



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 06-0288414

THE APPLICATION OF FOREST OIL CORPORATION TO AMEND FIELD RULES FOR THE HALLSVILLE, NE (COTTON VALLEY) FIELD, HARRISON COUNTY, TEXAS

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

HEARING DATE: May 19, 2014

APPEARANCES:
APPLICANT:

Andres Trevino

REPRESENTING:

Forest Oil Corporation

INTERVENOR:

Bill Hayenga
Michael Choate

BP America Production Co.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Forest Oil Corporation ("Forest") seeks to amend the special field rules in-place for the Hallsville, NE (Cotton Valley) Field ("the Field"), as adopted per Commission Final Order 06-0264913, effective April 20, 2010.

The special field rules in-place governing the Field include the following:

1. A designated correlative interval;
2. 467' lease, property, or sub-division line spacing and 600' between well spacing, with no minimum distance requirement between vertical and horizontal wells;

3. 40-acre gas proration units with 10% tolerance and Form P-15s in lieu of proration unit plats;
4. The Field is classified as Absolute Open Flow ("AOF") status; however, if market demand for gas in the Field falls below 100% of deliverability then the daily allowable is based on 50% per well and 50% deliverability.

Dated April 30, 2014, the subject application's Notice of Hearing ("NOH") indicates that Forest seeks to amend the field rules to provide for the following:

1. No change;
2. 330'-330' well spacing, with take-points, Non-Perforated Zones ("NPZs"), and a drill-box rule ("box rule");
3. No change;
4. No change.
5. Stacked-lateral provision.

At the hearing, counsel on behalf of BP America Production Co. ("BP") requested that Forests proposed well spacing changes be further amended as follows:

1. Removing the between well spacing requirement for all wells completed in the Field;
2. With respect to additional assignment of acreage to horizontal wells, inclusion of the following statement:

"For purposes of assigning additional acreage to a horizontal drainhole well pursuant to Statewide Rule 86, the distance from the first take point to the last take point in the horizontal drainhole shall be used in such determination, in lieu of the distance from penetration point to terminus"

By letter dated May 21, 2014, the examiners issued supplemental notice to the service list included in the subject application's NOH. Counsel on behalf of BP submitted copies of letter agreements executed between operators that make-up the initial NOH's service list. In addition, no protest was received as a result of BP's proposed secondary amendments.

The examiners recommend that field rules for the Field be amended, as proposed by Forest and modified by BP.

DISCUSSION OF THE EVIDENCE

The Hallsville, NE (Cotton Valley) Field (“the Field”) is designated as a non-associated gas field that was discovered in January 1980 at an average depth of 8,570 feet. Special field rules were first adopted in April 2010. The Commission’s April 2014 Gas Proration Schedule indicates there are six operators and thirty-six gas wells in the Field. The reported cumulative production from the Field is 17.8 billion cubic feet of gas and 152.1 thousand barrels of condensate (“MBC”).

Forest seeks to amend the existing special field rules to provide for 330' property, lease, or sub-division line spacing, and zero between well spacing for all wells in the Field. Forest testified that similar rules were adopted for the adjacent Woodlawn (Cotton Valley) Field, as well as other Cotton Valley fields in the area.

Forest requests that a field rule be adopted which includes language relevant to the measurement of distances to lease lines for horizontal drainhole wells. Forest’s proposed rule specifies that, for purposes of lease line spacing, the nearest “take point” in a horizontal well be no closer than 330 feet. This take-point could be a perforation in a horizontal well that is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased well. In addition, Forest seeks to adopt Non-Perforated Zones (“NPZs”) in the Field.

Forest also proposes a 50' “box rule” for horizontal drainhole wells that would allow drainholes to deviate roughly fifty feet from either side of their permitted track, without the necessity of obtaining a Statewide Rule 37 exception. As drilled wells for which all points are located within the “box” would be considered in compliance with their drilling permits.

