

August 14, 2001

OIL AND GAS DOCKET NO. 03-0229053

THE APPLICATION OF HYDROCARBON LEASE MGMT, INC., FOR STANDING AND IF STANDING IS GRANTED, TO CANCEL OVERPRODUCTION FOR ITS MILBERGER LEASE, WELL NO. 2, SUGAR VALLEY (CREECH) AND (TRUITT) FIELDS, MATAGORDA COUNTY, TEXAS

Heard by: Margaret Allen, Technical Hearings Examiner

Procedural history

Application received: July 23, 2001

Hearing held: August 14, 2001

Appearances

James Clark

Representing

Hydrocarbon Lease Mgmt, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Hydrocarbon Lease Mgmt is seeking to have all overproduction canceled for the only well in the Sugar Valley (Creech) Field, its Milberger Lease Well No. 2. This well has since been recompleted to the Truitt and Gravier formations, but is still classified in the Sugar Valley (Creech) Field. It is not on the proration schedule of the Sugar Valley (Truitt) Field and therefor is not reported as overproduced in this field.

DISCUSSION OF THE EVIDENCE

Hydrocarbon Lease Management completed its Milberger Lease No. 2 on July 28, 2000, with perforations in the Creech formation, between 9557 and 9566 feet. The well's initial potential was 390 BOPD and 640 MCF/D, with 43 barrels of water, at a flowing tubing pressure of 975 psi. The Milberger No. 2 was the first well completed in the Creech formation in this area in many years.

The operator hoped to apply for a new field designation but was unable to show separation from wells that were once in the Sugar Valley (Creech) Field which was discovered in 1959. An NPX (new field) allowable would have been 400 BOPD, but the top allowable for wells in the Sugar Valley (Creech) Field is only 162 BOPD. The Milberger No. 2 produced 55,000 BO and 60 MMCF through February, 2001. It was producing about 200 BO and 200 BW daily, when it began experiencing liquid loading and a bridge plug was set above the Creech. Of the well's total production through February, 2001, 17,481 barrels were considered overproduction.

The well was then recompleted as a gas well in the Truitt formation found at 9440 feet and in the Gravier formation found at 9516 feet. During March and April, 2001, the Milberger No. 2 produced 68 MMCF of gas from the Truitt and Gravier formations, though the well remained classified in the Sugar Valley (Creech) Field as an oil well. Of the total gas production during these two months, 7667

MCF was considered to be overproduction as reported in the Sugar Valley (Creech) Field.

The operator intends to re-open the Creech perforations and use gas produced by either the Gravier or Truitt formations for gas lift to raise the liquids produced by the Creech formation. The area is highly faulted and this well does appear to be a new field discovery in the Truitt and Gravier formations.

The Sugar Valley (Truitt) oil field was discovered in 1966, at a depth of 9980 feet, and the associated gas field was discovered in 1967, at 9918 feet. Both the Sugar Valley (Truitt) oil and gas fields are much deeper than the 9440 foot top of the Truitt formation in the subject well. The Sugar Valley (Truitt) Field's proration schedule shows only one well, a temporarily abandoned gas well operated by Bison Energy Partners. The Sugar Valley (Gravier) oil field was discovered in 1966, at a depth of 10,125 feet, while the top of the Gravier is at 9516 feet in the Milberger No. 2. The Sugar Valley (Gravier) Field has one active oil well, owned by Bison, who also has two shut-in and two wells with 14(b)(2) exceptions in the field. The Sugar Valley (Gravier) gas field was discovered in 1966 at same depth, though there are no gas wells on the current proration schedule.

If the proposed gas lift is successful, the operator will probably request an MER because the well will be capable of producing more than the allowable of 162 BOPD. The applicant believes there is no reason to require the Milberger No. 2 to be shut-in to make up the oil or gas overproduction reported from the Sugar Valley (Creech) Field. This is the only well in Creech formation in the area, and the Truitt and Gravier formations in this well are fault-separated from the Sugar Valley (Truitt) and (Gravier) Fields.

FINDINGS OF FACT

1. Notice of hearing was issued on August 1, 2001, to the current operator of wells in the subject fields.
2. No person appeared at the hearing in protest to the application.
3. The Sugar Valley (Creech) Field was discovered in 1959, at a depth of 9559 feet.
4. In July of 2000, the Hydrocarbon Lease Mgmt Milberger Lease Well No. 2 became the first well completed in the Sugar Valley (Creech) Field in many years.
5. The Milberger No. 2 was perforated from 9557 to 9566 feet, and its initial potential was 390 barrels of oil per day and 640 MCF per day, with 43 BWPD.
6. The well produced 55,000 BO and 60 MMCF through February, 2001, and was producing about 200 BO and 200 BW daily, when the Creech was plugged off.
7. The top allowable for oil wells in the Sugar Valley (Creech) Field is 162 BOPD and the well accumulated 17,481 barrels of overproduction between July 2000 and February, 2001.
8. During March and April, 2001, the Milberger No. 1 produced 68 MMCF of gas (7667 MCF of

which is considered to be overproduction). The well remained classified in the Sugar Valley (Creech) Field as an oil well.

9. The operator intends to re-open the Creech perforations and use gas produced by either the Gravier or Truitt formations for gas lift to prevent liquid loading in the Creech.
10. There is no regulatory purpose to shutting-in the Milberger No. 2 since it is not in competition with any other well in the Creech, Truitt or Gravier formations.
 - a. There are no other wells the Sugar Valley (Creech) Field.
 - b. The top of the Truitt formation in the Milberger No. 2 is at 9440 feet, while the Sugar Valley (Truitt) gas field was discovered at a depth of 9918 feet.
 - c. The top of the Gravier formation in the Milberger No. 2 is at 9516 feet, while the Sugar Valley (Gravier) Field was discovered at a depth of 10,125 feet.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred and have been done to give the Commission jurisdiction to decide this matter.
3. The Commission has authority to balance (cancel overproduction and underproduction) wells in a field.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiner recommends that all overproduction for the Hydrocarbon Lease Mgmt, Inc., Milberger Lease in the Sugar Valley (Creech) Field be canceled.

Respectfully submitted,

Margaret Allen
Technical Hearings Examiner

Date of Commission Action: September 6th, 2001