



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0313470

THE APPLICATION OF CANAN MOWREY OPERATING, LLC (129008) FOR UNITIZATION AND SECONDARY RECOVERY AUTHORITY FOR THE IRON BRIDGE TANNEHILL A SAND UNIT, IRON BRIDGE (TANNEHILL A SAND) FIELD, DICKENS COUNTY, TEXAS

HEARD BY: Petar Buva – Technical Examiner
Clayton J. Hoover – Administrative Law Judge

PREPARED BY: Petar Buva – Technical Examiner
Lynn Latombe – Administrative Law Judge

HEARING DATE: November 7, 2018

CONFERENCE DATE: March 26, 2018

APPEARANCES: **REPRESENTING:**

APPLICANT:

Doug Desheill, Attorney
Rick Appling, Regulatory Agent
Dan Mowrey, President of Canan Operating, LLC
Benjamin Ralston, Engineer
Canan Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Canan Mowrey Operating, LLC ("Canan") requests Commission to approve unitization and secondary recovery operations on the proposed Iron Bridge Tannehill A Sand Unit, the Iron Bridge (Tannehill A Sand) Field, Dickens County, Texas. Proposed unit consists of 6 tracts which contain 480.8 acres. The secondary recovery would not be possible without an unitization agreement. Notice of the application was published in *The Texas Spur*, a newspaper of general circulation published in Dickens County for four

consecutive weeks on August 23 and 30, and September 6 and 13, 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. A Unit Agreement has been ratified by 100% of the working interest owners and is ratified by 98.8% of the royalty interest owners. The application is unopposed and the Technical Examiner and Administrative Law Judge (collectively "Examiners") recommend approval of the application.

DISCUSSION OF THE EVIDENCE

The proposed Iron Bridge Tannehill A Sand Unit ("Unit") is located in the Iron Bridge (Tannehill A Sand) Field, Dickens County, Texas. The Iron Bridge (Tannehill A Sand) Field ("Field") was discovered March 1, 2005 at the average depth of 4,670 feet. The productive interval is a porosity development within the Wolfcamp Formation that trends northwest to southeast with only thirty to forty feet of structural relief. The proposed unit contains all of the productive portions of the porosity development. The productive interval has an average net pay thickness of 8-10 feet.

The proposed Iron Bridge Tannehill A Sand Unit ("Unit") consists of 6 tracts which contain 480.8 acres. There are currently 7 wells carried on the proration schedule for the Field and the proposed Unit with cumulative production through October 2018 of 475 million barrels of oil ("MBO").

Canan proposes to implement a waterflood initially by converting one producing well to injection. Canan will inject produced salt water from the proposed unit and other nearby properties which it operates.

Primary recovery from the field is projected to ultimately be 515 MBO. Canan estimates that secondary recovery will be approximately 129 MBO or 25% of the primary recovery. The total cost to implement and operate the secondary recovery project is expected to be \$350,000. The estimated value of the additional production over the life of the secondary recovery project is \$6.45 million. This estimate is based on an oil price of \$50 per barrel.

The participation formula for each tract on the Unit is based 70% on estimated ultimate primary oil production and 30% on current oil rate for Phase 1 and 100% on estimated ultimate primary oil for Phase 2. At the time of the hearing, 100% of the working interest ownership and 99% of the royalty interest ownership had signed the unit agreement. There are no state lands contained within the proposed unit.

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. Notice of the application was published in *The Texas Spur*, a newspaper of general circulation published in Dickens County for four consecutive weeks on August 23 and 30, and September 6 and 13, 2018.
3. The proposed Unit is composed of 6 tracts of land covering approximately 480.8 acres.
4. The unitized formation is the subsurface portion of the Unit Area commonly known as the Tannehill A Sand formed at a depth of approximately 4,670 feet.
5. Canan Mowery owns leases and has producing wells in the Iron Bridge (Tannehill A Sand) Field.
6. At the time of the hearing, the Unit Agreement has been ratified by 100% of the working interest owners and 98.8% of the royalty interest owners.
7. The Unit Agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations 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.
8. The secondary recovery project will not be successful unless the area is unitized.
9. 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.
10. 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.
11. The unit agreement does not provide for the location of wells.

12. The Unit Agreement is subject to all valid orders, rules and regulations of the Railroad Commission.
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 existing methods or facilities for secondary recovery operations are inadequate for the purposes of the secondary recovery.
14. 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.
15. Canan will inject produced salt water from the proposed unit and other nearby properties which it operates.
16. 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.
17. There are no state lands in the proposed unit.
18. The secondary recovery operations will result in the recovery of an estimated 129 MBO which would otherwise go uncovered.
19. The cost to implement the project does not exceed the value of additional reserves to be recovers.
20. The area covered by the proposed unit agreement contain only the acreage reasonably necessary to accomplish the proposed secondary recovery program.
21. The participation formula for each tract on the Unit is based 70% on estimated ultimate primary oil production and 30% on current oil rate for Phase 1 and 100% on estimated ultimate primary oil for Phase 2.
22. Canan 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 March 26, 2019.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend approval of the proposed Iron Bridge Tannehill A Sand Unit and approval of secondary recovery operations on the Unit in the Iron Bridge (Tannehill A Sand) Field, Dickens County, Texas, as requested by Canan Mowrey Operating, LLC.

Respectfully submitted,

Petar Buva
Technical Examiner

Lynn Latombe
Administrative Law Judge