

OIL AND GAS DOCKET NO. 02-0246969

THE APPLICATION OF LEGEND NATURAL GAS II, LP TO CONSIDER STANDING, AND IF STANDING IS GRANTED, TO CONSOLIDATE VARIOUS FALLS CITY FIELDS INTO THE FALLS CITY (WILCOX CONS.) FIELD, KARNES COUNTY, TEXAS

Heard by: Donna K. Chandler on May 9, 2006

Appearances:

Bill Spencer
Matt Bauerschlag
Josh Walker

Representing:

Legend Natural Gas II, LP

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Legend Natural Gas II, LP requests that the 25 fields listed in Attachment "A" be consolidated into a new field to be known as the Falls City (Wilcox Cons.) Field.

Legend also requested that the following rules be adopted for the consolidated field:

1. Designated interval from 4,100 feet to 6,440 feet as shown on the log of the Moczygemba Well No. 11'
2. 330'-660' spacing;
3. 20 acre units with 15 acre tolerance for the last well on a lease or unit;
4. Allocation based 50% per well and 50% potential/deliverability.

Legend had originally asked that allocation be based on 50% per well and 50% acreage. At the hearing, Legend changed its request to include potential/deliverability in the allocation, with no requirement to file proration unit plats. This application was unopposed and the examiner recommends approval of Legend's request for field consolidation and field rules.

DISCUSSION OF THE EVIDENCE

The Falls City Field was discovered in 1944 and included at least ten reservoirs at that time. More reservoirs were included in the field over time. In 1977, the Commission separated out most of the 25 fields which are now proposed for consolidation. Of the 25 fields, 24 are oil fields and one is a non-associated gas field. Nineteen of the fields operate under spacing and density rules identical to those proposed for the consolidated field. The remaining fields operate under Statewide Rules. There are only 7 active oil wells in the fields, with 29 inactive wells. Many of the fields have no wells at the current time, including the Falls City (Wilcox 4350) Field, which is the non-associated gas field.

Cumulative production from the fields is about 4.2 million BO. The Falls City (LPA) and Falls City (UMA) Fields have been the most prolific, with over 740,000 BO and 650,000 BO produced, respectively. The seven active producing wells currently produce a total of about 65 BOPD.

The 25 designated fields are found between the depths of 4,100 feet and 6,440 feet, as shown on the log of the Moczygemba No. 11 well. The 24 fields produce from stacked, blanket Wilcox sands, all of which have water drives. Pressure data confirms the water drive mechanisms.

All of the wells in the fields produce water and Legend intends to equip the wells with submersible pumps capable of moving up to 1,500 barrels of total fluid per day. Water cut is expected to be 90-95%. Workover costs associated with pump installation are estimated to be \$130,000, which would not be economic for producing a single zone. Use of the submersible pumps will prevent any cross-flow between zones by keeping fluid levels low. Additionally, water analyses from various zones indicate no scaling tendencies of commingled waters. Produced water from the various zones have been surface commingled on many occasions with no observed problems.

Legend took over the leases in the fields in 2005. Well files and past production indicate that zones have been commingled in the various fields, but no Rule 10 exception authority was found. The production histories indicate that commingling results in the recovery of additional reserves which would otherwise be uneconomic.

A two factor allocation formula based on 50% potential/deliverability and 50% per well is requested for the consolidated field to meet statutory requirements.

FINDINGS OF FACT

1. Notice of this hearing was sent to all persons legally entitled to notice at least ten days prior to the date of hearing.

2. The subject 25 fields proposed for consolidation were discovered beginning in the 1940's. Of the 25 fields, 24 are non-associated oil fields and one is a non-associated gas fields. There are only seven active producing wells in the fields at the current time.
3. The 24 fields produce from stacked, blanket Wilcox sands, all of which have water drives. Water cut is 90-95% of total production.
4. Nineteen of the fields operate under spacing and density rules identical to those proposed for the consolidated field. The remaining fields operate under Statewide Rules.
5. Consolidation of the fields will not harm any of the reservoirs because of the similar reservoir and fluid properties. Produced waters have been surface commingled with no adverse affects.
6. Consolidation of the fields will result in the recovery of reserves from the various fields.
 - a. Legend will install submersible pumps capable of moving up to 1,500 barrels of total fluid per day.
 - b. Workovers associated with installation of the submersible pumps would not be economic for producing a single zone.
7. Allocation based 50% per well and 50% on deliverability/potential will protect correlative rights and satisfy statutory requirements.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was given to all persons legally entitled to notice.
2. All things have occurred or been accomplished to give the Railroad Commission jurisdiction in this matter.
3. Consolidation of the fields as proposed by Legend Natural Gas II, LP is necessary to prevent waste and protect correlative rights.
4. The proposed field rules will prevent waste, protect correlative rights, and satisfy statutory requirements.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiner recommends that the subject fields listed in Attachment A be consolidated into a new field to be known as the Falls City (Wilcox Cons.) Field and that the requested field rules be adopted for the consolidated field.

Respectfully submitted,

Donna K. Chandler
Technical Hearings Examiner

ATTACHMENT "A"

FIELD NAME	FIELD NO.
FALLS CITY (BONER)	30119 375
FALLS CITY (BRAN)	30119 530
FALLS CITY (LBAR)	30119 510
FALLS CITY (LFA)	30119 540
FALLS CITY (LMA)	30119 560
FALLS CITY (LMAUM)	30119 570
FALLS CITY (LMOC)	30119 620
FALLS CITY (LOL)	30119 600
FALLS CITY (LPA)	30119 660
FALLS CITY (MAG)	30119 595
FALLS CITY (MAGUGLIN UPPER)	30119 597
FALLS CITY (MMA)	30119 580
FALLS CITY (POTH A)	30119 598
FALLS CITY (S)	30119 680
FALLS CITY (S3)	30119 700
FALLS CITY (UBAR)	30119 520
FALLS CITY (UFA)	30119 550
FALLS CITY (UMA)	30119 590
FALLS CITY (UMOC)	30119 630
FALLS CITY (UOL)	30119 610
FALLS CITY (UPA)	30119 670
FALLS CITY (WILCOX 4350)	30119 500
FALLS CITY (4200 SAND)	30119 750
FALLS CITY (4400)	30119 780
FALLS CITY (4460)	30119 800