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RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. OG-20-00002402

APPLICATION OF HILCORP ENERGY COMPANY (386310) TO CONSIDER AMENDING THE FIELD RULES FOR THE TOM O'CONNOR (5800) FIELD, REFUGIO COUNTY, TEXAS

HEARD BY: Austin Gaskamp – Technical Examiner
Kristi M. Reeve – Administrative Law Judge

PROCEDURAL HISTORY:

Application Filed: December 11, 2019
Notice of Hearing: February 26, 2020
Hearing: March 27, 2020
Conference Date: May 5, 2020

APPEARANCES:

APPLICANT:
Bill Hayenga
Michael Mayfield
Blake Hoffman
Bruce McDonald

REPRESENTING:
Hilcorp Energy Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Hilcorp Energy Company ("Hilcorp"), Operator No. 386310, requests to amend the field rules for the Tom O'Connor (5800) Field in Jackson County, Texas to the following:

RULE 1: No well for oil or gas shall hereafter be drilled nearer than ONE HUNDRED AND FIFTY (150) feet to any property line, lease line, or subdivision line. There is no minimum between well spacing requirement. The aforementioned distances are minimum distances to allow an operator flexibility in locating a well; and the spacing rule and the other rules to follow are for the purpose of permitting only one well to each drilling and proration unit. Provided however, that the Commission will grant exceptions

to permit drilling within shorter distances and drilling more wells than herein prescribed, whenever the Commission shall have determined that such exceptions are necessary either to prevent waste or to prevent the confiscation of property. When an exception to these rules is desired, application therefor shall be filed and will be acted upon in accordance with the provisions of Commission Statewide Rules 37 and 38, which applicable provisions of said rules are incorporated herein by reference.

In applying this rule, the general order of the Commission with relation to the subdivision of property shall be observed.

Provided, however, that for purposes of spacing for horizontal wells, the following shall apply:

- a. No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take points are nearer than ONE HUNDRED (100) feet to any property line, lease line or subdivision line.
- b. For each horizontal drainhole well, the perpendicular distance from any take point on such horizontal drainhole between the first take point and the last take point to any point on any property line, lease line, or subdivision line shall be a minimum of ONE HUNDRED AND FIFTY (150) feet.

Hilcorp does not seek changes to Rule 2 and Rule 3 of the existing Field Rules for the Tom O'Connor (5800) Field.

Notice of the application was sent to the P-5 address for operators in the field and the application is unopposed. The Examiners recommend approval of the application for the amended field rules.

DISCUSSION OF THE EVIDENCE

Notice of the subject application was sent by U.S. mail directed to operators of record in the subject field, as well as the Oil and Gas Division.¹ Hilcorp was the only party to appear on the record at the hearing and Hilcorp submitted exhibits on the history of the field rules for the Tom O'Connor (5800) Field ("Subject Field").²

Hilcorp seeks to re-develop the prolific and mature Subject Field that has historically only been produced with vertical wells by using horizontal wells. The oil in this field will be recovered most efficiently by using horizontal drilling. Hilcorp seeks to amend the field rules to better accommodate the orderly development in the Subject Field and recover hydrocarbons that would otherwise go unrecovered.

¹ Hilcorp Exh. A – Copy of the subject application's Notice of Hearing.

² Hilcorp Exh. B & 7 – Field Rules and History for the Subject Field.

The Subject Field was officially discovered in 1934 per Commission records.³ Production peaked at ~20,000 BOPD in the mid-1970s and currently at ~700 BOPD in 2020. The proposed field rules would lead to additional recovery from the Subject Field.

