



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0296473

THE APPLICATION OF XTO ENERGY INC TO AMEND FIELD RULES FOR THE TWO GEORGES (BONE SPRING) FIELD, LOVING, REEVES, WARD, AND WINKLER COUNTIES, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Randall Collins – Administrative Law Judge

HEARING DATE: July 1, 2015
CONFERENCE DATE: August 25, 2015

APPEARANCES: **REPRESENTING:**

APPLICANT:

David Gross
Rick Johnston

XTO Energy Inc.

OBSERVER:

Sandra Buch

Energen Resources Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

XTO Energy Inc. (XTO) requests to amend the field rules for the Two Georges (Bone Spring) Field, Loving, Reeves, Ward, and Winkler Counties, Texas. The current field rules are summarized as follows:

1. Designated interval from 8,979 feet to 11,600 feet as shown on the log of the Chesapeake Operating, Inc. - University 19-18 Lease, Well No. 1;

2. 467'-0' well spacing with 200' lease line spacing for the first and last take points and special provisions for "take points", an "off lease" penetration point and a 47 foot "box" rule for horizontal drainhole wells;
 3. 320 acre oil units with optional 40 acre density with a provision to assign additional acreage to horizontal drainhole wells;
 4. Allocation based on 95% acreage and 5% per well with an oil allowable based on 3.0 BO per oil unit acre;
 5. A six month exception to Statewide Rule 13 regarding the requirement to produce through tubing, with the ability to obtain an extension for an additional three months for good cause shown; and
 6. A six month exception to Statewide Rule 51(a), and if an extension is granted under Rule 5, the exception to Statewide Rule 51(a) is automatically extended for the same additional period of time.
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XTO proposes the following field rule amendments:

- Rule 1: Field Interval: no change;
- Rule 2: Spacing: no change.
- Rule 3: Amend Rule 3 to remove the obligation to file individual well proration unit plats, and instead, require operators to file Form P-16 Data Sheet, Acreage Designation. Operators shall be required to file along with Form P-16 a plat of the lease, unit, or property, provided that such plat shall not be required to show individual proration units. Operators may file such proration unit plats for individual wells if they so choose.
- Rule 4: Allowable: no change.
- Rule 5: Amend the current rule to provide for a 12-month exception (with the ability to receive an extension for an additional 3-month period) to the requirement that production from a flowing oil well be through tubing.
- Rule 6: Amend the current rule to provide for a 12-month exception (with the ability to receive an extension for an additional 3-month period) to Statewide Rule 51(a).

At the hearing, XTO amended its request to change the initial exception time period and extension time periods for Rule Nos. 5 and 6 from the originally requested initial 12-month exception, with the ability for an additional 3-month extension, to a 6-month initial exception, with the ability to continue to receive one or more 6-month extensions of the exceptions provided in Rule Nos. 5 and 6 for good cause shown. An amended notice was mailed to operators in the field with the alternative exception and extension time period and no protests were received. The application is unopposed and the Examiners recommend approval of the request to amend field rules for the Two Georges (Bone Spring) Field.

DISCUSSION OF THE EVIDENCE

The Two Georges (Bone Spring) Field was discovered on November 12, 1997. Through March, 2015, there are approximately 250 wells reporting production in the field, and the monthly production in the field is 600,000 BO and 1.5 Bcf of gas. Since the discovery of the field, the cumulative production for all wells completed with reported production is 25 MMBO and 54 Bcf of gas.

The current field rules require operators to file certified plats which shall set out distinctly all pertinent details in the determination of acreage claimed for each well. XTO is requesting to amend the rule to require operators to file Form P-16 Data Sheet for the determination of acreage credit, with the requirement to file proration unit plats for individual wells in the field to be optional. Operators shall file Form P-16 for each oil or gas well, and shall list the number of acres that are being assigned to each well on the lease or unit.¹

