



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0284498

THE APPLICATION OF BHP BILLITON PET (TXLA OP) CO TO AMEND FIELD RULES FOR THE HAWKVILLE (EAGLE FORD SHALE) FIELD, DIMMIT, LASALLE, MCMULLEN, AND WEBB COUNTIES, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Gene Montes – Legal Examiner

HEARING DATE: October 25, 2013

APPEARANCES:

REPRESENTING:

APPLICANT:

John Soule
Tim Smith

BHP Billiton

OBSERVERS:

James Clark, P.E.
Leatha Greenwood

Swift Energy Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Hawkville (Eagleford Shale) Field were adopted in Final Order No. 01-0263175, effective November 24, 2009, as amended. BHP Billiton (BHP) is proposing amend Field Rule No. 3 to provide for a Statewide Rule 38 density exception on tracts smaller than 320 acres after notice to nearby operators. Similar provisions have been adopted in a several other fields throughout the State. The application is not protested. The examiners recommend that the field rules be amended for the Hawkville (Eagleford Shale) Field, as proposed by BHP, with the inclusion of a minimum unit size of 40 acres under this administrative exception procedure.

DISCUSSION OF THE EVIDENCE

The Hawkville (Eagleford Shale) Field was discovered in October 2008 at an average depth of 11,100 feet. There are 206 producing gas wells and 18 operators carried on the proration schedule. BHP reports an additional 202 gas wells have been drilled or completed in the field and are awaiting operator filing or Commission approval of completion reports. BHP is the largest operator in the field with 172 gas wells.

The field operates under Field 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' 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.

BHP seeks to amend Field Rule No. 3 to include a provision for a Statewide Rule 38 density exception on tracts smaller than 320 acres after notice. Such a provision has been adopted in a several other fields throughout the State. Operators shall be granted an exception to Statewide Rule 38 and permitted to form fractional proration units of less than 320 acres as follows:

1. The Railroad Commission shall notify in writing the designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests (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.
2. Designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests receiving this written notification shall have 21 days from the date of issuance of the notice of application for a Rule 38 density exception to file a written protest with the Railroad Commission, such protest to be received by the Railroad Commission within said 21 day period.
3. If no written protest is received by the Railroad Commission within the 21 day period of time, or if written waivers are received from each designated operator, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests to whom notice is required, the application shall be approved administratively by the Railroad Commission.
4. If a written protest is received by the Railroad Commission within 21 days of the date of issuance of the notice of application, the application will be

scheduled for hearing at which the applicant must show that the fractional proration unit and the well thereon are necessary to effectively drain an area of the field that will not be effectively drained by existing wells, or to prevent waste or confiscation.

5. Permits granted pursuant to the above provision shall be issued as exceptions to Statewide Rule 38.

At the hearing, BHP stated that Statewide Rule 38 exceptions have been granted for 13 unique wells (via 17 permits and amendments) in the field for fractional proration units as small as 157 acres. The field covers a large portion of at least four counties in South Texas. While Rule 38 exceptions for 13 wells do not represent a significant percentage of the 408 wells in the field, it does indicate that operators are experimenting with fractional unit sizes or finding that such fractional units are necessary to fully develop their leases.

BHP believes this field is at the stage of its development life where operators could benefit from the flexibility to establish fractional units on an as-needed basis. BHP indicated that there has not yet been enough development to establish a basis for optional proration units in the field rules. The administrative Rule 38 exception proposed by BHP provides flexibility to the operators in the field, and maintains a process by which nearby operators may protest if they believe an applied for exception may cause them harm.

BHP requested Rule 38 exceptions be allowed for any unit size below 320 acres and noted that it was unable to provide any data to establish that a 'floor' of 40-acre unit sizes was necessary. BHP indicated it was not opposed to a 40-acre floor. The examiners recognize that the proposal has the inferred support (by way of the absence of protest) of other operators in the field and the explicit support of Swift Energy Operating, LLC, as offered at the hearing.

However, the examiners also recognize that BHP's request is a matter of desired development flexibility and convenience, in part by way of the reduction of administrative hurdles; it was not based on engineering data. The one example described at hearing (for the Craft no. 1H and Heim Craft Unit 1 no. 1H gas wells; Exhibit 5) suggested a basis for establishing a well density of 130 to 160 acres. Production data from these two wells did not indicate communication between the parallel horizontal wellbores, which were 1,330 feet apart, but also did not establish optimal density or spacing for the prevention of waste. Therefore the examiners believe that establishing a 40-acre floor for the field rule provision is prudent and reasonable.

FINDINGS OF FACT

1. Notice of this hearing was provided to all persons entitled to notice at least

ten (10) days prior to the date of the hearing and no protests were received.

2. The Hawkville (Eagleford Shale) Field was discovered in October 2008 at an average depth of 11,100 feet.
 - a. The field is classified as non-associated-100% AOF.
 - b. There are 206 producing gas wells and 18 operators carried on the gas proration schedule, with another 202 wells pending completion approval.
 - c. Field Rules currently provide for 330'-0' well spacing and 320 acre density.
3. Some areas of the Hawkville (Eagleford Shale) Field will support proration unit sizes of less than 320 acres.
 - a. To date, 13 wells in the field have been granted Statewide Rule 38 exceptions for proration units down to 157 acres.
 - b. Special provisions which will allow the administrative approval of Rule 38 exceptions on tracts of 40 acres or larger after notice to all operators and unleased mineral owners of tracts within 660 feet of a vertical well or any take point on a horizontal drainhole well within the correlative interval are appropriate for the field.
 - c. This same procedure has been in place in other fields for many years.
 - d. The proposed notice provision for administrative approval of Rule 38 exceptions for this field will provide operators with development flexibility and provide for the protection of neighboring operators' rights.

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 Field Rules for the Hawkville (Eagleford Shale) Field is will protect correlative rights and promote the orderly 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 Hawkville (Eagleford Shale) Field, as requested by BHP Billiton.

Respectfully submitted,



Paul Dubois
Technical Examiner



Gene Montes
Legal Examiner