



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 8A-0273138

THE APPLICATION OF SHARP IMAGE ENERGY, INC. TO AMEND TEMPORARY FIELD RULES AND ADOPT ON A PERMANENT BASIS FOR THE DOUBLE MOUNTAIN (CANYON SAND) FIELD, KENT COUNTY, TEXAS

HEARD BY: Brian K. Fancher - Technical Examiner

DATE OF HEARING: December 08, 2011

APPEARANCES:

REPRESENTING:

APPLICANT:

Dale E. Miller

Sharp Image Energy, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Sharp Image Energy, Inc. ("Sharp Image") requests that Field Rules, as adopted on a temporary basis in Final Order 8A-0264910 for the Double Mountain (Canyon Sand) Field, be amended and subsequently adopted on a permanent basis. The temporary Field Rules currently in effect are summarized as follows:

1. Designation of the field as the correlative interval from 5,996 feet to 6,082 feet, as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API No. 42-263-31858);
2. 467'-1,200' well spacing;
3. 80 acre oil units with optional 40 acre density and 40 acre tolerance for the last well on any lease;
4. Allocation based on 100% acres.

Sharp Image seeks to amend Field Rule 2 to include 330' lease line spacing and 933' between well spacing. Per Oil and Gas Docket Final Order 8A-0264910, the temporary Field Rules for the Double Mountain (Canyon Sand) Field were to remain in effect until April 20, 2012, or until Commission staff evaluates appropriate data after notice and opportunity for hearing as offered by the Commission prior to the expiration of the rules.

The examiner recommends Field Rule 3 be amended and the temporary Field Rules be made permanent, as proposed by Sharp Image.

DISCUSSION OF EVIDENCE

The Double Mountain (Canyon Sand) Field is classified as an oil field and was discovered in April 2009 at an average depth of 6,000 feet. The November 2011 proration schedule indicates there are ten (10) producing oil wells. Sharp Image is listed as the only operator in the field. Cumulative production from the field is reported as 267.2 MBO and approximately four (4) MMCFG casinghead gas production.

Sharp Image requests that the field be defined as the correlative interval from 5,996 feet to 6,082 feet as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API No. 42-263-31858), Section 41, Block G, W&NW RR Co. Survey, Kent County, Texas. This interval contains all of the Canyon Sand formation. The Canyon Sand reservoir is a stratigraphic trap and a solution gas drive with a weak water drive are the primary drive mechanisms.

Sharp Image submitted volumetric recovery calculations for areas of 80 and 40 acres in the subject field. The reservoir parameters used in determining the amount of recoverable reserves are based upon cumulative data presented in the reservoir data sheet. Recoverable oil reserves beneath 80 acres and 40 acres were found to be 122.4 MBO and 61.2 MBO, respectively, with a recoverable oil in place volume of 95.9 STB/ac-ft. The calculations are based on the following reservoir properties: 18.8% average porosity, 53.2% average water saturation, 16 feet of net pay and a 15% estimated recovery factor. Sharp Image provided drainage area data concluded from well log information supplied by wells completed in the field and determined the average drainage area is approximately 27.5 acres. The drainage areas range from 5 acres up to a maximum of 66 acres. The average drainage area was calculated to be approximately 27.5 acres.

Sharp Image requests that the current well spacing of 467'-1200' be amended to instead provide for 330'-933' well spacing. Sharp Image opined the aforementioned change in well spacing is necessary to provide flexibility in locating infill wells in the field as the field is defined by a stratigraphic trap and the presence of the Canyon Sand formation is discontinuous. The requested 80 acre oil units with optional 40 acre density is justified by the reserve calculations presented in the hearing.

Sharp Image also requests that the allocation formula remain unchanged and that the top allowable remain at the 1965 Yardstick allowable of 184 BOPD per well. The examiner opines the adoption of the field rules as proposed by Sharp Image will promote efficient development in the Double Mountain (Canyon Sand) Field.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice at least ten days prior to the date of hearing.
2. The Double Mountain (Canyon Sand) Field was discovered in April 2009 at an average depth of 6,000 feet. The field currently operates under temporary Field Rules adopted in Final Order 8A-0264910.
3. Sharp Image is currently the only operator in the field with ten (10) producing wells.
4. The Double Mountain (Canyon Sand) Field should be defined as the correlative interval from 5,996 feet to 6,082 feet as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API No. 42-263-31858), Section 41, Block G, W&NWR Co. Survey, Kent County, Texas. This interval contains all of the Canyon Sand formation.
5. Sharp Image performed a volumetric recovery calculation beneath 80 acres and 40 acres in the field and found the recoverable oil reserves to be 122.4 MBO and 61.2 MBO, respectively, with a recoverable oil in place volume of 95.9 STB/ac-ft.
6. Sharp Image provided drainage area calculations for the ten producing wells in the field. The drainage areas range from 5 acres up to a maximum of 66 acres. The average drainage area was calculated to be approximately 27.5 acres.
7. Sharp Image requests well spacing of 330'-933'. The well spacing is necessary to provide flexibility in locating infill wells in the field
8. The requested 80 acre oil units with optional 40 acre density is justified by the reserve calculations shown above in findings of fact No. 6.
9. Allocation based on 100% acreage is a reasonable formula which will protect correlative rights and meet statutory requirements.
10. Adoption of the field rules as proposed by Sharp Image will promote efficient development in the Double Mountain (Canyon Sand) 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. Adoption of the Field Rules for the Double Mountain (Canyon Sand) Field on a permanent basis will prevent waste, protect correlative rights and promote the orderly development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends adoption of permanent Field Rules for the Double Mountain (Canyon Sand) Field, as requested by Sharp Image.

Respectfully submitted,



Brian K. Fancher
Technical Examiner
