



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 06-0297331

PROPOSAL FOR DECISION

THE APPLICATION OF VALENCE OPERATING COMPANY TO AMEND FIELD RULES FOR THE CARTHAGE (COTTON VALLEY) FIELD, PANOLA COUNTY, TEXAS

HEARD BY: Richard Eyster, P.G. - Technical Examiner
Laura Miles-Valdez - Legal Examiner

REVIEWED BY Jennifer Cook - Administrative Law Judge

HEARING DATE: August 24, 2015

CONFERENCE DATE: June 07, 2016

APPEARANCES:

REPRESENTING:

APPLICANT:
Andy Trevino

Valence Operating Company

PROTESTANT:
Doug Dashiell

Indigo Minerals LLC.

PROCEDURAL HISTORY

Application Filed:	May 28, 2015
Protest Received:	August 18, 2015
Date of Hearing:	August 24, 2015
Transcript Received:	September 9, 2015
Closings and Replies Received:	October 14, 2015
Proposal For Decision Issued:	April 20, 2016

STATEMENT OF THE CASE

This is the application of Valence Operating Company ("Valence") to amend the field rules for the Carthage (Cotton Valley) Field in Panola County, Texas. The current Field Rules for the Carthage (Cotton Valley) Field (the Field) were adopted in Final Order No.

06-0268520, effective February 8, 2011. Valence Operating Company (Valence) seeks to amend the field rules by reducing the take point spacing provisions to allow for 200-foot spacing between the first and last take point and the nearest lease line. Specifically, Valence is requesting to amend Field Rule No. 2 to add a provision for a 200 ft first and last take points.

The Field Rules in effect are summarized as follows:

1. Designation of the field as the correlative interval from 7,940 ft to 9,630 ft as shown on the log of the W. R. Banks Well No. 3;
2. 330 ft lease line spacing, with no minimum between well spacing requirement;
3. 320 acre gas units with optional 20 acre density;
4. Allocation based on 100% acreage with AOF status; and
5. Provides for stacked laterals for horizontal drainhole wells.

The application is protested by Indigo Minerals LLC., (Indigo) an operator with nine horizontal wells in the Field. Indigo asserts that the proposed 200 ft first and last take point is not necessary to maximize the recovery of reserves, and will negatively affect correlative rights and royalties.

The Technical Examiner and the Administrative Law Judge (collectively, Examiners) recommend the application be denied.

DISCUSSION OF EVIDENCE

VALENCE'S EVIDENCE

Valence is requesting to amend Field Rule No. 2 to provide for a 200 ft spacing provision between the first and last take points of a horizontal well bore and the nearest lease line which is similar to rules for seven other Cotton Valley Fields.

The Field is a partially depleted tight gas field that has been developed with vertical wells and limited horizontal wells. The Field was first discovered in 1968. The gross thickness of the Cotton Valley interval is approximately 2,000 ft. The Taylor Sand member of the Cotton Valley Formation occurs stratigraphically in the lower Cotton Valley Formation and is the dominant productive member. The Taylor Sand includes several tight sand units that are continuous across a broad area and represent an offshore sand bar and barrier island depositional environment. The upper part of the Cotton Valley Formation contains heterogeneous and lenticular near-shore and fluvial deposits, some of which are

productive, but are generally discontinuous. The first horizontal well was drilled by Devon Energy in August 2007 and there are approximately 3,159 gas wells on the current proration schedule.¹ Cumulative production from the field is over 35 million barrels of oil and 5.0 trillion cubic ft of gas.

Valence has one horizontal well in the Field, the J. W. Wilcher Gas Unit, Well No. 5H, (API No. 365-38204). Valence stated they plan on drilling one additional horizontal well in this field and assert the proposed 200 ft first and last take point rule would prevent waste and be protective of correlative rights by allowing the production of reserves that otherwise would go unrecovered. The proposed rule would also bring the Field Rules in line with the field rules of seven other Cotton Valley Fields. Valence asserted that such provisions are commonly adopted to facilitate efficient horizontal well development. During the hearing Valence identified seven other Cotton Valley Fields that have adopted either a 100 ft or 200 ft spacing provision between the first and last take points of a horizontal well bore and the nearest lease line, and a 330 ft perpendicular spacing provision between the horizontal drainhole and the nearest lease line.² The Applicant also submitted Commission Final Orders from Cotton Valley Fields that have either 100 ft or 200 ft first and last take points.

