

August 27, 2007

OIL AND GAS DOCKET NO. 03-0252940

**APPLICATION OF SANCHEZ OIL & GAS CORPORATION TO CONSOLIDATE
VARIOUS WILCOX FIELDS INTO THE PROPOSED VILLAGE MILLS DEEP (WX
CONS.) FIELD, HARDIN COUNTY, TEXAS**

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

DATE OF HEARING: August 16, 2007

APPEARANCES:

Mimi Winetroub

REPRESENTING:

Sanchez Oil & Gas Corp.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Sanchez Oil & Gas Corp. for the Commission to consider consolidating the Village Mills Deep (WX 12000), Village Mills Deep (Wilcox), Hickory Creek (9500 Wilcox), Hickory Creek (9900 Wilcox), Honey (Wilcox 1st) and Wildcat Fields into a new field, the Village Mills Deep (Wx Cons.) Field. The following rules are proposed:

1. The entire correlative interval from 8,870' to 15,500' as shown on the Baker Hughes High Definition Induction log of the Sanchez Oil & Gas Corporation, Gulf West Lease Well No. 2, (API No. 42-199-33053), Hardin County, Texas should be designated as the Village Mills Deep (Wx Cons.) Field.
2. An allocation formula based on 95% deliverability and 5% per well. It is proposed that the allocation formula be suspended.

The notice of hearing had stated a proposed field name of Village Mills Deep (Wilcox Cons.). The proposed name contained too many characters. At the hearing, the name of Village Mills Deep (Wx Cons.) was accepted. The examiner recommends approval of the field consolidation and proposed field rules.

DISCUSSION OF THE EVIDENCE

The Village Mills Deep (Wilcox) Field was discovered in 2003 at 10,925' subsurface depth. The field is governed by Statewide Rules. The field is classified as Non-Associated and there is one well in the field operated by Sanchez Oil & Gas Corp.

The Village Mills Deep (Wx 12000) Field was discovered in 2003 at 12,008' subsurface depth. The field is governed by Statewide Rules. The field is classified as Non-Associated and the allocation formula is suspended. There are 3 wells in the field operated by Sanchez Oil & Gas Corp.

The Hickory Creek (9500 Wilcox) Field was discovered in 1959 at 9,432' subsurface depth.

The field is governed by Statewide Rules. The field is classified as Non-Associated and there are no wells in the field.

The Hickory Creek (9900 Wilcox) Field was discovered in 1963 at 9,900' subsurface depth. The field is governed by Statewide Rules. The field is classified as Associated and there are no wells in the field gas or oil field.

The Honey (Wilcox 1st) Field was discovered in 1971 at 10,005' subsurface depth. The field is governed by Statewide Rules. The field is classified as Non-Associated and there are no wells in the field.

Consolidation of the Village Mills Deep (WX 12000), Village Mills Deep (Wilcox), Hickory Creek (9500 Wilcox), Hickory Creek (9900 Wilcox), Honey (Wilcox 1st) and Wildcat Fields will provide for the orderly development of the fields and the efficient and effective depletion of the reservoirs. Incremental gas reserves will be recovered per completion as the economic producing limit is effectively lowered for each zone. The additional re-completion cost per zone is avoided. The estimated additional recovery is 101 MMCF per well for two commingled zones. Currently there are 4 active wells with an average of 1,302 MCFD and 25 BCPD. Cumulative production for the five fields are 4.73 BCF of gas and 121.7 MBC.

The entire correlative interval from 8,870' to 15,500' as shown on the Baker Hughes High Definition Induction log of the Sanchez Oil & Gas Corporation, Gulf West Lease Well No. 2, (API No. 42-199-33053), Hardin County, Texas should be designated as the Village Mills Deep (Wx Cons.) Field. The vertical interval encompasses a correlative package of similar Wilcox sands sequences that are not necessarily uniform and continuous over short distances. The Wilcox sand vary in thickness from 10 to 60 feet. The area is traversed by normal faults. Entrapment is generally structural in nature caused by the faulting.

The proposed 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. There is 100% market for all the gas produced from the subject field and the allocation formula should be suspended.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject fields at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Village Mills Deep (Wilcox) Field was discovered in 2003 at 10,925' subsurface depth. The field is governed by Statewide Rules and classified as Non-Associated.
4. The Village Mills Deep (Wx 12000) Field was discovered in 2003 at 12,008' subsurface

depth. The field is governed by Statewide Rules, classified as Non-Associated and the allocation formula is suspended.

5. The Hickory Creek (9500 Wilcox) Field was discovered in 1959 at 9,432' subsurface depth. The field is governed by Statewide Rules and classified as Non-Associated.
6. The Hickory Creek (9900 Wilcox) Field was discovered in 1963 at 9,900' subsurface depth. The field is governed by Statewide Rules and classified as Associated.
7. The Honey (Wilcox 1st) Field was discovered in 1971 at 10,005' subsurface depth. The field is governed by Statewide Rules and classified as Non-Associated.
8. The entire correlative interval from 8,870' to 15,500' as shown on the Baker Hughes High Definition Induction log of the Sanchez Oil & Gas Corporation, Gulf West Lease Well No. 2, (API No. 42-199-33053), Hardin County, Texas should be designated as the Village Mills Deep (Wx Cons.) Field.
9. Consolidation of the Village Mills Deep (WX 12000), Village Mills Deep (Wilcox), Hickory Creek (9500 Wilcox), Hickory Creek (9900 Wilcox), Honey (Wilcox 1st) and Wildcat Fields will provide for the orderly development of the fields and the efficient and effective depletion of the reservoirs.
 - a. Incremental gas reserves will be recovered per completion as the economic producing limit is effectively lowered for each zone.
 - b. The additional re-completion cost per zone is avoided.
 - c. The estimated additional recovery is 101 MMCF per well for two commingled zones.
10. The proposed 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.
11. There is 100% market for all the gas produced from the subject field and the allocation formula should be suspended.

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. Consideration for consolidation of fields and the proposed field rules are a matter within the Commission jurisdiction.
4. Adoption of the proposed consolidation of fields and field rules will prevent waste, foster conservation and protect correlative rights.
5. The subject field meets all the criteria established for suspension of the allocation formula under Statewide Rule 31(j).

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed consolidation of the Village Mills Deep (WX 12000), Village Mills Deep (Wilcox), Hickory Creek (9500 Wilcox), Hickory Creek (9900 Wilcox), Honey (Wilcox 1st) and Wildcat Fields into a new field, the Village Mills Deep (Wx Cons.) Field and adoption of the proposed field rules.

Respectfully submitted,

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