



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

CONSOLIDATED OIL AND GAS DOCKET NOS. 02-0287458 & 02-0287862

THE APPLICATION OF SABINE OIL & GAS, LLC TO AMEND FIELD RULES FOR THE DE WITT (EAGLE FORD SHALE) FIELD, DE WITT, GONZALES, LAVACA AND KARNES COUNTIES, TEXAS & THE APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY LP TO AMEND FIELD RULES FOR THE DE WITT (EAGLE FORD SHALE) FIELD, DE WITT, GONZALES, LAVACA AND KARNES COUNTIES, TEXAS

HEARD BY: Karl Caldwell - Technical Examiner
Laura Miles-Valdez - Legal Examiner

HEARING DATE: April 17, 2014

APPEARANCES:

REPRESENTING:

APPLICANTS:

Flip Whitworth
Dale Miller

Sabine Oil & Gas LLC

Jamie Nielson
Greg Cloud

Burlington Resources O & G Co LP

INTERVENORS:

Sandra Buch

Pioneer Natural Resources USA, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Temporary Field Rules were adopted for the De Witt (Eagle Ford Shale) Field, in Final Order No. 02-0267115, effective November 2, 2010 and continued in Final Order No. 02-0275264 on May 8, 2012. The Temporary Field Rules are summarized as follows:

CONSOLIDATED OIL AND GAS DOCKET NOS. 02-0287458 & 02-0287862 PAGE 2

1. Designation of the De Witt (Eagle Ford Shale) Field as the correlative interval from 13,284 feet to 13,513 feet as shown on the log of the Geosouthern Energy Corporation's Migura Well No. 1;
2. 330' lease line spacing and no between well spacing with special provisions for 100 foot first and last "take points", and an off-lease penetration point for horizontal wells with an included "box rule" stating that the as-drilled location of a well will be considered in compliance with spacing rules if it falls within a rectangle of which two sides are parallel to the permitted drainhole and 33 feet on either side of the drainhole;
3. 320 acre gas proration units with 10% tolerance, additional acreage based on lateral length with maximum acreage of 704 acres, multiple drainholes allowed, no Form P-15 plats;
4. Allocation based on 100% acreage with AOF status.

The Temporary Field Rules also contain special provisions for elimination of semi-annual G-10 testing requirements. Additionally, the Final Order in Docket No. 02-0272549 granted all wells completed in De Witt County with a gas-oil ratio of 3,000 cubic feet per barrel and above in the De Witt (Eagle Ford Shale) Field permanent gas well classification.

A consolidated hearing to amend field rules was held on April 17, 2014 on Docket Nos. 02-0287458 and 02-0287862. Sabine Oil & Gas LLC ("Sabine") is proposing to amend Field Rule No. 3 to provide for a Statewide Rule 38 density exception on tracts smaller than 320 acres after notice to nearby operators with the inclusion of a minimum unit size of 40 acres under this administrative exception procedure. Similar provisions have been adopted in several other fields.

Burlington Resources Oil & Gas Company LP ("Burlington") proposes to amend the Field Rules to provide for a field classification of associated-prorated, 80 acre oil units with optional 40 acre density, a formula for the assignment of additional acreage to horizontal drainhole oil wells, eliminate the maximum diagonal in the field for both gas and oil wells, eliminate the requirement to file individual well proration plats, a maximum oil allowable of 2,000 barrels of oil per day with unlimited net gas-oil ratio authority and special provisions for oil wells for an exception to Statewide Rule 13 for running tubing and Statewide Rule 51 for filing completion reports. During the consolidated hearing on both dockets, the Applicants requested that the proposed amended Field Rules be made permanent.

The applications are unopposed and the examiners recommend that Field Rules be amended and made permanent for the De Witt (Eagle Ford Shale) Field, as proposed by Sabine and Burlington.

DISCUSSION OF THE EVIDENCE

The De Witt (Eagle Ford Shale) Field was discovered in 2009 and Temporary Field Rules were adopted November 2, 2010 in Final Order No. 02-0267115. The Temporary Field Rules were to expire on May 2, 2012, but the rules were continued in Final Order No. 02-0275264 on May 8, 2012, extending the Temporary Field Rules until May 2, 2015. The field occurs at an average depth of 13,284 feet. Cumulative production from the subject field through January 2014 is 266.4 BCF of gas and 40.8 MM barrels of condensate.