Valence submitted recovery estimates based on the lateral lengths of fourteen (14) horizontal wells in the Field, but the lateral length study did not include the Applicant's horizontal well. According to Valence, the 200 ft dual lease line spacing would allow the average horizontal well to have an additional 5.6% (260 ft) of lateral length. Assuming the average recovery of 4.12 mcf of gas per well a 5.6% increase in lateral length will increase recovery by 221.5 mcf of gas per well.³

Valence did not provide drainage calculations from their horizontal well in the Field or from any other horizontal wells in the Field to substantiate their assertion that wells in the Field are not being efficiently drained by the current 330 ft spacing and that the 200 ft take point rule is necessary to prevent waste while protecting correlative rights. Although the Applicant testified that wells completed in the Field required fracture stimulation to be economically productive Valence did not submit a fracture study from their horizontal well or from any other well in the Field to substantiate their testimony that the 200 ft take point rule is necessary to prevent waste while protecting correlative rights.

In conclusion, Valence testified that the proposed field rule amendment will provide for orderly drilling, completion, and operation of wells in the subject field while preventing waste and protecting correlative rights.

¹ Valence Exhibit No. 5, RRC Proration schedule.

² Valence Exhibit No. 9, Cotton Valley Fields with dual lease line spacing rules.

³ Valence Exhibit No. 20.

PROTESTANTS EVIDENCE:

The Application was protested by Indigo Minerals LLC. Indigo currently operates nine horizontal wells in the Field and contends there is a lack of evidence that reducing the lease line spacing from 330 ft to 200 ft is necessary to maximize the recovery of hydrocarbons and would be protective of correlative rights. Additionally, the Protestant requested during closing that if the application is approved, special notice language for operators in the Field be included in the Field Rule. Specifically, Indigo is requesting that the proposed Field Rule, if approved, require operators in the Carthage (Cotton Valley) Field drilling closer than 330 ft to a lease line be required to mail a copy of the permit to all operators in the Field within a certain amount of time prior to drilling the well. Indigo did not request a specific time period for mailing the permit.

Mr. Dashiell, attorney for Indigo, cross examined Mr. Trevino and asked if he had performed any drainage studies for the Field.⁴ Mr. Trevino replied no he did not perform any drainage studies but, he stated "it is implied in the field rules that initially the wells initially drain 640 acres and now they are down to 20 acres or less, so there are wells that will only drain 20 acres or less".⁵ Mr. Trevino stated that there is evidence that wells in the Field drain between 320 and 20 acres but did not provide any technical evidence to support his testimony. Mr. Trevino was asked by the Protestant if there are certain areas of the Field that have varying drainage where some areas wells drain more acreage than other wells. Mr. Trevino answered yes. Mr. Trevino was also asked if he agreed that the Carthage (Cotton Valley) Field is a separate common reservoir from any other Cotton Valley Field. Mr. Trevino answered "that is currently true".

Mr. Trevino was asked if he could offer any testimony that the area shown on Applicant's Exhibit No. 19, (a diagram where the 200 ft first and last take points are shown), is not being drained by the current 330 ft lease line spacing. Mr. Trevino answered no he could not.⁶

The Applicant's representative was asked if Valence has any evidence regarding fracture lengths or calculations indicating the drainage area per fracture in the Field. The applicant responded that no they had not performed a fracture length study but there were other Cotton Valley Fields that had fracture length studies.⁷

⁴ Audio Tr. Pt 2, 1:57.

⁵ Audio Tr. Pt.2.,. 2:17 - 2:47.

⁶ Audio Tr. Pt.2 8:45-50

⁷ Audio Tr. Pt. 2 9:58

EXAMINERS' ANALYSIS OF THE EVIDENCE

Valence stated its intent to drill one additional horizontal well in the Field and the field rule amendment it seeks will bring the Carthage (Cotton Valley) Field rules in line with other Cotton Valley fields. Although Mr. Trevino testified that the past field rules changes for the other Cotton Valley fields implied that the 330 ft spacing was not efficiently draining the Field, Valence did not provide the Examiners with any drainage studies, fracture length information or other evidence that the Field was not being efficiently drained with the current 330 ft lease line spacing. Additionally, in his closing statement, Indigo's attorney, Mr. Dashiell requested that if the application is approved, notice requirements for offset operators will be included in the Field Rule. Specifically, Indigo is requesting the proposed Field Rule will require operators in the Carthage (Cotton Valley) Field drilling closer than 330 ft to a lease line to be required to mail a copy of the permit to all offset operators within a certain unspecified amount of time prior to drilling the well. Mr. Dashiell did not specify the length of time prior to drilling that the permit would be mailed to operators in the Field.

Valence does not believe the notice language is appropriate for the following reasons:⁸

- a. Creates unnecessary burden for operators in the Carthage (Cotton Valley) Field;
- b. Notice of the proposed Notice Language was not given to Carthage (Cotton Valley) Operators;
- c. Other Operators in the Field will likely be opposed to the proposed language;
- d. Indigo currently has numerous methods of becoming aware of drilling activity around its leases;
- e. The proposed language would require Notice to be given for a legal drilling location;
- f. Current Commission rules require Notice to be given for Rule 37 exception locations;
- g. The proposed notice language is unprecedented in Commission Field Rules;
- h. The proposed language will be difficult for Commission staff to

⁸ .Applicants Exhibit No. 23.

verify and enforce; and

- i. No other Cotton Valley field has similar notice requirements

The Examiners note that the Protestants request for special Notice Language was not contained in the Notice of Hearing and was not given to all Carthage (Cotton Valley) Operators, prior to the hearing. Therefore the Examiners do not recommend that the requested Notice Language be included in the Field Rules if the Application is approved.