The current field rules in effect for the Two Georges (Bone Spring) Field administratively grant flowing oil wells in the field a six-month exception to the requirement of Statewide Rule 13 to produce through tubing and an exception to Statewide Rule 51(a) regarding the 10-day rule for filing the potential test and backdating allowables. For good cause shown, an operator may obtain an extension to each exception for an additional three month period for both of these six month exceptions. Originally, XTO had requested to amend the exceptions provided in Rule Nos. 5 and 6 for an initial time period of 12-months for flowing oil wells, with the ability to obtain an additional 3-month extension to each exception for good cause shown. At the hearing, XTO requested to adopt field rule language pertaining to Rule Nos. 5 and 6 that has been previously adopted in other fields. These fields have adopted rules for flowing oil wells which administratively grant an exception to Statewide Rule 13(b)(4)(a); the requirement to produce through tubing for good cause shown, and may obtain one

¹ The P-16 Data Sheet, *Acreage Designation*, was adopted by the Railroad Commission of Texas for use on or after September 16, 2014.

or more six-month extensions administratively from the district director.² These field rules also grant an exception to Rule 51(a) for the duration of time that the exception to Statewide Rule 13(b)(4)(a) has been granted.

XTO currently has two flowing oil wells in the Two Georges (Bone Spring) Field that support the exceptions to Statewide Rules 13(b)(4)(a) and 51(a) that has been previously adopted in the Eagleville (Eagle Ford-1) and DeWitt (Eagle Ford Shale) Fields. The University Blk 21, Well No. 1803H was spud on November, 6, 2014. The initial potential of the well was 376 BOPD and 420 Mcf gas. The well began to flow towards the end of January, 2015, and the well continues to flow through June 20, 2015, a period of 6 months after initial production. This well continues to flow with 1,800 psi flowing casing pressure, and if not for the current field rule No. 5, (a 6-month exception to the requirement to produce through tubing for a flowing oil well), XTO would be required to go in and kill the well, run tubing, and put the well back on production. XTO's preference is to not be required to kill a flowing oil well to run tubing. In XTO's witness's opinion, if an operator were required to kill a flowing oil well to run in, set a packer, and run tubing it may result in formation damage. In addition, the hope would be that the operator can swab and get the original flow regime re-established that created prior to killing the flowing well to run tubing.

The University Blk 21, Well No. 1804H was spud September 13, 2014 and the date of the initial potential test was March 29, 2015 with an initial potential of 704 BOPD and a flowing casing pressure of 3150 psi. A graphical representation of the daily flowing casing pressure shows the casing pressure has declined from approximately 3,800 psi to 2,500 psi over a six month period. Under the current field rules an operator would be granted an initial 6-month exception to the requirement to produce the well up tubing, with the ability to file for a 3-month extension. XTO requires additional time to be able to continue to flow the well, otherwise they would be required to kill the well to run tubing. Killing the well poses an inherent risk and may result in waste of hydrocarbons.

XTO's operational goal is to hydraulically fracture stimulate each well, produce the well, and not have to do anything else to the well until it dies, at which point the operator would then run tubing, and put the well on artificial lift, if necessary. The gas analysis for the flowing well, shows a low level of CO₂ and a field measurement of the H₂S concentration showed 5 ppm. Given the low H₂S and low CO₂ concentrations, the gas produced is not a corrosive-type gas. XTO's engineering witness testified that in his professional opinion, there should not be any risk of damage to the casing from flowing up casing for an extending period of time.

² Eagleville (Eagle Ford-1) Field in Final Order No. 01-0282089, Smiley (Austin Chalk) Field in Final Order No. 01-0283284, De Witt (Eagle Ford Shale) Field in Final Order Nos. 02-0287458 & 02-0287862.

FINDINGS OF FACT

1. Notice of this hearing was provided to all operators in the field at least ten (10) days prior to the date of the hearing and no protests were received.
2. A supplemental notice of hearing was sent to all operators in the field on July 2, 2015 with a 15-day period to object to the proposed field rule amendments and no protests were received.
3. Amending the field rules to require operators to file Form P-16 will not harm correlative rights.
4. The gas produced contains low levels of H₂S and CO₂.
5. Preventing flowing oil wells from the requirement to kill the well and run tubing will prevent waste.
6. The duration of time requested for exceptions to Statewide Rules 13(b)(4)(a) and 51(a) has been previously adopted in the Eagleville (Eagle Ford-1), De Witt (Eagle Ford Shale), and Smiley (Austin Chalk) Fields.

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. Amending the field rules for the Two Georges (Bone Spring) Field will prevent waste and will not harm correlative rights.

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 Two Georges (Bone Spring) Field.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Randall Collins
Administrative Law Judge