



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 05-0302041

**THE APPLICATION THE APPLICATION OF JAMEX, INC. TO CONSIDER
UNITIZATION AND SECONDARY RECOVERY AUTHORITY FOR THE PROPOSED
FRUITVALE WATERFLOOD UNIT, FRUITVALE (33139001) FIELD, VAN ZANDT
COUNTY, TEXAS**

HEARD BY: Karl Caldwell – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: December 2, 2016
CONFERENCE DATE: January 24, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

Jamex, Inc.

George C. Neale
Rick Johnston, P.E.
Kevin McQueen
John Harris

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Jamex, Inc. ("Jamex") requests Commission authority for unitization of the proposed Fruitvale Waterflood Unit ("Unit") and approval of secondary recovery operations on the Unit. Notice of the application was published in the Van Zandt News, a newspaper of general circulation in Van Zandt County, for four consecutive weeks, October 30, November 6, November 13, and November 20, 2016. Notice of the application and notice of the hearing were served on the working interest owners, royalty interest owners, surface owner, offset operators, and overriding royalty interest owners. A Unit agreement has been ratified by 100% of the working interest owners, and is in the process of being ratified by the royalty interest owners, currently with 66.78% approval. The application is unopposed and the Technical Examiner and

Administrative Law Judge (collectively "Examiners") recommend approval of the application.

DISCUSSION OF THE EVIDENCE

The Fruitvale Field ("field") was discovered on December 5, 1943. Jamex is the only operator in the field, with 16 wells on the December 2016 oil proration schedule. However, four of the wells on the proration schedule are not proposed to be included in the proposed Unit because they are not located in the productive structural feature to be waterflooded.¹ Existing field rules for the Fruitvale Field include lease line spacing of 467 feet, between well spacing of 600 feet, and 160-acre base proration units with optional 40-acre units. The top oil allowable is 142 BOPD with an allowable gas-oil ratio of 2,000 cubic feet per barrel. Cumulative production from the Fruitvale Field through November 2016 is approximately 1.345 MMBO and 78.14 MMCFG.

The proposed unitized formation as defined in the Unit Agreement is the subsurface portion of the Unit known as the Travis Peak Formation. The interval being unitized is also the correlative interval for the Fruitvale Field, which has been designated as a single reservoir for proration purposes and is stratigraphically equivalent to the interval between the logged depths of 8,532 and 8,700 feet as shown on the Schlumberger electric log dated December 1, 1944 in the Magnolia Petroleum Company – J.H. Phillips No. 1 Well (API No. 42-467-01027), located 1,216 feet FSEL and 3,286 feet FSWL of the E. Vansickle Survey, A-885, Van Zandt County, Texas.

The proposed Fruitvale Waterflood Unit consists of 27 tracts of land which contain 2,906.2054 acres. The proposed Unit contains the entirety of the productive structural feature in the Unit area as demonstrated by the net pay isopach map provided by Jamex (Exhibit No. 15). The cumulative production of the the wells within the proposed Unit to be included in the Fruitvale Unit as of June 2015 was 1.4 MMBO. Rick Johnston, Jamex's petroleum engineering expert estimated that the secondary recovery operations will result in the recovery of approximately 100% of the primary recovery volume, or, an incremental 1.0 to 1.4 million barrels of oil. The value of the oil anticipated to be recovered from the unitization and secondary recovery is approximately \$50,000,000 based on an oil price of \$50 per barrel. The estimated cost to implement the secondary recovery project is \$2,875,000. The anticipate value of the oil produced from the unitization and secondary recovery project will well exceed the cost of the project.

The participation formula for the Unit is comprised of the four following factors: (1) Fifty percent (50%) of the ratio of actual cumulative oil produced through June 2015 from such qualified tract to the total cumulative oil produced by primary recovery

¹ Wells not included in the proposed unit area are the Vien Lam No. 1 Well (04022), Heidle No. 1 Well (04023), Turner No. 1 Well (04048), and the Britt No. 1 Well (04135).

operations from the Unitized formation for all qualified tracts; (2) Thirty percent (30%) of the ratio of original oil in place from such qualified tract to the total original oil in place contained in all qualified tracts; (3) Ten percent (10%) of the ratio of the number of surface acres contained in such qualified tract to the summation of the number of surface acres contained in all qualified tracts; and (4) Ten percent (10%) of the ratio of usable wellbores situated on such qualified tract to the total usable wellbores contained in all qualified tracts.

At the time of the hearing, 100% of the working interest ownership, and 66.78% of the royalty interest ownership had signed the Unit Agreement. There are state-owned lands in the proposed Unit, and the General Land Office is leased, pooled, and is agreeable to the Unitization Agreement. Jamex expects to have approval of more of the royalty interest ownership prior to commencement of the project.

