May 15, 2006

OIL & GAS DOCKET NO. 7B-0246903

APPLICATION OF SHA-JAM OPERATING CORP. TO CONSIDER AN MER FOR THE MICHAELS LEASE WELL NO. 2 OR AN MER FOR THE ENTIRE PRICE-JORDAN (CISCO, BASAL) FIELD, NOLAN COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.
DATE OF HEARING: May 4, 2006

APPEARANCES:	**REPRESENTING:**
Dale E. Miller	Sha-Jam Operating Corp.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Sha-Jam Operating Corp. for Commission consideration for the Michaels Lease Well No. 2 for an MER of 150 BOPD. In the alternative, it is proposed that the suggested MER be applied to any wells completed in the subject field. It is also proposed that all oil production in excess of the assigned allowable be canceled effective the date of the Order. The examiner recommends approval.

DISCUSSION OF THE EVIDENCE

The Price-Jordan (Cisco, Basal) Field was discovered in 1980 at 3,872' subsurface depth. The field is governed by Statewide Rules and the top allowable for a well in the field is 44 BOPD. There are two operators in the field and with three wells (2 operated by Craruth Energy Corp.).

The Sha-Jam Operating, Michaels Lease Well No. 2 was completed November 29, 2005 through perforations from 3,846' to 3,850' subsurface depth. The well potentialed at 184 BOPD, 24 MCFD and 53 BWPD. The well has produced 5,060 BO through February 2006.

A fieldwide MER of 150 BOPD will not result in reduction of the ultimate recovery of reserves. The Craruth Energy, Hill-Jordan "C" Well No. 1 (potential at 107 BOPD) and the Hill-Hickman Well No. 1 (potential at 101 BOPD) have continued to produce at high rates with no water production. All the wells are perforated at the highest point in the reservoir in order to use the underlying water support to the fullest extent. The three wells in the field are pumping wells. Sha-Jam tested the Michaels Well No. 2 pumping continuously for a stabilized average production rate of 89 BOPD and 132 BWPD for a water cut of 74%. The well was then produced at its current penalized allowable of 44 BOPD and the water cut increased to 84%. This test was performed by producing the well on time clock at 30 minutes on and 30 minutes off. Maintaining the lowest water cut will keep the fluid level in the wellbore just above the perforations which will allow maximum fluid entry into the wellbore which will increase ultimate recovery of hydrocarbon reserves.

A review of Craruth Energy's production on its two leases show similar production histories. Cumulative production from the Craruth, Hill-Jordan "C" is 6,584 BO and the Hill-Hickman is 11,684 BO.

It is proposed that the oil produced in excess of the assigned allowable on any lease in the field be canceled.

EXAMINER'S OPINION

The well testing of Sha-Jam on its well shows the highest single daily production rate was 132 BOPD. A review of the reported monthly productions on any of the three leases in the field shows a highest daily average production rate of 75 BOPD. Water production ranges from 200 to over 400 BOPD. Produced gas is to-small-to measure. Maximum total fluid withdrawal is essential in maximizing ultimate recovery of oil from the field by staying ahead of the underlying water support energy. An MER in this case is nothing more than a number to represent an exempt allowable proration status. The proposed 150 BOPD MER serves the same purpose.

FINDINGS OF FACT

1. Notice of this application was given to all persons entitled to notice at least ten (10) days prior to the hearing.

2. There was no protest of the application.

3. The Price-Jordan (Cisco, Basal) Field was discovered in 1980 at 3,872' subsurface depth.

    a. The field is governed by Statewide Rules and the top allowable for a well in the field is 44 BOPD.

    b. There are two operators in the field and with three wells.

4. The Sha-Jam Operating, Michaels Lease Well No. 2 was completed November 29, 2005 through perforations from 3,846' to 3,850' subsurface depth.

    a. The well potentialed at 184 BOPD, 24 MCFD and 53 BWPD.

5. An MER of 150 BOPD will not result in reduction of the ultimate recovery of reserves.

    a. All the wells are perforated at the highest point in the reservoir in order to use the underlying water support to the fullest extent.

    b. The three wells in the field are pumping wells.

    c. Sha-Jam tested the Michaels Well No. 2 pumping continuously for a stabilized

average production rate of 89 BOPD and 132 BWPD for a water cut of 74%. The well was then produced at its current penalized allowable of 44 BOPD and the water cut increased to 84%.

6. Canceling the overproduction will not harm correlative rights.

CONCLUSIONS OF LAW

1. Notice of this hearing was provided in accordance with all applicable regulatory statutes and rules.

2. All things have occurred or been accomplished to afford the Commission the jurisdiction to consider and decide this matter.

3. Consideration and approval of this application is a matter properly within the jurisdiction of the Commission to foster conservation and prevent waste.

4. Approval of the proposed application of Sha-Jam Operating for a fieldwide MER will not harm correlative rights nor cause waste.

5. Cancellation of the oil production in excess of the assigned allowable will not harm correlative rights.

EXAMINER'S RECOMMENDATION

It is recommended that the application of Sha-Jam Operating for a fieldwide MER of 150 BOPD for the Price-Jordan (Cisco, Basal) Field be approved. It is further recommended that the oil produced in excess of the assigned allowable for and lease in the field be canceled.

Respectfully submitted,

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