

THE APPLICATION OF SHARP IMAGE ENERGY, INC. TO ADOPT TEMPORARY FIELD RULES FOR THE DOUBLE MOUNTAIN (CANYON SAND) FIELD, KENT COUNTY, TEXAS

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

DATE OF HEARING: April 1, 2010

APPEARANCES:

REPRESENTING:

APPLICANT:

Dale E. Miller

Sharp Image Energy, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Sharp Image Energy, Inc. ("Sharp Image") requests that temporary Field Rules be adopted for the Double Mountain (Canyon Sand) Field. The proposed Field Rules are summarized as follows:

1. Designation of the field as the correlative interval from 5,996 feet to 6,082 feet as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API No. 42-263-31858);
2. 467'-1,200' well spacing;
3. 80 acre oil units with optional 40 acre density;
4. Allocation based on 100% acres.

There were no protests to this application and the examiner recommends approval of the temporary Field Rules, as requested by Sharp Image, subject to review in 24 months.

DISCUSSION OF EVIDENCE

The Double Mountain (Canyon Sand) Field was discovered in April 2009 at an average depth of 6,000 feet. The field currently operates under Statewide Rules. There are 3 producing oil wells carried on the proration schedule, but Sharp Image has completed two additional wells in the field. Cumulative production from the field through March 24, 2010, is 50.5 MBO and no casinghead gas production.

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The discovery well, the Double Mountain 41 A Lease, Well No. 2, was completed on April 4, 2009. The well was perforated and acidized in the Canyon Sand formation from 5,996 feet to 6,068 feet. The well had an initial potential flowing of 114 BOPD, 98 BWPD and no casinghead gas production. The original bottomhole pressure was 2,585 psi.

Sharp Image requests that the field be defined as the correlative interval from 5,996 feet to 6,082 feet as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API No. 42-263-31858), Section 41, Block G, W&NW RR Co. Survey, Kent County, Texas. This interval contains all of the Canyon Sand formation. The Canyon Sand reservoir is a stratigraphic trap and a solution gas drive with a weak water drive are the primary drive mechanisms.

Sharp Image performed a volumetric recovery calculation beneath 80 acres and 40 acres in the field and found the recoverable oil reserves to be 163.3 MBO and 81.7 MBO, respectively. The calculations are based on the following reservoir properties: 18.8% average porosity, 53.2% average water saturation, 16 feet of net pay and a 20% estimated recovery factor. Sharp Image provided drainage area calculations for the five producing wells in the field. The drainage areas range from 34 acres up to a maximum of 89 acres. The average drainage area was calculated to be approximately 56 acres.

Sharp Image requests well spacing of 467'-1,200'. The well spacing is necessary to provide flexibility in locating infill wells in the field at optimum sand locations. The requested 80 acre oil units with optional 40 acre density is justified by the preliminary reserve calculations shown above.

Sharp Image also requests that the allocation formula be based on 100% acres and that the top allowable remain at the discovery allowable rate of 200 BOPD. Once the discovery allowable time period expires, Sharp Image requests that the 1965 Yardstick allowable become effective.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice at least ten days prior to the date of hearing.
2. The Double Mountain (Canyon Sand) Field was discovered in April 2009 at an average depth of 6,000 feet. The field currently operates under Statewide Rules.
3. There are 3 producing oil wells carried on the proration schedule, but Sharp Image has completed two additional wells in the field.
4. The Double Mountain (Canyon Sand) Field should be defined as the correlative interval from 5,996 feet to 6,082 feet as shown on the log of the Sharp Image Energy, Inc. - Double Mountain 41 A Lease, Well No. 2 (API

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No. 42-263-31858), Section 41, Block G, W&NW RR Co. Survey, Kent County, Texas. This interval contains all of the Canyon Sand formation.

5. Sharp Image performed a volumetric recovery calculation beneath 80 acres and 40 acres in the field and found the recoverable oil reserves to be 163.3 MBO and 81.7 MBO, respectively.
6. Sharp Image provided drainage area calculations for the five producing wells in the field. The drainage areas range from 34 acres up to a maximum of 89 acres. The average drainage area was calculated to be approximately 56 acres.
7. Sharp Image requests well spacing of 467'-1,200'. The well spacing is necessary to provide flexibility in locating infill wells in the field at optimum sand locations.
8. The requested 80 acre oil units with optional 40 acre density is justified by the preliminary reserve calculations shown above in findings of fact No. 6.
9. Allocation based on 100% acreage is a reasonable formula which will protect correlative rights and meet statutory requirements.

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. Adoption of the proposed temporary Field Rules for the Double Mountain (Canyon Sand) Field will prevent waste, protect correlative rights and promote the orderly development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends adoption of temporary Field Rules for the Double Mountain (Canyon Sand) Field, as requested by Sharp Image, subject to review in 24 months.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner