

THE APPLICATION OF ROCKY POINT OIL, INC. TO CONSIDER UNITIZATION AND SECONDARY RECOVERY AUTHORITY FOR THE KMA UNIT, K-M-A FIELD, WICHITA COUNTY, TEXAS

HEARD BY: Donna K. Chandler, Technical Examiner
Mark J. Helmueller, Hearings Examiner

DATE OF HEARING: December 5, 2008

APPEARANCES:

George Neale
Dick Schmidt

REPRESENTING:

Rocky Point Oil, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Rocky Point Oil, Inc. requests Commission authority for unitization of the KMA Unit and approval of secondary recovery operations on the Unit.

This application was unopposed and the examiners recommend approval.

DISCUSSION OF THE EVIDENCE

The K-M-A Field was discovered in 1931 at a depth of approximately 3,700 feet. There are almost 700 wells on the current proration schedule, including numerous waterflood units. Cumulative production from the field is 185 million BO. Rocky Point operates four leases in the field which have produced 843,000 BO.

The unitized formation is a portion of the Strawn identified as the subsurface formation underlying the Unit Area, described as the KMA Zone, which is the stratigraphic equivalent from 3,700 feet to 3,900 feet as shown in the open hole log dated October 1, 2007, performed by Tucker Wireline Services on the Rocky Point Oil, Inc. - J & J Waggoner B Well No. 34.

The proposed KMA Unit consists of 4 tracts which contain 489 acres. The proposed unit is bounded to the west, south and east by either prior or existing waterfloods. The area to the north has not been developed in the KMA zone.

Rocky Point plans to implement a waterflood initially using four injection wells and four producing wells. Rocky Point has recently drilled three producing wells within the proposed unit boundaries. The injected fluid will be produced salt water and possibly salt water from either the Gunsight or Goen formations.

Original oil-in-place beneath the Unit is estimated to be 13.9 million BO. With cumulative primary production of 843,000 BO, primary recovery has been 6.1% of original oil-in-place. Rocky Point studied 14 other waterflood units in the field and found that average secondary recovery (cumulative to date) is 75% of cumulative primary recovery. Rocky Point also believes that its proposed unit may have been affected by offsetting injection. Therefore, Rocky Point believes that secondary recovery from its project will be only 37.5% of primary recovery, or 320,000 BO.

The total cost to implement and operate the secondary recovery project is approximately \$2.48 million. Estimated net income as a result of the secondary recovery project is approximately \$9.5 million over the life of the project. These estimates are based on an oil price of \$60 per barrel.

The participation formula for the Unit is based on 60% original oil-in-place, 25% usable wellbores and 15% recovery to date. At the time of the hearing, 100% of the working interest ownership and approximately 95% of the royalty interest ownership had signed the unit agreement. There are no state lands in the Unit. Rocky Point will maintain separate batteries for each lease to allocate production to wells on tracts for which 100% sign-up was not achieved.

Notice of this hearing was sent to all operators and royalty interest owners within the proposed unit and to all offsetting operators. There are no unleased mineral owners offsetting the proposed unit. Notice was also published in the *Wichita Falls Times/Record*, a newspaper of general circulation in Hood County, for four consecutive weeks beginning December 11, 2008.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators and royalty interest owners within the proposed unit and to all offsetting operators. Notice was published in the *Wichita Falls Times/Record*, a newspaper of general circulation in Hood County, for four consecutive weeks beginning December 11, 2008.
2. The proposed unit consists of 4 tracts which contain 489 acres.

3. The unitized formation is a portion of the Strawn identified as the subsurface formation underlying the Unit Area, described as the KMA Zone, which the the stratigraphic equivalent from 3,700 feet to 3,900 feet as shown in the open hole log dated October 1, 2007, performed by Tucker Wireline Services on the Rocky Point Oil, Inc. - J & J Waggoner B Well No. 34.
4. At the time of the hearing, 100% of the working interest ownership and approximately 95% of the royalty interest ownership had signed the unit agreement.
5. Cumulative recovery from the leases proposed for unitization is 843,000 BO. Secondary recovery operations will result in the recovery of an estimated 320,000 BO which would otherwise go unrecovered.
6. Estimated cost to implement and operate the secondary recovery project is approximately \$2.48 million. The cost does not exceed the value of additional reserves to be recovered.
7. The participation formula for the Unit is based on 60% original oil-in-place, 25% usable wellbores and 15% recovery to date.
8. The secondary recovery project will not be successful unless the area is unitized.
9. The secondary recovery project will be a waterflood initially utilizing four producing wells and four injection wells.
10. The agreement was voluntarily executed by all parties affixing their signatures thereto and no person has been compelled or required to enter into the agreement. The unit agreement binds only those persons who have executed it, their heirs, successors, assigns and legal representatives. The rights of all owners of interests in the field will be protected under the operation of the unit, regardless of whether an owner signed the unit agreement.
11. The owners of interest in the oil and gas under each tract of land within the area reasonably defined by development have been given an opportunity to enter into the unit on the same yardstick basis as owners of interest in the oil and gas under the other tracts in the unit.
12. The proposed injection program will move hydrocarbons across lease lines, and unitization is necessary in order to protect the correlative rights of the various interest owners.
13. The unitization agreement is necessary to accomplish the purposes of

establishing a unit to effect secondary recovery operations for water injection and to operate cooperative facilities necessary thereto. Other available or existing methods or facilities for secondary recovery operations are inadequate for the purpose of secondary recovery.

14. The unit agreement does not provide, either directly or indirectly, for the cooperative refining or marketing of crude petroleum, distillate, condensate, or gas, or any by-product thereof.
15. The unit agreement is subject to all valid orders, rules and regulations of the Railroad Commission.
16. The unit agreement contains no provision regarding field rules, nor does it limit the amount of production of oil or gas from the unitized area. The unit agreement does not release the operator from his obligation to reasonably develop lands or leases as a whole.
17. The unit agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations.
18. The unit agreement does not provide for the location of wells.
19. There are no state lands in the unit.
20. The unit agreement is in the interest of public welfare as being reasonably necessary to prevent waste and to promote conservation.
21. The reservoir described in the unit agreement is identified as a single reservoir for Commission purposes and is a suitable reservoir for a water injection secondary recovery operation.
22. The unit agreement contains only the acreage reasonably necessary to accomplish the proposed secondary recovery project.
23. Monthly well tests will be conducted to allocate production to wells on tracts for which 100% sign-up was not achieved.

CONCLUSIONS OF LAW

1. Proper notice was given to all persons legally entitled to notice.
2. All things have occurred or have been accomplished that are necessary to give the Commission jurisdiction in this matter.

3. Applicant's proposed secondary recovery project satisfies all of the requirements set out in TEX. NAT. RES. CODE ANN. §§101.001 et seq.
4. Approval of the proposed unit agreement for secondary recovery operations is in the public interest and is necessary to prevent waste and to promote the conservation of oil or gas or both.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend approval of the proposed KMA Unit and secondary recovery operations project as set out in the attached order.

Respectfully submitted,

Donna K. Chandler
Technical Examiner

Mark J. Helmueller
Hearings Examiner