



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 05-0284138

THE APPLICATION OF VALENCE OPERATING COMPANY TO AMEND FIELD RULES
FOR THE ARDIS & LEGGETT (PALUXY) FIELD, HOPKINS COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Marshall Enquist - Legal Examiner

REPORT PREPARED BY: Paul Dubois – Technical Examiner

HEARING DATE: September 4, 2013

APPEARANCES: REPRESENTING:

APPLICANT:

Rick Johnston

Valence Operating Company

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

This is the unopposed application of Valence Operating Company (Valence) to amend the field rules adopted in Order No. 05-0274994, effective May 8, 2012 for the Ardis & Leggett (Paluxy) Field that currently provide for the following:

1. Designation of the field as the correlative interval from 4,688 feet to 4,803 feet as shown on the log of the Vaughn Petroleum's Chance Heirs No. 1;
2. 200'-330' well spacing;
3. 10 acre units with optional 5 acre density;
4. Allocation based on 100% acreage.

Valence requests that field rules be amended as follows:

1. Designation of the field as the correlative interval from 4,688 feet to 4,803 feet as shown on the log of the Vaughn Petroleum's Chance Heirs No. 1; (No

Change)

2. 200'-330' well spacing, 0' between vertical and horizontal well spacing, 100' lease line spacing for the first and last take points, take point provisions, off lease penetration, a 33' horizontal box rule;
3. 10 acre units with optional 5 acre density, No proration plat requirements;
4. Allocation based on 100% acreage. (No Change)

The application is unopposed and the examiners recommend that Field Rules for the Ardis & Leggett (Paluxy) Field be amended, as proposed by Valence.

DISCUSSION OF THE EVIDENCE

The Ardis & Leggett (Paluxy) Field was discovered in 1974 at an average depth of 4,742 feet. Cumulative production from the field is approximately 1,175,750 BO. Currently there are six producing oil wells and one shut-in well and an injection well in the field. Valence is the only operator in the field.

Valence is proposing to drill horizontal in-fill wells and requests Field Rules to promote the efficient and effective development of the remaining hydrocarbons. Valence has permitted a horizontal well in the field (API No. 223-30503). Valence requests no minimum between well spacing limitation between horizontal drainhole wells and vertical wells with special provisions for "take points", 100' lease line spacing for the first and last take points, a 33 foot "box" rule and "off-lease" penetration point for horizontal drainhole wells. Similar rules have been adopted in other horizontal play reservoirs, including the Barnett Shale, Cotton Valley and Eagle Ford formations.

Valence requests that a field rule be adopted which includes language relevant to the measurement of distances to lease lines for horizontal drainhole wells. Valence's proposed rule specifies that, for purposes of lease line spacing, the nearest "take point" in a horizontal well be used. This take-point could be a perforation in a horizontal well that is cased and cemented, an external casing packer in a cased well, or any open-hole section in an uncased well. The 100' lease line spacing for the first and last take points will result in an additional recovery of reserves.

Valence proposes a tolerance "box rule" for horizontal drainhole wells that would allow drainholes to deviate 33 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.

In some cases, it is beneficial to penetrate the reservoir off lease, while still having

“take points” no closer to lease lines than allowed under the field rules. Valence requests that Field Rules for the subject field provide for an “off-lease” penetration point. Statewide Rule 86 requires that the penetration point of a horizontal drainhole be on the lease. Generally a well requires approximately 600 feet of horizontal displacement to make the 90 degree turn from vertical to horizontal. If the penetration point is required to be on the lease, then the first point of production would be about 600 feet from the lease line. The proposed rule will allow approximately 300 feet of additional producing drainhole, resulting in the recovery of additional oil and gas reserves. The Commission has adopted similar rules allowing offsite penetration points in other fields, after the operator has given notice to the mineral owners of the off-lease tract on which the penetration point is to be located and received no protest. For purposes of the assignment of additional acreage pursuant to Statewide Rule 86, it is proposed that the distance between the first and last take-point in a horizontal drainhole well be used.

FINDINGS OF FACT

1. Notice of this application and hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing.
2. The Ardis & Leggett (Paluxy) Field was discovered in 1974 with a cumulative oil production of 1,175,750 Bbl.
3. The field has six producing oil wells, one shut-in well, and one injection well. Valence is only operator in the field.
4. Valence seeks to modernize the field rules to promote horizontal development of the field.
5. Valence has permitted a horizontal well in the field (API No. 223-30503).
6. Field Rules providing for 330'-330' well spacing and no minimum between well spacing limitation between horizontal drainhole wells and vertical with special provisions for "take points", 100' lease line spacing for the first and last take points, a 33 foot “box” rule and “off-lease” penetration point for horizontal drainhole wells will provide consistency in developing the field and will allow greater flexibility in selecting future drilling locations.

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 Field Rules for the Ardis & Leggett (Paluxy) Field will prevent waste, protect correlative rights and promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission adopt Field Rules for the Ardis & Leggett (Paluxy) Field, as requested by Valence Operating Company.

Respectfully submitted,



Paul Dubois
Technical Examiner



Marshall Enquist
Legal Examiner