

THE APPLICATION OF NEWFIELD EXPLORATION COMPANY TO CONSIDER A NEW FIELD DESIGNATION AND TO ADOPT FIELD RULES FOR THE PROPOSED LOS GATOS SALVAJES (FRIO) FIELD, KENEDY COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner

DATE OF HEARING: February 11, 2009

APPEARANCES:

REPRESENTING:

Dale E. Miller

Newfield Exploration Company

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Newfield Exploration Company ("Newfield") requests that a new field designation called the Los Gatos Salvajes (Frio) Field be approved for its John G. Kenedy, Jr. Lease, Well No. 1, (API No. 42-261-31476). Newfield requests that the following field rules be adopted for the new field:

1. Designation of the field as the correlative interval from 15,149 feet to 16,695 feet measured depth as shown on the log for the Newfield Exploration Company - John G. Kenedy, Jr. Lease, Well No. 1, (API No. 42-261-31476), Kenedy County, Texas;
2. Allocation based on 95% deliverability and 5% per well.

There were no protests to this application and the examiner recommends approval of the new field designation and field rules.

DISCUSSION OF EVIDENCE

Newfield completed its John G. Kenedy, Jr. Lease, Well No. 1, in September 2008 with perforations in five lower Frio sands between 15,149 feet to 16,695 feet measured. On initial test, the well produced at a maximum rate of 1,167 MCFGPD and 33 BCPD.

The new field designation should be approved for the John G. Kenedy, Jr. Lease, Well No. 1. The nearest comparable Frio sand production is approximately 3.5 miles to the west in the El Paistle Deep (Frio) Field. There are three plugged dry hole wellbores within a 2½ mile radius of Well No. 1 and two of the wells were shallow dry holes that did not penetrate the producing Frio sand interval.

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Newfield requests that the entire correlative interval from 15,149 feet to 16,695 feet measured depth as shown on the log for the Newfield Exploration Company - John G. Kenedy, Jr. Lease, Well No. 1, (API No. 42-261-31476), Kenedy County, Texas, be designated as the Los Gatos Salvajes (Frio) Field. This interval includes five lower Frio sand reservoirs.

Newfield is requesting the expanded correlative interval as a result of the high initial drilling and completion costs and the limited reserves contributed by each of the individual reservoirs. The initial cost of drilling, completing and stimulating the wellbore in all possible zones within the requested correlative interval is approximately \$18.9 MM. Newfield estimated that the additional cost to complete the wellbore in each of the reservoirs separately after depletion of reserves would be approximately \$3.5 MM. In addition, the delay in the recovery of the reserves from each reservoir would result in the wells becoming less economic, thereby reducing the ultimate recovery.

Newfield also stated that producing all of the Frio reservoirs simultaneously would reduce the abandonment rate for each zone and increase the ultimate recovery of hydrocarbons from all of the reservoirs. Assuming an initial completion in five zones, an economic limit of 30 MCFPD and an exponential decline rate of 15% per year, Newfield calculated the incremental reserves to be recovered at approximately 269.5 MMCFG per well.

Newfield also requests that a two factor allocation formula based on 95% deliverability and 5% per well be adopted for the 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. Newfield Exploration Company completed its John G. Kenedy, Jr. Lease, Well No. 1, in April 2008 with perforations in four lower Frio sands between 15,800 feet and 17,248 feet.
3. The John G. Kenedy, Jr. Lease, Well No. 1, is entitled to a new field designation.
 - a. There are three plugged dry hole wellbores within a 2½ mile radius of Well No. 1 and two of the wells were shallow dry holes that did not penetrate the producing Frio sand interval.
 - b. The nearest comparable Frio sand production is approximately 3.5 miles to the west in the El Paistle Deep (Frio) Field.
4. The entire correlative interval from 15,149 feet to 16,695 feet measured

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depth in the John G. Kenedy, Jr. Lease, Well No. 1, should be designated as the Los Gatos Salvajes (Frio) Field.

5. Newfield estimated that the additional cost to complete a well in each of the reservoirs separately after depletion of reserves would be approximately \$3.5 MM. In addition, the delay in the recovery of the reserves from each reservoir would result in the wells becoming less economic, thereby reducing the ultimate recovery.
6. Assuming an initial completion in five zones, an economic limit of 30 MCFPD and an exponential decline rate of 15% per year, Newfield calculated the incremental reserves to be recovered at approximately 269.5 MMCFG per well.
7. Allocation based on 95% deliverability and 5% per well will protect correlative rights.

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. Approval of the requested new field designation and adoption of field rules 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 approval of the new field designation and adoption of field rules for the Los Gatos Salvajes (Frio) Field.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner