

October 25, 2006

OIL AND GAS DOCKET NO. 05-0247831

APPLICATION OF VALENCE OPERATING COMPANY TO AMEND THE FIELD RULES FOR THE FARRAR (COTTON VALLEY LIME) 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 unprotested application of Valence Operating Company to amend the field rules as adopted in Order No. 5-72,327, effective May 7, 1979, as amended, for the Farrar (Cotton Valley Lime) Field that currently provide for the following:

1. The entire combined correlative interval from the top of the Cotton Valley Sand at 10,200' to the base of the underlying Cotton Valley Lime at 13,488' as shown on the log of the Herd Producing Company, Standley Lease Well No. 23, Manuel C. Rejon Survey, Limestone County, Texas, should be designated as the Farrar (Cotton Valley Lime) Field.
2. An allocation formula based on 5% per well and 95% deliverability. The allocation formula has been suspended since January 1, 1998.

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 (Cotton Valley Line) Field was discovered in 1977 at 13,002' 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 upper two fields, the Farrar (Travis Peak) and Farrar, SE (Pettit) Fields have mirrored the field rule changes the Farrar (Cotton Valley Lime) has undergone. The field is designated as Non-Associated. Currently there are three operators in the field according to the September 2006 Commission Proration Schedule and 215 wells.

The Farrar (Travis Peak) Field has 107 wells on schedule of which 72 wells are downhole commingled with at least the Cotton Valley Lime. 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 (Cotton Valley Lime) Field has cumulative production of 149.7 BCF of gas and currently produces at ± 3.5 BCF per month. Previous field rule hearings have found that there were wells draining 19 and 36 acres.¹ Volumetric analysis and production decline analysis were performed on 10 wells. Estimated ultimate recoveries range from 1.1 to 3.5 BCF per well (net pay determinations ranged from 134' to over 700'). The drainage areas range from 2 to 20 acres. Similar fields in the area have optional 20 density rules.

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 (Travis Peak) 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 Oil & Gas Docket No. 05-0224106 in 2000.

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Farrar (Cotton Valley Line) Field was discovered in 1977 at 13,002' 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 three operators in the field and 215 wells.
4. Numerous wells have been downhole commingled with the Farrar (Travis Peak) 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 (Cotton Valley Lime) Field has cumulative production of 149.7 BCF of gas and currently produces at ± 3.5 BCF per month.
 - b. Volumetric analysis and production decline analysis estimate ultimate recoveries range from 1.1 to 3.5 BCF per well.
 - c. The drainage areas range from 2 to 20 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 (Cotton Valley Lime) Field.

Respectfully submitted,

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