



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 7C-0274132

**THE APPLICATION OF PIONEER NATURAL RES. USA, INC. FOR A BLANKET
RULE 10 EXCEPTION, SPRABERRY (TREND AREA) FIELD AND VARIOUS
ENUMERATED FIELDS, DISTRICTS 7C, 8, AND 8A**

HEARD BY: Brian K. Fancher, Technical Examiner
Marshall F. Enquist, Legal Examiner

HEARING DATE: February 16, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Sandy Buch
Jeff Rees
David Lee Strickler
James K. Forrest
Weldon Pierson
Heather M. Barcia

Pioneer Natural Res. USA, Inc.

RESPONDENT:

Tim George

Chevron Midcont., L.P./Chevron USA, Inc.

OBSERVER:

John Soule

OXY USA, Inc./Occidental Permian, Ltd.

Tom Weber

Bluestem Energy Holdings, LLC

EXAMINERS' REPORT AND RECOMMENDATION**STATEMENT OF THE CASE**

Pioneer Natural Res. USA, Inc. ("Pioneer") requests authorization to commingle any combination of the fields listed on Exhibit D (attached) upon the filing of a completion report, an Administrative Rule 10 Data Sheet, and downhole commingling fees, without further notice of individual well commingling applications.

Further, the applicant requests that if granted, the Commission provide a compilation, as shown on Exhibit E, listing all of the fields for which a Blanket Exception to Statewide Rule 10 has been granted in this area. Exhibit E includes a list of fields compiled from Oil and Gas Docket Final Orders 7C-0266343, 7C-0268354, and 7C-0272342.

At the hearing, counsel on behalf of Pioneer withdrew the Blue Danube (Devonian) and Frysak Farms (Devonian) Fields that were included on Attachment A in the Notice of Hearing dated January 20, 2012. Subsequently, counsel on behalf of Chevron Midcontinent, L.P. ("Chevron") professed that because the Blue Danube (Devonian) Field had been retracted from Pioneer's subject application, Chevron withdraws its protest filed February 9, 2012.

This application was unopposed and the examiners recommend approval of the Statewide Rule 10 blanket exception, as ultimately requested by Pioneer.

DISCUSSION OF THE EVIDENCE

The Spraberry (Trend Area) Field incorporates portions of nine counties in Oil and Gas Districts 7C, 08, and 8A. The field is designated as associated-prorated and special field rules provide for a designated correlative interval, 467'-660' lease line spacing, 80 acre proration units with 80 acre tolerance, special provisions for Statewide Rule 38 exceptions, and allocation based on 75% acreage and 25% per well.

The current designated correlative interval for the Spraberry (Trend Area) Field includes the interval from 6,865 feet to 10,605 feet, as shown on the log of the Pioneer, Houpt Lease, Well No. 1 (API No. 42-329-31029). This interval includes the entire Clearfork, Spraberry, Dean, and Wolfcamp formations. The lithostratigraphy succeeding the Wolfcamp formation, with relevance to the subject application, includes the Strawn, Atoka, Mississippian, and Woodford formations.

In support of its application, Pioneer submitted copies of Oil and Gas Final Order Nos. 7C-0266343, 7C-0268354, and 7C-0272342. Combined, these Final Orders authorize 202 fields to downhole commingle any well completed in the Spraberry (Trend Area) Field with any combination of the 202 fields listed therein.

Pioneer seeks authority for a Statewide Rule 10 blanket exception to commingle any well completed in the Spraberry (Trend Area) Field with any of the twenty-seven fields listed on Pioneer's Exhibit D (see attached). Representatives of Pioneer opined that if its application is granted as it was requested, the Statewide Rule 10 exception will prevent waste by encouraging production from fields that would otherwise remain unrecovered individually. Moreover, the additional production attributed to each well that is downhole commingled increases the overall economic limit for individual wells by allowing production from multiple fields.

At the hearing, Pioneer submitted a base map that portrays the marginal boundaries of the Spraberry (Trend Area) Field, along with the location of wells completed in the twenty-seven fields associated with this application. Representatives of Pioneer testified that the majority of the twenty-seven fields are located within the current boundaries of the Spraberry (Trend Area) Field.

In support of its application, Pioneer submitted a structural cross-section traversing from north to south through the Midland Basin and utilized the top of the Spraberry (Trend Area) correlative interval as the datum line. In accompaniment, Pioneer included three additional cross-sections traversing east to west in the northern, central, and southern-most areas of the Midland Basin. The subsurface data indicates the Strawn, Atoka, Mississippian, and Woodford formations vary in thickness throughout the Midland Basin, but are continuous below the Spraberry (Trend Area) Field. Pioneer testified that in most instances, hydrocarbons are present throughout the aforementioned geologic formations below the Spraberry (Trend Area) Field; however, the strata displays consistent low values of porosity and permeability.

