



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

March 28, 2008

OIL AND GAS DOCKET NO. 03-0255299

**APPLICATION OF MILARGO EXPLORATION TO AMEND THE FIELD RULES FOR THE
MAGNET WITHERS FIELD, WHARTON COUNTY, TEXAS**

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

DATE OF HEARING: February 27, 2008

APPEARANCES:

George C. Neale
Phil Hart

REPRESENTING:

Milagro Exploration, LLC.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unopposed application of Milagro Exploration, LLC. to amend the field rules as adopted in Special Order No. 3-276, issued effective March 30, 1938, as amended, for the Magnet Withers Field that currently provide for the following:

1. Minimum well spacing of 330'/660' (lease line/between well);
2. 20 acre proration units with 10 acre tolerance and a maximum diagonal of 1500'; and
3. An allocation formula based on 50% acreage and 50% per well.

Milagro Exploration, LLC proposes the following:

1. Designation The entire correlative interval between 5,452 feet and 5,561 feet, as shown on the log of the KCS Resources Inc. - H. C. Cockburn Well No. 151, Section 5, S. Castleman Survey, A-12, API No. 481-34898, Wharton County;
2. Minimum well spacing of 330'/0' (lease line/between well);
3. 20 acre proration units with 5 acre tolerance and a maximum diagonal of

2100' and optional 10 acre density, delete requirement to file oil proration plats; and

4. An allocation formula based on 100% acreage, 1965 yardstick allowable.

Milagro requested the field designation be changed from associated 49b to associated - prorated. The examiner informed the applicant's representative the Commission would be unable to approve their request to delete the requirement to file oil proration plats as acreage will be part of determining oil proration for the wells. The applicant did not consider the denial an adverse condition. Additionally, the applicant mistakenly requested a 1965 yardstick allowable when a 1947 yardstick allowable is appropriate. The request for a 2,100 foot maximum diagonal was also a mistake by the applicant. The examiner recommends approval of the application.

DISCUSSION OF THE EVIDENCE

The Magnet Withers Field was discovered in 1936 at a depth of 5,500' subsurface depth. The field is governed by special field rules as adopted by Special Order No. 3-276, issued effective March 30, 1938, as amended. The field is mature with many of the wells operating at their economic limit. The field has produced over 106 MMBO in 72 years.

Milagro will be drilling for deeper targets below the Magnet Withers Field at the same time placing wells in an attempt to recover small lenses of undrained oil from the Magnet Withers Field with the new wells. The Magnet Withers is composed of Frio sandstones which have structural variability due to differential compression of the overburden. The variability has caused small yet widespread "highs" within the reservoir containing undrained oil. The reservoir is further complicated by widespread minor faulting and variable strength water drives. There are also sand stringers which may contain oil in one well and be shaled out in the adjacent well. The untapped reserves exist in small, thin zones that were originally overlooked and/or ignored. The thin zones are small in areal extent and therefore the same zone does not exist from well to well.

Milagro is asking for 0' between well spacing to allow flexibility to place new wells at optimum locations around existing wells without the need for Rule 37 exceptions to target the undrained hydrocarbons.

Milagro is requesting an allocation formula of 100% acreage with 1965 yard stick allowable. The field was discovered in 1936, therefore a 1947 yardstick allowable of 82 BOPD for 20 acres is appropriate. Typical new wells have high initial potentials then decline rapidly as the small accumulation is drained. Because the new wells produce from numerous, thin, sands of limited size, the "new" reserves being produced are isolated to that wellbore and should not affect nearby wells. The 20 acre density with 10 acre optional units are appropriate as the isolated hydrocarbon accumulations are of limited size and denser drilling pattern is needed to drain these accumulations. The 100% acreage

allocation is needed for the efficient and effective depletion of the reservoir.

Milagro also requests that the field be classified as associated prorated instead of associated 49b as the field's gas cap has long been depleted. There is currently only one producing gas well and 12 shut-in gas wells in the field.

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 Magnet Withers Field was discovered in 1936 at a depth of 5,550' subsurface depth.
 - a. The field is governed by special field rules as adopted by Special Order No. 3-276, issued effective March 30, 1938, as amended which provides for minimum well spacing of 330'/660' (lease line/between well); 20 acre proration units with 10 acre tolerance and a maximum diagonal of 1,500' and; and an allocation formula based on 50% acreage and 50% per well.
 - b. The field has produced over 106 MMBO in 72 years.
4. The Magnet Withers Field should be designated as: the entire correlative interval between 5,452 feet and 5,561 feet, as shown on the log of the KCS Resources Inc. - H. C. Cockburn Well No. 151.
5. The 0' between well spacing rule is needed for the efficient and effective depletion of the reservoir.
 - a. The 0' between well spacing will allow flexible placement of wells to produce the thin discontinuous sand lenses.
 - b. The 0' between well spacing will allow placing the wells around the numerous existing wells for optimum location between minor faults without the need for Rule 37 exceptions.
 - c. The 0' between well spacing will allow placing the wells near the top of small structural highs that exist between existing wells to produce isolated hydrocarbon accumulations.
6. The 20 acre density with 10 acre optional density is needed for the efficient and effective depletion of the reservoir as the small hydrocarbon accumulations are less than 20 acres in size.

7. The field is substantially depleted.
 - a. The field has been producing for over 72 years.
 - b. There is no gas cap in the field and only one producing gas well.

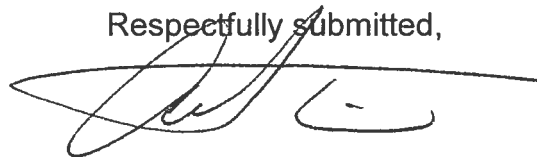
CONCLUSIONS OF LAW

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 are 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 amended field rules for the Magnet Withers Field.

Respectfully submitted,



Andres J. Trevino, P.E.
Technical Examiner
Office of General Counsel