



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 10-0294348

THE APPLICATION OF CONTINENTAL RESOURCES, INC. TO AMEND THE TEMPORARY FIELD RULES AND EXTEND TEMPORARY FIELD RULE STATUS FOR THE HARTLEY WEST (CANYON) FIELD, HARTLEY & OLDHAM COUNTIES TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Laura Miles-Valdez – Legal Examiner

HEARING DATE: January 15, 2015
RECORD CLOSED: January 26, 2015
SUBMISSION DATE: April 15, 2015
CONFERENCE DATE: May 12, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

Kelli Kenney
Walker Powe
Kent Keller
Michael Schooley

Continental Resources, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The existing temporary field rules for the Harley West (Canyon) Field were previously granted in Oil & Gas Final Order 10-0281718, effective from August 5, 2013 through January 5, 2015, and provide the following:

1. A designated correlative interval that defines the field from 6,360 feet to 7,330 feet, as shown on the log of the Laredo Petroleum, Inc., Brisbin 12 Lease, Well No. 1H (API No. 42-205-30358), Section 12, Block 3, B&B Survey (A-1336), Hartley County, Texas;

2. 330' minimum property, lease, or subdivision line spacing, and 0' minimum between well spacing with 100' first and last take points, No Perf Zones ("NPZs"), 50' box-rule, and off-lease penetration points;
3. 160-acre oil proration units with 80-acre tolerance, additional acreage assignment to horizontal drainholes based on a specialized formula, and filing of Form P-15 for acreage assignment;
4. Top allowable of 353 barrels of oil per day per well based on the 1965 Yardstick with unlimited net gas-oil ratio ("GOR") authority, and allocation based on 100% acreage;
5. Stacked lateral well provisions.

Dated December 19, 2014, the captioned docket's Notice of Hearing ("NOH") indicates that Continental Resources, Inc. ("Continental") seeks to amend the existing temporary field rules, and proposes the following amendments:

1. A designated correlative interval that defines the Field from 6,360 feet to 9,526 feet, as shown on the log of the Continental Resources, Inc., Hold State Lease, Well No. 183H, Sec. 83, Block CS, PSL Survey, Hartley County, Texas;
2. No change;
3. No change;
4. No change.

Furthermore, the December 19th NOH states that Continental requests that the subject field's "temporary field rule" status be extended an additional 18 months

At the hearing, however, Continental identified two notice deficiencies in the December 19th NOH that occurred as a result of errors made in Continental's hearing application submitted on November 12, 2014.¹ In addition to changing its originally proposed correlative interval for the subject field, Continental requested to adopt a two-factor allocation formula. Representatives of Continental stated that the purpose of further amending its originally proposed application stems from a typographical error made in Continental's November 12th hearing application.

By letter dated January 16, 2015, Continental submitted its late-filed Exhibit No. 14 identifying its ultimately proposed amendment for the subject field's designated correlative interval. A copy of Continental's January 16th letter was provided to all person's on the Service List made for the December 19th NOH. The Examiners received no letter of protest to Continental's amended application.

¹ By letter dated November 12, 2014, Continental submitted its written request that a hearing be held to consider its proposed field rule amendment for the subject field. In its November 12th letter, Continental only requested to amend the subject field's existing correlative interval from 6,360 feet – 7,330 feet to 6,360 feet – 9,930 feet.

The subject application is unopposed and Continental was the only operator at the hearing. The examiners recommend that the application be approved, as ultimately requested by Continental.

DISCUSSION OF THE EVIDENCE

Mr. Walker Powe testified as an expert in reservoir engineering on behalf of Continental. Mr. Powe is a Senior Reservoir Engineer at Continental.²

The subject field was discovered in July 1997, and is designated as an oil field. In other words, only oil wells exist in the field. The Field's existing special field rules provide for a 375' designated correlative interval, 467'-933' well spacing, 80-acre proration units, 40-acre optional proration units, and an allocation formula based on 100% acreage.

