

December 21, 2006

OIL AND GAS DOCKET NO. 04-0249718

**APPLICATION OF EOG RESOURCES, INC., PURSUANT TO STATEWIDE RULE 101
FOR THE JARAL LEASE WELL NO. 1, B.M.T. (LOBO CONS.) FIELD, WEBB COUNTY,
TEXAS**

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: December 12, 2006

APPEARANCES:

Doug Dashiell, attorney
Charles Salmon

REPRESENTING:

EOG Resources, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the untested application of EOG Resources to consider approval of severance tax incentive certification pursuant to Statewide Rule 101 for its Jaral Lease Well No. 1 prorated in the B.M.T (Lobo Cons.) Field for state severance tax incentives pursuant to 16 TAC §3.101. It is proposed that the subject well qualifies based on the previously approved tight gas area designation and formation approval pursuant to Oil & Gas Docket No. 04-0244969 for the Wilcox Formation. The examiner recommends approval.

DISCUSSION OF THE EVIDENCE

The Commission approved a tight gas area designation for the Wilcox Formation in Webb County on November 29, 2005 in Oil & Gas Docket No. 04-0244969. The approved area designation covers 29,183 acres (listed by surveys) and wells completed in this area in the Wilcox Formation are designated as a high-cost/tight-gas formation pursuant to Statewide Rule 101 and are eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code.¹ Commission administrative approval was not granted for the subject well because the Commission "field name" for the designated area was not the same as the Commission field name for the wells that is the subject of this hearing and includes "wildcat" perforations.

The Wilcox Formation (specifically recognized by the Commission as the Stirling (Wilcox) Field) is defined as the correlative interval found at an average true vertical depth between 9,500' and 10,000'. The formations were encountered within the geologic correlative interval of 10,300' to 10,760' as shown on the log of the Slator Ranch "H" No. 2 well (API No. 42-479-38558).²

¹ Oil & Gas Docket Order No. 04-0244969 Finding of Fact No. 1.

² Oil & Gas Docket Order No. 04-0244969 Finding of Fact No. 3.

The Enron Oil & Gas (now EOG Resources), Jaral Lease Well No. 1 well was completed on September 2, 1999 through perforations from 10,872' to 10,957' subsurface depth. This interval is known as the Lobo Member of the Wilcox Formation. The well was permitted and completed in the B.M.T. (Lobo Consolidated) Field for proration purposes. The B.M.T. (Lobo Consolidated) Field has previously been designated for tight gas certification. On January 23, 2001, the subject well added perforations from 10,116' to 10,156' subsurface depth (which are technically above the designated interval for the B.M.T. (Lobo Consolidated) Field. Pursuant to the Commission's instructions, a Rule 10 Downhole Commingling permit was acquired in April 2006 (Oil & Gas Docket No. 04-0247092) and a new G-1 indicating a "Field Name" of Wildcat (10,116' to 10,151") and the additional perforations were reported and filed.

The EOG Resources, Jaral Lease Well No. 1 should receive the State Severance Tax Incentive Certification. The upper perforations that were added are within the correlative interval for the Stirling (Wilcox) Field which was subsequently renamed the Stirling (Wilcox Consolidated) Field. As previously stated, the Commission approved a tight gas area designation for the Wilcox Formation in Webb County on November 29, 2005 in Oil & Gas Docket No. 04-0244969. The Jaral Lease Well No. 1 was one of the five wells that was evaluated for tight gas sand determination data for the Wilcox Formation area and reservoir interval designation.

EOG Resources argues that Statewide Rule 101 provides for area designation and a formation which is not dependent on "field name". There is no instance in the rule which requires the field name to be a judging parameter. The applicable portions of the rule states:

(e) Application requirements for individual well certifications. To qualify for the severance tax exemption or tax reduction, the operator shall prove that the gas produced is high-cost gas by providing the following information: ...

*(5) Applications for wells producing designated tight **formation** (emphasis added) gas shall include:*

(A) the completed applicable commission form;

(B) copies of all Gas Well Back Pressure Test, Completion or Recompletion Reports and Logs ever filed on the subject well;

*(C) specific reference to the commission docket number assigned to the applicable designated tight **formation** (emphasis added) area certification along with a copy of the map with the subject well location shown, which outlines the designated tight **formation** (emphasis added) area approved by the commission.*

The subject well does not meet the following alternative provision where the well(s) may be outside the designated area or not completed within the formation interval which is covered by:

(f) Application requirements for tight formation area certifications.

(1) If justification for an individual well application is based on a tight formation certification and the well is not located within a geographical area that has been previously certified as a designated tight formation area or the well is not completed in a formation interval that has been previously certified as a designated tight formation by the Federal Energy Regulatory Commission under the Natural Gas Policy Act or by the Railroad Commission of Texas, the operator shall first apply for a tight formation area designation.

