

April 17, 2007

OIL AND GAS DOCKET NO. 03-0251243

APPLICATION OF ARENA OFFSHORE, LLC FOR NEW FIELD DESIGNATION AND FIELD RULES FOR THE PROPOSED GALVESTON 278-L (MIOCENE CONS.) FIELD, BRAZORIA COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: April 11, 2007

APPEARANCES:

REPRESENTING:

John Camp. attorney
Tim Smith

Arena Offshore, LLC

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Arena Offshore, LLC for a new field designation and field rules for the proposed Galveston 278-L (Miocene Cons.) Field which provide for:

1. The entire combined correlative interval from 8,230' to 8,630' MD as shown on the Gamma Ray Resistivity Conductivity log of the Arena Offshore, LLC, Galveston Block 278-L (MF0106411) Lease Well No. 1 (API No. 42-706-30242), Section Galveston State Tract 278-Survey, Brazoria County, Texas should be designated as the Galveston 278-L (Miocene Cons.) Field.
2. A two-factor allocation formula based on 95% deliverability and 5% per well.

The examiner recommends approval of the application.

DISCUSSION OF THE EVIDENCE

The proposed Galveston 278-L (Miocene Cons.) Field was discovered by completion of the Arena Offshore, Galveston Block 278-L (MF-106411) Lease Well No. 1. The well is located in Galveston Bay. Completion forms have not been filed pending the subject hearing. The well has been perforated from 8,243' to 8,249' MD.

The proposed Galveston 278-L (Miocene Cons.) is a new field designation as it is the only producing well completed in the fault block. Location of the well was determined using seismic surveys and is located against a major S-N fault and closure is the result of a minor splinter fault. Three other wells were drilled in 1987 to at least partially penetrate the proposed designated Miocene interval but were subsequently plugged in the same year.

The entire combined correlative interval from 8,230' to 8,630' MD as shown on the Gamma Ray Resistivity Conductivity log of the Arena Offshore, LLC, Galveston Block 278-L (MF0106411) Lease Well No. 1 (API No. 42-706-30242), Section Galveston State Tract 278-Survey, Brazoria County, Texas should be designated as the Galveston 278-L (Miocene Cons.) Field. There are four Miocene sand "packages" known as the 8250' Sand, 8400' Sand, 8500' Sand and 8600' Sand. Arena has perforated only the upper interval (8243' - 8249') and the lower zones have been perforated, tested and temporary plugs set for subsequent re-completion. Because of the expense of offshore/bay re-completions, Arena seeks approval of the application before proceeding with the entire re-completion. The cost for a single re-completion is estimated at \$273M. It is estimated that an additional 842 MMCF of gas will be recovered from the four zones as a single-commingled completion.

Because the proposed new field is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes. The proposed two-factor allocation formula based on 95% deliverability and 5% per well satisfies this requirement.

FINDINGS OF FACT

1. Notice of this hearing was sent to all affected persons in the subject field area at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The proposed Galveston 278-L (Miocene Cons.) Field was discovered by completion of the Arena Offshore, Galveston Block 278-L (MF-106411) Lease Well No. 1.
 - a. Completion forms have not been filed pending the subject hearing. The well has been perforated from 8,243' to 8,249' MD.
4. The proposed Galveston 278-L (Miocene Cons.) is a new field designation as it is the only producing well completed in the fault block.
 - a. Location of the well was determined using seismic surveys and is located against a major S-N fault and closure is the result of a minor splinter fault.
 - b. Three other wells were drilled in 1987 to at least partially penetrate the proposed designated Miocene interval but were subsequently plugged in the same year.
5. The entire combined correlative interval from 8,230' to 8,630' MD as shown on the Gamma Ray Resistivity Conductivity log of the Arena Offshore, LLC, Galveston Block 278-L (MF0106411) Lease Well No. 1 (API No. 42-706-30242), Section Galveston State Tract 278-Survey, Brazoria County, Texas should be designated as the Galveston 278-L (Miocene

Cons.) Field.

6. Because the proposed new field is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes.
 - a. The proposed two-factor allocation formula based on 95% deliverability and 5% per well satisfies this requirement.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Adoption of the proposed new field designation and field rules will prevent waste, foster conservation and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed new field designation and field rules for the Galveston 278-L (Miocene Cons.) Field.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Examiner
Office of General Counsel