

THE APPLICATION OF SAMSON LONE STAR, LLC TO AMEND FIELD RULE NOS. 2 AND 3 FOR THE OAK HILL (COTTON VALLEY) FIELD, GREGG, HARRISON, PANOLA AND RUSK COUNTIES, TEXAS

Heard by: Richard D. Atkins, P.E. - Technical Examiner
Marshall F. Enquist - Legal Examiner

APPEARANCES:

APPLICANT:

Glenn E. Johnson
James M. Clark
Randal Maxwell
Casey Clawson

REPRESENTING:

Samson Lone Star, LLC

PROTESTANTS:

David Gross
Rick Johnston

Comstock Oil & Gas, LP and XTO
Energy, Inc.

OBSERVERS:

Bill Spencer

Chesapeake Operating, Inc. and
Sandridge Expl. and Prod., LLC and
Verado Energy, Inc.

Philip Whitworth

EOG Resources, Inc. and EnerVest
Operating, LLC

M. Scott Campbell
Julian J. Chahin

EnerVest Operating, LLC

Rosa L. Rohr

Energen Resources Corporation

Ana Maria Marsland-Griffith

Anadarko E&P Company, LP

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PROCEDURAL HISTORY

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| Application Filed: | August 27, 2008 |
| Request for Hearing: | August 27, 2008 |
| Notice of Hearing: | September 17, 2008 |
| Date of Hearing: | October 14, 2008 |
| Transcript Received: | October 31, 2008 |
| Proposal For Decision Issued: | January 21, 2009 |

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Oak Hill (Cotton Valley) Field were adopted in Final Order No. 6-67,176, effective May 31, 1977, as amended. The rules in effect for the field are summarized as follows:

1. Designation of the field as the correlative interval from 8,670 feet to 10,469 feet as shown on the log of the McCormick Oil & Gas Corporation - G. W. Bird Estate Lease, Well No. 1, James McLain Survey, Rusk County, Texas;
2. 467'-1,200' oil well spacing and 467'-933' gas well spacing;
3. 40 acre oil units and 160 acre gas units with 40 acre optional density;
4. Allocation based on 95% acreage and 5% deliverability.

Samson Lone Star, LLC ("Samson") requests that Field Rule Nos. 2 and 3 be amended to provide for 467'-467' oil and gas well spacing and provide for a special notice provision for Rule 38 exceptions for less than 40 acre units that would require notice only to operators and unleased mineral owners within 467 feet of an applied-for well. Samson also requests that the filing of Form P-15's and plats for individual wells not be required as long as the field is 100% AOF and that the allocation formula in the field remain suspended. EnerVest, EOG, Chesapeake, Sandridge and Verado appeared in support of Samson's position, but did not present any evidence.

Comstock Oil & Gas, LP ("Comstock") and XTO Energy, Inc. ("XTO") appeared in protest of the 467 foot notice distance in the special provisions for Rule 38 exceptions for wells on less than 40 acre units. Comstock and XTO support a rule provision providing notice of Rule 38 exception applications to parties at a greater distance than 467 feet.

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DISCUSSION OF THE EVIDENCE

Applicant's Evidence

The Oak Hill (Cotton Valley) Field was discovered in November 1976. There are currently approximately 1,950 gas wells carried on the gas proration schedule that collectively produce a total of 8-9 BCF per month. The field is classified as an associated gas field and the allocation formula has been suspended since 1996. Cumulative production for the field through September 2008 is 1.90 TCFG and 6.5 MMBO.

The first field rules for the field were adopted in 1977 and provided for 640 acre density. The rules have been amended over time and since 2005, the rules have provided for 160 acre gas units with optional 40 acre density and 467'-933' spacing. The associated oil field operates under Statewide Rules of 467'-1,200' spacing and 40 acre oil units. The Oak Hill (Cotton Valley) Field consists of the Upper Cotton Valley sands and the Lower Cotton Valley Taylor Sand.

The reservoir in the Oak Hill (Cotton Valley) Field is tight and the primary drive mechanism is a gas expansion drive. The Upper Cotton Valley sands are heterogenous and more compartmentalized with both lateral and vertical discontinuities. However, the Lower Cotton Valley Taylor Sand is continuous and homogenous throughout the field, as it is a barrier island type deposit.

Samson presented updated drainage area calculations for the 10 wells in the Oak Hill (Cotton Valley) Field that were the subject of the last field rules hearing held in June 2005 to establish optional 40 acre gas units. The 10 wells had an average porosity of 8%, an average water saturation of 32% and an average estimated recovery factor of 75%. The net pay ranged from 66 feet to over 560 feet. For these wells, the ultimate recoveries range from less than 360 MMCF to over 5,100 MMCF. The calculated drainage areas for these wells range from 2 acres up to a maximum of 31 acres.

