

OIL AND GAS DOCKET NO. 04-0263220

APPLICATION OF LEWIS PETRO PROPERTIES, INC. TO CONSOLIDATE VARIOUS FIELDS INTO THE OWEN (OLMOS) FIELD AND TO AMEND FIELD THE FIELD RULES FOR THE OWEN (OLMOS) FIELD, WEBB COUNTY, TEXAS

HEARD BY: Donna K. Chandler

DATE OF HEARING: December 14, 2009

APPEARANCES:

Keith B. Masters

REPRESENTING:

Lewis Petro Properties, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

Lewis Petro Properties, Inc. requests that following 14 fields be consolidated into the existing Owen (Olmos) Field:

Bill Barkey (Escondido) Field	08139 085
Encinal, South (Escondido) Field	28987 400
Encinal, S. (Escondido 5750) Field	28987 409
Encinal-Webb (Escondido) Field	29003 500
H. E. Clark (Navarro 5900) Field	37610 200
H. E. Clark (Olmos) Field	37610 220
La Moca Ranch (Olmos) Field	50876 550
Laredo, NW (Escondido) Field	52032 190
Mesquite (Escondido) Field	60753 300
Quick (Escondido) Field	73733 500
Santo Tomas (Escondido) Field	80985 001
Santo Tomas (Escondido 1 st) Field	80985 002
Santo Tomas (Olmos 8500) Field	80985 500
Tri Bar, South (Olmos) Field	91084 500

Lewis Petro also proposes that the field rules for the Owen (Olmos) Field be amended as follows:

1. Designation of the field as the entire correlative interval from 5,050' to 7,014' as shown on the Induction log of the Webb County School Land Lease Well No. 1, A-504;
2. 467'-660' well spacing, with special provisions for take points in horizontal wells; no minimum between well spacing between horizontal and vertical wells;
3. 320 acre density with optional 40 acre density; formula for determining additional acreage assignable to horizontal wells;
4. Allocation based on 50% acreage and 50% deliverability with continued suspension of the allocation formula.

This application was unopposed and the examiner recommends approval of the field consolidation and amended field rules for the Owen (Olmos) Field.

DISCUSSION OF THE EVIDENCE

In this docket, Lewis Petro Properties requests that 14 Olmos and Escondido fields be consolidated into the Owen (Olmos) Field. Two Escondido fields have already been consolidated into the field. In September 2008, the Owen (Escondido) and Owen (Escondido 2) Fields were consolidated into the Owen (Olmos) Field. The Commission has authorized similar field consolidation in the offsetting Tom Walsh (Olmos) Field to the north.

The Owen (Olmos) Field is an associated gas field that was discovered in 1971 at a depth of 6,979 feet. The Owen (Olmos) Field operates under rules providing for 467'-933' well spacing, 320/optional 40 acre density, and allocation based on 95% deliverability and 5% per well. The allocation formula is currently suspended. There are over 200 gas wells in the field currently and no oil wells.

Several of the fields proposed for consolidation have no wells currently. Several other fields have 1-2 wells. The Owen (Olmos) Field has the most wells, with almost 250 wells. The Santo Tomas (Escondido) Field has the second most wells, with 34. Additionally, all of the fields proposed for consolidation are non-associated gas fields, most of which operate under Statewide Rules. Five of the fields have special field rules which provide for densities ranging from 80 acres to 320 acres. Lewis Petro requests that the density rule for the Owen (Olmos) Field remain unchanged at 320/optional 40.

Lewis Petro requests changes to the spacing rules for the field to accommodate horizontal drilling which is just beginning in the Escondido. It is requested that the between-well spacing rule be eliminated between horizontal and vertical wells. The proposed well spacing of 467 feet from lease lines and 660 feet between wells with a 1,000 foot overlap for parallel or sub-parallel wells will accommodate horizontal drilling and allow operators to maximize drainhole length.

Lewis Petro requests that a field rule be adopted which includes language relevant to measurement of distances to lease lines for horizontal drainhole wells. The proposed rule specifies that, for purposes of lease line and between-well spacing, the nearest “take point” in a horizontal well be used. This take-point could be a perforation, if a horizontal well is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased well. Operators could then drill horizontal wells with penetration points, as defined by Rule 86, at distances closer than 467 feet to a lease line, as long as no take-point is closer than 467 feet to any lease line. Horizontal drainhole length on a lease is then maximized, resulting in the additional recovery of reserves.

Because the proposed designated interval contains multiple sands, a two factor allocation formula is required by statute. Lewis Petro believes that proposes that allocation be based on 50% deliverability and 50% acreage. The allocation formula is currently suspended and Lewis Petro requests continuation of this status.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. The Owen (Olmos) Field is an associated gas field that was discovered in 1971 at a depth of 6,979' subsurface depth.
3. In September 2008, the Owen (Escondido) and Owen (Escondido 2) Fields were consolidated into the Owen (Olmos) Field.
4. Lewis Petro Properties requests that the following 14 Olmos and Escondido fields be consolidated into the Owen (Olmos) Field.

Bill Barkey (Escondido) Field	08139 085
Encinal, South (Escondido) Field	28987 400
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5. The Owen (Olmos) Field operates under rules providing for 467'-933' well spacing, 320/optional 40 acre density, and allocation based on 95% deliverability and 5% per well. The allocation formula is currently suspended. There are almost 250 gas wells in the field currently and no oil wells.
6. Several of the fields proposed for consolidation have no wells currently. Several other fields have 1-2 wells.
7. All of the fields proposed for consolidation are non-associated gas fields, most of which operate under Statewide Rules. Five of the fields have special field rules which provide for densities ranging from 80 acres to 320 acres.
8. The fields proposed for consolidation produce from the same correlative interval from 5,050' to 7,014' as shown on the Induction log of the Webb County School Land Lease Well No. 1, A-504, which is already the designated interval for the Owen (Olmos) Field.
9. Operators are developing the Escondido with horizontal wellbores. The proposed well spacing of 467 feet from lease lines and 660 feet between wells will accommodate horizontal drilling and allow operators to maximize drainhole length.
10. A spacing rule which utilizes "take-points" in a horizontal well for determination of distances to lease lines will increase the recovery of reserves from the reservoirs by allowing the horizontal drainhole length to be maximized.
11. The formula $A = (L \times 0.0967) + 320$ acres) is a reasonable method to determine the proper assignment of acreage for a horizontal drainhole well.
12. For purposes of assignment of additional acreage, the distance between the first and last take-point in a horizontal well should be used.
13. Because the proposed designated interval contains multiple sands, a two factor allocation formula is required by statute. Allocation be based on 50% deliverability and 50% acreage is a reasonable formula which will protect correlative rights.
14. Allocation based on 50% deliverability and 50% acreage is a reasonable allocation formula which satisfies statutory requirements.
15. Continued suspension of the allocation formula is appropriate.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Consolidation of the fields and amending field rules for the Owen (Olmos) Field as proposed by Lewis Petro Properties, Inc. is necessary to prevent waste and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed field consolidation and amended field rules for the Owen (Olmos) Field.

Respectfully submitted,

Donna K. Chandler
Technical Examiner