



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0296649

THE APPLICATION OF ESCONDIDO RESOURCES II, LLC TO AMEND FIELD RULES FOR THE HAWKVILLE (EAGLE FORD SHALE) FIELD, LIVE OAK, DIMMIT, LA SALLE, MCMULLEN AND WEBB COUNTIES, TEXAS

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Marshall Enquist – Hearings Examiner

HEARING DATE: June 29, 2015
CONFERENCE DATE: August 25, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

Bill Spencer
Jim Clark

Escondido Resources II, LLC

OBSERVER:

Leatha Greenwood

Swift Energy

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Escondido Resources II, LLC ("Escondido") seeks to amend field rules for the Hawkville (Eagle Ford Shale) Field (subject "Field"), Live Oak, Dimmit, La Salle, McMullen, and Webb Counties, Texas. Field rules for the Hawkville (Eagle Ford Shale) Field (ID No. 39744500) were adopted on November 24, 2009 (Oil & Gas Docket No. 01-0263175) and were amended on January 21, 2014 (Oil & Gas Docket No. 01-0284498). Newark requests the following amendments to the field rules:

- Change the notice distance of the optional Rule 38 exception process from 660 feet to 330 feet for drilling units of less than 320 acres but not less than 160 acres; and

- Maintain the notice distance of the optional Rule 38 exception process as 660 feet for drilling units of less than 160 acres but not less than 40 acres.

All operators in the Field were notified, and no protests were received. Leatha Greenwood representing Swift Energy appeared at the Hearing as an observer. Swift Energy agrees with the proposed amendments, and recommends approval of the requested amendments. The Examiners recommend that field rules be amended for the Hawkville (Eagle Ford Shale) Field in Live Oak, Dimmit, La Salle, McMullen, and Webb Counties, Texas, as requested by Escondido.

DISCUSSION OF EVIDENCE

The Hawkville (Eagle Ford Shale) Field in Live Oak, Dimmit, La Salle, McMullen, and Webb Counties, Texas was discovered in October 2008, at an average depth of 11,100 feet, and contains only gas wells. The Field operates under rules that provide for 330' lease line spacing with no minimum between well spacing limitation. The standard proration unit size is 320 acres with a 10 percent tolerance provision; no optional unit sizes are prescribed. The rules contain special provisions for "take points" and 100-foot lease line spacing for the first and last take points for horizontal drainhole wells. Permanent gas well classification is assigned for a gas-oil ratio of 3,000 cubic feet per barrel and above. Allocation is based on 90% deliverability and 10% per well with AOF status.

The current Field Rule No. 3 includes an option for an exception to Statewide Rule 38 wherein operators are permitted to form fractional units of less than 320 acres, but not less than 40 acres. The current notice distance is 660 feet from the bottomhole location of a vertical well or within 660 feet of any take point on a horizontal well within the correlative interval. Escondido seeks to amend Field Rule No. 3 to allow operators the following choices within the Rule 38 exception:

- Form fractional units of less than 320 acres, but not less than 160 acres, and establish notice distance (i) within 330 feet from the bottomhole location of a vertical well or (ii) within a 330-foot perpendicular distance from any take point on such horizontal drainhole between the first take point and the last take point to any point on any property line, lease line, or subdivision line; and
- Form fractional units of less than 160 acres, but not less than 40 acres, and establish notice distance (i) within 660 feet from the bottomhole location of a vertical well or (ii) within 660 feet of any take point on a horizontal well within the correlative interval.

Escondido provided information that demonstrated the area the wells drain is dependent upon the characteristics of the unconventional reservoir. Evidence from research papers provided as Hearing Exhibits 5 and 6 indicates optimum well bore spacing to be about 500 – 600 feet in the gas zone of the Eagle Ford Shale with no

apparent interference between wells. Escondido maintains that based on 600-foot spacing between well bores, the requested notice distance will be sufficient, and will protect correlative rights.

Escondido's proposal to limit the 330-foot notice provision for fractional units that are less than 320 acres to 160 acres is a result of conversations with other operators in the Field. Swift appeared in support of the proposed amendments. Swift agreed with the 330-foot notice provision for fractional units that are less than 320 acres to 160 acres. However, Swift stated they would oppose a 330-foot notice provision for fractional units that are less than 160 acres.

Escondido concluded that the proposed amendments are needed to allow operators to maximize recovery of resources and prevent waste. The amendment to the optional Rule 38 exception process will benefit and promote efficient development of the Hawkville (Eagle Ford Shale) Field.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.
2. The Hawkville (Eagle Ford Shale) Field was discovered in October 2008, at an average depth of 11,100 feet, and contains only gas wells.
3. The Hawkville (Eagle Ford Shale) Field operates under field rules that were amended on January 21, 2014 (Oil & Gas Docket No. 01-0284498).
4. Optimum well bore spacing appears to be 500 – 600 feet in the gas zone of the Eagle Ford Shale with no apparent interference between wells.
5. The special Rule 38 notice distance of 330 feet for fractional units of less than 320 acres to 160 acres is agreeable to other operators in 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. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45
3. The proposed field rule amendments will 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 the field rules for the Hawkville (Eagle Ford Shale) Field be amended as requested by Escondido.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Marshall Enquist
Hearings Examiner