In some cases, it is beneficial to penetrate the reservoir off lease, while still having “take points” no closer to lease lines than allowed under the field rules. Forest requests that field rules for the subject field provide for an “off-lease” penetration point. Statewide Rule 86 requires that the penetration point of a horizontal drainhole be on the lease. Forest testified that in the Field, a well generally requires approximately 600 feet of horizontal displacement to make the 90 degree turn from vertical to horizontal. If the penetration point is required to be on the lease, then the first point of production would be about 600 feet from the lease line. The proposed rule will allow approximately 737 feet of additional producing drainhole, which will result in the recovery of additional reserves¹. The Commission has adopted similar rules allowing offsite penetration points in other fields, after the operator has given notice to the mineral owners of the off-lease tract on which the penetration point is to be located and received no protest.

Forest requests that a field rule be adopted to accommodate the drilling of stacked horizontal lateral wells (“stacked laterals”). The gross thickness of the Cotton Valley interval is over 1,770 feet. Forest indicated that several separate laterals may be necessary to effectively develop the reservoir

¹ See Forest Exhibit No. 8 - Current horizontal well placement vs. proposed rules.

with horizontal wells. The rule would allow stacked horizontal laterals within the Cotton Valley correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes. It is proposed that a stacked lateral well be defined to be multiple horizontal drainholes which are drilled from different surface locations.

At the hearing, BP requested that Forest's subject application include language that adjusts the definition of "horizontal drainhole displacement", as observed in 16 Texas Administrative Code §3.86(a)(3). Instead, BP requested that for wells completed in the field, horizontal displacement be defined as the following:

"For purposes of assigning additional acreage to a horizontal drainhole well pursuant to Statewide Rule 86, the distance from the first take point to the last take point in the horizontal drainhole shall be used in such determination, in lieu of the distance from penetration point to terminus"

Forest did not consider BP's supplemental amendments as adverse to its subject application. In addition, notice was provided to all parties identified on the service list for the Notice of Hearing dated April 30, 2014. No protest was received.

Furthermore, BP submitted evidence in support of its request to remove the between well spacing in the Field, altogether. Counsel on behalf of BP indicated that BP plans to further develop the Field with horizontal wells, and believes that zero between well spacing in the Field is appropriate because the neighboring Woodlawn (Cotton Valley) Field provides zero between well spacing.

FINDINGS OF FACT

1. Forest Oil Corporation ("Forest") seeks to amend the existing special field rules that govern the Hallsville, NE (Cotton Valley) Field in Harrison County, Texas.
2. The Hallsville, NE (Cotton Valley) Field ("the Field") was discovered in January 1980 at roughly 8,570 feet.
3. The Railroad Commission's April 2014 Gas Proration Schedule indicates that six operators and thirty-six gas wells currently make-up the Field.
4. The Field's reported cumulative production through April 2014 is 17.8 billion cubic feet of gas and 152.1 thousand barrels of condensate ("MBC").
5. The Field is designated as a non-associated gas field.
6. Forest proposes to amend the existing special field rules for the Field.

7. Forest seeks to adopt field rules that provide for the following:
 - a. 330 feet lease, property, and/or subdivision line spacing, and zero between well spacing for all wells in the Field;
 - b. Stacked lateral wells, 330' take-points, off-lease penetration points, non-perforated zones, and a 50' drilling-box rule for horizontal wells.
8. Adoption of Forest's proposed field rule amendments is appropriate for further development of the Field.

CONCLUSIONS OF LAW

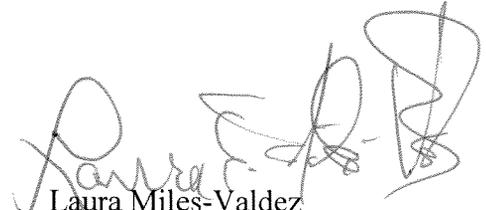
1. Proper notice of this hearing was given to all persons legally entitled to notice.
2. All things have occurred or been accomplished to give the Railroad Commission jurisdiction in this matter.
3. Amending field rules as proposed by Forest Oil Corporation is necessary to promote development of the Hallsville, NE (Cotton Valley) Field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that field rules be amended for the Hallsville, NE (Cotton Valley) Field, as proposed by Forest Oil Corporation and modified by BP America Production Co.

Respectfully submitted,

Brian Fancher, P.G.
Technical Examiner


Laura Miles-Valdez
Legal Examiner