



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 7B-0289660

THE APPLICATION OF L.C.S. PRODUCTION COMPANY TO AMEND THE FIELD RULES FOR THE TOMPKINS (CANYON SD. 4900) FIELD, STONEWALL COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Cecile Hanna – Legal Examiner

HEARING DATES: July 16 and October 2, 2014
RECORD CLOSED: October 2, 2014
SUBMISSION DATE: December 17, 2014
CONFERENCE DATE: January 27, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

David Gross
Dale Miller
Richard Atkins

L.C.S. Production Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The existing special field rules for the Tompkins (Canyon Sd. 4900) Field (the "Field") provide the following:

1. 330' minimum property, lease, or subdivision line spacing, and 933' minimum between well spacing;
2. 40-acre proration units with 2,100' maximum diagonal; 20-acre tolerance for the last well on lease; and requisite proration unit plats;
3. Allowable based on two factors: 75% acreage and 25% per well;

4. Surface casing requirements.

Dated July 16 2014, the captioned docket's Notice of Hearing ("NOH") indicates that L.C.S. Production Company ("LCS") seeks to amend the existing special field rules, and proposes the following amendments:

1. A designated correlative interval that defines the Field from 4,812 feet to 4,896 feet, as shown on the log of the L.C.S. Prod. Co., Ferguson Lease, Well No. 15E (API No. 42-433-33759), Section 347, W. Vardeman Survey (A-441), Stonewall County, Texas;
2. 330'-660' well spacing;
3. 40-acre proration units with 20-acre optional proration units; no maximum diagonal limitation; Form P-15 with an entire lease plat in lieu of individual well proration unit plats; and,
4. Allocation based on a salvage classification with no restrictions on oil or gas production.

The Notice of Hearing issued on July 16, 2014 erred in the reference to the field name. On July 23, 2014, the Examiners issued a letter correcting the field name from the Tompkins Field to the Tompkins (Canyon Sd. 4900) Field. No response from a Servie List recipient was received.

By letter dated August 25, 2014, the Examiners informed LCS that after consideration of the record, the Examiners were disinclined to recommend approval for its proposed salvage classification. Furthermore, the Examiners sought clarification whether LCS would consider the Examiner's opinion as adverse to its application.

On September 3, 2014, LCS submitted its response to the Examiner's August 25th correspondence. In its September 3rd letter, LCS requested clarification from the Examiners as to why the Examiners felt it was inappropriate to recommend adoption for the proposed salvage classification. In addition, LCS submitted a copy of Tex Nat. Res. Code §§85.121 and 85.124, citing that salvage classification is the vehicle to acknowledge marginal fields.

On September 24, 2014, the Examiners issued a response to LCS' September 3rd letter, informing LCS that the Examiners believe that the information LCS provided in its September 3rd correspondence did not directly discuss or conclude a salvage classification. Furthermore, the Examiners requested that LCS cite to a more specific statutory and/or regulatory authority authorizing salvage classification.

By electronic correspondence dated September 30, 2014, LCS requested a post hearing conference. On October 2, 2014, a post-hearing conference was held and the record was reopened and additional evidence was received in support of applicant's request to adopt salvage classification in the subject field.

Moreover, at the reopened hearing, LCS submitted copies of several prior Commission final orders approving salvage classification in similar fields to the subject field.

The subject application is unopposed. The examiners recommend that the application be approved, as requested by LCS.

DISCUSSION OF THE EVIDENCE

Mr. Dale Miller testified as an expert in petroleum engineering on behalf of LCS in the captioned docket.

The subject field was discovered in April 1956 and is designated as an oil field. The Field's existing special field rules provide for a 330'-933' well spacing, 40-acre proration units, a top allowable based on 75% acreage and 25% per well, and an antiquated surface casing rule. At the hearing, LCS requested to rescind the surface casing rule due to the promulgation of Statewide Rule 13.

The July 2014 Oil Proration Schedule indicates that LCS is the only operator in the subject field. LCS currently operates six (6) producing wells and several injection wells in the Field. The Field's cumulative production through April 2014 is over 1.5 million barrels of oil and 158 million cubic feet of casing-head gas. Between 1988 and 2009, the Field was completely inactive. Beginning in 2010, LCS reentered the Field and reinstigated production. Now, LCS seeks to further develop the remaining reserves in the Field and consequently, seeks to amend the existing special field rules.

LCS seeks to define the Field as the correlative interval from 4,812 feet to 4,896 feet, as shown on the log of the L.C.S. Prod. Co., Ferguson Lease, Well No. 15E (API No. 42-433-33759), Section 347, W. Vardeman Survey (A-441), Stonewall County, Texas. LCS's proposed correlative interval for the Field includes a channel sand-bearing formation that transects the small area that makes up the Field.

LCS submitted a reservoir data sheet, which provides answers to several characteristic-based questions that pertain to the Field's reservoir properties. Mr. Miller testified that the reservoir composing the Field includes the Canyon Formation and on average exhibits 15 percent porosity, 22 millidarcies of permeability, 35% water saturation, 13 feet of net effective oil pay thickness, and a gas-to oil ratio of 555 standard cubic feet of natural gas for each stock tank barrel. Mr. Miller asserted that the Field's proven developed oil acreage is roughly 700-acres and that the reservoir produces by means of relatively good solution gas drive mechanics. Beyond that, the Field is in the late-stages of primary depletion and LCS is currently implementing a small waterflood project to produce the remaining reserves.