Sabine seeks to amend Field Rule No. 3 to include a provision for a Statewide Rule 38 density exception on tracts smaller than 320 acres after notice. Such a provision has been adopted in a several other fields, such as the Hemphill (Granite Wash) Field, Final Order No. 10-0253690. and Sugarkane (Eagle Ford) Field, Final Order No. 02-0282216. Sabine testified that the Operators shall be granted an exception to Statewide Rule 38 and permitted to form fractional proration units of less than 320 acres as follows:

Under the following conditions, an operator, at its option, shall be granted an exception to Statewide Rule 38 and permitted to form fractional units of less than THREE HUNDRED TWENTY (320) acres for gas wells, but not less than FORTY (40) acres:

- a. The Railroad Commission shall notify in writing the designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests (i) within 660 feet from the bottomhole location of a vertical well or (ii) within 660 feet of any take point on a horizontal well within the correlative interval.
- b. Designated operators, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests receiving this written notification shall have 21 days from the date of issuance of the notice of application for a Rule 38 density exception to file a written protest with the Railroad Commission, such protest to be received by the Railroad Commission within said 21 day period.
- c. If no written protest is received by the Railroad Commission within the 21 day period of time, or if written waivers are received from each designated operator, lessees of record for tracts that have no designated operator, and all owners of unleased mineral interests to whom notice is required, the application shall be approved administratively by the Railroad Commission.
- d. If a written protest is received by the Railroad Commission within 21 days of the date of issuance of the notice of application, the application will be scheduled for hearing at which the applicant must show that the fractional proration unit and the well thereon are necessary to effectively drain an area of the field that will not be effectively drained by existing wells, or to prevent waste or confiscation.
- e. Permits granted pursuant to the above provision shall be issued as

exceptions to Statewide Rule 38.

Such an administrative provision shall not prevent an operator from electing to apply for and obtain a density exception to form fractional units of less than THREE HUNDRED TWENTY (320) acres for gas wells under the provisions of Statewide Rule 38 rather than under the provisions of sections (a) through (e) above.

At the hearing, Sabine stated that a total of 106 exceptions to Statewide Rule 38 have been issued in the subject field as of April 1, 2014 with other requests still pending. Sabine stated that to-date, none of the exceptions have been protested and no applications to an exception to Statewide Rule 38 have been denied. The determination of notice distance of 660 feet from the bottomhole location of a vertical well or within 660 feet of any take point on a horizontal well within the correlative interval was proposed since it is twice the lease line spacing distance. A distance of 660 feet has been adopted in the Hemphill (Granite Wash) Field and the Mendota, NM (Granite Wash) Field.

The percentage of drilling permits granted in the subject field that have exceptions to Statewide Rule 38 have been steadily increasing year over year. In 2010, there were no wells with exceptions to Statewide Rule 38, while 3% of all approved drilling permits in 2011 received exceptions to Statewide Rule 38. This percentage has increased to 19% in 2012, 54% in 2013, and as of April 3, 2014, year to-date, 76% of the total number of drilling permits approved for the subject field have an exception to Statewide Rule 38.

The De Witt (Eagle Ford Shale) Field is currently a non-associated field, containing only gas wells. However, there exists a transition zone in the Eagle Ford Shale play where the operator does not know whether a well drilled in the transition zone area will be a gas well or an oil well until drilled. Since there are no current field rules for oil wells in the subject field, Burlington is proposing to adopt field rules for oil wells drilled in the subject field and requests that the field be classified as associated-prorated.

Burlington is proposing the same oil field rules that exist in the Eagleville (Eagle Ford-2) Field and the Sugarkane (Eagle Ford) Field. Burlington requests 80 acre oil units with optional 40 acre density, a MER oil allowable of 2,000 barrels of oil per day with unlimited net gas-oil ratio authority and special provisions for oil wells for an exception to Statewide Rule 13 for running tubing and Statewide Rule 51 for filing completion reports. For purposes of the assignment of additional acreage to horizontal drainhole oil wells, Burlington proposes to use Statewide Rule 86, which is the same acreage assignment used in the Sugarkane (Eagle Ford) Field and the Eagleville (Eagle Ford-2) Field.

The proposed exceptions to Statewide Rule 13(b)(5)(a) and Statewide Rule 51(a) will allow operators of flowing oil wells in these two fields the flexibility to run tubing and file completion paperwork, without penalties, once the pressure and production rates have declined. Similar rules have been adopted in other fields, including the Sugarkane (Eagle Ford) Field.

FINDINGS OF FACT

1. Notice of this hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing and no protests were received.
2. The De Witt (Eagle Ford Shale) Field was discovered in April 2009 at a depth of 13,284 feet.
3. Adopting the same oil field rules that exist in the Eagleville (Eagle Ford-2) Field and the Sugarkane (Eagle Ford) Field is appropriate for the De Witt (Eagle Ford Shale) Field at this time.
4. Classifying the De Witt (Eagle Ford Shale) Field as associated-prorated with continued suspension of the allocation formula is appropriate, as there is a 100% market demand for all of the gas produced from the field.

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. Amending and making permanent Field Rules for the De Witt (Eagle Ford Shale) Field will prevent waste and promote development of the field.

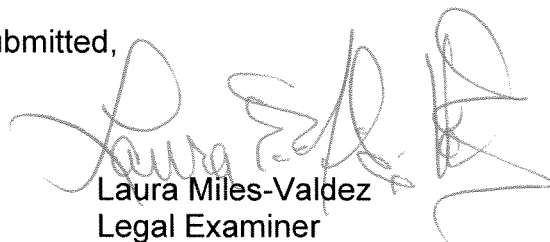
RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission amend and make permanent Field Rules for the De Witt (Eagle Ford Shale), as requested by Sabine Oil & Gas LLC and Burlington Resources Oil & Gas Company LP.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Laura Miles-Valdez
Legal Examiner