



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0296468

THE APPLICATION OF JETTA OPERATING COMPANY, LLC TO AMEND THE FIELD RULES FOR THE SCOTT (CHERRY CANYON) FIELD, WARD AND REEVES COUNTIES, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Marshall Enquist – Hearings Examiner

HEARING DATE: June 25, 2015

CONFERENCE DATE: August 25, 2015

APPEARANCES:

Mickey Olmstead
Robert Salmon
Bryan Musgrave
Kyle Bland

REPRESENTING:

Jetta Operating Company, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Jetta Operating Company, Inc. (Jetta) seeks to amend the field rules for the Scott (Cherry Canyon) Field in Ward and Reeves Counties, Texas. Generally, Jetta seeks to harmonize the current field rules with those of the adjacent Collie (Delaware) Field, which produces from a similar albeit larger correlative interval. Specifically, Jetta seeks to reduce the optional unit size to 10 acres, correspondingly reduce the lease line spacing to 191 feet, alter the allocation formula, and add common provisions for horizontal wells. Jetta also seeks to cancel any accrued overproduction. The application was not protested. The Examiners recommend the field rules for the Scott (Cherry Canyon) Field be amended as requested by Jetta.

DISCUSSION OF THE EVIDENCE

The Scott (Cherry Canyon) Field was discovered on August 5, 1978 at a depth of 6,134 feet. The June 2015 proration schedules carry 121 oil wells and no gas wells. Jetta

is the largest operator in the field with about 100 wells. The field has produced more than 5 million barrels of oil and 11 billion cubic feet of gas.

Field rules were adopted on January 15, 1979 (Docket No. 8-69,689) and have since been amended. The current field rules are summarized below:

- A correlative interval from 5,100 feet to 7,000 feet;
- 330-ft lease line spacing and 660-ft between well spacing;
- 160-acre standard units and 20-acre optional units;
- A daily gas limit for oil wells of 780 thousand cubic feet per day; and,
- An allowable allocation formula for oil and gas wells based on assigned acreage (95 percent) and per well (5 percent).

The Cherry Canyon Formation is the middle of three units making up the Delaware Mountain Group. The Bell Canyon is the uppermost unit, and the Brushy Canyon is the lowermost unit. The Scott (Cherry Canyon) Field includes about two-thirds of the Bell Canyon and all of the Cherry Canyon Formations, but not the Brushy Canyon. The Collie (Delaware) Field is west of the Scott (Cherry Canyon) Field. The Collie (Delaware) Field includes the entire Delaware Mountain Group. Development of the two fields has grown such that there is now some lateral overlap. Harmonization of certain field rules will allow for efficient development of the greater area.

Jetta seeks a field rule amendment providing for 10-acre optional units so the field will be consistent with the adjacent Collie (Delaware) Field. Also, Jetta seeks to reduce the lease line spacing distance from 330-feet (standard for a 20-acre unit) to 191 feet (the standard for a 10-acre unit is 233 feet). Jetta has conducted microseismic studies that indicate the fracture and drainage pattern for wells in the field is a rectangle oriented northwest to southeast, with an average length of 923 feet and a width of 307 feet, corresponding to a 6-acre drainage area. Given a 10-acre drainage area, a congruent rectangle would have a width of 381 feet. Jetta believes half of this width, or 191 feet, is therefore an appropriate lease line spacing requirement.

Jetta has begun a program of in-fill drilling on 10-acre units. Production returns from the in-fill wells has indicated the dense drilling is accessing reserves that have not been affected by wells drilled on larger unit sizes. Further, Jetta's operations from 2003 through the present have indicated that the recent 10-acre units were demonstrating virgin reservoir pressure of about 2,500 pounds per square inch, which is essentially unchanged since about 2003. Jetta anticipates 10-acre optional units will allow it to recover an additional 8.5 million barrels of oil and 18 billion cubic feet of gas from the field.

Amending the allocation formula from 95 percent acreage and 5 percent per-well, to 75 percent acreage and 25 percent per-well will increase the maximum oil allowable for a well on a 10-acre unit from 36 barrels of oil per day to 98 barrels of oil per day, which is consistent with observed production from wells on 10-acre units.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.
2. The Scott (Cherry Canyon) Field was discovered on August 5, 1978 at a depth of 6,134 feet. There are 121 oil wells and no gas wells in the field. The field has produced more than 5 million barrels of oil and 11 billion cubic feet of gas.
3. Field rules were adopted on January 15, 1979 (Docket No. 8-69,689), have since been amended, and are summarized below:
 - a. A correlative interval from 5,100 feet to 7,000 feet;
 - b. 330-ft lease line spacing and 660-ft between well spacing;
 - c. 160-acre standard units and 20-acre optional units;
 - d. A daily gas limit for oil wells of 780 thousand cubic feet per day; and,
 - e. An allowable allocation formula for oil and gas wells based on assigned acreage (95 percent) and per well (5 percent).
4. The Scott (Cherry Canyon) Field and the Collie (Delaware) Field have grown such that there is now some lateral overlap.
5. Harmonization of certain field rules will allow for efficient development of the greater area.
6. Microseismic analysis indicates the fracture width to be 381 feet; 191 feet is an appropriate minimum lease line spacing distance.
7. Recently completed infill wells on 10-acre units have reached previously untapped reserves at virgin reservoir pressure.
8. 10-acre optional units will allow Jetta to recover an additional 8.5 million barrels of oil and 18 billion cubic feet of gas from the field.

9. Amending the allocation to 75 percent acreage and 25 percent per-well will increase the maximum oil allowable for a well on a 10-acre unit to 98 barrels of oil per day, which is consistent with observed production from wells on 10-acre units.

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. Amending the field rules for the Scott (Cherry Canyon) Field will prevent waste, protect correlative rights, and promote the orderly development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Jetta Operating Company, LLC to amend the field rules for the Scott (Cherry Canyon) Field.

Respectfully submitted,



Paul Dubois
Technical Examiner



Marshall Enquist
Hearings Examiner