RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NOS. 0252703, 0252817, 0252733, 0252732 AND 0252728

THE APPLICATIONS OF BEPCO, L.P. FOR EXCEPTIONS TO STATEWIDE RULES 11, 26, 27, 37, 51, 52, 53 AND 86 AND FIELD RULE 13 FOR THE S. A. SLAUGHTER "B" WELL NO. 33, R. A. HEFNER NO. 8H, A. E. COE NO. 18, SUN-DENTON NO. 8H, R. L. SLAUGHER JR. TR. 33 NO. 39, A. E. COE NO. 21H, S. A. SLAUGHTER "B" NO. 42, A. E. COE NO. 13H, BARRY UNIT NO. 6 AND S. A. SLAUGHTER "B" NO. 29H, SLAUGHTER FIELD, HOCKLEY COUNTY, TEXAS

Heard by: Donna Chandler, Technical Examiner
James M. Doherty, Hearings Examiner

Hearing Date: September 19, 2007

Appearances:	**Representing:**
Bob Grable Cary McGregor	BEPCO, L.P.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

BEPCO, L.P. requests exceptions to various Statewide Rules and Rule 13 of the Slaughter Field Rules for five well "pairs". BEPCO plans to re-enter five existing vertical wells and drill horizontal drainholes which would cross the adjoining lease line and approach another vertical well on its own offsetting lease.

Similar authority was granted by the Commission on September 12, 2006 for three well "pairs" in Docket Nos. 0246059, 0247964, 0247901 and 0247902. For those well "pairs", all interest owners in the wells agreed to the allocation method proposed by BEPCO for well testing and production of the laterals. In the current dockets, BEPCO notified all interest owners, prior to the hearing, of the proposed allocation method for the laterals. Approximately 98% of the interest owners agreed to the method. Approximately 2% of the interest owners did not respond to BEPCO's notification. Notice of the hearing was sent to all interest owners and no protests were received. BEPCO again notified the non-signors and received no response.

The examiners recommend approval of the requested exceptions.

DISCUSSION OF THE EVIDENCE

The Slaughter Field was discovered in 1937 and has been under waterflood since the early 1960's. Beginning in March 2000, BEPCO began its "enhanced" skewed 4-spot waterflood pattern on its leases. This enhancement consisted of drilling one or two horizontal laterals from existing vertical wells to create a "stairstep" pattern to more efficiently sweep the reservoir by water injection. BEPCO has drilled a total of 70 of these laterals to date, using 34 vertical wellbores. To complete this skewed 4-spot (stairstep) pattern on its leases, additional laterals must be drilled across lease lines.

To accomplish the drilling of the subject wells, BEPCO has filed two Form W-1's for each well pair. For example, the Barry Unit No. 6 well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the S. A. Slaughter "B" No. 29 well to the east. The proposed terminus of the wellbore is expected to be approximately 70 feet from the No. 29 well. The portion of the lateral on the Barry Unit lease will be known as the Sun Denton No. 6; the portion of the lateral on the S. A. Slaughter "B" lease will be known as the S. A. Slaughter "B" No. 29H. The second well pair is the re-entry of the S. A. Slaughter "B" No. 33 vertical well, with the lateral crossing the common lease line with the R. A. Hefner lease to the south. This lateral will have a terminus near the No. 8 well on the R. A. Hefner lease. The lateral will be known as the S. A. Slaughter "B" No. 33 and the R. A. Hefner No. 8H. The third well pair is the re-entry of the A. E. Coe No. 18. This lateral will cross the common lease line with the Sun-Denton lease to the west, with a terminus near the No. 8 well on that lease. The lateral will be known as the A. E. Coe No. 18 and the Sun-Denton No. 8H. The fourth well pair is the re-entry of the R. L. Slaughter Jr. Tr. 33 Well No. 39. This lateral will cross the common lease line with the A. E. Coe lease to the south, with a terminus near the No. 21 on that lease. This lateral will be known as the R. L. Slaughter Jr. Tr. 33 No. 39 and the A. E. Coe No. 21H. The fifth well pair is the re-entry of the S. A. Slaughter "B" No. 42. This lateral will cross the common lease line with the A. E. Coe lease to the east, with a terminus near the No. 13 on that lease. This lateral will be known as the S. A. Slaughter "B" No. 42 and the A. E. Coe No. 13H. Each of the five proposed laterals will be approximately 800 feet long.

