

October 8, 2007

OIL AND GAS DOCKET NO. 04-0252721

APPLICATION OF DURANGO RESOURCES CORP. TO CONSOLIDATE VARIOUS RICHARD KING FIELDS AND ADOPT FIELD RULES FOR THE PROPOSED RICHARD KING (FRIO CONS.) FIELD, NUECES AND JIM WELLS COUNTIES, TEXAS

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

DATE OF HEARING: September 28, 2007

APPEARANCES:

REPRESENTING:

Applicant:

Carey Holtzendorf
Bob Tierney
Greg Stevens

Durango Resources Corp.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Durango Resources Corp. for the Commission to consider consolidating 27 fields (see Attachment "A") into a new field to be known as the Richard King (Frio Cons.) Field and the field be designated as Associated-Prorated. It is proposed that the following field rules be adopted:

1. The entire combined correlative interval from 3,710' to 5,805' as shown on the Log, of the Kamlok, Inc., Ida Walker Lease Well No. 21 (API No. 42-355-32776), Nueces County, Texas should be designated as the Richard King (Frio Cons.) Field.
2. Minimum well spacing of 330' (leaseline) and no between well spacing and 40 acre drilling units (no plat or Form P-15 requirement). The density will not exceed one producing well for each 40 productive acres within the limits of each lease or pooled unit.
3. An allocation formula based on 100% acreage. It is proposed that the allocation formula for gas wells be suspended. The oil field classification of salvage. Cancellation of any overproduction.

At the hearing it was pointed out that because there is no proration unit designation, acreage can not be a factor for allocation formula consideration. Additionally, state statute requires a multi-factor allocation formula when combining separate accumulations of hydrocarbons. It was decided that a gas allocation formula based on 95% deliverability and 5% per well is appropriate. Though noticed for consolidation, the Richard King (1370) Field was removed from consideration as the field was placed in error as the field is much shallower than the proposed field interval. The examiner recommends approval of the field consolidation and proposed field rules.

DISCUSSION OF THE EVIDENCE

The subject fields were discovered in the mid to late 1930's and primarily developed in the 1940's. Generally, the fields operate pursuant to Statewide Rules though a few do have field rules that require up to 640 acres. Many of the existing fields have no wells. Out of the 160 wells that have produced from the subject fields, only 27 are still on the Commission's Proration schedule (many of which are inactive).

The entire combined correlative interval from 3,710' to 5,805' as shown on the Log, of the Kamlok, Inc., Ida Walker Lease Well No. 21 (API No. 42-355-32776), Nueces County, Texas should be designated as the Richard King (Frio Cons.) Field. The entire gross interval is a series of stacked Frio Formation Sands of similar reservoir characteristics.

Consolidation of the subject 27 fields will provide for the recovery of reserves that otherwise would go unrecovered. All the fields are intermingled and are heterogeneous (porosity, permeability and thickness) and are lenticular from well to well over short distances. Many of the sand stringers are not stand alone economic producing sands. Completion costs will be reduced. There are numerous potentially productive horizons to be produced, but without the consolidation of the fields and the freedom to produce multiple reservoirs simultaneously, reserves could be left in the ground, un-recovered, as the economics may not justify individual completions. The consolidation will allow completion of wellbores in all of the productive sand accumulations during re-completion operations. By reducing capital expenditures, the recovery factor for each well will increase, thereby allowing for recovery of additional reserves and minimizing waste. The reservoirs are in the late stages of development, and there are still remaining reserves left to secure.

The minimum lease line spacing of 330' will provide flexibility in locating wells in the field. Elimination of between well spacing is necessary to utilize existing wellbores in completing in various zones. The sands are sinuous in nature and sand pinchout can occur in short distances. Proration unit designation is not required in a field area that is near final depletion and the acreage assignable to a well is not representative of the area to be drained and acreage is not a factor in the proposed allocation formula.

