

June 1, 2005

OIL AND GAS DOCKET NO. 04-0242746

APPLICATION OF DENALI OIL & GAS MANAGEMENT, LLC TO CONSOLIDATE THE FINLEY-WEBB (5000), FINLEY-WEBB (5100) AND FINLEY-WEBB (5200) FIELDS INTO THE PROPOSED FINLEY-WEBB (UPPER CONS) FIELD, ADOPT FIELD RULES AND FOR A BLANKET EXCEPTION TO STATEWIDE RULE 10 FOR THE PROPOSED CONSOLIDATED FIELD, WEBB COUNTY, TEXAS

OIL AND GAS DOCKET NO. 04-0242747

APPLICATION OF DENALI OIL & GAS MANAGEMENT, LLC TO CONSOLIDATE THE FINLEY-WEBB (5600), FINLEY-WEBB (5800) AND FINLEY-WEBB (6300) FIELDS INTO THE PROPOSED FINLEY-WEBB (LOBO CONS) FIELD, ADOPT FIELD RULES AND FOR A BLANKET EXCEPTION TO STATEWIDE RULE 10 FOR THE PROPOSED CONSOLIDATED FIELD, WEBB COUNTY, TEXAS

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

DATE OF HEARING: May 23, 2005

APPEARANCES:

Jim Cowden, attorney
John F. Miller

REPRESENTING:

Denali Oil & Gas Management LLC

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

These are the unprotested applications of Denali Oil & Gas Management for the Commission to consider consolidating the Finley-Webb (5000), Finley-Webb (5100) and Finley-Webb (5200) Fields into a new field designation to be known as the Finley-Webb (Upper Cons). Further it is proposed that the Finley-Webb (5600), Finley-Webb (5800) and Finley-Webb (6300) Fields be consolidated into a new field designation to be known as the Finley-Webb (Lobo Cons). It is proposed that the following permanent special field rules be adopted:

1. The entire combined correlative interval from 5,557' to 6,550' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API

No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Lobo Cons) Field.

2. The entire combined correlative interval from 4,968' to 5,557' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Upper Cons) Field.
3. Minimum well spacing of 467'/933' (leaseline/between well);
4. 40 acre drilling units;
5. Gas well allocation formula based on 95% deliverability and 5% per well. It is further requested that the allocation formula be suspended.
6. A blanket Statewide Rule 10 exception to downhole commingle the Finley-Webb (Upper Cons) and Finley-Webb (Lobo Cons) Fields.

DISCUSSION OF THE EVIDENCE

The Special Field Rules for the subject fields were amended pursuant to Order No. 04-0238811 in June 2004 which provide for minimum well spacing of 467'/933 (leaseline/between well), no proration unit requirement, only 40 acre drilling units and an allocation formula based on 95% deliverability and 5% per well. The allocation formula is suspended in each field.

The Finley-Webb (5000) Field was discovered in 1978 at 4975'. Denali is the only operator in the field with 9 wells.

The Finley-Webb (5100) Field was discovered in 1976 at 5154'. Denali is the only operator in the field with 7 wells.

The Finley-Webb (5200) Field was discovered in 1993 at 5230'. Denali is the only operator in the field with 3 wells.

The Finley-Webb (5600) Field was discovered in 1976 at 5593'. Denali is the only operator in the field with 2 wells.

The Finley-Webb (5800) Field was discovered in 1974 at 5793'. Denali is the only operator in the field with 1 well.

The Finley-Webb (6300) Field was discovered in 1974 at 6317'. Denali is the only operator in the field with 4 wells.

The subject reservoirs are the result of an elongated anticlinal structure of stacked Frio Sands

that are shale separated and are not in natural communication. All the fields are on the 85,000 acre Callahan Ranch. Many of the wells have produced from more than one field. Cumulative production for all the fields is 40.6 BCF of gas. The cumulative totals for each field: Finley-Webb (5000) is 10.4 BCF; Finley-Webb (5100) is 6.1 BCF; Finley-Webb (5600) is 11.5 BCF; Finley-Webb (5800) is 8.2 BCF; Finley-Webb (6300) is 2.7 BCF and Finley-Webb (5200) is 1.7 BCF.

Consolidation of the subject fields into either the proposed Finley-Webb (Upper Cons) Field or the Finley-Webb (Lobo Cons) Field will provide for the recovery of reserves that otherwise would go unrecovered. The Lower Wilcox sands in this area consists of six productive packages created by either a stratigraphic trapping mechanism or faulting. The reservoirs range between 5 and 30 feet in thickness and are separated by much thicker silt/shale sequences. The reservoirs are all depletion drive exhibiting normal pressure gradients. The reservoir quality is generally poor, requiring fracture stimulation. Since Denali acquired the wells in April 2004, it has performed seven workovers and drilled six new wells. It is proposed that the entire combined correlative interval from 5,557' to 6,550' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Lobo Cons) Field. It is proposed that the entire combined correlative interval from 4,968' to 5,557' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Upper Cons) Field.

