

July 28, 2000

OIL AND GAS DOCKET NO. 04-0225309

APPLICATION OF KILLAM OIL CO., LTD TO CONSOLIDATE THE PICOSO, E. (CARRIZO 7800) FIELD AND THE PICOSO, EAST (CARRIZO 8000) FIELD INTO A NEW FIELD TO BE KNOWN AS THE PICOSO EAST CONSOLIDATED FIELD, WEBB COUNTY, TEXAS

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

DATE OF HEARING: July 26, 2000

APPEARANCES:

Cesario K. Torres
Brian M. Burnette

REPRESENTING:

Killam Oil Co. LTD

PROTESTANT: none

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

This is the unprotested application of Killam Oil Co. to consolidate the Picoso, E. (Carrizo 7800) Field and the Picoso, East (Carrizo 8000) Field into a new field to be known as the Picoso East Consolidated Field and adopt field rules for the Picoso East Consolidated Field. It is proposed that the following field rules be adopted:

1. The entire combined correlative interval from 7,640' to 7,860' as shown on the Dual Induction Focused Compensated Densilog Compensated Neutron Gamma Ray log of the Killam Oil Co., LTD, Perez-Bland 1007 Well No. 1, Leona LRR & AG Assoc. #1007 Survey, A-1533, Webb County, Texas should be designated as the Picoso East Consolidated Field.
2. A two-factor allocation formula based on 75% deliverability and 25% per well.

DISCUSSION OF THE EVIDENCE

The Picoso, E. (Carrizo 7800) Field was discovered in 1988 at a depth of 7,840 feet. The field is governed by Statewide Rules and classified as a non-associated -- 100% AOF gas field. Vintage Petroleum, Inc. is the only operator in the field with eight wells of which only three are

producing. The allocation formula was suspended in September 1994.

The Picoso, East (Carrizo 8000) Field was discovered in 1988 at 7,973' subsurface depth. The field is governed by Statewide Rules and is classified as a one well non-associated gas field. Killam Oil Co. LTD is the only operator in the field with one well.

Consolidation of the Picoso, E. (Carrizo 7800) and Picoso, East (Carrizo 8000) Field will provide for the orderly development of the field area and the efficient and effective depletion of the reservoir. The two fields are vertically separated by approximately 100 feet of shale. These are both Wilcox Sands referred to as the 1st Hinnant (this is the 7800) and the 2nd Hinnant (this is the 8000). Rule 10 downhole commingling permits have been previously granted in the Hinnant Sands. It is proposed the entire combined correlative interval from 7,640' to 7,860' as shown on the Dual Induction Focused Compensated Densilog Compensated Neutron Gamma Ray log of the Killam Oil Co., LTD, Perez-Bland 1007 Well No. 1, Leona LRR & AG Assoc. #1007 Survey, A-1533, Webb County, Texas should be designated as the Picoso East Consolidated Field.

The benefits of field consolidation are as follows: prevents the waste of recoverable hydrocarbons by lowering the total abandonment rate; supports additional drilling and recompletions that cannot be justified at lower single zone rates; and allows timely completion and production of all productive zones encountered in each wellbore. Producing two zones at the same time will lower the economic producing rate and allow for incremental recovery. It is estimated that combining the two intervals in one wellbore will result in the additional recovery of 800 MMCF

There have been no previous problems with the downhole commingling of well fluids in the Hinnant Sands.

Because the 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 75% deliverability and 25% per well satisfies this requirement.

Continued suspension of the allocation formula is appropriate. The allocation formula is currently suspended in one field and the other field only has one well and thus producing at that well's maximum deliverability rate.

FINDINGS OF FACT

Based on the evidence presented, the examiner proposes the following findings:

1. Notice of this hearing was sent to all affected persons in the subject area field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.

3. The Picoso, E. (Carrizo 7800) Field was discovered in 1988 at a depth of 7,840 feet. The field is governed by Statewide Rules and classified as a non-associated -- 100% AOF gas field.
 - a. Vintage Petroleum, Inc. is the only operator in the field with eight wells of which only three are producing.
 - b. The allocation formula was suspended in September 1994.
4. The Picoso, East (Carrizo 8000) Field was discovered in 1988 at 7,973' subsurface depth.
 - a. The field is governed by Statewide Rules and is classified as a one well non-associated gas field.
 - b. Killam Oil Co. LTD is the only operator in the field with one well.
5. Consolidation of the subject fields hence downhole commingling, will provide for the orderly develop of the reservoirs and the efficient and effective depletion of each productive zone.
 - a. The two fields are vertically separated by approximately 100 feet of shale. These are both Wilcox Sands referred to as the 1st Hinnant (this is the 7800) and the 2nd Hinnant (this is the 8000).
 - b. The benefits of field consolidation are as follows: prevents the waste of recoverable hydrocarbons by lowering the total abandonment rate; supports additional drilling and recompletions that cannot be justified at lower single zone rates; and allows timely completion and production of all productive zones encountered in each wellbore.
 - c. It is estimated that combining the two intervals in one wellbore will result in the additional recovery of 800 MMCF
6. The entire combined correlative interval from 7,640' to 7,860' as shown on the Dual Induction Focused Compensated Densilog Compensated Neutron Gamma Ray log of the Killam Oil Co., LTD, Perez-Bland 1007 Well No. 1, Leona LRR & AG Assoc. #1007 Survey, A-1533, Webb County, Texas should be designated as the Picoso East Consolidated Field.
7. Because the 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 75% deliverability and 25% per well satisfies this requirement.
8. Continued suspension of the allocation formula is appropriate. The allocation formula is currently suspended in one field and the other field only has one well and thus producing at that well's maximum deliverability rate.

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. Consolidation of the subject fields, adoption of the proposed new field designation and field rules will prevent waste, foster conservation and protect correlative rights.
4. Both the fields meet the requirements of Statewide Rule 31(j) for suspension of the allocation formula.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of consolidation of the Picoso, E. (Carrizo 7800) Field and the Picoso, East (Carrizo 8000) Field into a new field to be known as the Picoso East Consolidated Field and adopt field rules for the Picoso East Consolidated Field. It is further recommended that the allocation formula be suspended in the new consolidated field.

Respectfully submitted,

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