSSION OF THE EVIDENCE

Both dockets were consolidated at Applicant's request for a single hearing record. Mr. Michael Francisco testified as an expert petroleum engineer on behalf of Sandalwood. Mr. Francisco is a consulting engineer at Sandalwood who is familiar with the Fields.

Sandalwood submitted exhibits showing the Fields produce from the Hockley formation located stratigraphically below the Vicksburg formation of the Oligocene series. The Fields are among a group of similar fields along the central Gulf Coast that were previously developed with vertical wells, but are now the focus of potential horizontal redevelopment. The Fields have no active wells. The Johns (Hockley Upper) Field immediately overlies the Johns (Hockley) Field. The Johns (Hockley) Field was discovered in 1956 and has produced 3,519,000 BBLS of oil and 1.17 billion cubic feet ("Bcf") of gas. The Johns (Hockley Upper) was also discovered in 1956 and has produced 1,009,657 BBLS of oil and 408 Mcf of gas. The two Fields are encountered on the edge of a closed anticlinal structure. Numerous vertical completions were made in the Fields.

Sandalwood seeks to drill horizontal wells to recover oil reserves that cannot be economically recovered by vertical wells. Water encroachment in these water drive

reservoirs results in high operating costs and low ultimate recoveries. Mr. Francisco testified that horizontal drilling is necessary to recover additional recoverable oil and prevent waste.

Sandalwood presented copies of Examiners' Reports and Final Orders from nine recent dockets whereby the Commission adopted comparable rules to facilitate horizontal drilling within other comparable oil fields with multiple existing vertical wells (O&G Docket Nos. 02-0308631, 02-0308632, 02-0308635, 04-0309350, 04-0310416, 02-0310417, 04-0319702, 04-0319703 and 04-0319574). In each field the Commission adopted zero between-well spacing, and an oil allowable of 10 BOPD per acre assigned. Although this is the first Hockley sand field to seek similar rules, Mr. Francisco testified that Sandalwood seeks to obtain similar production rates to these other fields. He further testified that an allowable of 10 BOPD per acre can be produced in the Fields without causing waste.

Sandalwood proposes to use modern horizontal well technology to re-develop the Fields. That technology allows Sandalwood to drill horizontal wells in the relatively thin targeted interval. The targeted interval in the subject fields is the Hockley Sand. The sands have good porosity, permeability and productivity.

Mr. Francisco testified the proposed spacing and density rules are appropriate for further development with horizontal wells in the Fields. The requested between-well spacing rules (0') will facilitate horizontal drilling and is the rule in many fields in Texas being developed with horizontal wells. The requested lease-line spacing rule (330') is also common in many fields in Texas being developed with horizontal wells. The requested standard unit size (20 acres and 10 acres respectively) is unchanged in the Fields. The requested allowable of 10 barrels of oil per acre assigned will cover most of the expected initial production from Sandalwood's future horizontal wells. As the wells decline and no longer need as much allowable, the acreage will be reassigned to other more recently drilled horizontal wells.

Acreage will be assigned for allowable purposes using the Form P-16. Consistent with Statewide Rule 86 and special field rules in other fields being developed with horizontal wells, Sandalwood requests that proration unit plats not be required, but that operators be permitted to file such plats at the operator's option.

In summary, Sandalwood seeks amended rules that are appropriate for development with horizontal wells. At the hearing, Sandalwood agreed on the record that the Final Order for the Fields will be effective on the date the Master Order relating to the Final Order is signed.

FINDINGS OF FACT

1. On December 6, 2019, the Hearings Division of the Commission sent a Notice of Hearing ("Notice") to Applicant and all offsetting operators in the field, setting a hearing date of January 8, 2020. Consequently, the parties received more than 10 days' notice. The Notice contains (1) a statement of the time, place, and nature of

the hearing; (2) a statement of the legal authority and jurisdiction under which the hearing is to be held; (3) a reference to the particular sections of the statutes and rules involved; and (4) a short and plain statement of the matters asserted. The hearing was held on January 8, 2020, as noticed. Applicant appeared and participated at the hearing. No one appeared in protest.

2. Sandalwood Exploration, LLC ("Sandalwood") seeks to amend field rules for the Johns (Hockley) and Johns (Hockley Upper) Fields, Duval County, Texas (the "Fields").
3. Sandalwood seeks the following amended special field rules for the Fields:
 - a. A designated interval for the Johns (Hockley) Field from 3587'-3632' as shown on the Electrical Log for the Sun Oil Co. William F. Fitzsimmons Well No. 2 (API No. 131-01244).
 - b. A designated interval for the Johns (Hockley Upper) field from 3568'-3586' as shown on the Electrical Log of the Sun Oil Co. William F. Fitzsimmons Well No. 2 (API No. 131-01244)
 - c. 330' minimum property, lease or subdivision line spacing and 0' minimum between-well spacing.
 - d. For Johns (Hockley) field, 20-acre oil drilling and proration units with up to 10-acres tolerance for the last well on a lease or pooled unit. For Johns (Hockley Upper) field, 10-acre oil drilling and proration units.
 - e. The filing of proration unit plats permitted, but not required. Form P-16 or its successor used to identify the number of acres assigned to each well for allowable purposes.
 - f. 100% acreage allocation for oil allowables.
 - g. Oil allowable of 10 barrels of oil per day per acre assigned.
4. Adopting field rules for the Fields, as proposed by Sandalwood, is appropriate and will provide for additional development of the Fields with horizontal wells.
5. At the hearing, the applicant agreed on the record that the Final Order in this case is to be effective when the Master Order relating to the Final 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 § 1.42 and 1.45.

3. Amending field rules for the Johns (Hockley) and Johns (Hockley Upper) Fields, as proposed by Sandalwood, 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 in this case is effective when a Master Order relating to the Final Order is signed on March 4, 2020.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend amending field rules for the Johns (Hockley) and Johns (Hockley Upper) Fields, Duval County, Texas.



Austin Gaskamp
Technical Examiner

Respectfully submitted,



Ezra Johnson
Administrative Law Judge