For potential test determinations, production reporting purposes and royalty payment, baseline declines for each pre-existing vertical well will be the basis used to calculate the production attributable to each lease associated with the lateral. All incremental production from the lateral wells will be considered as originating from both leases and will be allocated to each lease on a 50%-50% basis.

Water cut of production from this field averages 97% and the field is obviously very near its secondary economic limit. With the drilling of the horizontal laterals since 2000, BEPCO has already recovered almost 700,000 barrels of incremental oil from 37 laterals on three leases, with an average of 17,000 to 22,000 BO per well. BEPCO expects that each lateral will recover a minimum of 30,000 barrels of incremental oil, with some recovering significantly more. Re-entering a vertical well to drill the proposed 800 foot horizontal lateral will cost approximately $365,000. Of this total cost, only $50,000 is attributed to the drilling of the 800 foot horizontal section. The most expensive part of drilling a horizontal lateral is making the turn from vertical. BEPCO estimates that re-entering two vertical wells and drilling two separate, shorter horizontal laterals "toward" each other, stopping just short of the lease line, would cost $680,000. BEPCO can save about $315,000 per wellbore "pair" by drilling a single lateral across a lease line, as opposed to two shorter laterals, one from each of the vertical wells on each lease. Pooling the subject leases is not a viable option for BEPCO because it's severance tax exemptions under Rule 50 for the leases would possibly be lost.

EXAMINERS' OPINION

BEPCO requests exception to various Statewide Rules in order to accomplish the proposed development. Foremost, exceptions to Statewide Rule 11(a) are required. Statewide Rule 11 (a) states that ".....Nothing in this section shall be construed to permit the drilling of any well in such a manner that the wellbore crosses lease and/or property lines (or unit lines in cases of pooling) without special permission." BEPCO seeks exception to Rule 11(a) for all five well "pairs" so that the horizontal laterals are authorized to cross lease lines.

If exceptions to Statewide Rule 11(a) are approved for the five well "pairs", BEPCO believes that exceptions to the other stated Statewide Rules become secondary, and possibly unnecessary. Exceptions to Statewide Rules 26 and 27, which require that oil and gas be measured prior to leaving a lease, are necessary because the production from the portion of the lateral on one lease will be commingled with production from other portion of the lateral on the other lease. Production will leave the lease in the wellbore lateral prior to being measured.

Rule 37 requires minimum distances to lease lines for wellbores. Exceptions to Rule 37 are needed for these wells because wells will be zero feet from lease lines. The exceptions to Rule 37 may be approved pursuant to Statewide Rule 37(h)(2)(a) because there is no protest.

Rules 51, 52 and 53 pertain to oil well testing and completion reports. The well "pairs" will obviously not be able to meet the requirements of these rules which would require the testing of individual wells. BEPCO has submitted its proposal for allocating production to each lateral portion of the well pair.

Rule 86(b)(2) states that "No point on a horizontal drainhole shall be drilled nearer than 467 feet, or other lease-line spacing requirement under applicable rules for the field, from any property line, lease line, or subdivision line." Field rules for the Slaughter Field require a minimum of 440 feet to lease lines. These laterals will cross lease lines.

Rule 86(f)(2) requires drilling unit plats and Rule 86(f)(4) requires proration unit plats. These leases already have entity for density authority and are not required to file plats until final density.