The Examiners conclude that the Applicant did not provide sufficient evidence that the current field rule spacing provisions are appropriate and sufficient to prevent waste and to protect correlative rights. The Examiners note that the Applicant can seek a spacing exception on an individual well basis on an individual well basis by requesting an exception to Statewide Rule 37. The record does not support reducing the lease line spacing for the Field from 330 ft to 200 ft for the first and last take point as requested by Valence. In the event of unique conditions on or under a lease, or if the enforcement of rules will operate to destroy the right of a mineral owner to recover its fair share of minerals, the Examiners believe the appropriate remedy would be to seek an exception to Statewide Rule 37. Such application could take into consideration: (1) the preferred fracture stimulation and drainage orientation of the Carthage Cotton Valley Formation; and (2) the particular tract geometry and availability—or lack thereof—of regular locations for optimal drainage. Moreover, unlike applications to amend field rules, obtaining an exception to Statewide Rule 37 allows for notice and participation of affected mineral interest owners on offset tracts, which in turn protects correlative rights.

FINDINGS OF FACT

1. Valence Operating Company seeks to amend the existing field rules for the Carthage (Cotton Valley) Field, Panola County, Texas.
2. The application was protested by Indigo Minerals LLC.
3. The Carthage (Cotton Valley) Field was discovered in 1968, there are approximately 3,200 gas wells producing from the field.
4. Current Field rules for the Carthage (Cotton Valley) Field provide for a designated interval, 330'-0' well spacing and 320 acre gas units with optional 20 acre density.
5. In the Subject Application, Valence requests to amend Rule No. 2 of the Field Rules to add a 200 ft first and last take point provision.
6. Indigo is requesting operators in the Carthage (Cotton Valley) Field drilling

closer than 330 ft to a lease line be required to mail a copy of the permit to all operators in the Field prior to drilling the well.

7. The Carthage (Cotton Valley) Field is being developed with horizontal drainhole wells.
8. Valence did not provide drainage calculations or fracture studies or other evidence that the current field rules are insufficient to prevent waste and protect correlative rights.
9. Valence did not provide evidence that a 200 ft first and last take point is necessary to prevent waste while protecting correlative rights.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable statutes and rules.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Valence Operating Company has failed to demonstrate that reducing the lease line spacing for the first and last take points to 200 ft is necessary to prevent waste and protect correlative rights.

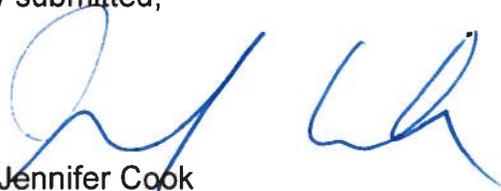
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission **DENY** amending the field rules to provide 200 ft first and last take points.

Respectfully submitted,



Richard Eyster, P.G.
Technical Examiner



Jennifer Cook
Administrative Law Judge

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 06-0297331**

**IN THE CARTHAGE (COTTON
VALLEY) FIELD, PANOLA COUNTY,
TEXAS**

**FINAL ORDER
DENYING THE APPLICATION OF VALENCE OPERATING COMPANY TO AMEND
FIELD RULES FOR THE CARTHAGE (COTTON VALLEY) FIELD, PANOLA COUNTY
TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on August 24, 2015, the Examiners have made and filed a report and proposal for decision containing findings of fact and conclusions of law, which was served on all parties of record; that the proposed application is not in compliance with all statutory requirements; and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the Examiners' report and proposal for decision, the findings of fact and conclusions of law contained therein, and any exceptions and replies thereto, hereby adopts as its own the findings of fact and conclusions of law contained therein, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the application of Valence Operating Company to amend Field Rules for Carthage (Cotton Valley) Field, Panola County, is hereby **DENIED**.

Each exception to the Examiners' proposal for decision not expressly granted herein is overruled. All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 25 days after the Commission's order is signed, unless the time for filing a motion for rehearing has been extended under Tex. Gov't Code §2001.142, by agreement under Tex. Gov't Code §2001.147, or by written Commission Order issued pursuant to Tex. Gov't Code §2001.146(e). If a timely motion for rehearing of an application is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission.

Pursuant to Tex. Gov't Code §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law is hereby extended until 90 days from the date Commission Order is signed.

Done this 7th day of June, 2016.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN DAVID PORTER

CHRISTI CRADDICK COMMISSIONER

COMMISSIONER RYAN SITTON

ATTEST:

SECRETARY