Samson also submitted eight Rule 38 exception applications that were submitted by Anadarko, Energen, Sandridge, Comstock and Samson. The applications were all approved administratively for locations on less than forty acres and four of those exceptions were approved in 2008. The calculated drainage areas for these wells range from less than 10 acres up to a maximum of 33 acres.

Samson will be actively developing the field interval by drilling additional infill wells on units less than 40 acres. Samson stated that it's not uncommon to spend between \$15,000 and \$25,000 per tract for a title opinion to find out who should receive a Rule 38 notice. On the larger units of 640 acres which are very irregularly shaped, it is not uncommon to have 10, 20, or even 30 different tracts that abut a unit. Therefore, when Samson has to pay for a title opinion of \$15,000 for 20 tracts, the total cost quickly reaches into the \$300,000 price range. As a result, it is very uncommon for Samson to spend less than \$100,000 on a title opinion for a Rule 38 notice and it's often twice that cost. Samson

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believes that this cost is causing waste because there are reserves that could be recovered from a well that would be economic if it didn't have this burden of providing notice for proposed Rule 38 exceptions.

The proposed 467'-467' well spacing and special provisions for Rule 38 exceptions for less than 40 acre units after notice to operators and unleased mineral owners within 467' will allow for future development in the Oak Hill (Cotton Valley) Field. Samson also requests that the filing of Form P-15's and plats for individual wells not be required as long as the field has 100% AOF status. When the allocation formula in this field is suspended, operators will only be required to file Form P-15 listing the number of acres that are being assigned to each well on the lease or unit for proration purposes. As the allocation formula is suspended, this request will eliminate unnecessary paperwork.

Protestant's Evidence

The protestants were concerned that the limited Rule 38 exception notice distance of 467 feet would not lead to the orderly development of the field and could cause the drilling of unnecessary wells. For notice purposes, they felt that the distance shouldn't be based on the smaller drainage areas, but that the larger drainage areas should be considered, as those are the offsets that are potentially going to be affected.

The protestants submitted Anadarko's Exhibit No. 12 from the 2005 hearing that calculated drainage areas for nine wells in the southwestern portion of the field. These wells are completed only in the Taylor Sand and have net pay thickness ranging from 76 feet to 153 feet. The calculated drainage areas for the wells range from 42 acres up to a maximum of 177 acres. The average drainage area for the nine wells is 88 acres.

The protestants also submitted XTO's Exhibit No. 6 from the 2005 hearing that calculated drainage areas for ten wells in the northeastern and southwestern portion of the field. These wells have net pay thickness ranging from 13 feet to 355 feet. The calculated drainage areas for the wells range from 13 acres up to a maximum of 288 acres. The average drainage area for the ten wells is 82 acres.

As a final exhibit, the protestants submitted a conceptual drawing of a lease bounded on the west and the south by other lease lines. The drawing showed the locations of the wells that could be drilled under the Samson proposal honoring the minimum 467 feet from the lease line and the minimum distance from other wells on the same lease of 467 feet. If the lease was drilled to the maximum extent using the 467'-467' well spacing, the acreage that would be available to be assigned to wells that are surrounded by such a development would have a proration unit size of 467 feet by 467 feet and contain five acres.

The protestants assert that the Samson proposal would essentially establish a

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five-acre optional density in the field and this could be accomplished without giving notice to any offset operators. The protestants believe that some number greater than 467 feet and in the range of 1,320 feet to 1,867 feet would be an appropriate number. Assignment of a between-well spacing distance implies that it is twice the area affected by a well and 1,867 feet was the between-well spacing when the field first adopted 160 acre gas units.

EXAMINERS' OPINION

The examiners' recommend approval of the 467'-467' oil and gas well spacing, the elimination of the filing of Form P-15's and plats for individual wells as long as the field is 100% AOF and that the allocation formula in the field remain suspended. When the allocation formula in this field is suspended, operators will only be required to file one Form P-15 listing the number of acres that are being assigned to each well on the lease or unit for proration purposes. These proposed revisions to the Field Rules were uncontested.

The only contested issue was the limited notice requirement in the special provisions for Rule 38 exceptions for units less than forty acres. Both the applicant and the protestants submitted extensive drainage area calculations showing wells in the Oak Hill (Cotton Valley) Field could drain as little as 2 acres up to a maximum of 288 acres and the calculations were used to support both sides of this issue.

Rule 38 requires that notice of any proposed density exception be given to all operators and unleased mineral owners adjacent to the lease or pooled unit for which the exception is sought. The proposed field rule would limit notice to only adjacent persons and entities within some prescribed distance (the parties differ over the proper distance). This change would effectively amend the definition of affected persons in the statewide rule and significantly reduce the number of entities and people who would receive notice of an exception application.

Although similar provisions limiting notice to affected parties have previously been approved in a handful of unprotested cases, this is the first protested case in which the issue has been directly raised and considered. After careful consideration of the issue, the examiners have concluded that a field rule is not the proper place for this type of fundamental policy change and further, even if making such a change in field rules was appropriate, the evidence in this docket does not support doing so.