The March 2020 oil proration schedule for the Subject Field shows that most of the wells on the oil proration schedule are vertical wells at this time and that Hilcorp is the largest operator in the field.⁴

Hilcorp is requesting very similar field rules of no between well spacing, which is similar to the other Frio Age Fields:⁵

1. Ganado, West (4700 Zone) Field, Final Order No. 02-0308632.
2. Placedo Field, Final Order No. 02-0308631.
3. McFaddin (4400) Field, Final Order No.02-0308635.
4. Portilla (Frio) Field, Final Order No. 04-0309350.
5. West Ranch (Ward) Field, Final Order No. 02-0310417.
6. West Ranch (41A/98A Cons) Field, Final Order 02-0292677.
7. West Ranch (Greta) Field, Final Order 02-0317578
8. Tom O'Connor (4500 Greta Mass) Field, Final Order 02-0320641

The request for no minimum between well spacing and 100' dual lease line spacing will provide flexibility in drilling wells, maximizing ultimate recovery from the field and resulting in the recovery of additional oil that may otherwise go unrecovered. To further accommodate horizontal drilling in the Subject Field area that has hundreds of penetrations, Hilcorp has requested 100' dual lease line spacing and no between well spacing.

Hilcorp requests that Rule 86 apply to horizontal development in the field, to the extent horizontal rules are not requested in the special field rules in this docket. Hilcorp's engineering witness believes the horizontal wells that Hilcorp plans to drill and the proposed field rules will result in the recovery of additional oil that may otherwise go unrecovered.

Hilcorp's engineer testified that the requested field rules are necessary to recover oil that would otherwise go unrecovered.

Hilcorp agreed that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), the Final Order in this case shall be effective on the date a Master Order relating to the Final Order is signed.

³ Hilcorp Exh. 3- Proration Schedule

⁴ *Id.*

⁵ Hilcorp Exh. 5.

FINDINGS OF FACT

1. Hilcorp Energy Company ("Hilcorp"), Operator No. 386310, requests to amend the field rules for the Tom O'Connor (5800) Field ("Subject Field") in Refugio County, Texas.
2. Notice of Hearing for the application was sent by U.S. mail to all operators of record in the Subject Field at least 10 days prior to the hearing held for the application.
3. The application is unopposed.
4. The Subject Field was discovered in 1934.
5. The current special field rules that govern the Subject Field that Hilcorp requests to change are 150'/330' spacing.
6. Hilcorp is requesting the 0' between well spacing and 100' dual lease line spacing.
7. Hilcorp is requesting the same field rules pertaining to well spacing, as eight recently approved field rule amendments:
 - a. Ganado, West (4700 Zone) Field, Final Order No. 02-0308632.
 - b. Placedo Field, Final Order No. 02-0308631.
 - c. McFaddin (4400) Field, Final Order No.02-0308635.
 - d. Portilla (Frio) Field, Final Order No. 04-0309350.
 - e. West Ranch (Ward) Field, Final Order No. 02-0310417.
 - f. West Ranch (41A/98A Cons) Field, Final Order 02-0292677
 - g. West Ranch (Greta) Field, Final Order 02-0317578
 - h. Tom O'Connor (4500 Greta Mass) Field, Final Order 02-0320641
8. The request for no minimum between well spacing and 100' dual lease line spacing will provide flexibility in drilling wells to maximum ultimate recovery from the field, resulting in the recovery of additional oil that may otherwise go unrecovered.
9. The proposed field rules will result in the recovery of additional oil that may otherwise go unrecovered.
10. Hilcorp agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), the Final Order in this case shall be effective on the date a Master Order relating to the Final Order is signed.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction in this case. Tex. Nat. Res. Code §81.051.
2. Proper notice of the hearing was timely issued to persons entitled to notice. Tex. Gov't. Code §§ 2001.051 and 2001.052; Tex. Admin. Code §§ 1.42 and 1.45.
3. Approval of Hilcorp's application is necessary to 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 consent of Hilcorp, the Final Order in this case is effective when a Master Order relating to the Final Order is signed.

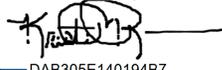
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission amend the field rules for the Subject Field, as proposed by Hilcorp Energy Company.

Respectfully submitted,

/s/ Austin Gaskamp

Austin Gaskamp
Technical Examiner

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Kristi M. Reeve
Administrative Law Judge