



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 10-0281871

**APPLICATION OF CHESAPEAKE OPERATING, INC., TO AMEND PERMANENT
FIELD RULES FOR THE LIPSCOMB (CLEVELAND) FIELD, LIPSCOMB
COUNTY, TEXAS**

HEARD BY: Paul Dubois - Technical Examiner
Richard Atkins, P.E. - Technical Examiner
Marshall Enquist - Legal Examiner

DATE OF HEARING: June 25, 2013

APPEARANCES:

Philip Whitworth
Jim Clark
Bill Spencer

Michael Choate

REPRESENTING:

Chesapeake Operating, Inc.

Courson Oil & Gas, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unopposed application of Chesapeake Operating, Inc. (Chesapeake), for the Commission to consider amending permanent field rules for the Lipscomb (Cleveland) Field as adopted in Order No. 10-70,275, effective November 6, 1978, as amended, which currently provide for:

1. The entire correlative interval from 7,779 feet to 8,156 feet as shown on the Dual Induction Focused Gamma Ray log of the Mewbourne Oil Company Tubb "423" Lease, Well No. 3, shall be designated as a single reservoir for proration purposes and be designated as the Lipscomb (Cleveland) Field;
2. Minimum well spacing of 467'/933', 0' between vertical & horizontal wells, take point provisions, no perforation zone provisions;
3. 160 acre oil units with optional 40 acre oil unit density and 640 acre gas units with an optional 160 acre gas units and a modified Rule 38 exception

procedure for 80 acre gas units; and

4. An allocation formula based on 50% acreage, 50% deliverability, suspended to allow AOF status for gas wells, and capacity exempt/salvage classification for oil wells.

Chesapeake proposes the following rules:

1. No changes;
2. Minimum lease line spacing of vertical wells to 330 feet, revise take point provisions to 330'/100', eliminate between well spacing restrictions, and incorporate a 50' box rule and off-lease penetration point provisions;
3. Eliminate requirements to file proration unit plats while allocation formula is suspended, eliminate maximum diagonal provisions, and adopt maximum acreage allocation formulae for gas and oil wells; and
4. No changes.

The application was not protested. The examiners recommend approval of the proposed rules.

DISCUSSION OF THE EVIDENCE

The Lipscomb (Cleveland) Field was discovered in 1959. The first field rules were implemented on November 6, 1978 (Docket No. 10-70,275), and the field rules were most recently amended on April 5, 2011 at which time eleven fields were consolidated into the Lipscomb (Cleveland) Field. The field is classified as an associated gas field.

The depositional environment for the Cleveland sand is a tidally influenced delta shoreface with a lowstand to highstand sequence. There is no structurally influenced accumulation. The Cleveland Sandstone is widespread and found throughout the area. Within the Cleveland Sandstone are pockets of higher quality of sands that are distributed both vertically and horizontally. The correlative interval is from 7,779 feet to 8,156 feet as shown on the type log of the Mewbourne Oil Company Tubb "423" Lease, Well No. 3. The Cleveland sand has a gross interval that is 200 to 400 feet thick with a typical net pay thickness of 25 to 80 feet of high quality reservoir sand. The Cleveland has an average 10% porosity with a range of 8% to 14% porosity.

Production data of the consolidated Lipscomb (Cleveland) fields show a steady increasing gas production from 1963 until 1993 when gas production began to decline. The fields were being developed with vertical wells during this time period. Liquid/oil production remained fairly constant from 15,000 barrels of oil per month (BOPM) to 10,000 BOPM. In 2003 horizontal well development began. Gas production increased from 1 BCF per

month to 3.5 BCF of gas per month. Oil production increased from 10,000 BOPM to 150,000 BOPM. There are currently no prorated oil or gas wells in the field. All oil wells are classified as salvage, and the allocation formula for gas wells is suspended. Chesapeake seeks no change in the proration status. There is no gas cap identified in the field, oil production is random, the wells are either high liquids producing gas wells or high gas producing oil wells. There is a tendency to produce more oil in the southeast portion of the field. There is no need to restrict oil or casinghead gas production for conservation purposes as the reservoir is heterogeneous, tight and there is poor communication between wells.

Chesapeake indicated the proposed field rule changes were consistent with rules adopted for other fields in the area and across the state with active horizontal well development. Chesapeake provided calculations to justify the modification of spacing rules. Specifically, allowing the first and last take points of a horizontal drainhole to be 100 feet from a lease line (currently they are restricted to 330 feet), will allow for an additional 430 feet of productive wellbore length, which would result in increased production of 15,000 BOE per well. Further, amending the perpendicular lease line distance from 467 to 330 feet would be consistent with the field rules for neighboring fields producing from the same reservoir (i.e., the Lipscomb, S.E. [Cleveland] and the Pan Petro [Cleveland] Fields).

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 hearing.
2. The hearing was not protested.
3. The proposed field rules are consistent with rules recently adopted in other fields experiencing horizontal well development.
4. The proposed field spacing rules (Rule 2) will prevent waste by allowing recovery of additional reserves.
5. Continuation of the administrative suspension of the allocation formula is appropriate as there was no protest to the continuation presented at this hearing.
6. Continuation of the salvage classification for oil wells is justified as there is no gas cap identified in the field, the reservoir is tight, heterogenous, vertically and horizontally and the wells are in poor communication. There is no conservation purpose to restrict oil and casinghead gas production from an oil well.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was given to all persons legally entitled to notice.
2. All things have occurred or been accomplished to give the Railroad Commission jurisdiction in this matter.
3. The proposed field rules will prevent waste, protect correlative rights, and satisfy statutory requirements.

EXAMINERS' RECOMMENDATION

Based on the above findings and conclusions of law, the examiners recommend approval of the proposed amended field rules for the Lipscomb (Cleveland) Field.

Respectfully submitted,



Paul Dubois
Technical Hearings Examiner



Marshall Enquist
Legal Hearings Examiner