

APPLICATION OF PRIEST PETROLEUM CORPORATION TO CONSOLIDATE THE MATTHEWS (BRUSHY CANYON) FIELD AND THE MATTHEWS (LOWER CHERRY CANYON) FIELD INTO THE (PROPOSED) MATTHEWS (CANYON CONS.) FIELD AND ADOPT FIELD RULES, REEVES COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E.

DATE OF HEARING: May 21, 2007

APPEARANCES:

Matthew Baab
James M. Clark

REPRESENTING:

Priest Petroleum Corporation

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotected application of Priest Petroleum Corporation for the Commission to consider consolidation of the Matthews (Brushy Canyon) Field and the Matthews (Lower Cherry Canyon) Field into the (proposed) Matthews (Canyon Cons.) Field and adopting the field rules of the Matthews (Lower Cherry Canyon) Field as adopted in Order No. 08-0221050, effective March 23, 1999, as amended, which currently provide for:

1. Designation of the Matthews (Lower Cherry Canyon) Field as the correlative interval from 2,950 feet to 4,620 feet as shown on the log of the Northshot Well No. 2;
2. Minimum well spacing of 330'/660' (lease line/between well),
3. 40 acre oil units with 20 acre tolerance and a maximum diagonal of 2,100 feet, optional 20 acre units with a maximum diagonal of 1,500 feet;
4. An allocation formula based on 95% acreage and 5% per well.

Priest Petroleum proposes the following:

1. Designation of the Matthews (Canyon Cons.) Field as the correlative interval from 2,930 feet to 6,032 feet as shown on the log of the Lowe State Lease Well No. 2 (API No. 42-389-32258);
2. No Change,

3. No Change, and
4. No Change.

The examiner recommends approval of the proposed rules.

DISCUSSION OF THE EVIDENCE

The Matthews (Lower Cherry Canyon) Field was discovered in 1984 at a depth of 4,444 feet subsurface depth. The field is governed by special field rules as adopted by Order No. 08-0221050, effective March 23, 1999, as amended. There are four operators in the field and 23 active wells. The Lower Cherry Canyon interval includes the Bell Canyon Sand and the Cherry Canyon Sand.

The Matthews (Brushy Canyon) Field was discovered in November 2003 at a depth of 6,032 feet subsurface depth. The field is governed by Statewide field rules. There are two operators in the field and three active wells and three shut-in wells.

Optional 20 acre unit density is necessary to provide for the efficient and effective depletion of the subject field. Priest Petroleum's Lowe State Well No. 4 has a calculated EUR of 38,000 BO and an estimated drainage area of 21 acres.

The Canyon Consolidated interval will consist of three major sand deposits, the Bell Canyon Sand, the Cherry Canyon Sand and the Brushy Canyon Sand. These sands are submarine fan deposits containing fine grained sand with good porosity, high water saturation and moderate to low permeability. Currently both fields have marginal production. Many wells produce less than 2 BOPD. Consolidating the fields will facilitate the recovery of additional reserves by lowering the economic limit of each well and extending its life. The current low production rates from either field alone does not justify drilling a well just to produce either zone individually.

Because the proposed designated intervals contains multiple sands, a two factor allocation formula is required by statute. Priest proposes that allocation be based on 95% acreage and 5% per well.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The Matthews (Lower Cherry Canyon) Field was discovered in 1984 at a depth of 4,444' subsurface depth.

- a. The field is governed by special field rules as adopted by Order No. 08-0221050, effective March 23, 1999, as amended.
 - b. There are four operators in the field and 23 active wells.
 - c. Production from the field is marginal.
4. The Matthews (Brushy Canyon) Field was discovered in November 2003 at a depth of 6,032 feet subsurface depth.
 - a. The field is governed by Statewide Rules.
 - b. There are two operators in the field and three active wells and three shut-in wells.
 - c. Production from the field is marginal.
5. Optional 20 acre unit density is necessary to provide for the efficient and effective depletion of the subject field. Drainage calculations performed on Lowe State No.4 showed it will drain 21 acres.
6. The proposed minimum well spacing, 330'/660' (leaseline/between well), is normally associated with 20 acre units.
7. Consolidation of the fields will result in the recovery of additional reserves from the both fields as a result of a lower combined economic limit.
8. Allocation based on 95% acreage and 5% per well is a reasonable allocation formula which satisfies statutory requirements.

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 of field rules, a determination of their effectiveness and appropriate actions is a matter within the Commission jurisdiction.
4. Adoption of the proposed amended 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 field consolidation and the adoption of field rules for the Matthews (Canyon Cons.) Field.

Respectfully submitted,

Andres J. Trevino, P.E.
Technical Hearings Examiner