



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 06-0289795

THE APPLICATION OF VALENCE OPERATING COMPANY TO ADOPT FIELD RULES FOR THE CHAPEL HILL (COTTON VALLEY) FIELD, SMITH COUNTY, TEXAS

HEARD BY: Karl Caldwell- Technical Hearings Examiner
Marshall Enquist - Legal Hearings Examiner

HEARING DATE: July 30, 2014

APPEARANCES:

REPRESENTING:

APPLICANT:

Andres J. Trevino

Valence Operating Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The Chapel Hill (Cotton Valley) Field currently operates under Statewide Field Rules. Valence Operating Company ("Valence") requests that field rules be adopted for the field, as follows:

1. Designating a correlative interval from 10,140 feet to 11,685 feet as shown on the log of the JW Operating Company - Slayton Well No. 1 (API No. 42-423-31974) as the Chapel Hill (Cotton Valley) Field;
2. 330'-600' well spacing, 0' well spacing between vertical and horizontal wells;
3. 40 acre oil and gas units, with optional 20 acre units;
4. Allocation based on 90% deliverability, 10% acres for gas wells, 100% acres for oil wells;

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5. Horizontal well rules, including a 50' box rule, off-lease penetration point, a take point rule, no perf zone language.
6. File Form P-15 with associated acreage.

Valence also requests that the field remain on 100% AOF status. The application is unopposed and the examiners recommend that field rules be adopted for the Chapel Hill (Cotton Valley) Field, as proposed by Valence.

DISCUSSION OF EVIDENCE

The Chapel Hill (Cotton Valley) Field currently operates under Statewide Field Rules. The first well was drilled in the field in 1981. Cumulative production in the field as of July, 22014 is 111,467 BO and approximately 22 BCF gas. The Chapel Hill (Cotton Valley) Field is currently undergoing increased development with horizontal drainhole wells. Prior to the first horizontal well being drilled in the field in 2005, there were only two wells in the field. There are currently 32 producing wells in the field.

There is currently no defined correlative interval for the field. Valence requests that the Chapel Hill (Cotton Valley) Field be defined as the correlative interval from 10,140 feet to 11,685 feet as shown on the log of the JW Operating Company, Slayton Unit, Well No. 1, (API No. 42-423-31974), W.N. Manier Survey, A-667, Smith County, Texas.

Valence proposes 330'-600' well spacing with 0' well spacing between horizontal and vertical wells. Valence is requesting 40 acre oil and gas units, with 20 acre optional units. Optional density units of 20 acres is common in other Cotton Valley fields in District 6 where field rules have been adopted for horizontal wells. In particular, the Carthage, North (Cotton Valley) Field has the same 330' - 0' - 600' spacing and 40 acre density, 20 acre optional units.

Valence proposes field rules for horizontal wells to promote the efficient and effective development of the remaining hydrocarbons. The horizontal well provisions requested include a 50' box rule, no perf zone language, take point language to allow flexible drilling of the laterals and off-lease penetration.

Valence requests an allocation based on 90% deliverability, 10 acres for gas wells and 100% acres for oil wells, with additional acreage assigned to horizontal wells using Statewide Rule 86. Valence proposes a top oil allowable based on the 1965 Yardstick Allowable and that the field remain on 100% AOF status with the gas allocation formula suspended until such time as the 100% AOF status is removed from the field.

Lastly, for the determination of acreage credit in this field, operators shall file for each oil or gas well in this field a Form P-15 Statement of Productivity of Acreage Assigned to Proration Units. On that form or an attachment thereto, the operator shall list the

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number of acres that are being assigned to each well on the lease or unit for proration purposes, in lieu of amended Form P-15's. For oil or gas wells, operators shall be required to file, along with the Form P-15, a plat of the lease, unit or property; provided that operators shall not be required to show individual proration units on such plat. Operators may, however, file such proration unit plats for individual wells in the field if they so choose.

FINDINGS OF FACT

1. Notice of this hearing was given to operators in the subject field at least ten days prior to the date of hearing.
2. Adopting a correlative interval for the Chapel Hill (Cotton Valley) Field is appropriate.
3. Valence Operating Company requests to adopt field rules to promote the efficient drilling and completion of horizontal wells.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Adopting field rules for the Chapel Hill (Cotton Valley) Field will prevent waste.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission adopt field rules for the Chapel Hill (Cotton Valley) Field, as requested by Valence Operating Company.

Respectfully submitted,



Karl Caldwell
Technical Hearings Examiner



Marshall Enquist
Legal Hearings Examiner