

THE APPLICATION OF MLC OPERATING, LP TO CONSIDER TEMPORARY FIELD RULES FOR THE PALOMINO (ELLENBURGER) FIELD, PECOS COUNTY, TEXAS

Heard by: Donna K. Chandler on February 20, 2009

Appearances:

Davin McGinnis
Ted Wooten
Steve Maione

Representing:

MLC Operating, LC

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

MLC Operating, LC requests that temporary field rules be adopted for the Palomino (Ellenburger) Field. The proposed rules are summarized as follows:

1. Designation of the field as the correlative interval from 9,925 feet to 10,592 feet as shown on the log of the Sherbino Heirs No. 0163;
2. 467'-933' well spacing;
3. 160 acre/optional 80 acre density;
4. Allocation based on 100% acreage.

This application was unopposed and the examiner recommends that the rules proposed by MLC be adopted on a temporary basis for the Palomino (Ellenburger) Field, subject to review in 18 months.

DISCUSSION OF EVIDENCE

The Palomino (Ellenburger) Field was discovered in January 2008 upon completion of the Sherbino Heirs No. 0163. The well produced at a rate of 201 BOPD and 314 MCFD on initial test and has produced approximately 32,000 BO. The well is capable of producing up to 1,000 BOPD but production is being restricted to maintain pressure support in this strong water drive reservoir.

The discovery was made based on a seismic anomaly and the Ellenburger is highly fractured. After the drilling of the No. 0163, MLC drilled the No. 0263 well only 1,165 feet from the No. 0163. This well was not commercial in the Ellenburger, producing only water. The No. 0363 well was subsequently drilled and was a dry hole, having missed the anomaly. MLC plans to drill at least one additional well in the field.

Average porosity of the reservoir in the Sherbino Heirs No. 0163 is 6% and average water saturation is 30%. With net pay of 40 feet and estimated ultimate recovery of 456,000 BO, the Sherbino Heirs No. 0163 will drain between 144 and 179 acres, assuming 40-50% recovery efficiency in a water drive reservoir. MLC requests optional 80 acre units because of the varying rock properties seen in the other wells. The Indian Mesa (Ellenburger) Field is the nearest comparable Ellenburger field and it operates under 160/optional 80 acre rules.

MLC requests a spacing rule that requires a minimum of 467 feet from lease lines and 933 feet between wells. This proposed spacing is necessary to provide additional flexibility in developing this field.

It is requested that the field be defined as the correlative interval from 9,925 feet to 10,592 feet as shown on the log of the Sherbino Heirs No. 0163. This interval includes the entire Ellenburger. MLC requests that the allocation formula be based on 100% acreage.

FINDINGS OF FACT

1. Notice of this hearing was provided to all persons entitled to notice. Notice of the hearing was published in *The Fort Stockton Pioneer*, a newspaper of general publication in Pecos County, on January 29, February 5, 12 and 19, 2009. No protests were received.
2. The Palomino (Ellenburger) Field was discovered in January 2008 and the Sherbino Heirs No. 0163 is the only well producing in the field.
3. The Palomino (Ellenburger) Field should be defined as the correlative interval from 9,925 feet to 10,592 feet as shown on the log of the Sherbino Heirs No. 0163. This interval includes the entire Ellenburger.
4. Adoption of a 160/optional 80 acre density rule for the field is appropriate.
 - a. Estimated ultimate recovery for the Sherbino Heirs No. 0163 is 456,000 BO.

- b. The Sherbino Heirs No. 0163 will drain between 144 and 179 acres, assuming 40-50% recovery efficiency for this water drive reservoir.
 - c. The Sherbino Heirs No. 0163 is capable of producing 1,000 BOPD.
 - d. Optional 80 acre units are appropriate because of the varying rock properties seen in the other wells drilled as dry holes in the field. The Indian Mesa (Ellenburger) Field is the nearest comparable Ellenburger field and it operates under 160/optional 80 acre rules.
- 5. A spacing rule providing for a minimum of 467 feet from lease lines and 933 feet between wells will accommodate development of this seismic feature.
 - 6. Allocation based on 100% acreage is a reasonable formula which will protect correlative rights of mineral owners in the field.

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. Adoption of the proposed field rules on a temporary basis for the Palomino (Ellenburger) Field is necessary to prevent waste, protect correlative rights and promote development of the field.

RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends that the Commission adopt the field rules proposed by MLC Operating, LC for the Palomino (Ellenburger) Field on a temporary basis, subject to review in 18 months.

Respectfully submitted,

Donna K. Chandler
Technical Examiner