



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0280554

THE APPLICATION OF LEWIS PETRO PROPERTIES, INC. TO CONSOLIDATE VARIOUS FIELDS INTO THE TRI BAR (OLMOS) FIELD AND TO RENUMBER AND AMEND FIELD RULES FOR THE TRI BAR (OLMOS) FIELD, LA SALLE COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Laura Miles-Valdez - Legal Examiner

DATE OF HEARING: February 22, 2013

APPEARANCES:

REPRESENTING:

APPLICANT:

Keith B. Masters

Lewis Petro Properties, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Lewis Petro Properties, Inc. ("Lewis") requests that various fields be consolidated into the Tri Bar (Olmos) Field, ID No. 91080 500. The fields proposed for consolidation are as follows:

<u>FIELD NAME</u>	<u>FIELD NUMBER</u>
Encinal (Olmos 8200)	28977 333
Strickhausen (Olmos Tri-Bar)	86653 600
Tri Bar (Escondido)	91080 300
Tri Bar, North (Olmos)	91082 500

Field Rules for the Tri Bar (Olmos) Field were adopted by Final Order No. 1-70,478, effective November 20, 1978. The Field Rules currently in effect for the field are summarized as follows:

1. 467'-1,200' well spacing;
2. 40 acre units;

3. Allocation based on 100% deliverability with AOF status.

Lewis requests that the Field Rules be renumbered and amended as follows:

1. Designation of the field as the correlative interval from 6,010 feet to 8,935 feet as shown on the log of the Lewis Petro Properties, Inc. - Triple Bar Ranch "F" Lease, Well No. 1 (API No. 42-283-30225);
2. 467'-0' well spacing with special provisions for "take points", 50' "box rule" and "off-lease" penetration point in horizontal drainhole wells;
3. 80 acre units with optional 40 acre density;
4. Gas allocation based on 50% acres and 50% deliverability with AOF status and oil allocation based on 50% acres and 50% per well with a top oil allowable based on the 1965 Yardstick allowable of 215 BOPD;
5. Special provisions for "stacked laterals" in horizontal drainhole wells.

Lewis also requests that proration unit plats not be required for individual wells, but that Form P-15 be filed to designate the number of acres to be assigned to each well.

The application is unopposed and the examiners recommend approval of the field consolidation and renumbering and amending the Field Rules for the Tri Bar (Olmos) Field, as requested by Lewis.

DISCUSSION OF THE EVIDENCE

The subject fields were discovered beginning in June 1970. There are 106 producing gas wells, 12 producing oil wells and five operators carried on the proration schedules. Most of the fields operate under Statewide Field Rules. The Tri Bar, North (Olmos) Field, which is the largest of the subject fields, operates under Field Rules that provide for 467'-933' well spacing and 80 acre units with optional 40 acre density. Lewis operates most of the wells in the subject fields. The total cumulative production from the subject fields through December 2012 is 67.2 BCFG and 1.4 MMBO.

Lewis is consolidating the subject fields into the Tri Bar (Olmos) Field and proposes that the correlative interval from 6,010 feet to 8,935 feet as shown on the log of the Lewis Petro Properties, Inc. - Triple Bar Ranch "F" Lease, Well No. 1 (API No. 42-283-30225), formally known as the Rutherford Oil Corporation - Triple Bar Ranch Lease, Well No. 1, Section 12, J. Poitevent Survey, A-1752, La Salle County, Texas, be considered a single field known as the Tri Bar (Olmos) Field. This interval includes the entire Escondido and Olmos formations.

The fields are geographically intermingled and there are no other fields contained within the proposed correlative interval. Many of the wells have produced from several different fields and the reservoirs are continuous across the field area. The primary drive mechanism is a solution gas drive and the fields are in the later stages of primary depletion. To date, the Commission has already approved four exceptions to Statewide Rule 10 to allow downhole commingling in the various fields.

Lewis is developing the Tri Bar (Olmos) Field by drilling infill horizontal drainhole wells and requests Field Rules that will promote the efficient and effective development of the remaining hydrocarbons. Lewis requests 467'-0' well spacing with special provisions for "take points", a 50' "box rule" and "off-lease" penetration point in horizontal drainhole wells and 80 acre units with optional 40 acre density. Lewis argues that the proposed 0' between well spacing is necessary to allow the drilling of horizontal drainhole wells, which may have to be placed very near vertical wells in some cases. Similar rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Springs, Cotton Valley and Barnett Shale formations.

Lewis requests that a Field Rule be adopted which includes language relevant to the measurement of distances to lease lines for horizontal drainhole wells. Lewis's proposed rule specifies that, for purposes of lease line spacing, the nearest "take point" in a horizontal well be used. This take-point could be a perforation in a horizontal well that is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased well. For purposes of the assignment of additional acreage pursuant to Statewide Rule 86, it is proposed that the distance between the first and last take-point in a horizontal drainhole well be used.

Lewis also proposes a 50' "box rule" for horizontal drainhole wells that would allow drainholes to deviate 50 feet from either side of their permitted track without the necessity of obtaining a Statewide Rule 37 exception. As drilled wells for which all points are located within the "box" would be considered in compliance with their drilling permits.

