



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

OIL AND GAS DOCKET NO. 04-0294345

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**THE APPLICATION OF SMITH PRODUCTION INC. TO ADOPT FIELD RULES FOR THE CHARAMOUSCA (CASA BLANCA SD) FIELD, DUVAL COUNTY, TEXAS**

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**HEARD BY:** Brian Fancher, P.G. – Technical Examiner  
Laura Miles-Valdez – Legal Examiner

**HEARING DATE:** January 16, 2015  
**RECORD CLOSED:** January 20, 2015  
**SUBMISSION DATE:** April 15, 2015  
**CONFERENCE DATE:** May 12, 2015

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

David Nelson  
Dale Miller

Smith Production, Inc.

### EXAMINERS' REPORT AND RECOMMENDATION

#### STATEMENT OF THE CASE

Smith Production, Inc. ("Smith") was the only party present at the public hearing held on January 16, 2015, to consider the captioned docket. Dated December 15, 2014, the captioned docket's Notice of Hearing ("NOH") states that Smith seeks to adopt the following special field rules for the subject field:

1. A designated correlative interval that defines the field from 1,050 feet to 1,150 feet as shown on the log of the Smith Production., Drought 156 Lease, Well No. 1 (API No. 42-131-39421);
2. 330' minimum property, lease, or subdivision line spacing, and 660' minimum between well spacing;
3. 20-acre proration units with 20-acre tolerance for the last oil well on a lease, the filing of Form P-15 to designate the number of acres to be assigned to individual wells with a plat

of the entire lease, no requirement to file individual well proration unit plats, and no maximum diagonal limitation;

4. Allocation based on 100% acreage and an allowable based on the Discovery Allowable [16 Tex. Admin. Code §3.42] until it expires. Upon termination of the Discovery Allowable, the allowable be based on the 1965 Yardstick [16 Tex. Admin. Code §3.45].

In addition, Smith requests that all over production in the field be canceled. On January 20, 2015, Smith submitted its late-filed exhibit number fourteen (14), effectively closing the record.

The NOH was provided to a Service List composed of operators in the Field (*i.e.*, Smith) and Commission staff. The subject application is unopposed, and the Examiners recommend that it be approved.

### DISCUSSION OF THE EVIDENCE

Dale Miller, a consulting petroleum engineer, testified as an expert witness on behalf of Smith.

The subject field is currently governed by Statewide Rules; no special rules have been adopted. The subject field is located roughly 11 miles northwest of Freer, Texas. The subject well was drilled in October 2013, and the Field was granted New Field Designation-status in August 2014.<sup>1</sup> Mr. Miller testified that the Field is composed of two wells, the Drought 156 Lease, Well No. 1 (“No. 1 Well”) and the Drought 156 Lease, Well No. 2 (API No. 42-131-39422) (“No. 2 Well”).<sup>2</sup>

The January 2015 Oil Proration Schedule indicates that the Field contains only the subject well. Mr. Miller testified that the No. 2 well was originally completed in the Charamousca, South Field and transferred into the Field on August 26, 2014.<sup>3</sup>

The No. 1 Well and No. 2 Well (“subject wells”) were completed on October 8, 2013, and December 6, 2013, respectively. Mr. Miller testified that the completion data for the subject wells includes the following:<sup>4</sup>

	<u>No. 1 Well</u>	<u>No. 2 Well</u>
Test Rates (oil): <sup>5</sup>	90 bbl	150
Production Method:	pumping	pumping

<sup>1</sup> Testimony on audio recording at 2:45.

<sup>2</sup> Smith Exh. No. 1 – Aerial map of the Field. The surface location of the No. 1 well is located roughly 1,050 feet southeast of the No. 2 well.

<sup>3</sup> Compare Smith Exh. Nos. 2 & 3 with testimony at 4:00.

<sup>4</sup> Smith Exh. No. 4

<sup>5</sup> The reported production for the subject wells indicates that no gas or water was produced at the time the subject wells were tested.

	<u>No. 1 Well</u>	<u>No. 2 Well</u>
API Gravity:	22.0	22.0
Top of Pay (feet):	1,050	1,030
Total Depth (feet):	1,750	1,200
Plug-back Depth (feet):	1,704	1,100
Perforations (feet):	1,108 to 1,122	1,088 to 1,120

Smith seeks to designate the subject field as the correlative interval from 1,050 feet to 1,150 feet, as shown on the log of the Smith Production, Inc., Drought 156 Lease, Well No. 1 (API No. 42-131-39421).<sup>6</sup> Mr. Miller testified the proposed designated correlative interval is consistent with the subsurface depths observed in the subject field's discovery well. Mr. Miller testified that the subject field is separated from other hydrocarbon reservoirs by faulting.<sup>7</sup>

Smith submitted monthly production volumes for the No. 1 and No. 2 wells that spans from October 2013 to October 2014. During that time, the No. 1 Well produced 17,371 barrels of oil and the No. 2 Well produced 39,821 barrels of oil.<sup>8</sup>