The proposed minimum well spacing, 467'/933' (leaseline/between well) is necessary to allow completion of new wells closer to existing wells. The proposed spacing will allow the needed flexibility for optimizing new well locations.

It is proposed that a two-factor allocation formula based on 95% deliverability and 5% per well be adopted which is representative of the hydrocarbon reserves that would be attributable to a well. It is also appropriate that the allocation formula be suspended in each field as Denali Oil & Gas Management is the only operator in the field and has a market for 100% of the produced gas.

Commingling allows the production of marginally productive zones that otherwise would be bypassed for more economic completions up-hole. The age of the wellbores in the field range from 13 to 45 years. The lease has identical ownership in all the subject fields for both royalty and working interest. Cross-flow is not expected to occur under normal operating conditions. If any cross-flow does occur, no formation damage is expected because the sands contain gas and fluid of similar composition. New wells in non-depleted areas typically produce from one to two MMCFD but decrease in production to 400 MCFD in approximately two years. The estimated recovery from all the zones is 1.0 to 1.5 BCF per well. Lowering the economic limit for commingled zones will increase a wellbores ultimate recovery by 5% or 50,000 MCF of incremental gas.

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 Finley-Webb (5000) Field was discovered in 1978 at 4975'. Denali is the only operator in the field with 9 wells.
4. The Finley-Webb (5100) Field was discovered in 1976 at 5154'. Denali is the only operator in the field with 7 wells.
5. The Finley-Webb (5200) Field was discovered in 1993 at 5230'. Denali is the only operator in the field with 3 wells.
6. The Finley-Webb (5600) Field was discovered in 1976 at 5593'. Denali is the only operator in the field with 2 wells.
7. The Finley-Webb (5800) Field was discovered in 1974 at 5793'. Denali is the only operator in the field with 1 well.
8. The Finley-Webb (6300) Field was discovered in 1974 at 6317'. Denali is the only operator in the field with 4 wells.
9. The Special Field Rules for the subject fields were amended pursuant to Order No. 04-0238811 in June 2004 which provide for minimum well spacing of 467'/933 (leaseline/between well), no proration unit requirement, only 40 acre drilling units and an allocation formula based on 95% deliverability and 5% per well. The allocation formula is suspended in each field.
10. The Lower Wilcox sands in this area consists of six productive packages created by either a stratigraphic trapping mechanism or faulting. The reservoirs range between 5 and 30 feet in thickness and are separated by much thicker silt/shale sequences.
 - a. The entire combined correlative interval from 5,557' to 6,550' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Lobo Cons) Field.
 - b. The entire combined correlative interval from 4,968' to 5,557' as shown on the type log of the Denali Oil & Gas Management, Callaghan Ranch Lease Well No. 64, (API No. 42-479-39061) J. Poitevent #171 Survey, A-1649, Webb County, Texas, should be designated as the Finley-Webb (Upper Cons) Field.
11. Consolidation of the subject fields into either the proposed Finley-Webb (Upper Cons) Field or the Finley-Webb (Lobo Cons) Field will provide for the recovery of reserves that otherwise would go unrecovered.
 - a. Commingling allows the production of marginally productive zones that otherwise

- would be bypassed for more economic completions up-hole.
- b. The lease has identical ownership in all the subject fields for both royalty and working interest.
 - c. If any cross-flow does occur, no formation damage is expected because the sands contain gas and fluid of similar composition.
 - d. Lowering the economic limit for commingled zones will increase a wellbores ultimate recovery by 5% or 50,000 MCF of incremental gas.
12. The proposed minimum well spacing, 467'/933' (leaseline/between well) is necessary to allow completion of new wells closer to existing wells. The proposed spacing will allow the needed flexibility for optimizing new well locations.
 13. A multi-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes.
 - a. The proposed two-factor allocation formula for gas wells based on 95% deliverability and 5% per well satisfies this requirement.
 - b. The allocation formula should be suspended as Denali Oil & Gas Management is the only operator in the field and states there is 100% market for all the produced gas.

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 consolidation of fields and 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 consolidation of fields and 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 consolidations and field rules for the Finley-Webb (Upper Cons) and Finley-Webb (Lobo Cons) Fields.

Respectfully submitted,

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