Pioneer testified it is one of the largest operators in the Spraberry (Trend Area) Field with 690 wells, of which, thirty to fifty percent are down-hole commingled with fields in the context of the subject application. Pioneer submitted evidence that indicates a typical completion in the Spraberry (Trend Area) Field is capable of initially producing roughly 55 BOPD. A typical Strawn completion is expected to initially produce at a rate of about 20 BOPD, while a typical Atoka or Mississippian completion is expected to initially produce at a rate of 8 to 10 BOPD. Pioneer indicated that although some wells initially produce through an open flow choke, all wells completed through commingled production eventually require artificial lift. Representatives on behalf of Pioneer testified that it intends to pump-off all liquids encountered while producing commingled hydrocarbons, therefore eliminating any occurrence of cross-flow between reservoirs. Moreover, Pioneer testified it has not encountered any down-hole problems in the 551 Statewide Rule 10 Exceptions it has obtained in the subject fields that would defer the blanket commingling as it is requested.

Witnesses on behalf of Pioneer concluded that on average, a Spraberry well will ultimately recover approximately 95,000 BO. Further, Pioneer testified that the average remaining recoverable reserves for the Strawn, Atoka, and Mississippian are approximately

15,000 BO, 11,000 BO, and 18,500 BO, respectively, as a result of commingling production. Pioneer believes a stand-alone completion in a field below the Spraberry (Trend Area) Field, within the context of the subject application, is uneconomic in many cases. As a result of commingling, Pioneer testified it anticipates the overall economic limit for each well to decrease from 2 BOPD per zone to 0.66 BOPD per zone.

At the hearing, the applicant opined that operators active in each of the fields subject to the application received notice of the subject application in the Notice of Hearing dated January 20, 2012; therefore, Pioneer requests that applications for Statewide Rule 10 Exceptions for wells completed in any combination of the fields subject to this application be waived of notification requirements under Statewide Rule 10.

It is further requested that wells which are downhole commingled in the subject fields be assigned to the Spraberry (Trend Area) Field for proration purposes.

FINDINGS OF FACT

1. Notice of this hearing was issued to all operators in all of the subject fields.
2. There are at least 200 fields in the Strawn, Atoka, Mississippi, and Woodford formations underlying the Spraberry (Trend Area) Field.
3. The Strawn, Atoka, Mississippian, and Woodford formations are continuous within the Midland Basin.
4. At least 551 Rule 10 exceptions have been approved by the Commission for the Spraberry (Trend Area) Field and the Strawn, Atoka, and Mississippian fields now proposed for blanket Rule 10 exception.
5. Cross-flow between the fields is not expected. The wells will likely require artificial lift.
6. The overall economic limit for each well will decrease by allowing commingled production.
7. Downhole commingling production from these fields will result in the recovery of incremental reserves from the various fields proposed for commingling zones. It is estimated that an additional 15,000 BO, 11,000 BO, and 18,500 BO per well will be recovered from the Strawn, Atoka, and Mississippian fields, respectively, as a result of commingling.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Approval of the requested Rule 10 exceptions for all wells in the Spraberry (Trend Area) Field and the fields listed on Attachment A will prevent waste and will not harm correlative rights.

EXAMINERS' RECOMMENDATION

Based on the above findings and conclusions, the examiners recommend approval of the Rule 10 exceptions for all wells in the Spraberry (Trend Area) Field and the fields listed on Attachment A.

Respectfully submitted,


Brian K. Fancher
Technical Examiner


Marshall F. Enquist
Legal Examiner

Field No.	Field Name
782500	AGAR (ATOKA, LOWER)
4605080	AZALEA (ATOKA)
4605111	AZALEA (BEND)
6245500	BAUMANN (PENNSYLVANIAN)
7114300	BENEDUM, NE. (BEND LIME)
8495500	BIZCO (MISSISSIPPIAN)
11240500	BRADFORD RANCH (ATOKA)
16559500	CEDAR FLATS (MISS.)
18255500	CIRCLE BAR, EAST (ATOKA)
24488100	DEWEY LAKE (ATOKA)
41462666	HILL RANCH (MISS)
45073500	J. L. M. (MISSISSIPPIAN)
55256030	LOWE (ATOKA)
56822050	MAGUTEX (ATOKA)
62703050	MOONLIGHT (ATOKA)
62703400	MOONLIGHT (MISSISSIPPIAN)
62711400	MOORE (MISS)
66301220	NUGGET (LOWER MISSISSIPPIAN)
67041300	OLD UPLAND, EAST (BEND)
69440100	PARSLEY (ATOKA)
69765200	PAUL PAGE (ATOKA)
78285500	ROSE PETAL (LOWER MISS.)
5349050	LIBERTY (MISS.)
82857300	SHEEP MOUNTAIN (CONSOLIDATED)
88977568	TEX-HAMON (MISSISSIPPIAN, LOWER)
88980550	TEX-HAMON, NO. (MISS., LOWER)
88980575	TEX-HAMON, NO. (MISS., UPPER)