



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**OIL & GAS DOCKET NO. 8A-0285736**

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**THE APPLICATION OF ESTANCIA OIL & GAS, LLC TO CONSIDER UNITIZATION AND SECONDARY RECOVERY AUTHORITY FOR THE JO-MILL WEST UNIT, JO-MILL (SPRABERRY) FIELD, DAWSON COUNTY, TEXAS**

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**HEARD BY:** Richard D. Atkins, P.E. - Technical Examiner  
Michael Crnich - Legal Examiner

**DATE OF HEARING:** January 13, 2014

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

Flip Whitworth  
Jeff Honeck  
Sam Honeck

Estancia Oil & Gas, LLC

### EXAMINERS' REPORT AND RECOMMENDATION

#### STATEMENT OF THE CASE

Estancia Oil & Gas, LLC ("Estancia") requests Commission authority for unitization of the Jo-Mill West Unit ("Unit") and approval of the Jo-Mill West Unit Agreement ("Unit Agreement"), as well as secondary recovery operations on the Unit. Estancia also requests that the Jo-Mill West Unit be approved as an entity for density purposes in the Jo-Mill (Spraberry) Field. Since there were returned hearing notices, Estancia published notice of the subject application in the *Lamesa Press Reporter*, a newspaper of general circulation in Dawson County, for four consecutive weeks beginning on November 24, 2013.

Estancia requested quarterly well tests to allocate production to wells on tracts for which 100% sign-up was not achieved. However, the examiners recommend the standard monthly well tests to allocate production to wells on tracts for which 100% sign-up was not achieved. Estancia did not consider this recommendation to be adverse.

The application was unopposed and the examiners recommend approval of the Unit Agreement, unitization, secondary recovery and entity for density authority, as requested by Estancia.

### DISCUSSION OF THE EVIDENCE

The Jo-Mill (Spraberry) Field was discovered in February 1954 at an average depth of 7,100 feet. There are 356 producing oil wells and 19 operators carried on the oil proration schedule. Field Rules provide for 550'-1,200' well spacing and 80 acre oil units with optional 40 acre density. Cumulative production from the field since 1958 through October 2013 is 1.1 MMBO and 674.5 MMCFG.

The Unitized Formation is the subsurface portion of the Unit Area commonly known as the Spraberry formation that is between the depths of 6,500 feet to 7,600 feet from the surface (For an example, see the log of the Estancia Oil & Gas, LLC - Schooler Lease, Well No. 1 (API No. 42-115-32503), Section 43, Block 33, T-5-N, T&P RR Co. Survey, A-33, Dawson County, Texas).

The proposed Jo-Mill West Unit consists of five tracts, which contain 1,200 acres. The productive interval is located in the Midland Basin and is a sand stratigraphic trap that has a solution gas drive as the primary drive mechanism. The proposed unit contains the Spraberry formation, as demonstrated by a cross section and net pay isopach map submitted by Estancia. Estancia proposes to convert four producing wells to injection and downspace the unit by drilling one injection well and 9 producing wells. Estancia will inject all of the produced saltwater and use makeup Santa Rosa formation produced saltwater.

Primary recovery from the Unit is expected to be 1.3 MMBO. Based on other offset Spraberry formation waterfloods, Estancia estimates that secondary recovery will be 75% of primary recovery or about 1.0 MMBO. The total cost to implement the secondary recovery project is expected to be \$12.4 million and the net profit is estimated to be \$31.2 million, with a projected return on investment of 2.5 to 1. This calculation is based on an average oil price of \$70 per barrel.

The participation formula during Phase 1 for each tract is based on the ratio of produced oil as reported to the Railroad Commission from each tract to the total produced oil from all tracts from January 1, 2012, to July 31, 2012. Two calendar years after the Effective Date of the Unit Agreement, the Phase 2 participation formula will be in effect and is based on 95% of the ratio of produced oil from each tract as reported by IHS Energy to the total produced oil from all tracts from January 1, 2012, to July 31, 2012, and 5% on the ratio of surface acres for each tract to the total surface acres of all tracts. At the time of the hearing, 100% of the working interest ownership and 83% of the royalty ownership had signed or ratified the Unit Agreement. There are no state lands in the Unit and Estancia will conduct monthly well tests to allocate production to wells on tracts for which 100% sign-up was not achieved.

Estancia requests that the Jo-Mill West Unit be designated as an entity for density purposes. This will allow Estancia to drill wells to complete the waterflood pattern at optimum locations on the Unit without having to obtain between-well spacing exceptions. This designation will also eliminate the need to file proration unit plats for individual wells.

