

December 15, 2006

OIL AND GAS DOCKET NO. 08-0249624

APPLICATION OF PETRO-HUNT LLC TO CONSIDER NEW FIELD DESIGNATION AND FIELD RULES FOR THE PROPOSED LA ESCALERA (SHALE) FIELD, PECOS COUNTY, TEXAS

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

DATE OF HEARING: December 8, 2006

APPEARANCES:

REPRESENTING:

Michael McElroy, lawyer
John M. Roberts

Petro-Hunt LLC

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Petro-Hunt for a new field designation and field rules for the proposed La Escalera (Shale) Field which provide for:

1. The entire combined correlative interval from 15,613' to 16,120' TVD as shown on the Schlumberger Platform Express Density/Neutron Final Composite Array Induction/High resolution Laterolog Array/MCL log of the Petro-Hunt LLC, La Escalera 45 Lease Well No. 1 (API No. 42-371-37570), Sect. 45, Blk B, GC & SF RR Co. Survey, A-2819, Pecos County, Texas should be designated as the La Escalera (Shale) Field.
2. A two-factor allocation formula based on 75% deliverability and 25% per well. It is proposed that the allocation formula be suspended.

The application was noticed for an allocation formula based on 75% acreage and 25% per well. The examiner pointed out at the hearing that the acreage factor in the proposed formula is inappropriate as there is no proration unit designation. Petro-Hunt requested that the 75% acreage allocation be amended to 75% deliverability. A supplemental notice is not necessary as Petro-Hunt was the only affected party. The examiner recommends approval of the application as amended at the hearing.

DISCUSSION OF THE EVIDENCE

The proposed La Escalera (Shale) Field was discovered on May 9, 2006, by completion of the Petro-Hunt LLC, La Escalera 45 Lease Well No. 1 (a horizontal drainhole well) through select perforations from 16,460' to 18,155' subsurface measured depth. The well potentialed at 549 MCFD.

The proposed La Escalera (Shale) Field is a new field designation as there is no other production from any well within 2.5 miles of the subject well.

The entire combined correlative interval from 15,613' to 16,120' TVD as shown on the Schlumberger Platform Express Density/Neutron Final Composite Array Induction/High resolution Laterolog Array/MCL log of the Petro-Hunt LLC, La Escalera 45 Lease Well No. 1 (API No. 42-371-37570), Sect. 45, Blk B, GC & SF RR Co. Survey, A-2819, Pecos County, Texas should be designated as the La Escalera (Shale) Field. The proposed interval contains two shale formations that extend from the top of the Barnett Shale (as much as 800'), the Mississippian Limestone (as much as 150') to the base of the Woodford Shale (as much as 400') which represents the top of the Devonian. Over the years numerous wells have been drilled and completed in the Devonian Formation by passing the shale which was considered non-productive. This shale platform is the southern end of a continental shale deposit that extends from the Appalachian Basin in Ohio, the Black Warrior Basin in Mississippi, Arkoma Basin in Arkansas and Oklahoma and the Fort Worth Basin in Texas which is the home of the Newark, East (Barnett Shale) Field. Until the recent discovery of the Toyah NW (Shale) Field in Reeves County (the adjacent county to Pecos County) no shale completions have been made this far west.

Because the proposed new field is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes. The proposed two-factor allocation formula based on 75% deliverability and 25% per well satisfies this requirement. Suspension of the allocation formula is appropriate as there is a demand for 100% of the produced gas from the reservoir.

FINDINGS OF FACT

1. Notice of this hearing was sent to all affected persons in the subject area field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The proposed La Escalera (Shale) Field was discovered on May 9, 2006, by completion of the Petro-Hunt LLC, La Escalera 45 Lease Well No. 1 (a horizontal drainhole well) through select perforations from 16,460' to 18,155' subsurface measured depth.
4. The proposed La Escalera (Shale) Field is a new field designation as there is no other

production from any well within 2.5 miles of the subject well.

5. The entire combined correlative interval from 15,613' to 16,120' TVD as shown on the Schlumberger Platform Express Density/Neutron Final Composite Array Induction/High resolution Laterolog Array/MCL log of the Petro-Hunt LLC, La Escalera 45 Lease Well No. 1 (API No. 42-371-37570), Sect. 45, Blk B, GC & SF RR Co. Survey, A-2819, Pecos County, Texas should be designated as the La Escalera (Shale) Field.
 - a. The proposed interval contains two shale formations that extends from the top of the Barnett Shale (as much as 800'), the Mississippian Limestone (as much as 150') to the base of the Woodford Shale (as much as 400') which represents the top of the Devonian.
6. Because the proposed new field is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes.
 - a. The proposed two-factor allocation formula based on 75% deliverability and 25% per well satisfies this requirement.

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. Adoption of the proposed new field designation and 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 new field designation and field rules for the La Escalera (Shale) Field.

Respectfully submitted,

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