The January 2015 Oil Proration Schedule indicates that there are two operators in the subject field – Continental and Fortay, Inc. Furthermore, Continental operates one well in the subject field while Fortay operates two wells. The Field's cumulative production through January 2015 is roughly 22,522 barrels of oil. Although the January 2015 Oil Proration Schedule indicates the above, Mr. Powe testified that Continental has roughly six production wells in the subject field that have produced a cumulative 150,000 barrels of oil.³

The subject field was granted a new field designation and temporary special field rules on August 6, 2013.⁴ The temporary special field rules were in effect for 18 months beginning on August 6, 2013, and define the subject field as depths from 6,360 feet to 7,330 feet. Mr. Powe testified that Continental has obtained five new drilling permits for further development of the subject field.⁵ As a result, Continental seeks the following in the instant case: (1) to amend the subject field's existing correlative interval from 7,714 feet to 9,930 feet, as shown on the log for Continental Resources, Inc.'s, Hold State Lease, Well No. 183H, Sec. 83, Block CS, PSL Survey, Hartley County, Texas. (2) to adopt a two-factor allocation formula consisting of 95% acreage and 5% per well for the potential commingling of multiple stratigraphic or lenticular accumulations of oil or gas as a result of expanding the subject field's correlative interval;⁶ and (3) extend the subject field's temporary status for an additional 18 months.⁷

Continental identified that approval of its ultimately proposed correlative interval for the subject field would overlap with the following Commission-designated fields: (1) Texas Capital Doors (Granite W); (2) Paint Ridge (Canyon Granite Wash); (3) Lathem, S. (Des Moines); (4) Hartley, SE (Granite Wash 6669); (5) Cat Scratch (Granite Wash); and (6) Alamosa, East Fields ("Nearby Fields"). Continental's counsel indicated that all operators in the Nearby Fields were provided notice of the subject application.

² Testimony of audio recording at 5:00.

³ Compare Continental Exh. Nos. 4 and 5 with testimony at 9:45.

⁴ Continental Exh. No. 3 – Copy of the Examiners' Report and Recommendation and Final Order made for Oil & Gas Docket No. 10-0281717 – Application of Laredo Petroleum, Inc. to Consider a New Field Designation and to Adopt Temporary Field Rules for the Proposed Hartley West (Canyon) Field, Hartley County, Texas.

⁵ Continental Exh. No. 6.

⁶ See Tex. Nat. Resources Code §86.081.

⁷ Testimony at 8:00.

Mr. Kent Keller testified as an expert geologist on behalf of Continental.⁸ Mr. Keller is a Senior Staff Exploration Geologist at Continental.⁹

Mr. Keller testified that the subject field currently includes the stratigraphic Cisco, Canyon Lime, and Canyon Wash Groups. Continental's proposed correlative interval expansion includes the Cisco, Canyon Lime, Canyon Wash, and Strawn Groups.¹⁰

Mr. Keller testified that the subject field is isolated in the subsurface by a complex system of faulting that includes predominately normal faults. Mr. Keller testified that any additional wells drilled in the subject field may encounter additional faults due to a lack of seismic data available. Mr. Keller testified that by amending the correlative interval as proposed, operators in the subject field will be allowed greater flexibility for exploration and development, thereby preventing waste and protecting correlative rights. Lastly, due to the subject field's relatively young age, Continental requests that the subject field's temporary field rule status be extended for an additional 18 months so that additional data can be acquired to determine appropriate permanent field rules.

FINDINGS OF FACT

1. Continental Resources, Inc. ("Continental") seeks to amend the existing temporary field rules for the Harley West (Canyon) Field (the "Field"), Hartley and Oldham Counties, Texas ("the subject application").
2. All operators in the Field were provided the subject application's Notice of Hearing dated December 19, 2014.
3. Temporary field rules were adopted for the Field in Oil & Gas Final Order 10-0281717.
4. Continental requests that the Field's designated correlative interval be amended to include depths 6,491 feet to 7,914 feet, as shown on the log for Continental Resources, Inc.'s, Hold State Lease, Well No. 183H (API No. 42-205-30368), Sec. 83, Block CS, PSL Survey, Hartley County, Texas:
5. Continental requests that the Field's existing allocation formula be amended to provide a two-factor formula that consists of 95% acreage and 5% per well.
6. Continental requests to extend the Field's temporary field rule status for an additional 18 months.
7. Boaz operates about seven production wells in the Field, and has obtained drilling permits for five planned production wells.

⁸ Audio recording at 19:15.

⁹ Continental Exh. No. 8.

¹⁰ Continental Exh. No. 11.

8. Amending the existing temporary field rules in the manner ultimately proposed by Continental in the subject application is appropriate, and will provide for orderly development of the Field.

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. Legally sufficient notice has been provided to all affected persons.
3. Amending the special field rules for the Harley West (Canyon) Field, as proposed by Continental Resources, Inc., will prevent waste and protect correlative rights.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the special field rules for the Harley West (Canyon) Field be amended, as ultimately proposed by Continental Resources, Inc.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Laura Miles-Valdez
Legal Examiner