

OIL AND GAS DOCKET NO. 08-0275563

**THE APPLICATION OF RELIANCE ENERGY, INC. TO ADOPT FIELD RULES FOR THE
CIRCLE BAR, EAST (ATOKA) FIELD, ECTOR COUNTY, TEXAS**

OIL AND GAS DOCKET NO. 08-0276177

**THE APPLICATION OF RELIANCE ENERGY, INC. TO ADOPT FIELD RULES FOR THE
HEADLEE, N. (STRAWN) FIELD, ECTOR COUNTY, TEXAS**

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

HEARING DATE: April 27, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Cary McGregor

Reliance Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Reliance Energy, Inc. ("Reliance") requests that Field Rules for the Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields be adopted. Reliance requests the following Field Rules:

1. Designation of the Circle Bar, East (Atoka) Field as the correlative interval from 10,830 feet to 11,560 feet and designation of the Headlee, N. (Strawn) Field as the correlative interval from 10,280 feet to 10,830 feet as shown on the log of the ADA Oil Company - Sallie Ratliff Lease, Well No. 1 (API No. 42-135-08538);
2. 467'-660' well spacing;
3. 40 acre units;
4. Allocation based on 100% acres with a top oil allowable based on the 1965

Yardstick Allowable.

The original notice of hearing contained both fields under one docket number. At the hearing, the examiners noted that each field needed to have its own docket number, since Field Rules for two fields could not be adopted in one final order. After the hearing, the examiners had another docket number assigned to the Headlee, N. (Strawn) Field. No additional notice of hearing was required.

The applications are unopposed and the examiners recommend that Field Rules for the Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields be adopted, as proposed by Reliance.

DISCUSSION OF THE EVIDENCE

The Circle Bar, East (Atoka) Field was discovered in November 1977 at an average depth of 10,900 feet. The field is classified as associated-49B and operates under Statewide Rules. There are two producing oil wells, no producing gas wells and two operators carried on the proration schedules. The top oil allowable is the 1965 Yardstick Allowable of 212 barrels of oil per day. Cumulative production from the field through March 2012 is 81.7 MBO and 1.2 BCFG.

The Headlee, N. (Strawn) Field was discovered in October 1965 at an average depth of 10,200 feet. The field operates under Statewide Rules. There are one shut-in oil well and one operator carried on the proration schedule. The top oil allowable is the 1965 Yardstick Allowable of 192 barrels of oil per day. Cumulative production from the field through March 2012 is 3.6 MBO and 5.0 MCFG.

There is currently no defined correlative interval for the Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields. Reliance requests that the Circle Bar, East (Atoka) Field be defined as the correlative interval from 10,830 feet to 11,560 feet and the Headlee, N. (Strawn) Field be defined as the correlative interval from 10,280 feet to 10,830 feet as shown on the log of the ADA Oil Company - Sallie Ratliff Lease, Well No. 1 (API No. 42-135-08538), Section 20, Block 41, T-1-S, T&P RR Co. Survey, A-549, Ector County, Texas. The Atoka formation occurs between the base of the Strawn and the top of the Mississippian formations. The Strawn formation occurs between the base of the Wolfcamp and the top of the Atoka formations.

Reliance is proposing to drill vertical infill wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. Reliance requests 467'-660' well spacing and 40 acre density. For consistency, Reliance is requesting the same spacing rules that have been adopted in the shallower Spraberry (Trend Area) Field, as this will allow wells in the two subject fields to be commingled with the Spraberry (Trend Area) Field without having to obtain Statewide Rule 37 exceptions.

Most of the wells in the Circle Bar, East (Atoka) Field and the Headlee, N. (Strawn)

Field have already been commingled with the Spraberry (Trend Area) Field under a blanket authority for exception to Statewide Rule 10. The commingled wells and their associated production are reported in the Spraberry (Trend Area) Field. To date, there have been 30 Statewide Rule 10 exceptions in the Circle Bar, East (Atoka) Field and 32 Statewide Rule 10 exceptions in the Headlee, N. (Strawn) Field.

Reliance also requests that allocation be based on 100% acres with a top oil allowable based on the 1965 Yardstick Allowable. Additionally, Reliance proposes that the allocation formula be suspended in the Circle Bar, East (Atoka) Field, as there is a 100% market demand for all of the gas produced from the field.

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 Circle Bar, East (Atoka) Field was discovered in November 1977 at an average depth of 10,900 feet.
 - a. The field is classified as associated-49B and operates under Statewide Rules.
 - b. There are two producing oil wells, no producing gas wells and two operators carried on the proration schedules.
 - c. The top oil allowable is the 1965 Yardstick Allowable of 212 barrels of oil per day.
3. The Headlee, N. (Strawn) Field was discovered in October 1965 at an average depth of 10,200 feet.
 - a. The field operates under Statewide Rules.
 - b. There are one shut-in oil well and one operator carried on the proration schedule.
 - c. The top oil allowable is the 1965 Yardstick Allowable of 192 barrels of oil per day.
4. The Circle Bar, East (Atoka) Field should be defined as the correlative interval from 10,830 feet to 11,560 feet and the Headlee, N. (Strawn) Field be defined as the correlative interval from 10,280 feet to 10,830 feet as shown on the log of the ADA Oil Company - Sallie Ratliff Lease, Well No. 1 (API No. 42-135-08538).

- a. The Atoka formation occurs between the base of the Strawn and the top of the Mississippian formations.
 - b. The Strawn formation occurs between the base of the Wolfcamp and the top of the Atoka formations.
5. The Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields are actively being developed with vertical infill wells.
 6. Field Rules providing for 467'-660' well spacing and 40 acre density will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
 - a. Similar spacing rules have been adopted in the shallower Spraberry (Trend Area) Field.
 - b. Similar spacing rules will allow wells in the two subject fields to be commingled with the Spraberry (Trend Area) Field without having to obtain Statewide Rule 37 exceptions.
 7. Most of the wells in the Circle Bar, East (Atoka) Field and the Headlee, N. (Strawn) Field have been commingled with the Spraberry (Trend Area) Field under a blanket authority for exception to Statewide Rule 10.
 - a. The commingled wells and their associated production are reported in the Spraberry (Trend Area) Field.
 - b. To date, there have been 30 Statewide Rule 10 exceptions in the Circle Bar, East (Atoka) Field and 32 Statewide Rule 10 exceptions in the Headlee, N. (Strawn) Field.
 8. Allocation based on 100% acres and a top oil allowable based on the 1965 Yardstick Allowable is a reasonable formula which will protect correlative rights and meet statutory requirements.
 9. Suspension of the allocation formula in the Circle Bar, East (Atoka) Field is appropriate, as there is a 100% market demand for all the gas produced from the field.

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 Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields 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 Circle Bar, East (Atoka) and Headlee, N. (Strawn) Fields, as requested by Reliance Energy, Inc.

Respectfully submitted,

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Technical Examiner

Terry Johnson
Legal Examiner