



# RAILROAD COMMISSION OF TEXAS

## OFFICE OF GENERAL COUNSEL

**OIL AND GAS DOCKET NO. 01-0274130**

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**THE APPLICATION OF ESCONDIDO RESOURCES II, LLC TO ADOPT FIELD RULES FOR THE TRES ENCANTO (ESCONDIDO) FIELD, LA SALLE COUNTY, TEXAS**

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**HEARD BY:** Richard D. Atkins, P.E. - Technical Examiner  
James M. Doherty - Legal Examiner

**HEARING DATE:** February 8, 2012

**APPEARANCES:** **REPRESENTING:**

**APPLICANT:**

John F. Miller

Escondido Resources II, LLC

**EXAMINERS' REPORT AND RECOMMENDATION**

**STATEMENT OF THE CASE**

Escondido Resources II, LLC ("Escondido") requests that Field Rules for the Tres Encanto (Escondido) Field be adopted. Escondido proposes the following Field Rules:

1. Designation of the field as the correlative interval from 6,624 feet to 7,124 feet as shown on the log of the Escondido Resources II, LLC - Storey Lease, Well No. 9 (API No. 42-283-32160);
2. 467'-1,200' well spacing, no minimum between well spacing between vertical and horizontal drainhole wells and special provisions for "take points" and a 50 foot "box" rule for horizontal drainhole wells;
3. Allocation based on 100% acres with an oil allowable based on the 1965 Yardstick Allowable of 111 barrels of oil per day.

The application was unopposed and the examiners recommend that Field Rules for the Tres Encanto (Escondido) Field be adopted, as proposed by Escondido.

### DISCUSSION OF THE EVIDENCE

The Tres Encanto (Escondido) Field was discovered in November 2005 at an average depth of 6,800 feet. The field operates under Statewide Rules. There are seven producing oil wells and three operators carried on the proration schedule. The top oil allowable is the 1965 Yardstick Allowable of 111 barrels of oil per day. Cumulative production from the field through November 2011 is 89.9 MBO and 431.3 MMCFG.

There is currently no defined correlative interval for the field. Escondido requests that the field be defined as the correlative interval from 6,624 feet to 7,124 feet as shown on the log of the Escondido Resources II, LLC - Storey Lease, Well No. 9 (API No. 42-283-32160), Section 139, H&GN RR Co. Survey, A-267, La Salle County, Texas. This interval includes the entire Escondido formation.

Escondido is proposing to drill horizontal wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. Escondido requests 467'-1,200' well spacing, no minimum between well spacing between vertical and horizontal drainhole wells and special provisions for "take points" and a 50 foot "box" rule for horizontal drainhole wells. Escondido proposes that the density remain on Statewide Rules with 40 acre units.

Escondido also requests that a field rule be adopted which includes language relevant to the measurement of distances to lease lines for horizontal drainhole wells. Escondido'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, 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. Similar rules have been adopted in other tight reservoirs in the area, including the Eagle Ford, Pearsall Shale and Edwards formations.

The proposed rule would allow operators to drill horizontal wells with a penetration point, 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 oil or gas. 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.

Escondido proposes a tolerance "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.

Escondido requests that allocation be based on 100% acres with an oil allowable based on the 1965 Yardstick Allowable of 111 barrels of oil per day. Additionally, Escondido 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 application and hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing.
2. The Tres Encanto (Escondido) Field was discovered in November 2005 at an average depth of 6,800 feet.
  - a. The field operates under Statewide Rules.
  - b. There are seven producing oil wells and three operators carried on the proration schedule.
  - c. The top oil allowable is the 1965 Yardstick Allowable of 111 barrels of oil per day.
3. The Tres Encanto (Escondido) Field should be defined as the correlative interval from 6,624 feet to 7,124 feet as shown on the log of the Escondido Resources II, LLC - Storey Lease, Well No. 9 (API No. 42-283-32160). This interval includes the entire Escondido formation.
4. The Tres Encanto (Escondido) Field is actively being developed with horizontal drainhole wells.
5. Field Rules providing for 467'-1,200' well spacing, no minimum between well spacing between vertical and horizontal drainhole wells and special provisions for "take points" and a 50 foot "box" rule for horizontal drainhole wells will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
6. A spacing rule which utilizes "take-points" in a horizontal well for determination of distances to lease lines will prevent waste and will not harm correlative rights.
  - a. A take-point in a horizontal well in this field may 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 portion of the wellbore.

- b. Adoption of the proposed rule would allow operators to 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.
  - c. Adoption of the proposed rule will allow the horizontal drainhole length on a lease to be maximized.
  - d. For purposes of assignment of additional acreage pursuant to Statewide Rule 86, the distance between the first and last take-point in a horizontal well should be used.
7. Similar rules have been adopted in other tight reservoirs in the area, including the Eagle Ford, Pearsall Shale and Edwards formations.
  8. Allocation based on 100% acres and a top allowable based on the 1965 Yardstick Allowable of 111 barrels of oil per day is a reasonable formula which will protect correlative rights and meet statutory requirements.
  9. The filing of Form P-15 to designate the number of acres to be assigned to each well for proration purposes with no proration plats will eliminate unnecessary paperwork.

#### **CONCLUSIONS OF LAW**

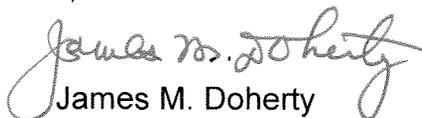
1. Proper notice of this hearing was issued.
2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.
3. Adopting Field Rules for the Tres Encanto (Escondido) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

#### **EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission adopt Field Rules for the Tres Encanto (Escondido) Field, as requested by Escondido Resources II, LLC.

Respectfully submitted,

  
Richard D. Atkins, P.E.  
Technical Examiner

  
James M. Doherty  
Legal Examiner