



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0279667

THE APPLICATION OF GREYSTONE OIL & GAS, LLP TO ADOPT FIELD RULES FOR THE TRIPLE-N (DEVONIAN) FIELD, ANDREWS COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Terry Johnson - Legal Examiner

HEARING DATE: January 23, 2013

APPEARANCES: REPRESENTING:

APPLICANT:

Rick Johnston

Greystone Oil & Gas, LLP

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The Triple-N (Devonian) Field currently operates under Statewide Field Rules. Greystone Oil & Gas, LLP ("Greystone") requests that Field Rules be adopted, as shown below:

1. Designated correlative interval from 10,456 feet to 11,532 feet as shown on the log of the Greystone Oil & Gas, LLP - State AQ Lease, Well No. 8 (API No. 42-003-43170);
2. 330'-0' well spacing with special provisions for "take points", 100' leaseline spacing for the first and last take points, a 33' "box rule" and "off-lease" penetration point in horizontal drainhole wells;
3. 40 acre oil units;
4. Allocation based on 100% acres with a top oil allowable based on the 1947 Yardstick Allowable of 245 barrels per day.

Greystone 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 with no maximum diagonal limitation.

The application is unopposed and the examiners recommend that Field Rules be adopted for the Triple-N (Devonian) Field, as proposed by Greystone.

DISCUSSION OF EVIDENCE

The Triple-N (Devonian) Field was discovered in August 1957 at an average depth of 10,600 feet. There is one shut-in oil well and one operator carried on the proration schedule. The field currently operates under Statewide Field Rules. Cumulative production from the field through August 2012 is 1.1 MMBO and 520.6 MMCFG.

There is currently no defined correlative interval for the field. Greystone requests that the field be defined as the correlative interval from 10,456 feet to 11,532 feet as shown on the log of the Greystone Oil & Gas, LLP - State AQ Lease, Well No. 8 (API No. 42-003-43170), Section 29, Block 9, University Lands Survey, A-U265, Andrews County, Texas. The correlative interval includes the entire Devonian formation.

Greystone is developing the Triple-N (Devonian) Field by drilling infill horizontal drainhole wells and requests Field Rules that will promote the efficient and effective development of the remaining hydrocarbons. Greystone requests 330'-0' well spacing with special provisions for "take points", 100' leaseline spacing for the first and last take points, a 33' "box rule" and "off-lease" penetration point in horizontal drainhole wells. Greystone 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.

Greystone requests that a Field Rule be adopted which includes language relevant to the measurement of distances to lease lines for horizontal drainhole wells. Greystone'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.

By allowing a 100' leaseline spacing for the first and last take points, an additional 460 feet of the reservoir is exposed to the horizontal lateral and drained. These reserves would go unrecovered if the 100' leaseline spacing for the first and last take points is not approved. Greystone also proposes a 33' "box rule" for horizontal drainhole wells that would allow drainholes to deviate 33 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. Greystone 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 300 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.

Greystone 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 with no maximum diagonal limitation. Greystone proposes that allocation be based on 100% acres with a top oil allowable based on the 1947 Yardstick Allowable of 245 barrels per day.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Triple-N (Devonian) Field was discovered in August 1957 at an average depth of 10,600 feet.
 - a. There is one shut-in oil well and one operator carried on the proration schedule.
 - b. The field currently operates under Statewide Field Rules.
3. The Triple-N (Devonian) Field should be defined as the correlative interval from 10,456 feet to 11,532 feet as shown on the log of the Greystone Oil & Gas, LLP - State AQ Lease, Well No. 8 (API No. 42-003-43170), Section 29, Block 9, University Lands Survey, A-U265, Andrews County, Texas. The correlative interval includes the entire Devonian formation.
4. 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 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 well should be used.
5. A Field Rule providing for 330'-0' well spacing with a special provision for 100' leaseline spacing for the first and last take points is appropriate for the Triple-N (Devonian) Field.
 - a. The proposed 0' between well spacing is necessary to allow the drilling of horizontal wells, which may have to be placed very near vertical wells in some cases.
 - b. By allowing a 100' leaseline spacing for the first and last take points, an additional 460 feet of the reservoir is exposed to the horizontal lateral and drained. These reserves would go unrecovered if the 100' leaseline spacing for the first and last take points is not approved.
 6. The proposed 33' "box rule" 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. Similar rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Springs, Cotton Valley and Barnett Shale formations.
 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 Triple-N (Devonian) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission adopt Field Rules for the Triple-N (Devonian) Field, as requested by Greystone Oil & Gas, LLP.

Respectfully submitted,


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Technical Examiner


Terry Johnson
Legal Examiner