



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 09-0279557

**THE APPLICATION OF SILVER CREEK OIL & GAS, LLC TO RENUMBER AND AMEND
FIELD RULES FOR THE SANDUSKY FIELD, GRAYSON COUNTY, TEXAS**

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

HEARING DATE: January 14, 2013

APPEARANCES: **REPRESENTING:**

APPLICANT:

Dale E. Miller

Silver Creek Oil & Gas, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Sandusky Field were adopted in Final Order No. 9-57,393, effective May 15, 1967. The Field Rules are summarized as follows:

1. 330'-933' well spacing;
2. 40 acre oil units;
3. Allocation based on 100% acres with a top oil allowable based on the 1965 Yardstick Allowable of 121 BOPD;
4. Surface casing requirements.

Silver Creek Oil & Gas, LLC ("Silver Creek") requests that the Field Rules be renumbered and amended, as shown below:

1. Designated correlative interval from 7,535 feet to 8,840 feet as shown on the log of The Texas Company - Ida Winchester Lease, Well No. 1 (API No. 42-181-00792);



2. 330'-660' well spacing with no between well spacing limitation between vertical and horizontal drainhole wells and special provisions for "take points", 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 1965 Yardstick Allowable of 121 BOPD.

Silver Creek 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 examiners recommend that the Field Rules for the Sandusky Field be renumbered and amended, as requested by Silver Creek.

DISCUSSION OF EVIDENCE

The Sandusky Field was discovered in January 1950 at an average depth of 7,700 feet. There are two producing oil wells and three operators carried on the proration schedule. The field operates under Field Rules that provide for 330'-933' well spacing, 40 acre oil units and allocation based on 100% acres. Cumulative production from the field through December 2012 is 539.1 MBO and 1.1 BCFG.

There is currently no defined correlative interval for the field. Silver Creek requests that the field be defined as the correlative interval from 7,535 feet to 8,840 feet as shown on the log of The Texas Company - Ida Winchester Lease, Well No. 1 (API No. 42-181-00792), Section 6, Block 42, C B Hodges Survey, A-589, Grayson County, Texas. The correlative interval includes the upper productive interval of the Ellenburger formation.

Silver Creek is proposing to drill horizontal infill wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. Silver Creek requests 330'-660' well spacing with no between well spacing limitation between vertical and horizontal drainhole wells and special provisions for "take points", 33' "box rule" and "off-lease" penetration point in horizontal drainhole wells. Similar rules have been adopted in other tight reservoirs, including the Eagle Ford, Wolfcamp, Bone Springs, Cotton Valley and Barnett Shale formations.

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

Silver Creek proposes a "tolerance box" 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. Silver Creek 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.

Additionally, Silver Creek 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.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Sandusky Field was discovered in January 1950 at an average depth of 7,700 feet.
 - a. There are two producing oil wells and three operators carried on the proration schedule.
 - b. The field operates under Field Rules that provide for 330'-933' well spacing, 40 acre oil units and allocation based on 100% acres.
 - c. The field is actively being developed with horizontal drainhole wells.

3. The Sandusky Field should be defined as the correlative interval from 7,535 feet to 8,840 feet as shown on the log of The Texas Company - Ida Winchester Lease, Well No. 1 (API No. 42-181-00792), Section 6, Block 42, C B Hodges Survey, A-589, Grayson County, Texas. The correlative interval includes the upper productive interval of the Ellenburger formation.
4. A Field Rule providing for 330'-660' well spacing with no between well spacing limitation between vertical and horizontal drainhole wells is appropriate for the Sandusky Field.
5. 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.
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. Renumbering and amending the Field Rules for the Sandusky Field is necessary to prevent waste, protect correlative rights and promote development of the field.

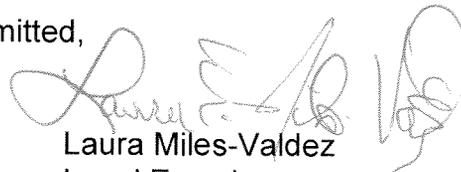
RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission renumber and amend the Field Rules for the Sandusky Field, as requested by Silver Creek Oil & Gas, LLC.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Laura Miles-Valdez
Legal Examiner