In some cases, it is beneficial to penetrate the reservoir off lease, while still having "take points" no closer to lease lines than allowed under the field rules. Lewis requests that Field Rules for the subject field provide for an "off-lease" penetration point. Statewide Rule 86 requires that the penetration point of a horizontal drainhole be on the lease. In this field, a well generally requires approximately 600 feet of horizontal displacement to make the 90 degree turn from vertical to horizontal. If the penetration point is required to be on the lease, then the first point of production would be about 600 feet from the lease line. The proposed rule will allow approximately 200 feet of additional producing drainhole, which will result in the recovery of additional reserves. The Commission has adopted similar rules allowing offsite penetration points in other fields, after the operator has given notice to the mineral owners of the off-lease tract on which the penetration point is to be located and received no protest.

Lewis requests that a Field Rule be adopted to accommodate the drilling of stacked lateral horizontal drainhole wells. The gross thickness of the field interval is almost 3,000 feet. Lewis believes that several separate laterals may be necessary to effectively develop the field with horizontal drainhole wells. The rule would allow stacked lateral horizontal drainhole wells within the correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes. It is proposed that a stacked lateral be defined to be multiple horizontal drainhole wells which are drilled from different surface locations.

Because the consolidated interval for the field includes two geologic formations, a two factor allocation formula is required by Texas statute. Lewis requests that gas allocation be based on 50% acres and 50% deliverability and that the allocation formula remain suspended, as there is a 100% market demand for all of the gas produced from the field. Lewis proposes that oil allocation be based on 50% acres and 50% per well with a top oil allowable based on the 1965 Yardstick allowable of 215 BOPD. Lewis also requests that proration unit plats not be required for individual wells, but that Form P-15 be filed to designate the number of acres to be assigned to each well.

FINDINGS OF FACT

1. Notice of this hearing was sent to all persons legally entitled to notice at least ten days prior to the date of hearing.
2. The subject fields were discovered beginning in June 1970.
 - a. There are 106 producing gas wells, 12 producing oil wells and five operators carried on the proration schedules.
 - b. Most of the fields operate under Statewide Field Rules.
 - c. The Tri Bar, North (Olmos) Field, which is the largest of the subject fields, operates under Field Rules that provide for 467'-933' well spacing and 80 acre units with optional 40 acre density.
 - d. Lewis Petro Properties, Inc. ("Lewis") operates most of the wells in the subject fields.
3. The subject fields should be consolidated into the Tri Bar (Olmos) Field.
 - a. The fields are geographically intermingled and there are no other fields contained within the proposed correlative interval.
 - b. Many of the wells have produced from several different fields and the reservoirs are continuous across the field area.

- c. The primary drive mechanism is a solution gas drive and the fields are in the later stages of primary depletion.
 - d. To date, the Commission has already approved four exceptions to Statewide Rule 10 to allow downhole commingling in the various fields.
4. The Tri Bar (Olmos) Field should be designated as the correlative interval from 6,010 feet to 8,935 feet as shown on the log of the Lewis Petro Properties, Inc. - Triple Bar Ranch "F" Lease, Well No. 1 (API No. 42-283-30225), formally known as the Rutherford Oil Corporation - Triple Bar Ranch Lease, Well No. 1, Section 12, J. Poitevent Survey, A-1752, La Salle County, Texas. This interval includes the entire Escondido and Olmos formations.
5. A spacing rule which utilizes "take-points" in a horizontal drainhole well for determination of distances to lease lines will prevent waste and will not harm correlative rights.
 - a. A take-point in a horizontal drainhole well in this field may be a perforation in a horizontal well that is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased portion of the wellbore.
 - b. Adoption of the proposed rule will allow the horizontal drainhole length on a lease to be maximized.
 - c. For purposes of assignment of additional acreage pursuant to Statewide Rule 86, the distance between the first and last take-point in a horizontal drainhole well should be used.
6. The proposed 50' "tolerance box" is necessary to allow operators reasonable minor deviations from the wellbore track that has been permitted.
7. Allowing an "off-lease" penetration point will result in maximum producing drainhole length, thereby increasing ultimate recovery from horizontal drainhole wells. To protect correlative rights, prior notice and opportunity to object should be given to the mineral owners of "off-lease" surface locations.
8. The proposed "stacked lateral" rule will allow stacked lateral horizontal drainhole wells within the field correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes, which will facilitate the additional recovery of oil and gas reserves.

9. Similar rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Springs, Cotton Valley and Barnett Shale formations.
10. Gas allocation based on 50% acres and 50% deliverability with AOF status and oil allocation based on 50% acres and 50% per well with a top oil allowable based on the 1965 Yardstick allowable of 215 BOPD are reasonable formulas which will protect correlative rights and meet statutory requirements.
11. Continued suspension of the allocation formula is appropriate, as there is a 100% market demand for all the gas produced from the field.
12. The filing of Form P-15 to designate the number of acres to be assigned to each well for proration purposes with no proration unit plats will eliminate unnecessary paperwork.

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. Consolidation of the subject fields into the Tri Bar (Olmos) Field is necessary to prevent waste and protect correlative rights.
4. Renumbering and amending the Field Rules for the Tri Bar (Olmos) Field will prevent waste, protect correlative rights and promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve the field consolidation and renumber and amend Field Rules for the Tri Bar (Olmos) Field, as requested by Lewis Petro Properties, Inc.

Respectfully submitted,


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Technical Examiner


Laura Miles-Valdez
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