



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 7C-0297180

THE APPLICATION OF XTO ENERGY, INC. FOR THE EXCEPTION TO STATEWIDE RULE 10 TO PERMIT DOWNHOLE COMMINGLING OF PRODUCTION FROM THE CAROLINE LEASE, WELL NO. 3G, SPRABERRY (TREND AREA) FIELD (85279200) AND THE WILSHIRE (PENNSYLVANIAN) FIELD (97834750), UPTON COUNTY, TEXAS

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Marshall Enquist – Administrative Law Judge

HEARING DATE: October 7, 2015

CONFERENCE DATE: August 9, 2016

APPEARANCES: REPRESENTING:

APPLICANT:

David Gross
Rick Johnston
Candyce Ferrari Roybal

XTO Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

XTO Energy, Inc. ("XTO") requests authority to commingle hydrocarbon production from the Spraberry (Trend Area) Field (85279200) and the Wilshire (Pennsylvanian) Field (97834750) in its Caroline Lease, Well No. 3G, Upton County, Texas. The interest ownership in the two fields is not identical and XTO requests approval of its method of allocating production to each field.

Notice of this hearing was issued to all interest owners with known addresses, and was also published on September 9, 18, 23, and 30, 2015, in the *Midland Reporter-Telegram*, a newspaper of general circulation in Upton County. The application was not

protested. The Technical Examiner ("TEX") and Administrative Law Judge ("ALJ") recommend XTO's application be granted.

DISCUSSION OF EVIDENCE

Statewide Rule 10(a) provides a general prohibition against the production of hydrocarbons from different strata (*i.e.*, different commission-designated fields) through the same string of tubulars. Statewide Rule 10(b) provides for exceptions to the general prohibition if commingled production will prevent waste or promote conservation or protect correlative rights. Final Order No. 7C-0268354, dated February 22, 2011, approved blanket authority for exception to Statewide 10 for the subject fields.

The Caroline Lease contains fifteen wells that began production in 2010, and currently produces about 9,000 barrels of oil per month and 25,000 MCF of gas per month. XTO is the only operator for the Caroline Lease. Well No. 3G ("the Well") is one of the fifteen wells, and it has different interest ownership in the subject fields. An amended drilling permit for the Well that allows completions in the subject fields was issued in July 30, 2015, to XTO.

XTO presented evidence that the Tarrant County Hospital District ("TCHD") owns 2% of 1/16th undivided interest, or 0.00125, in the Well from surface to maximum depth. Their lease agreement stipulates the leased portion of the interval extends from the surface to 100 feet below the base of the Wolfcamp Formation. The Well has 220 feet of perforations within the Spraberry (Trend Area) Field, which occurs above the Wilshire (Pennsylvanian) Field, and 20 feet of perforations within the Wilshire. The lower 20 feet of perforations are deeper than 100 feet below the base of the Wolfcamp. Therefore, TCHD is considered a Royalty Interest Owner for the portion of the Well within the Spraberry, which is included in the lease terms, and an Unleased Mineral Interest Owner for the portion of the Well within the Wilshire, which is not included in the lease terms. The amount of Royalty Interest is calculated as $1 \times 0.00125 \times .20$, and the amount of Unleased Mineral Interest is calculated as 1×0.00125 . The difference in interest ownership necessitates the requested exception to Statewide Rule 10, and approval of the method of allocating production to each field, as made by XTO.

Notice of the hearing was mailed to the TCHD, and notice was also published. The TCHD was contacted a few days prior to the hearing to resolve the lease difference, but did not reply as of the date of the hearing. Since the hearing, XTO has made numerous efforts to contact TCHD, but no response has been received. TCHD did not protest the hearing, and only representatives for XTO appeared at the hearing.

XTO is attempting to resolve the regulatory issue in the interim. Mr. Johnston, XTO's expert witness, stated that these types of cases are rare, and that hydrocarbon pore volume was a more representative method to determine allocation over the life of the Well, as opposed to segregation testing which is considered a point-in-time calculation, subject to change. XTO referred to previous cases that utilized hydrocarbon

pore volume, with specific reference to Final Order No. 06-0247784 dated August 8, 2006, wherein the Commission approved allocation for commingled production based on hydrocarbon pore volume.

XTO's analysis for the Well determined that the hydrocarbon pore volume for the 220 feet perforated in the Spraberry (Trend Area) portion of the Well is 4.732 feet, and is 0.241 feet for the 20 feet perforated in the Wilshire (Pennsylvanian). Based on this analysis, XTO proposes to assign 95% of the production from the Well to the interest ownership in the Spraberry (Trend Area) and 5% to the interest ownership in the Wilshire (Pennsylvanian). XTO considers the proposed allocation percentages to be reasonable and fair.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties with known addresses entitled to notice at least ten days prior to the date of hearing and no protests were received.
2. Notice of this hearing was published on September 9, 18, 23, and 30, 2015, in the *Midland Reporter-Telegram*, a newspaper of general circulation in Upton County.
3. Final Order No. 7C-0268354, dated February 22, 2011, approved blanket authority for exception to Statewide 10 for the subject fields.
4. Well No. 3G is one of fifteen wells on the Caroline Lease, and it has different interest ownership in the subject fields.
5. Tarrant County Hospital District owns 2% of 1/16th undivided interest, or 0.00125, in the Well from surface to maximum depth.
 - a. The leased portion of the interval extends from the surface to 100 feet below the base of the Wolfcamp Formation.
 - b. The Well has 220 feet of perforations within the Spraberry (Trend Area) Field, which is within the leased portion of the interval.
 - c. The Well has 20 feet of perforations within the Wilshire (Pennsylvanian) Field, which is within the unleased portion of the interval.
 - d. TCHD is considered a Royalty Interest Owner for the portion of the Well within the Spraberry (Trend Area), and an Unleased Mineral Interest Owner for the portion of the Well within the Wilshire (Pennsylvanian).
 - e. The amount of Royalty Interest is calculated as $1 \times 0.00125 \times .20$, and the amount of Unleased Mineral Interest is calculated as 1×0.00125 .

6. XTO considers hydrocarbon pore volume a more representative method to determine allocation over the life of the Well, as opposed to segregation testing which is considered a point-in-time calculation, subject to change.
 - a. XTO's analysis determined that the hydrocarbon pore volume for the 220 feet perforated in the Spraberry (Trend Area) portion of the Well is 4.732 feet, and is 0.241 feet for the 20 feet perforated in the Wilshire (Pennsylvanian).
 - b. Based on the analysis, 95% of the production from the Well will be assigned to the interest ownership in the Spraberry (Trend Area) and 5% of the production will be assigned to the interest ownership in the Wilshire (Pennsylvanian).

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 3.10(c)
3. The subject application will prevent waste and protect correlative rights. 16 Tex. Admin. Code § 3.10(b)

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the ALJ and TEX recommend the Commission enter an order granting the request of XTO Energy, Inc. for the Statewide Rule 10 exception, and to approve the method of allocating production from the Caroline Lease, Well No.3G, Spraberry (Trend Area) Field (85279200) and the Wilshire (Pennsylvanian) Field (97834750), Upton County, Texas.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Marshall Enquist
Administrative Law Judge