

OIL AND GAS DOCKET NO. 10-0248881

THE APPLICATION OF MEWBOURNE OIL TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 10 IN THE SCHULTZ 783 LEASE WELL NO. 1, LIPSCOMB (ATOKA) AND MAMMOTH CREEK, NORTH (CLEVELAND) FIELDS, LIPSCOMB COUNTY, TEXAS

Heard by: Donna K. Chandler on October 17, 2006

Appearances:

James M. Clark

Representing:

Mewbourne Oil Company

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Mewbourne Oil requests authority to downhole commingle production from the Lipscomb (Atoka) and Mammoth Creek, North (Cleveland) Fields in its Schultz 783 Well No. 1. The royalty interest in the two fields is not identical and Mewbourne is seeking approval of its method of allocating production to each field.

The application was unopposed and the examiner recommends approval.

DISCUSSION OF THE EVIDENCE

The Lipscomb (Atoka) Field was discovered in 1957 at a depth of 9,006 feet. The Mammoth Creek, North (Cleveland) Field was discovered in 1961 at a depth of 7,381 feet. Both are associated-AOF fields. No well has previously been downhole commingled in these two particular fields but numerous wells in this area have been downhole commingled the Atoka and Cleveland Formations.

The Schultz 783 Well No. 1 was completed as a gas well in the Lipscomb (Atoka) Field in March 2006 with perforations between 8,870 feet and 9,028 feet. The well produced at a rate of 100 MCFD, 0 BWPD and 0 BCPD. In August 2006, a cast iron bridge plug was set above these perforations and the well was completed in the Mammoth Creek, North (Cleveland) Field with perforations between 7,662 feet and 7,674 feet. From the

Cleveland, the well currently produces about 300 MCFD, 15 BCPD and 3 BWPD. The bottomhole pressure in the Atoka was estimated to be 4,000 psig; bottomhole pressure in the Cleveland is estimated to be 3,000 psig. Estimated daily production after downhole commingling is 400 MCFD, 15 BCPD and 3 BWPD. It is expected that the well will require artificial lift in the near future.

Downhole commingling is expected to increase the ultimate recovery from the well by 100 MMCF. This estimate is based on a lower combined economic limit. No compatibility problems have been observed in other wells commingling the Atoka and Cleveland. However, after commingling, Mewbourne will test the formation water produced to insure fluid compatibility.

The working interests in both fields is identical in this well. There is a 6¼% difference in the overriding royalty interest ownership in the two fields. This 6¼% is divided differently between 30 different parties. Mewbourne estimated ultimate recovery from each zone and determined that the Atoka would be contributing 60.1% of the combined production and the Cleveland would be contributing 39.9%. Mewbourne also determined that the Atoka would be contributing 46.7% of the current total rate and the Cleveland would be contributing 53.5%. Mewbourne proposes to average the two methods and allocate 53.4% of the gas production and 0.8% of the condensate production to the Atoka owners and 46.4% of the gas production and 99.2% of the condensate production to the Cleveland owners. Mewbourne proposes that the well be assigned to the Mammoth Creek, North (Cleveland) Field for proration purposes.

FINDINGS OF FACT

1. Notice of this hearing was given to all affected persons at least ten days prior to the date of hearing. No protests were received.
2. Mewbourne Oil Company completed its Schultz 783 No. 1 in the Lipscomb (Atoka) Field in March 2006, then recompleted the well to the Mammoth Creek, North (Cleveland) Field in August 2006.
3. The well currently produces about 300 MCFD, 15 BCPD and 3 BWPD from the Cleveland.
4. Expected commingled production is 400 MCFD, 15 BCPD and 3 BWPD.
5. If commingling is authorized, an additional 100 MMCF will be recovered from the two zones.
6. Any crossflow between the two zones which might occur will not cause waste. Many wells in the area have previously commingled the Cleveland and Atoka with no compatibility problems.

7. The well required exceptions to Rules 37 in both fields.
8. The overriding royalty interests for the two fields are very slightly different.
9. Mewbourne's proposed method of allocation production to the two zones is reasonable. Based on an average of two methods, 53.4% of the gas production and 0.8% of the condensate production from the well should be allocated to the Atoka owners. 46.6% of the gas production and 99.2% of the condensate production from the well should be allocated to the Cleveland owners.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was issued.
2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.
3. Approval of the requested Rule 10 exception is necessary to prevent waste and will not harm correlative rights of mineral owners in the well.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions, the examiner recommends that the Rule 10 exception requested by Mewbourne Oil for its Schultz "783" Lease Well No. 1 be granted and that the proposed method of allocating production be approved.

Respectfully submitted,

Donna K. Chandler
Technical Examiner