FINDINGS OF FACT

1. Notice of the application was published in the *Van Zandt News*, a newspaper of general circulation in Van Zandt County, for four consecutive weeks, October 30, November 6, November 13, and November 20, 2016. Notice of the application and notice of the hearing were served on the working interest owners, royalty interest owners, surface owner, offset operators, and overriding royalty interest owners.
2. The proposed Fruitvale Waterflood Unit consists of 27 tracts of land which contain 2,906.2054 acres.
3. The unitized formation as defined in the Unit Agreement is the subsurface portion of the Unit Area commonly known as the Travis Peak Formation. The interval being unitized is also the correlative interval for the Fruitvale Field, which has been designated as a single reservoir for proration purposes and is stratigraphically equivalent to the interval between the logged depths of 8,532 and 8,700 feet as shown on the Schlumberger electric log dated December 1, 1944 in the Magnolia Petroleum Company – J.H. Phillips No. 1 Well (API No. 42-467-01027), located 1,216 feet FSEL and 3,286 feet FSWL of the E. Vansickle Survey, A-885, Van Zandt County, Texas.
4. The proposed Unit contains the entirety of the productive structural feature in the Unit area as demonstrated by the net pay isopach map provided by Jamex.
5. At the time of the hearing, 100% of the working interest ownership, and 66.78% of the royalty interest ownership had signed the Unit Agreement. Jamex expects to have approval of more of the royalty interest ownership prior to commencement of the project.

6. Secondary recovery operations are expected to result in the recovery of an estimated 1.0 to 1.4 MMBO, which would otherwise go unrecovered.
7. The total estimated cost to implement the secondary recovery project is \$2,875,000. The value of the oil to be recovered as a result of the unitization and secondary recovery is approximately \$50,000,000, based on the recovery of one million barrels of oil and an oil price of \$50 per barrel. The cost of the proposed project does not exceed the value of additional reserves to be recovered.
8. The participation formula for the Unit is comprised of the four following factors: (1) Fifty percent (50%) of the ratio of actual cumulative oil produced through June 2015 from such qualified tract to the total cumulative oil produced by primary recovery operations from the Unitized formation for all qualified tracts; (2) Thirty percent (30%) of the ratio of oil in place from such qualified tract to the total oil in place contained in all qualified tracts; (3) Ten percent (10%) of the ratio of the number of surface acres contained in such qualified tract to the summation of the number of surface acres contained in all qualified tracts; and (4) Ten percent (10%) of the ratio of usable wellbores situated on such qualified tract to the total usable wellbores contained in all qualified tracts.
9. The secondary recovery project will not be successful unless the area is unitized.
10. The 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.
11. 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.
12. 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.
13. The unitization agreement is necessary to accomplish the purposes of establishing a Unit to effect secondary recovery operations for water

injection and to operate cooperative facilities necessary thereto. Other available or existing methods or facilities for secondary recovery operations are inadequate for the purpose of secondary recovery.

14. 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.
15. The Unit Agreement is subject to all valid orders, rules and regulations of the Railroad Commission.
16. The Unit Agreement contains no provision regarding the field rules, nor does it limit the amount of production of oil and 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.
17. The Unit Agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations.
18. The Unit Agreement does not provide for the location of wells.
19. There are state owned lands in the proposed Unit. The General Land Office is leased, pooled, and is agreeable to the Unitization Agreement.
20. The Unit Agreement is in the interest of public welfare as being reasonably necessary to prevent waste and to promote conservation.
21. The reservoir described in the Unit Agreement is identified as a single reservoir for Commission purposes and is a suitable reservoir for a secondary recovery project.
22. The Unit Agreement contains only the acreage reasonably necessary to accomplish the proposed secondary recovery project.
23. Production will be allocated to wells on tracts for which 100% sign-up was not achieved.
24. Jamex agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be effective on the date a Master Order relating to this Final Order is signed.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45.
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 for secondary recovery operations is in the public interest and is necessary to prevent waste and to promote the conservation of oil or gas or both.
5. Pursuant to §2001.144(a)(4)(A), of the Texas Government Code, and the agreement of the applicant, this Final Order is effective when a Master Order relating to this Final Order is signed on January 24, 2017.

EXAMINERS' RECOMMENDATION

Based on the above filings of fact and conclusions of law, the Examiners recommend approval of the proposed Fruitvale Waterflood Unit and secondary recovery operations project as set out in the attached order.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Jennifer Cook
Administrative Law Judge