

October 25, 2006

OIL AND GAS DOCKET NO. 05-0247830

APPLICATION OF VALENCE OPERATING COMPANY TO AMEND THE FIELD RULES FOR THE FARRAR (TRAVIS PEAK) FIELD, LIMESTONE, FREESTONE AND LEON COUNTIES, TEXAS

HEARD BY: Thomas H. Richter, P.E., Technical Examiner
Mark Helmueller, Hearings Examiner

DATE OF HEARING: October 3, 2006

APPEARANCES:

REPRESENTING:

APPLICANT:

John M. Quinlan, lawyer
Rick Johnston

Valence Operating Company

OBSERVER:

George C. Neale, attorney
Craig Haesly

Hunt Petroleum Corporation

INTERESTED PARTY:

David E. Jackson, attorney

NRG Texas LP

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unopposed application of Valence Operating Company to amend the field rules as adopted in Order No. 5-72,480, effective May 21, 1979, as amended, for the Farrar (Travis Peak) Field that currently provide for the following:

1. The entire combined correlative interval from 8,500' to 10,450' as shown on the log of the Adobe Oil Company, Sadler Lease Well No. 1, Manuel Crococio Survey, Limestone County, Texas, should be designated as the Farrar (Travis Peak) Field.
2. An allocation formula based on 5% per well and 95% deliverability. The allocation formula has been suspended since June, 1996.

Valence proposes the following:

1. No change in the designated correlative interval.
2. Minimum well spacing of 467'/600' (leaseline/between well);

3. 40 acre gas proration units plus 10 acre tolerance and a maximum diagonal of 2,100' and optional 20 acre density and a maximum diagonal of 1,500'; and
4. No change in allocation formula and continued suspension of the allocation formula.

The examiners recommend approval of the application.

DISCUSSION OF THE EVIDENCE

The Farrar (Travis Peak) Field was discovered in 1963 at 8,894' subsurface depth. Through the years the field rules have been amended several times from 640 acre density to optional 320 acre density to straight 160 acre density and finally to the present Statewide Rule density. Essentially the field rules for the two other overlapping fields, the Farrar (Cotton Valley) and Farrar, SE (Pettit) Fields have mirrored the field rule changes the Farrar (Travis) has undergone. The field is designated as Non-Associated. Currently there are two operators in the field according to the September 2006 Commission Proration Schedule and 107 wells.

The Farrar (Travis Peak) Field has 72 wells that are downhole commingled with the Cotton Valley Lime or the Pettit. The 31 active wells with an allowable are completed in the Travis Peak only. The Farrar, SE (Pettit) Field has 31 wells on schedule of which 26 wells are downhole commingled with at least the Cotton Valley Lime or Travis Peak. The 4 active wells with an allowable are completed in the Pettit only.

Proration unit density of 40 acres and optional 20 acres is necessary to provide for the efficient and effective depletion of the reservoir. The Farrar (Travis Peak) Field has cumulative production of 56.6 BCF of gas. Previous field rule hearings have found that there were wells draining between 23 and 132 acres.¹ Volumetric analysis and production decline analysis were performed on 11 wells. Estimated ultimate recoveries range from 221 MMCF to 4.8 BCF per well (net pay determinations ranged from 35' to over 200'). The drainage areas range from 7 to 117 acres. Six of the wells drained less than 40 acres. Similar Travis Peak fields in the area have density rules of optional 40 acres or optional 20 acres.

The proposed minimum well spacing, 467'/600' (leaseline/between well) is the minimum well spacing necessary to allow flexibility in locating wells in a field with numerous, potential new well locations, re-completions and downhole commingling possibilities. Identical amended field rules are being proposed for the Farrar (Cotton Valley Lime) Field [Docket No. 05-0247830]. Continued suspension of the allocation formula is warranted as a market for 100% of its produced gas.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.

¹ Oil & Gas Docket No. 05-0224104 in 2000.

2. There was no protest at the call of the hearing.
3. The Farrar (Travis Peak) Field was discovered in 1963 at 8,894' subsurface depth.
 - a. Field rules have been amended several times from 640 acre density to optional 320 acre density to straight 160 acre density and finally to the present Statewide Rule density.
 - b. The field is designated as Non-Associated and currently there are two operators in the field and 107 wells.
4. Numerous wells have been downhole commingled with the Farrar (Cotton Valley Lime) and Farrar, SE (Pettit) Fields.
5. Proration unit density of 40 acres and optional 20 acres is necessary to provide for the efficient and effective depletion of the reservoir.
 - a. The Farrar (Travis Peak) Field has cumulative production of 56.6 BCF of gas.
 - b. Volumetric analysis and production decline analysis estimate ultimate recoveries range from 221 MMCF to 4.8 BCF per well.
 - c. Drainage areas range from 7 to 117 acres and six of the wells analyzed drained less than 40 acres.
6. The proposed minimum well spacing, 467'/600' (leaseline/between well) is the minimum well spacing necessary to allow flexibility in locating wells in a field with numerous, potential new well locations, re-completions and downhole commingling possibilities.
7. Continued suspension of the allocation formula is warranted as a market for 100% of its produced gas.

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 for field rules, a determination of their effectiveness and appropriate actions

are 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 Farrar (Travis Peak) Field.

Respectfully submitted,

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