The examiners recommend approval of BEPCO's applications, allowing the five proposed horizontal drainhole wells to cross lease lines. The placement of the wells is such that incremental reserves will be recovered in this substantially depleted field. Recent wells drilled on this skewed 4-spot pattern have been successful in recovering additional reserves. Requiring BEPCO to drill to a separate lateral from each of two old vertical wellbores would be economic waste and is not necessary to protect correlative rights. There was no objection from any interest owner as to BEPCO's proposed allocation method for well testing and production.

FINDINGS OF FACT

1. Notice of this hearing was issued to all persons entitled to notice and no protests were received.

2. The five proposed horizontal lateral wells will cross lease lines of BEPCO operated properties. Separate drilling permit applications have been filed for the portion of the lateral on each lease.

   a. The S. A. Slaughter "B" No. 33 vertical well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the R. A. Hefner No. 8. well. The lateral will be known as the S. A. Slaughter "B" No. 33 and the R. A. Hefner No. 8H.

   b. The A. E. Coe No. 18 vertical well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the Sun-Denton No. 8. The lateral will be known as the A. E. Coe No. 18 and the Sun-Denton No. 8H.

   c. The R. L. Slaughter Jr. Tr. 33 Well No. 39 vertical well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the A. E. Coe No. 21. This lateral will be known as the R. L. Slaughter Jr. Tr. 33 No. 39 and the A. E. Coe No. 21H.

   d. The Slaughter "B" No. 42 vertical well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the A. E. Coe No. 13. This lateral will be known as the S. A. Slaughter "B" No. 42 and the A. E. Coe No. 13H.

e. The Barry Unit No. 6 vertical well will be re-entered and the horizontal lateral will be drilled in the San Andres directly toward the S. A. Slaughter "B" No. 29. This lateral will be known as the Sun Denton No. 6 and the S. A. Slaughter "B" No. 29H.

f. Each of the five proposed laterals will be approximately 800 feet long

3. The five proposed wells will complete the enhancement of the skewed 4-spot waterflood pattern (stairstep) on BEPCO's leases. BEPCO has already drilled 70 laterals on its leases in the field, using 34 vertical wellbores. Three are the laterals which cross lease lines, which was approved by the Commission on September 12, 2006.

4. Average recovery to date from 37 laterals on three leases drilled since 2000 is 17,000 to 22,000 BO per well. Incremental recovery from these 37 laterals is over 700,000 BO. BEPCO estimates incremental recovery of a minimum of 30,000 BO per lateral.

5. The method proposed by BEPCO for determining well potential, production and royalty payments attributable to each lease associated with the lateral is based substantially on the decline curves for the existing vertical wells associated with each lateral. The method has been approved by approximately 98% of the royalty interest ownership. All owners were notified of the hearing and no protests were filed.

6. Exceptions to Statewide Rule 11(a) are required because the proposed five laterals will cross lease lines.

7. Exceptions to Statewide Rules 26 and 27 are required because the production from portions of the lateral on two separate leases will not be measured prior to leaving the lease within the wellbore lateral.

8. Exceptions to Rule 37 are required for the five proposed wells because wells will be zero feet from lease lines. These exceptions may be approved pursuant to Statewide Rule 37(h)(2)(a).

9. Exceptions to Rules 51, 52 and 53 are required because the portions of the wellbores will exist on two separate leases and can not be tested separately.

10. Exceptions to Rule 86(b)(2) and Slaughter Field Rule No. 13 require a minimum of 440 feet from any point on a horizontal drainhole to the nearest lease line. These proposed laterals will cross lease lines.

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 exceptions to Statewide Rules 11, 26, 27, 37, 51, 52, 53 and 86 for the five proposed horizontal lateral wells will not cause waste or harm correlative rights and will not circumvent the purposes of these rules.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiners recommend approval of BEPCO's request for exceptions to the various Statewide Rules for the five subject horizontal lateral wells, as set out in the attached Final Order.

Respectfully submitted,

Donna Chandler

Donna K. Chandler
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James M. Doherty

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