#### FINDINGS OF FACT

1. Notice of this hearing was sent to all mineral interest owners within the proposed Unit and to all operators and unleased owners adjacent to the proposed Unit and no protests were received. Notice of the hearing on the subject application was published in the *Lamesa Press Reporter*, a newspaper of general circulation in Dawson County, once each week for four consecutive weeks beginning on November 24, 2013.
2. The proposed Jo-Mill West Unit consists of five tracts, which contain 1,200 acres.
3. The Unitized Formation is the subsurface portion of the Unit Area commonly known as the Spraberry formation that is between the depths of 6,500 feet to 7,600 feet from the surface (For an example, see the log of the Estancia Oil & Gas, LLC - Schooler Lease, Well No. 1 (API No. 42-115-32503), Section 43, Block 33, T-5-N, T&P RR Co. Survey, A-33, Dawson County, Texas).
4. The productive interval is located in the Midland Basin and is a sand stratigraphic trap that has a solution gas drive as the primary drive mechanism.
5. At the time of the hearing, 100% of the working interest ownership and 83% of the royalty ownership had signed or ratified the Unit Agreement.
6. Secondary recovery operations are expected to result in the recovery of an estimated 1.0 MMBO, which would otherwise go unrecovered.
7. The total cost to implement the secondary recovery project is expected to be \$12.4 million and the net profit is estimated to be \$31.2 million, with a projected return on investment of 2.5 to 1. The cost does not exceed the value of additional reserves to be recovered.
8. The participation formula during Phase 1 for each tract is based on the ratio of produced oil as reported to the Railroad Commission from each tract to the total produced oil from all tracts from January 1, 2012, to July 31, 2012. Two calendar years after the Effective Date of the Unit Agreement, the Phase 2 participation formula will be in effect and is based on 95% of the

ratio of produced oil from each tract as reported by IHS Energy to the total produced oil from all tracts from January 1, 2012, to July 31, 2012, and 5% on the ratio of surface acres for each tract to the total surface acres of all tracts.

9. The secondary recovery project will not be successful unless the Unit Area is unitized.
10. Estancia Oil & Gas, LLC ("Estancia") proposes to convert four producing wells to injection and downspace the Unit by drilling one injection well and 9 producing wells. Estancia will inject all of the produced saltwater and use makeup Santa Rosa formation produced saltwater.
11. The Unit Agreement was voluntarily executed by all parties affixing their signatures thereto and no person has been compelled or required to enter into the agreement. The Unit Agreement binds only those persons who have executed it, their heirs, successors, assigns and legal representatives. The rights of all owners of interests in the field will be protected under the operation of the Unit, regardless of whether an owner signed the Unit Agreement.
12. The owners of interests in the oil and gas under each tract of land within the area reasonably defined by development have been given an opportunity to enter into the Unit on the same yardstick basis as owners of interests in the oil and gas under the other tracts in the Unit.
13. The proposed injection program will move hydrocarbons across lease lines, and Unitization is necessary in order to protect the correlative rights of the various interest owners.
14. The Unitization Agreement is necessary to accomplish the purposes of establishing a Unit to effect secondary recovery operations for water injection and operating cooperative facilities necessary thereto. Other available or existing methods or facilities for secondary recovery operations are inadequate for the purpose of secondary recovery.
15. The Unit Agreement does not provide, either directly or indirectly, for the cooperative refining or marketing of crude petroleum, distillate, condensate, or gas, or any by-product thereof.
16. The Unit Agreement is subject to all valid orders, rules and regulations of the Railroad Commission.

17. The Unit Agreement contains no provision regarding field rules, nor does it limit the amount of production of oil or gas from the Unitized Area. The Unit Agreement does not release the operator from his obligation to reasonably develop lands or leases as a whole.
18. The Unit Agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations.
19. The Unit Agreement does not provide for the location of wells.
20. There are no state owned lands in the proposed Unit.
21. The Unit Agreement is in the interest of public welfare as being reasonably necessary to prevent waste and to promote conservation.
22. The reservoir described in the Unit Agreement is identified as a single reservoir for Commission purposes and is a suitable reservoir for a water injection secondary recovery operation.
23. The Unit Agreement contains only the acreage reasonably necessary to accomplish the proposed secondary recovery project.
24. Monthly well tests will be conducted to allocate production to wells on tracts for which 100% sign-up was not achieved.
25. Designation of the Unit as an entity for density purposes will allow for the drilling of new wells without obtaining between-well spacing exceptions, provided the density is not exceeded.

#### **CONCLUSIONS OF LAW**

1. Proper notice was given to all persons legally entitled to notice.
2. All things have occurred or have been accomplished that are necessary to give the Commission jurisdiction in this matter.
3. Applicant's proposed secondary recovery project satisfies all of the requirements set out in Tex. Nat. Res. Code Ann. §§101.001-052.
4. Approval of the proposed Unit Agreement, secondary recovery operations and entity for density authority is in the public interest and is necessary to prevent waste and to promote the conservation of oil or gas or both.

**EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve the Unit Agreement, the proposed Jo-Mill West Unit, secondary recovery operations and entity for density authority, as set out in the attached final order.

Respectfully submitted,



Richard D. Atkins, P.E.  
Technical Examiner



Michael Crnich  
Legal Examiner