Based on Volumetric and Decline Analyses taken from existing wells in the Field, Mr. Miller concluded that the drainage area per well varies between 10-acres and 54-acres throughout the Field. Due to the variance in radial drainage areas, LCS requests that the Field's existing 40-acre density provision remain in effect, with the addition of optional 20-acre proration units.

LCS submitted copies of past Commission final orders adopting salvage classification for similar fields in several counties that include Stonewall, Andrews, Nolan, and Pecos Counties, Texas. In short, LCS believes that because the field is undergoing secondary recovery operations (*i.e.*, waterflood), adoption of a salvage classification is appropriate.¹

In conclusion, Mr. Miller believes that LCS' proposed field rules will provide for orderly drilling, completion, and operation of wells in the subject field while preventing waste and protecting correlative rights².

Examiners' Discussion

At the original hearing, no evidence was submitted to support LCS' request for salvage classification. At that time, the Examiners also were unaware of any express authority to grant an allowable titled salvage classification after a review of the Commission's governing Statewide Rules. Upon review, however, of the Commission's Statewide Rule 48, titled "Capacity Oil Allowables for Secondary or Tertiary Recovery Factors," the Examiners believe that the Commission may grant a Capacity oil allowable.³ Statewide Rule 48 contains specific application instruction, along with clear notice of application requirements for Capacity oil allowable. Statewide Rule 48(b) states:

The director of the Oil and Gas Division or the director's delegate may grant a capacity oil allowable for a lease or unit, to the operator of a secondary or tertiary recovery project, *when evidence of production increase in response to the secondary or tertiary recovery project is noted...*(emphasis added).

In other words, a Capacity oil allowable may be granted after a positive response is observed in the Field, a proper application is submitted, and no protest is received. In the immediate case, LCS stated that no such positive response has been observed.

On the other hand, at the reopened hearing LCS submitted numerous examples of fields that have incorporated "salvage classification" through a similar hearing process as the immediate case. Due to the prevailing precedent, with regard to salvage classification, the Examiners recommend that LCS' subject application be approved in its entirety.

FINDINGS OF FACT

1. L.C.S. Production Company ("LCS") seeks to amend the existing special field rules for the Tompkins (Canyon Sd. 4900) Field, Stonewall County, Texas.
2. LCS is the only operator in the Field.

¹ LCS Exh. No. 13 – Examples of fields that have been granted salvage classification.

² LCS Exh. No. 8.

³ 16 Tex. Admin. Code §3.48 – Capacity oil allowable is defined as the allowable assigned from time to time by the director of the Oil and Gas Division or the director's delegate to an oil lease or unit engaged in a secondary or tertiary recovery program, that is consistent with the ability of the lease or unit to produce and that will prevent the occurrence of overproduced status for the lease or unit. Capacity oil allowables encompass and supercede what the Railroad Commission formerly designated as waterflood allowables.

3. The current special field rules that govern the Field provide:
 - a. 330' minimum property, lease, or subdivision line spacing, and 933' minimum between well spacing;
 - b. 40-acre proration units with 2,100' maximum diagonal; 20-acre tolerance for the last well on lease; and requisite proration unit plats;
 - c. Allowable based on two factors: 75% acreage and 25% per well;
 - d. Surface casing requirement.
4. LCS requests that the existing special field rules for the Field be amended to include:
 - a. A designated correlative interval that defines the Field from 4,812 feet to 4,896 feet, as shown on the log of the L.C.S. Prod. Co., Ferguson Lease, Well No. 15E (API No. 42-433-33759), Section 347, W. Vardeman Survey (A-441), Stonewall County, Texas;
 - a. 330' - 660' well spacing;
 - b. Amend the density provision to include 20-acre optional proration units; removal of the maximum diagonal provision; Form P-15 and an entire lease/unit plat in lieu of individual proration unit plats;
 - c. Allocation based on salvage classification.
5. The subject field was discovered in July 1997 and is designated as an oil field.
6. The reservoir composing the Field is made of the Canyon Formation and on average exhibits 15 percent porosity, 22 millidarcies of permeability, 35% water saturation, 13 feet of net effective oil pay thickness, and a gas-to-oil ratio of 555 standard cubic feet of natural gas for each stock tank barrel.
7. The range of drainage areas encountered from the existing wells in the Field span from 10-acres and 56-acres.
8. Salvage classification has been adopted prior to the immediate case in Oil and Gas Final Order Nos. 7B-0289290, 08-0289254, 08-0288137, 7B-0280425, 7B-0281578, and 08-0272539.
9. Amending the existing special field rules as proposed by LCS will provide for orderly development of the Field.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas – Tex. Nat. Res. Code §81.051.
2. Legally sufficient notice has been provided to all affected persons.
3. Amending the special field rules for the Tompkins (Canyon Sd. 4900) Field, as proposed by LCS, will prevent waste and protect correlative rights.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the special field rules for the Tompkins (Canyon Sd. 4900) Field be amended, as proposed by L.C.S. Production Company

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Cecile Hanna
Legal Examiner