



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0310938

THE APPLICATION OF A.C.T. OPERATING COMPANY FOR UNITIZATION AND SECONDARY RECOVERY AUTHORITY TO CONSOLIDATE THE ROULAIN, L.S. ET AL (03895) LEASE AND THE ST. CLAIR (03900) LEASE INTO THE MORTON UNIT (70422), LEVELLAND FIELD, COCHRAN COUNTY, TEXAS

EXAMINERS' REPORT NUNC PRO TUNC

HEARD BY: Peggy Laird – Technical Examiner
Kristi M. Reeve – Administrative Law Judge

PREPARED BY: Petar Buva – Technical Examiner

HEARING DATE: July 30, 2018

CONFERENCE DATE: March 26, 2018

APPEARANCES:

REPRESENTING:

APPLICANT: A.C.T. Operating Company

James N. Bostic, Attorney
Donald Raymond, Jr., A.C.T. CFO
Marshall Watson, A.C.T. President

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

A.C.T. Operating Company ("A.C.T.") requests Commission authority to consolidate the Roullain L.S. et. al. (03895) and St. Clair (03900) Leases into the existing Morton Unit (70422) and approval of secondary recovery operations on the Morton Unit, Levelland Field, Cochran County, Texas. The Railroad Commission of Texas finds that, due to a clerical error, the Examiners' Report entered on February 5, 2019, erroneously stated that the Morton Unit Agreement was ratified by 100% of the royalty interest owners.

Provision 12.1 of the Morton Unit Agreement states that enlargement of the Moon Unit requires only the approval of the working interest owners. Therefore, the Finding of Fact No. 4 should have stated: "98.15% of the working interest owners approved expansion of the Morton Unit." Additionally, the correct docket number for this case is 8A-0310938. Notice of the application was published in the Lubbock Avalanche-Journal, a newspaper of general circulation published in Cochran County, for four consecutive weeks: June 6th, 13th, and 20th, and July 4th, 2018. The application is unopposed and the Technical Examiner and Administrative Law Judge (collectively "Examiners") recommend approval of the application.

DISCUSSION OF THE EVIDENCE

The Morton Unit ("Unit") is located in the Levelland Field, Cochran County, Texas. The existing Morton Unit was established by a Commission Final Order on January 12, 2016, Oil and Gas Docket No. 8A-0297509 and currently consists of 37 tracts. A.C.T requests authority to consolidate the Roullain L.S. et. al. (03895) and St. Clair (03900) Leases into the Morton Unit, making it 39 tracts of land covering 8,417 gross acres, an increase in area of approximately 1.02%. There are no state-owned lands in the proposed Unit. A.C.T. Operating Company operates all wells within the unit boundaries.

Notice of the application was published in the *Lubbock Avalanche-Journal*, a newspaper of general circulation published in Cochran County, on June 6th, 13th, and 20th, and on July 4, 2018. 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. The application is unopposed.

A Unit Agreement has so far been ratified by 98.15% of the working interest owners. The enlargement of Morton Unit only requires the approval of the working interest owners, as set forth in *Provision 12.1* of the Morton Unit Agreement. There are no state lands within the unit boundaries. The participation formula is based on 10% acreage, 10% wellbores, 25% cumulative production, 25% current production, and 30% original oil-in-place.

The cumulative production from the wells on the proposed unit is approximately 1.5 million barrels of oil. The ultimate primary recovery from the unit area is estimated to be 4.6 million barrels of oil. The estimated additional recovery as a result of the secondary project is estimated to be approximately 6.9 million barrels of oil, based on the other waterfloods in the field. The value of the additional oil to be recovered exceeds the cost of implementing the secondary recovery project, originally estimated to be \$111 million, including capital and increased operating costs. The secondary recovery project on the additional two tracts would not be possible unless the area is unitized. The addition of the two tracts will create a continuous unit and will result in additional oil recovery and waste prevention.

The Unit Agreement contains no provision regarding the field rules. The existing field rules for the Levelland Field provide for 440' lease line spacing, 880' between well spacing, and 43-acre base proration units with optional 21.25-acre units.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators, surface owners and royalty interest owners within the proposed unit and to offset operators and mineral owners of unleased tracts.
2. The proposed Unit is composed of 39 tracts of land covering approximately 8,417 acres.
3. A.C.T. Operating Company operates all wells within the unit boundaries.
4. At the time of the hearing, the Unit Agreement has been ratified by 98.15% of the working interest owners. The enlargement of Morton Unit only requires the approval of the working interest owners, as set forth in *Provision 12.1* of the Morton Unit Agreement.
5. 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 unit, regardless of whether an owner signed the Unit Agreement.
6. The owners of interest in oil and gas under each tract 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 interest in the oil and gas under the other tracts in the unit.
7. The Unit Agreement contains no provisions 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.
8. The Unit Agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations.
9. The Unit Agreement does not provide for the location of the wells.
10. The Unit Agreement is subject to all valid orders, rules and regulations of the Railroad Commission.

11. The propose injection program will move hydrocarbons across lease lines, and unitization is necessary in order to protect the correlative rights of the various interest owners.
12. 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 existing methods or facilities for secondary recovery operations are inadequate for the purposes of the secondary recovery.
13. The unit agreement provided for the two additional tracts is in the public interest as being reasonably necessary to create a continuous unit that would contribute to waste prevention and promote conservation.
14. The secondary recovery project will not be successful unless the area is unitized.
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. There are no state lands in the proposed unit.
17. The consolidation of the Roullain L.S. et. al. (03895) and St. Clair (03900) Lease into the Morton Unit will not incur costs that would exceed the value of additional reserves to be recovered.
18. The participation formula is based on 10% acreage, 10% wellbores, 25% cumulative production, 25% current production, and 30% original oil-in-place.
19. A.C.T. 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 February 5, 2019.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend approval of the proposed consolidation of the Roullain L.S. et. al. (03895) and St. Clair (03900) Leases into the Morton Unit (70422) and approval of secondary recovery operations on the Morton Unit, Levelland Field, Cochran County, Texas, as requested by A.C.T. Operating Company.

Respectfully submitted,

Petar Buva
Technical Examiner

Kristi M. Reeve
Administrative Law Judge