Samson argues that if it was required to give notice to fewer entities, the cost of giving notice, and therefore the cost of obtaining density exceptions, would be reduced. This is undoubtedly true. Samson's further claim that if notice costs were reduced it would produce more reserves is much more doubtful. Regardless of the validity of Samson's claim, the Commission has made a policy decision that all offsets are presumed potentially affected by a density exception and should receive notice of an exception application. This policy decision has been codified in Statewide Rule 38(h) which was only adopted after publication and an opportunity for all potentially affected parties to comment on the provision. By contrast, notice of Samson's proposed field rule application was only given to operators in the field. Unleased mineral owners who would be entitled to notice under Rule 38(h) did not receive notice of Samson's proposed field rule change which, if adopted,

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would preclude them from receiving notice of applications that Rule 38 presumes will affect their interests.

Further, Rule 38 already contains a provision addressing the issue raised by Samson. If an applicant demonstrates by convincing geological or engineering data that an offset tract will not be drained by the proposed well and that notice to the operator or unleased mineral owners of that tract would be unduly burdensome or expensive, the Commission designee may, on written request, determine that those entities are unaffected and therefore not entitled to notice of the exception application. See Rule 38(h)(1)(A). As the evidence presented indicates that some wells in the field drain nearly 300 acres, affected tracts may be located a considerable distance from a proposed well. However, some wells have far smaller drainage areas and an applicant may well be able to show that a distant (but still adjacent) tract will not be affected by a proposed well and obtain an unaffected determination under the existing rule, relieving the need for notice.

Samson did not prove that there was anything unique or unusual about the geology of the Oak Hill (Cotton Valley) Field requiring a special filed rule authorizing notice of density exceptions different than that provided for in Statewide Rule 38. Giving notice can be expensive and it grows more expensive as the number of tracts entitled to notice increases. However, this is true for every field. Due process requires that entities that may be adversely affected by an exception be given notice and an opportunity to appear and contest the exception request.

For the foregoing reasons, the examiners recommend that the limitation on notice of density exceptions proposed by Samson not be adopted. If a change in the procedures for giving notice or scope of notice of density exceptions is appropriate, it should be considered and adopted through the statewide rulemaking process and not via a field rule change.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice and no protests were received.
2. The Oak Hill (Cotton Valley) Field was discovered in November 1976.
3. The Oak Hill (Cotton Valley) Field is classified as an associated gas field. There are currently approximately 1,950 gas wells carried on the gas proration schedule that collectively produce a total of 8-9 BCF per month.
4. The allocation formula in the field has been suspended since 1996.
5. Field rules currently in effect for the Oak Hill (Cotton Valley) Field provide for 467'-933' gas well spacing and 160 acre gas units with optional 40 acre density. The associated oil field operates under Statewide Rules of 467'-1,200' well spacing and 40 acre oil units.

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6. There are wells throughout the Oak Hill (Cotton Valley) Field that will drain as little as 2 acres up to a maximum of 288 acres.
 - a. The calculated drainage areas for 10 wells analyzed by Samson range from 2 acres up to a maximum of 31 acres.
 - b. The calculated drainage areas for eight Rule 38 exception applications range from less than 10 acres up to a maximum of 33 acres.
 - c. The calculated drainage areas for nine wells in the southwestern portion of the field completed only in the Taylor Sand range from 42 acres up to a maximum of 177 acres. The average drainage area for the nine wells is 88 acres.
 - d. The calculated drainage areas for ten wells in the northeastern and southwestern portion of the field range from 13 acres up to a maximum of 288 acres. The average drainage area for the ten wells is 82 acres.
7. Amending the spacing rule for the Oak Hill (Cotton Valley) Field to provide for a minimum of 467 feet from lease lines and 467 feet between wells will accommodate and promote development on less than 40 acre density.
8. There was no evidence of unusual geologic conditions in the Oak Hill (Cotton Valley) Field requiring a deviation from the notice procedure in Statewide Rule 38.
9. As long as the Oak Hill (Cotton Valley) Field is 100% AOF and the allocation formula for the field is suspended, eliminating the requirement to file Form P-15s and plats for individual wells 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.
3. Due process requires that all potentially adversely affected interest owners receive notice and an opportunity to participate in proceedings that could affect their property rights.
4. Amending Field Rule Nos. 2 and 3 for the Oak Hill (Cotton Valley) Field to include 467'-467' well spacing 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 examiners recommend that Field Rule Nos. 2 and 3 for the Oak Hill (Cotton Valley) Field be amended to provide for 467'-467' well spacing, elimination of the necessity to file Form P-15s with plats for individual wells and suspension of the allocation formula in the field.

The examiners also recommend that the special notice provision for Rule 38 exceptions for less than 40 acre units that would require notice only to operators and unleased mineral owners within 467 feet of an applied-for well be denied.

Respectfully submitted,

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Technical Examiner

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