

September 27, 2006

OIL AND GAS DOCKET NO. 8A-0248676

APPLICATION OF HGN OPERATING COMPANY, INC. TO CONSIDER FIELD RULES FOR THE JO-MILL, S. (SAN ANDRES) FIELD, DAWSON, BORDEN AND MARTIN COUNTIES, TEXAS

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

DATE OF HEARING: September 21, 2006

APPEARANCES:

Dale E. Miller

REPRESENTING:

HGN Operating Company, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of HGN Operating Company, Inc. for the Commission to consider permanent field rules for the Jo-Mill, S. (San Andres) Field as follows:

1. The entire combined correlative interval from 3,680' to 3,910' as shown on the Simultaneous Compensated Neutron Density log of the Ard Drilling Company, Love "B" Lease Well No. 2, Sect 43, Blk. 3, T-5-N, T&PRR Co. Survey, Dawson County, Texas, should be designated as the Jo-Mill, S. (San Andres) Field.
2. Minimum well spacing of 330'/660' (leaseline/between well);
3. 40 acre oil proration unit density with 10 acre tolerance and maximum diagonal of 2,100' and optional 10 acre density and a maximum diagonal of 1100';
4. Allocation formula of 100% acreage.

The examiner recommends approval of the application.

DISCUSSION OF THE EVIDENCE

The Jo-Mill, S. (San Andres) was discovered in 1964 at a depth of 3,779' subsurface depth. The field is governed by Statewide Rules. There are four operators in the field with 2 producing wells and 7 shut-in wells. HGN is actively drilling new wells.

The entire combined correlative interval from 3,680' to 3,910' as shown on the Simultaneous Compensated Neutron Density log of the Ard Drilling Company, Love "B" Lease Well No. 2, Sect 43, Blk. 3, T-5-N, T&PRR Co. Survey, Dawson County, Texas, should be designated as the Jo-Mill, S. (San Andres) Field.

Proration unit density of 40 acres and optional 10 acres is necessary to provide for the effective and efficient depletion of the reservoir. Cumulative production for the field is 140,500 BO and 20 MMCF of casinghead gas. Volumetric analysis estimates the recoverable oil-in-place to be 129,000 BO for 40 acres (3,230 BO/Ac.) and 32,200 BO for 10 acres. A total of 11 wells have produced from the subject field. Ultimate recoveries range from 3,100 BO to 80,900 BO. The calculated drainage areas range from 1 acre to 25 acres. Eight of the wells drained less than 5 acres.

Minimum well spacing of 330'/660' (leaseline/between well) will provide uniform flexibility in locating wells in the subject field. There are numerous other San Andres and Clearfork Fields in the area that have identical or similar minimum well spacing and density rules.

The proposed 100% acreage allocation formula will provide for the protection of correlative rights.

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 Jo-Mill, S. (San Andres) was discovered in 1964 at a depth of 3,779' subsurface depth.
 - a. The field is governed by Statewide Rules.
 - b. There are four operators in the field with 2 producing wells and 7 shut-in wells.
4. The entire combined correlative interval from 3,680' to 3,910' as shown on the Simultaneous Compensated Neutron Density log of the Ard Drilling Company, Love "B" Lease Well No. 2, Sect 43, Blk. 3, T-5-N, T&P RR Co. Survey, Dawson County, Texas, should be designated as the Jo-Mill, S. (San Andres) Field.
5. Proration unit density of 40 acres and optional 10 acres is necessary to provide for the effective and efficient depletion of the reservoir.
 - a. Volumetric analysis estimates the recoverable oil-in-place to be 129,000 BO for 40 acres (3,230 BO/Ac.) and 32,200 BO for 10 acres.
 - b. A total of 11 wells have produced from the subject field and the ultimate recoveries range from 3,100 BO to 80,900 BO.
 - c. The calculated drainage areas range from 1 acre to 25 acres. Eight of the wells drained less than 5 acres.

6. Minimum well spacing of 330'/660' (lease/line/between well) will provide uniform flexibility in locating wells in the subject field. There are numerous other San Andres and Clearfork Fields in the area that have identical or similar minimum well spacing and density rules.
7. The proposed 100% acreage allocation formula will provide for the protection of correlative rights.

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 field rules, a determination of the effectiveness of the rules and appropriate actions is a matter within the Commission jurisdiction.
4. Adoption of the proposed 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 rules for the Jo-Mill, S. (San Andres) Field.

Respectfully submitted,

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