

THE APPLICATION OF XTO ENERGY INC. TO AMEND FIELD RULE NOS. 2 AND 3 AND TO ADOPT FIELD RULE NO. 5 FOR THE FARRAR (COTTON VALLEY LIME) FIELD, FREESTONE, LEON, LIMESTONE AND ROBERTSON COUNTIES, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner

DATE OF HEARING: November 8, 2010

APPEARANCES:

REPRESENTING:

APPLICANT:

Rick Johnston
Paul Tart

XTO Energy Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Farrar (Cotton Valley Lime) Field were originally adopted in Final Order No. 5-72,327, effective May 7, 1979, as amended. The Field Rules in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 10,200 feet to 13,488 feet as shown on the log of the XTO Energy Inc. - Darrell Standley GU 2, Well No. 2 (API No. 42-293-30387);
2. 467'-600' well spacing with no minimum between well spacing between vertical and horizontal wells;
3. 40 acre gas units with optional 20 acre density;
4. Allocation based on 95% deliverability and 5% per well with AOF status.

XTO Energy Inc. ("XTO") requests that Field Rule Nos. 2 and 3 be amended to provide for 330' lease line spacing and no between well spacing with special provisions for "take points", "off-lease" penetration point, and a "box rule" for horizontal drainhole wells and no filling of Form P-15 and plats. XTO also requests that Field Rule No. 5 be adopted to provide for "stacked laterals" for horizontal drainhole wells and that the allocation formula remain suspended.

The examiner recommends that Field Rule Nos. 2 and 3 be amended and Field

OIL AND GAS DOCKET NO. 05-0267835

Rule No. 5 be adopted for the Farrar (Cotton Valley Lime) Field, as proposed by XTO.

DISCUSSION OF EVIDENCE

The Farrar (Cotton Valley Lime) Field was discovered in March 1977 at an average depth of 13,000 feet. The field is classified as non-associated and there are 417 producing gas wells with 3 operators carried on the proration schedule. The allocation formula is currently suspended. Cumulative production from the field through August 2010 is 412.8 BCFG and 272.2 MBO.

XTO is proposing to drill additional horizontal wells and requests horizontal rules in order to promote the efficient and effective development of the remaining hydrocarbons. XTO requests a spacing rule that requires 330' lease line spacing, no between well spacing with special provisions for "take points", off-lease penetration point and a "box rule" for horizontal drainhole wells. XTO argues that the proposed spacing is necessary to allow drilling of horizontal wells which may have to be placed very near each other in some cases.

XTO proposes a tolerance "box rule" for horizontal drainhole wells that would allow drainholes to deviate 50 feet from either side of their permitted track without the necessity of obtaining a Statewide Rule 37 exception. As drilled wells for which all points are located within the "box" would be considered in compliance with their drilling permits.

XTO also requests that a Field Rule be adopted to accommodate the drilling of stacked horizontal lateral wells. The gross thickness of the Cotton Valley interval is over 3,000 feet. XTO believes that several separate laterals may be necessary to effectively develop the reservoir with horizontal wells. The rule would allow stacked horizontal laterals within the Cotton Valley correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes. It is proposed that a stacked lateral well be defined to be multiple horizontal drainholes which are drilled from different surface locations.

Similar horizontal drainhole well rules have already been adopted in the Hardwood (Cotton Valley) Field and many other Cotton Valley Fields, as well as, in the Newark, East (Barnett Shale) Field.

The allocation formula is currently suspended and XTO requests that it remain suspended, as there is a 100% market for all of the gas produced from the field. Since acreage is not part of the allocation formula, not requiring the filing of Form P-15 and plats will eliminate unnecessary paperwork.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.

OIL AND GAS DOCKET NO. 05-0267835

2. The Farrar (Cotton Valley Lime) Field was discovered in March 1977 at an average depth of 13,000 feet. The field is classified as non-associated and there are 417 producing gas wells with 3 operators carried on the proration schedule.
3. Field Rules for the Farrar (Cotton Valley Lime) Field provide for a designated interval, 467'-600' well spacing with no minimum between well spacing between vertical and horizontal wells and 40 acre gas units with optional 20 acre density.
4. The Farrar (Cotton Valley Lime) Field is actively being developed with horizontal drainhole wells.
5. Field Rules that provide for 330' lease line spacing and no between well spacing with special provisions for "take points", "off-lease" penetration point, a "box rule" and "stacked laterals" for horizontal wells will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.
6. The proposed 50 foot "box rule" is necessary to allow operators reasonable minor deviations from the wellbore track that has been permitted.
7. The proposed "stacked lateral" rule will allow stacked horizontal laterals within the Cotton Valley correlative interval that are drilled from different surface locations to be considered a single well for regulatory purposes, which will facilitate the additional recovery of gas.
8. Similar horizontal drainhole well rules have already been adopted in the Hardwood (Cotton Valley) Field and many other Cotton Valley Fields, as well as, in the Newark, East (Barnett Shale) Field.
9. Continued suspension of the allocation formula is appropriate, as there is a 100% market for all the gas produced from the field. Since acreage is not part of the allocation formula, not requiring the filing of Form P-15 and plats will eliminate unnecessary paperwork.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was issued.
2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.

OIL AND GAS DOCKET NO. 05-0267835

3. Amending Field Rule Nos. 2 and 3 and adopting Field Rule No. 5 for the Farrar (Cotton Valley Lime) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends that the Commission amend Field Rule Nos. 2 and 3 and adopt Field Rule No. 5 for the Farrar (Cotton Valley Lime) Field, as proposed by XTO Energy Inc.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner