

OIL AND GAS DOCKET NO. 04-0274440

THE APPLICATION OF DENALI OIL & GAS MANAGEMENT, LLC TO AMEND FIELD RULE NO. 2 FOR THE HAYNES (HINNANT CONS.) FIELD, ZAPATA COUNTY, TEXAS

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

HEARING DATE: March 7, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Doug Dashiell
Marissa Fritts

Denali Oil & Gas Management, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Field Rules for the Haynes (Hinnant Cons.) Field were adopted in Final Order No. 04-0221750, effective June 29, 1999. The current Field Rules in effect for the field are summarized as follows:

1. Designated interval from 9,700 feet to 14,430 feet as shown on the log of the TransTexas Gas Corp. - Haynes "E" Lease, Well No. 3 (API No. 42-505-33330);
2. 467'-1,200' well spacing;
3. Allocation based on 90% deliverability and 10% per well with AOF status.

Denali Oil & Gas Management, LLC ("Denali") requests that Field Rule No. 2 be amended to provide for 330'-0' well spacing.

The application is unopposed and the examiners recommend that Field Rule No. 2 for the Haynes (Hinnant Cons.) Field be amended, as proposed by Denali.

DISCUSSION OF THE EVIDENCE

The Haynes (Hinnant Cons.) Field was created in June 1999 with the consolidation

of several Wilcox fields. The field is classified as non-associated and has an average depth of 9,700 feet. There are 28 producing gas wells and 7 operators carried on the proration schedule. The field operates under Field Rules that provide for 467'-1,200' well spacing and 40 acre density. The allocation formula is currently suspended. Cumulative production from the field through January 2012 is 66.2 BCFG and 7.9 MBO.

Denali is proposing to further develop the field by drilling additional infill wells and requests that Field Rule No. 2 be amended to allow for 330'-0' well spacing. The field is highly faulted and structural position is critical in optimizing the quality and quantity of sand packages. Denali submitted seismic lines for several proposed locations showing that a 330'-0' well spacing would optimize the sand packages in the wells. Denali believes that the proposed spacing rule will offer more flexibility in selecting future drilling locations and result in an increased ultimate recovery from the field. In addition, the closest field to the east, the Fandango (Wilcox Cons.) Field, already has a no minimum between well spacing rule.

Denali also requests that the allocation formula remain suspended, as there is a 100% market demand for all of the gas produced from the field.

FINDINGS OF FACT

1. Notice of this application and hearing was provided to all persons entitled to notice at least ten (10) days prior to the date of the hearing.
2. The Haynes (Hinnant Cons.) Field was created in June 1999 with the consolidation of several Wilcox fields.
 - a. The field is classified as non-associated and has an average depth of 9,700 feet.
 - b. There are 28 producing gas wells and 7 operators carried on the proration schedule.
 - c. The field operates under Field Rules that provide for 467'-1,200' well spacing and 40 acre density.
 - d. The allocation formula is currently suspended
3. The proposed 330'-0' well spacing is appropriate for the field.
 - a. The field is highly faulted and structural position is critical in optimizing the quality and quantity of sand packages.

- b. Seismic lines for several proposed locations show that a 330'-0' well spacing would optimize the sand packages in the wells.
 - c. The proposed spacing rule will offer more flexibility in selecting future drilling locations and result in an increased ultimate recovery from the field.
 - d. The closest field to the east, the Fandango (Wilcox Cons.) Field, already has a no minimum between well spacing rule.
4. Continued suspension of the allocation formula is appropriate, as there is a 100% market demand for all the gas produced from the field.

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. Amending Field Rule No. 2 for the Haynes (Hinnant Cons.) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission amend Field Rule No. 2 for the Haynes (Hinnant Cons.) Field, as requested by Denali Oil & Gas Management, LLC.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner

Michael Crnich
Legal Examiner