EXAMINER'S OPINION

Statewide Rule 101 provides for area designation and a formation that is designated by a specific interval in a well that is used for correlative purposes for other wells completed within the area in the same formation. The examiner believes that it was never the Legislative intent to restrict certification of a well for severance tax incentive for completions in a Commission recognized field only. Routinely fields are consolidated as a result of "fields" growing together over time through development and to discover that the reservoirs are in reality a common reservoir. The intent was to designate a correlative interval delineating a qualifying formation and a specific areal description by surveys. The Commission's Form ST-1 Application for Texas Severance Tax Incentive Certification, Item No. 6, does require the "Field Name". However, the examiner believes that the "field name" entry is for record filings purposes. The Commission's Central Records filing system is formatted by District/Field Name. If a field name is not associated with an application or multiple field names submitted, the application is filed in "District General" by operator (applicant) name.

FINDINGS OF FACT

1. Notice of this hearing was provided to all affected parties on November 29, 2006 and there was no protest registered.
2. EOG Resources, Inc. filed Commission Form ST-1 Application for Texas Severance Tax Incentive Certification for the Jaral Lease Well No. 1 on November 29, 2005.
3. The Commission approved a tight gas area designation for the Wilcox Formation in Webb County on November 29, 2005 in Oil & Gas Docket No. 04-0244969. The approved area designation covers 29,183 acres (listed by surveys) and wells completed in this area in the Wilcox Formation are designated as a high-cost/tight-gas formation pursuant to Statewide Rule 101 and are eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code.
4. The Wilcox Formation (specifically recognized by the Commission as the Stirling (Wilcox) Field) is defined as the correlative interval found at an average true vertical depth between 9,500' and 10,000'. The formations were encountered within the geologic correlative interval

of 10,300' to 10,760' as shown on the log of the Slator Ranch "H" No. 2 well (API No. 42-479-38558)

- a. The Stirling (Wilcox) Field which was subsequently renamed the Stirling (Wilcox Consolidated) Field.
5. The Enron Oil & Gas (now EOG Resources), Jaral Lease Well No. 1 well was completed on September 2, 1999 through perforations from 10,872' to 10,957' subsurface depth.
- a. The interval is known as the Lobo Member of the Wilcox Formation and the well was permitted and completed in the B.M.T. (Lobo Consolidated) Field for proration purposes and the field has previously been designated for tight gas certification.
 - b. In 2001 perforations were added from 10,116' to 10,156' subsurface depth are technically above the designated interval for the B.M.T. (Lobo Consolidated) Field. Pursuant to the Commission's instructions, a Rule 10 Downhole Commingling permit was acquired in April 2006 (Oil & Gas Docket No. 04-0247092) and a new G-1 indicating a "Field Name" of Wildcat (10,116' to 10,151") and the additional perforations were reported and filed.
6. The EOG Resources, Jaral Lease Well No. 1 should receive the State Severance Tax Incentive Certification.
- a. The upper perforations that were added are within the correlative interval for the Stirling (Wilcox) Field which was subsequently renamed the Stirling (Wilcox Consolidated) Field.
 - b. The Commission approved tight gas area designation for the Wilcox Formation in Webb County on November 29, 2005 in Oil & Gas Docket No. 04-0244969.
 - c. The EOG Resources, Jaral Lease Well No. 1 was one of the five wells that was evaluated for tight gas sand determination data for the Wilcox Formation area and reservoir interval designation.
7. Statewide Rule 101 provides for area designation and a formation designation is not dependent on a specific Commission designated "field name".

CONCLUSIONS OF LAW

1. Proper notice was issued to all affected persons as required by the applicable codes and regulatory statutes.
2. The Commission is the appropriate agency to make a determination concerning high cost

and/or tight gas formation certification pursuant to 16 TAC §3.101.

3. The state subject well meets the requirements for State severance tax incentives pursuant to 16 TAC §3.101
4. Gas produced from the subject well completed in the proposed area designation in the Wilcox Formation, identified by plat in this hearing and the attached real property descriptions indicating county, survey and abstract is high cost and/or tight gas pursuant to 16 TAC §3.101.

EXAMINER'S RECOMMENDATION

The examiner recommends the attached order be entered to recommend that the EOG Resources, Jaral Lease Well No. 1 should receive the State Severance Tax Incentive Certification pursuant to 16 TAC §3.101 and is eligible for severance tax relief pursuant to Chapter 201 of the State Tax Code.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Hearings Examiner
Office of General Counsel