Mr. Miller testified that the subject field contains an average porosity of 27%, 291 millidarcies of permeability, and an average water saturation of 55%. Furthermore, the proven oil acreage to date is roughly 50-acres and the average well density in acres per well is 20-acres. The subject field is in the primary stage of depletion, which is a solution gas drive mechanism.<sup>9</sup> Mr. Miller substantiated his estimation of the subject well's average well density in acres on volumetric calculations and decline curve analysis.<sup>10</sup>

On January 20, 2015, Smith submitted its late-filed Exhibit No. 14 which tabulates the overage status for the No. 2 Well in the subject field, as well as when the No. 2 Well was completed in the Charamousca, South Field. As previously mentioned, the No. 2 Well was transferred from the Charamousca, South Field into the subject field on August 26, 2014. Smith's late-filed Exhibit No. 14 indicates that the No. 2 Well is classified as being overproduced in the Charamousca, South Field by 27,852 barrels of oil. Furthermore, the No. 2 Well is overproduced in the subject well by 9,654 barrels of oil. Smith requests that all accrued overproduction in the No. 2 Well be cancelled, regardless of whether it's classified in the subject field or the Charamousca, South Field.

In conclusion, Smith believes that approval of the subject application will provide for orderly drilling, completion, and operation of wells in the subject field while preventing waste and protecting correlative rights.<sup>11</sup>

<sup>6</sup> Smith Exh. No. 6 – Type log.

<sup>7</sup> Compare Smith Exh. No. 10 with testimony at 13:30.

<sup>8</sup> Smith Exh. No. 7.

<sup>9</sup> Compare Smith Exh. No. 9 with testimony at 12:00.

<sup>10</sup> Smith Exh. No. 11.

<sup>11</sup> Testimony at 12:20.

Examiners' Discussion

Smith is the only operator in the subject field. Therefore, Smith is the only potentially affected person/entity to receive notice of the subject application. Furthermore, the subject application's Notice of Hearing states that Smith only seeks relief in the subject field, not in the Charamousca, South Field. No where at the hearing did Smith indicate it sought to cancel overproduction accrued by the No. 2 Well when it was completed in the Charamousca, South Field. Furthermore, Smith offered no evidence to indicate whether other operators produce from the Charamousca, South Field. In other words, at the hearing Smith requested that the captioned docket include relief in the form of cancellation of all overproduction accrued by the No. 2 Well in the subject field and the Charamousca, South Field; yet the captioned docket was only noticed for relief sought in the subject field. All evidence submitted by Smith only pertained to the subject field, not the Charamousca, South Field. The Examiners believe it is inappropriate to cancel overproduction accrued by the No. 2 Well in the Charamousca, South Field because of the following: (1) it is outside the scope of the hearing held for the captioned docket; and (2) Smith submitted no evidence that indicated whether cancellation of overproduction accrued by the No. 2 Well will protect correlative rights while it was completed in the Charamousca, South Field.

As a result, the Examiners believe the subject application should be approved in its entirety, except for Smith's late-filed request to cancel overproduction in the Charamousca, South Field.

**FINDINGS OF FACT**

1. Smith Production, Inc. ("Smith") seeks to adopt special field rules for the Charamousca (Casa Blanca Sd) Field (the "Field"), Duval County, Texas.
2. Smith requests that the following special field rules be adopted for the Field:
  - a. The Field be designated as the correlative interval from 1,050 feet to 1,150 feet, as shown on the log of the Smith Production, Inc., Drought 156 Lease, Well No. 1 (API No. 42-131-39421);
  - b. All wells completed in the field be governed by 330' lease line spacing and 660' between well spacing;
  - c. The minimum well density in acres per well be 20-acres and that the last well on a lease be granted up to 20-acres tolerance;
  - d. That operators be required to file Commission Form P-15, in lieu of individual well proration unit plats, to designate the number of acres assigned to each well in the Field; and,
  - e. Allocation of oil be based completely the acreage allocated to a well in the Field and that the maximum daily oil allowable be based on the Discovery Allowable

until expiration. After expiration of the Discovery Allowable, oil allocation be based on the 1965 Yardstick Allowable.

3. The Field should be defined as the correlative interval from 1,050 feet to 1,150 feet, as shown on the log of the Smith Production, Inc., Drought 156 Lease, Well No. 1 (API No. 42-131-39421).
4. The purpose of adopting Smith's proposed special field rules for the Field is to support the development of the Field.
5. The Field currently contains two wells, the Drought 156, Nos. 1 and 2.
6. Adopting the special field rules, as proposed by Smith, will promote development of the Field.
7. Cancellation of the Field's overproduction will prevent waste and protect correlative rights.
8. The subject application was not noticed for cancellation of overproduction from the Charamousca, South Field.
9. Cancellation of overproduction in the Charamousca, South Field, as requested by Smith in its late-filed Exhibit No. 14 submitted after the subject hearing, may harm correlative rights because notice of the subject application was only provided to operators in the Field.
10. Smith provided no evidence in the subject application to indicate whether additional operators exist in the Charamousca, South 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. Adopting the special field rules for the Charamousca (Casa Blanca Sd) Field and cancelling overproduction in the Charamousca (Casa Blanca Sd) Field, as proposed by Smith Production, Inc., 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 subject application be GRANTED.

Respectfully submitted,



Brian Fancher, P.G.  
Technical Examiner



Laura Miles-Valdez  
Legal Examiner