



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 06-0279265

THE APPLICATION OF VALENCE OPERATING COMPANY TO AMEND PERMANENT FIELD RULES FOR THE CARTHAGE (HAYNESVILLE SHALE) FIELD, PANOLA COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. - Technical Examiner
Michael Crnich - Legal Examiner

HEARING DATES: December 18, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Rick Johnston

Valence Operating Company

EXAMINERS' REPORT AND PROPOSAL FOR DECISION

STATEMENT OF THE CASE

Valence Operating Company ("Valence") requests to amend the density provision of the field rules currently governing the Carthage (Haynesville Shale) Field. The Field Rules currently in effect for the subject field are as follows:

1. Designated, correlative field interval;
2. 330' lease line spacing and no between well spacing with special provisions for "take points" and an off-lease penetration point for horizontal wells with an included "box rule" stating that the as-drilled location of a well will be considered in compliance with spacing rules if it falls within a rectangle of which two sides are parallel to the permitted drainhole and 50 feet on either side of the drainhole;
3. 640 acre gas proration units with 10% tolerance and optional 40 acre density;
4. Allocation based on 95% acres and 5% per well with AOF status;
5. Special provisions for stacked lateral wells;



6. Two part allocation based on 95% acreage and 5% per well.

Valence requests that the following permanent Field Rules be adopted to include the following:

1. No change;
2. No change;
3. Amend optional 40-acre density provision to optional 20-acre density;
4. No change;
5. No change;
6. No change.

The subject application is unopposed. The examiners recommend approval of the application, as requested by Valence.

The examiners take Official Notice of the Examiners' Proposal For Decision and Final Order for Oil and Gas Docket No. 06-0262000.

DISCUSSION OF THE EVIDENCE

The Carthage (Haynesville Shale) Field is a non-associated gas field that was discovered in December 2009 in Panola County. Wells completed in the subject field span across several counties in east Texas that adjoin the Texas/Louisiana state line¹. The subject field is currently Absolute Open Flow ("AOF"). The field rules currently governing the subject field were made permanent per Oil & Gas Final Order 06-0262000².

Valence submitted a copy of the December 2012 Gas Proration Schedule for the subject field that indicates there are multiple operators and 663 wells completed in the subject field. The cumulative production from the subject field is reported as 1.06 trillion cubic feet of natural gas ("TCFG") and 266 thousand barrels of condensate ("MBC"). Valence testified the current average gas/oil ratio for wells completed in the subject field is approximately 4,000,000:1 standard cubic feet of gas per stock tank barrel, which indicates hydrocarbon production from the field is primarily dry gas.

¹ See Valence Exhibit No. 3.

² See Valence Exhibit No. 5

Valence testified it seeks to amend the permanent field rules governing the subject field to provide for optional twenty-acre drilling units. Valence testified it believes the optional drilling units should be amended to twenty acres as it is one of the few active operators in the field drilling vertical wells, and that twenty-acre optional drilling units are appropriate for vertical wells in the subject field. Valence testified it drills vertical wells, as opposed to horizontal wellbores, because it down-hole commingles the subject field with the Cotton Valley, Travis Peak, and Paluxy formations.

In support of its position, Valence submitted a tabulation of thirty-three wells completed in the subject field that are down-hole commingled with fields found in the James, Pettet, Travis Peak, and Cotton Valley formations.

Valence submitted a copy of the Field Rules governing the Carthage (Cotton Valley) (“Carthage”) and Beckville (Cotton Valley) (“Beckville”) Fields. The density provisions in the Carthage and Beckville fields the field rules provide 320-acre base drilling units with 20-acre options and 640-acre base drilling units with 20-acre options, respectively.

The examiners note that Substitute Finding of Fact No. 7 of Oil & Gas Final Order No. 06-0262000 sets out the following:

“Devon did not present sufficient evidence to demonstrate that a density of 640 acres with optional 40 acre density should be adopted on a permanent basis in the proposed Carthage (Haynesville Shale) Field. A density of 640 acres with optional 40 acre units should be adopted on a temporary basis”

Valence testified it believes that a vertical well in the subject field will drain up to 20-acres per well. Additionally, Valence testified that adoption of the 20-acre optional units for the subject field will promote development of the field.

FINDINGS OF FACT

1. Notice of this application and hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing.
2. The Carthage (Haynesville Shale) Field is a non-associated gas field that was discovered in December 2009 in Panola County.
3. The current Field Rules governing the Carthage (Haynesville Shale) Field provide for 640-acre base drilling units and 40-acre optional drilling units.
4. Valence Operating Company (“Valence”) requests that special Field Rules for the Carthage (Haynesville Shale) Field be amended to provide 20-acre optional drilling units.
5. Amendment of the current field rules for the Carthage (Haynesville Shale) Field to provide for 20-acre optional drilling units is appropriate.

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 Carthage (Haynesville Shale) Field is necessary to prevent waste, protect correlative rights, and promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission amend the Field Rules for the Carthage (Haynesville Shale) Field, as requested by Valence Operating Company.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Michael Crnich
Legal Examiner