The Richard King (Frio Cons.) Field should be classified as Associated-Prorated and not subject to 49(b) allocation. An allocation formula for gas wells based on 95% deliverability and 5% per well meets the statutory requirements of a multi-factor allocation formula. The allocation formula should be suspended as there is market for 100% of the produced gas. For oil well(s) that are completed, the allowable should be exempt from limitation (classify the field as "Salvage") and should therefore be designated as whatever the well's capacity to produce.

The proposed field rules are similar to the special field rules that were adopted for the nearby Agua Dulce (Consolidated Frio) Field by Order No. 04-0204176B (April 25, 1994) and the Magnet Withers (Frio Cons.) Field by Order No. 03-0251791B (July 17, 2007).

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 subject 27 fields (see Attachment "A") were discovered in the mid to late 1930's and primarily developed in the 1940's.
 - a. Generally, the fields operate pursuant to Statewide Rules though a few do have field rules that require up to 640 acres.
 - b. Many of the existing fields have no wells and out of the 160 wells that have produced from the subject fields, only 27 are still on the Commission's Proration schedule (many of which are inactive).
4. The entire combined correlative interval from 3,710' to 5,805' as shown on the Log, of the Kamlok, Inc., Ida Walker Lease Well No. 21 (API No. 42-355-32776), Nueces County, Texas should be designated as the Richard King (Frio Cons.) Field. The entire gross interval is a series of stacked Frio Formation Sands of similar reservoir characteristics.
5. Consolidation of the subject 27 fields will provide for the recovery of reserves that otherwise would go unrecovered.
 - a. The fields to be consolidated are both oil and gas and all the fields are intermingled as these are a series of various stacked Frio Formation sands that are heterogeneous (porosity, permeability and thickness) and are lenticular from well to well over short distances.
 - b. Many of the sand stringers are not stand alone economic producing sands.
 - c. Completion costs will be reduced and there are numerous potentially productive horizons to be produced, but without the consolidation of the fields and the freedom to produce multiple reservoirs simultaneously, reserves could be left in the ground, un-recovered, as the economics may not justify individual completions.
6. The minimum lease line spacing of 330' will provide flexibility in locating wells in the field.
 - a. Elimination of between well spacing is necessary to utilize existing wellbores in completing in various zones.
 - b. Proration unit designation is not required in a field area that is near final depletion and the acreage assignable to a well is not representative of the area to be drained and acreage is not a factor in the proposed allocation formula.

7. The Richard King (Frio Cons.) Field should be classified as Associated-Prorated and not subject to 49(b) allocation.
 - a. An allocation formula for gas wells based on 95% deliverability and 5% per well meets the statutory requirements of a multi-factor allocation formula.
 - b. The allocation formula should be suspended as there is market for 100% of the produced gas.
 - c. For oil well(s) that are completed, the allowable allocation should be exempt from limitation (classify the field as “Salvage”) and should therefore be designated as whatever the well’s capacity to produce.

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 consolidation and field rules for the Richard King (Frio Cons.) Field.

Respectfully submitted,

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

ATTACHMENT “A”

FIELD NAME

FIELD NUMBER

Richard King	76410001
Richard King (3900)	76410220
Richard King (4000)	76410275
Richard King (4100)	76410330
Richard King (4200)	76410385
Richard King (4300)	76410390
Richard King (4400)	76410400
Richard King (4900)	76410440
Richard King (5000)	76410495
Richard King (5050)	76410503
Richard King (5080)	76410606
Richard King (5175)	76410528
Richard King (5230)	76410530
Richard King (5280)	76410534
Richard King (5300 L)	76410540
Richard King (5340)	76410549
Richard King (5350)	76410550
Richard King (5400 A Upper)	76410605
Richard King (5400 Upper)	76410607
Richard King (5430)	76410610
Richard King (5500)	76410640
Richard King (5530)	76410680
Richard King (5550)	76410700
Richard King (5570)	76410708
Richard King (5600 Upper)	76410715
Richard King (5700 Koehler)	76410740
Richard King (5800)	76410750