



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0277668

THE APPLICATION OF SM ENERGY COMPANY TO AMEND FIELD RULES FOR THE PEG'S DRAW (MISSISSIPPIAN) FIELD, BORDEN COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Randall Collins - Legal Examiner

HEARING DATE: September 13, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Dale E. Miller
Joseph Davis

SM Energy Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Peg's Draw (Mississippian) Field were adopted in Final Order No. 8A-0261257, effective June 18, 2009, as amended. The Field Rules are summarized as follows:

1. Designated correlative interval from 8,550 feet to 8,830 feet as shown on the log of the Primexx Operating Corporation - Peg's Draw "A" Lease, Well No. 2 (API No. 42-033-31993);
2. 467'-1,200' well spacing with special provisions for "take points", "off-lease" penetration point and a 50 foot "box" rule for horizontal drainhole wells;
3. 80 acre oil units;
4. Allocation based on 100% acres.

SM Energy Company ("SM") requests that Field Rule Nos. 2 and 3 be amended and Field Rule No. 5 be adopted, as shown below:



2. 467'-660' well spacing with no minimum between well spacing limitation between horizontal drainhole wells and vertical wells or horizontal drainhole wells that are parallel or sub-parallel and do not overlap more than 100 feet;
3. 80 acre oil units with optional 40 acre density;
5. Special provisions for "stacked lateral" horizontal drainhole wells.

The application is unopposed and the examiners recommend that the Field Rules for the Peg's Draw (Mississippian) Field be amended, as proposed by SM.

DISCUSSION OF EVIDENCE

The Peg's Draw (Mississippian) Field was discovered in July 2006 at an average depth of 8,600 feet. There are 27 producing oil wells and two operators carried on the proration schedule. Field Rules currently provide for 467'-1,200' well spacing with special provisions for horizontal drainhole wells and 80 acre oil units. Cumulative production from the field through June 2012 is 654.6 MBO and 383.3 MMCFG.

SM is developing the Peg's Draw (Mississippian) Field by drilling horizontal drainhole wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. From log analysis, SM estimated an average porosity of 6%, an average saltwater saturation of 44%, a net pay thickness of 57 feet and a recovery factor of 13%. The primary drive mechanism is a solution gas drive. SM provided drainage area calculations for 14 vertical wells in the field. The drainage areas range from 1 acre up to a maximum of 70 acres. The average drainage area was calculated to be approximately 23 acres and 11 of the wells had drainage areas of less than 40 acres.

Based on the drainage area calculations, SM proposes 467'-660' well spacing with no minimum between well spacing limitation between horizontal drainhole wells and vertical wells or horizontal drainhole wells that are parallel or sub-parallel and do not overlap more than 100 feet. SM also proposes 80 acre oil units with optional 40 acre density. SM submitted a tabulation of eight fields in RRC District 8A that have adopted similar spacing and density Field Rules.

SM requests that a Field Rule be adopted to accommodate the drilling of stacked horizontal lateral wells. The gross thickness of the field interval is almost 300 feet. SM believes that several separate laterals may be necessary to effectively develop the reservoir with horizontal wells. The rule would allow stacked horizontal laterals 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 drainholes which are drilled from different surface locations.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Peg's Draw (Mississippian) Field was discovered in July 2006 at an average depth of 8,600 feet.
 - a. There are 27 producing oil wells and two operators carried on the proration schedule.
 - b. Field Rules currently provide for 467'-1,200' well spacing with special provisions for horizontal drainhole wells and 80 acre oil units.
3. Field Rules for the Peg's Draw (Mississippian) Field that provide for 467'-660' well spacing with special provisions for horizontal drainhole wells and 80 acre oil units with optional 40 acre density are appropriate for the field.
 - a. SM Energy Company ("SM") is developing the field by drilling horizontal drainhole wells to promote the efficient and effective development of the remaining hydrocarbons.
 - b. Drainage areas for 14 vertical wells in the field range from 1 acre up to a maximum of 70 acres.
 - c. The average drainage area was calculated to be approximately 23 acres and 11 of the wells had drainage areas of less than 40 acres.
 - d. Eight other fields in RRC District 8A have adopted similar spacing and density Field Rules.
4. The proposed "stacked lateral" rule will allow stacked horizontal laterals 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.

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. Amending the Field Rules for the Peg's Draw (Mississippian) 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 amend the Field Rules for the Peg's Draw (Mississippian) Field, as requested by SM Energy Company.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Randall Collins
Legal Examiner