

May 15, 2006

OIL AND GAS DOCKET NO. 05-0246978

APPLICATION OF VALENCE OPERATING COMPANY TO AMEND THE FIELD RULES FOR THE NAN-SU-GAL (CV CONSOLIDATED) FIELD, FREESTONE COUNTY, TEXAS

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

DATE OF HEARING: May 11, 2006

APPEARANCES:

Rick Johnston

REPRESENTING:

Valence Operating Company

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Valence Operating Company to amend the field rules for the Nan-Su-Gal (CV Consolidated) Field as adopted by Order No. 05-0232205, effective October 8, 2002, as amended, which currently provide for:

1. The entire combined correlative interval from 10,875' to 14,240' as shown on the Resistivity Gamma Ray log of the Anadarko Petroleum Corporation, Hill "B" Lease Well No. 1, Mariano Rivas Palcios Survey, Freestone County, Texas should be designated as the Nan-Su-Gal (CV Consolidated) Field.
2. Minimum well spacing of 467'/1000' (leaseline/between well);
3. 640 acre gas proration units with 10% tolerance and a maximum diagonal of 13,500', and optional 40 acre density and a maximum diagonal of 2100'; and
4. An allocation formula based on 95% deliverability and 5% per well. The allocation formula is currently suspended by the same order.

Valence proposes amending the rules to provide for:

1. No change.
2. Minimum well spacing of 467'/600' (lease line/between well);
3. 640 acre gas proration units with 10% tolerance and a maximum diagonal of 13,500', and optional 20 acre density and a maximum diagonal of 1500'; and
4. No change in the allocation formula and continued suspension of the allocation formula.

The notice of hearing proposes that the allocation formula be amended to 95% deliverability and 5% acreage. At the hearing, applicant stated that this was in error and no change should have been stated in its application and subsequently in the Notice of Hearing. The examiner recommends approval of the application as amended at the hearing.

DISCUSSION OF THE EVIDENCE

The Nan-Su-Gal (CV Consolidated) Field was the result of the consolidation of the Nan-Su-Gal (Bossier), Nan-Su-Gal (Cotton Valley) and Red Lake (Bossier Sand) Fields as created by Commission Order 05-0232205 effective October 8, 2002. This is a large multi-operator field with over 200 wells. Cumulative field production is over 119 BCF of gas and 38,000 BC.

Optional 20 acre density is necessary for the efficient and effective depletion of the reservoir. In the consolidation hearing in 2004, (O&G Docket No. 05-0238282), data was submitted that the calculated average drainage area of wells in the Nan-Su-Gal (CV Consolidate) Field was estimated at 29 acres. Valance reviewed 16 wells in the subject field with sufficient production history and well log data to perform volumetric/drainage determinations. Estimated ultimate recoveries (production decline analysis estimates) ranged from 523 MMCF to 2.2 BCF of gas. Net pay thicknesses ranged from 41' to 252'. Drainage areas ranged from 7.2 acres to 77 acres with an average of 30.2 acres. Ten of the wells drained less than 30 acres (5 of which drained less than 20 acres).

Minimum well spacing of 467'/600' will allow flexibility in locating wells on the optional 20 acres units and is necessary in completing in the multiple zones of the consolidated field.

Continuation of suspension of the allocation formula is appropriate as there remains a 100% demand for all the gas than can be produced from the subject field.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject fields at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Nan-Su-Gal (CV Consolidated) Field was the result of the consolidation of the Nan-Su-Gal (Bossier), Nan-Su-Gal (Cotton Valley) and Red Lake (Bossier Sand) Fields as created by Commission Order 05-0232205 effective October 8, 2002. This is a large multi-operator field with over 200 wells.
4. The entire combined correlative interval from 10,875' to 14,240' as shown on the Resistivity Gamma Ray log of the Anadarko Petroleum Corporation, Hill "B" Lease Well No. 1, Mariano Rivas Palcios Survey, Freestone County, Texas should be designated as the Nan-Su-Gal (CV Consolidated) Field.

5. Optional 20 acre density is necessary for the efficient and effective depletion of the reservoir.
 - a. In the consolidation hearing in 2004, (O&G Docket No. 05-0238282), data was submitted that the calculated average drainage area of wells in the Nan-Su-Gal (CV Consolidate) Field was estimated at 29 acres.
 - b. Valance reviewed 16 wells in the subject field with sufficient production history and well log data to perform volumetric/drainage determinations and the estimated ultimate recoveries (production decline analysis estimates) ranged from 523 MMCF to 2.2 BCF of gas.
 - c. Drainage areas ranged from 7.2 acres to 77 acres with an average of 30.2 acres. Ten of the wells drained less than 30 acres (5 of which drained less than 20 acres).

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Consideration of field rules, a determination of the effectiveness of the rules and appropriate actions is a matter within the Commission jurisdiction.
4. Adoption of the proposed amended field rules will prevent waste, foster conservation and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed amended field rules for the Nan-Su-Gal (CV Consolidated) Field.

Respectfully submitted,

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