

December 12, 2002

OIL & GAS DOCKET NO. 05-0232814

COMMISSION CALLED HEARING TO SHOW CAUSE WHY GULFTEX OPERATING, INC.'S INJECTION PERMIT SHOULD NOT BE CANCELED AND THE J. L. HEDRICK LEASE WELL NO. 1B, BE SHUT-IN, MITCHELL CREEK FIELD, HOPKINS COUNTY, TEXAS.

Respondent:

Lloyd Muennink, Attorney
David York
Tim Burroughs

REPRESENTING:

Gulftex Operating, Inc.

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

Notice of Hearing:

October 23, 2002

Hearing Held:

November 4, 2002

PFD Prepared By:

Mark Helmueller, Hearings Examiner

Thomas H. Richter, P.E., Technical Examiner

PFD Circulated:

December 12, 2002

Status:

Protested

STATEMENT OF THE CASE

This Commission Called hearing was held to require Gulftex Operating, Inc. ("Gulftex") to show cause why injection Permit F15874 should not be canceled and why Gulftex should not be ordered to shut-in its Well No. 1B, J. L. Hedrick (00965) Lease, Mitchell Creek Field, Hopkins County, Texas for violations of the permit and Commission Statewide Rule 46 (16 Tex. Admin. Code § 3.46) in respondent's operation of the subject well. Gulftex attended the hearing and presented evidence. It is the examiners' recommendation that the Commission should not cancel the permit.

DISCUSSION OF THE EVIDENCE

Gulftex asserts that its permit should not be canceled because: 1) Gulftex immediately corrected the violations upon notification by the District Office; 2) Gulftex dismissed the individuals responsible for the violations of the terms and conditions of the permit and Commission Statewide

Rule 46; 3) Gulftek performed at least four mechanical integrity tests after the well was re-equipped which showed that there were no leaks in the casing and tubing; 4) there is no usable quality water below a subsurface depth of 100' in the vicinity of the well; 5) without an injection well, it will not be economic for Gulftek to continue production on the J. L. Hedrick Lease.

Gulftek became the operator of the subject well by filing a Commission Form P-4 (Producer's Transportation Authority and Certificate of Compliance) on February 10, 1999 which was approved by the Commission as of March 30, 1999. Production reports generated from the Commission's ACTI database for 1999, 2000, 2001 and 2002 show that: 1) Gulftek is currently producing approximately 180 barrels each month from the J. L. Hedrick Lease; 2) that Gulftek reported no production in December 2001 when its injection well was shut-in; and 3) that limited sporadic production was reported for the J. L. Hedrick Lease from the time Gulftek was designated as operator through the time it obtained the injection permit for Well No. 1B.

Gulftek's Organization Report is currently active. Additionally, Gulftek has posted financial assurance with the Commission in the form of a \$50,000 surety bond.

Commission records indicate that the subject well was completed as an oil well in August 1981 in the Mitchell Creek Formation. Surface casing of 8 5/8" was set at 281' and cemented to the surface. Longstring of 5 1/2" was set at 4684'. The Texas Natural Resources Conservation Commission recommends that usable quality water be protected down to a depth of 100 feet.

On March 5, 2001, Gulftek filed Commission Forms H-1 (Application to Inject Fluid into a Reservoir Productive of Oil and Gas) and H-1A (Injection Well Data) in which Gulftek sought to convert the subject well to an injection well for the disposal of produced salt water in the interval between -4517 feet and -4522 feet. Gulftek originally requested maximum injection pressure of 1800 psig and a maximum daily injection volume of 500 barrels. The application states that 2,928 feet of tubing remained in the well and that the packer would be set at -2,923 feet. The application was signed by Matthew Davis, Agent on February 23, 2001.

On March 28, 2001, the Commission notified Gulftek that the proposed packer setting depth was too high and needed to be revised to within 100 feet of the injection interval. On April 9, 2001, Gulftek filed an amended Form H-1A revising the depth for setting the packer to -4,420 feet, but still noting that only 2,928 feet of tubing remained in the well.

On April 19, 2001, the Commission issued Permit No. F15874 to inject fluid into a reservoir productive of oil and gas for the J.L. Hedrick Well No. 1B subject to special conditions: 1) limiting the maximum daily volume of injected fluids to 500 barrels; 2) limiting the maximum pressure to 1,000 psig; and 3) limiting injection to the interval between -4,517 feet and -4,522 feet. Standard conditions of the permit included but were not limited to the requirements: 1) that injection be through tubing set on a packer; 2) that the District Office be notified before running tubing and setting the packer; 3) that the District Office be notified before beginning any workover or remedial

operations; 4) that the District Office be notified before conducting any required pressure tests or surveys; and 5) that the well pass an annulus pressure test before being used for injection.

The subject well is at issue in Oil & Gas Docket No. 05-0230514: *Enforcement Action for Violations Allegedly Committed by Gulftex Operating, Inc. (Operator No. 338748) as to the Hedrick, J. L. (00965) Lease, Well No. 1B, Mitchell Creek Field, Hopkins County, Texas*. Enforcement alleges that Gulftex violated three separate provisions of Rule 46 on November 14, 2001 by using the subject well for injection without having performed the required mechanical integrity test; injecting at pressures above the permitted amount, and failing to set the packer for injection within 100' feet of the designated injection interval. A Proposal for Decision was issued by the examiners in the Enforcement docket on September 23, 2002. In the Proposal for Decision the examiners recommended that the Commission adopt Findings of Fact and Conclusions of Law consistent with a determination that Gulftex had violated the provisions of Rule 46 on November 14, 2002, and that Gulftex should pay an administrative penalty of \$9,500.00. On November –, 2002, the examiners circulated an amended Proposal for Decision finding that Gulftex did not inject at pressures exceeding the permit authority in violation of Statewide Rule 46(a). In the amended Proposal for Decision the examiners recommend an administrative penalty of \$6,500.00 for two violations of Statewide Rule 46.

Gulftex argues that its alleged violations of Statewide Rule 46 should not lead to the cancellation of its injection permit. Gulftex central contention is that the field operations for the subject well were managed by an independent contractor who stole equipment, including equipment required to properly equip the well for injection.

Gulftex claims that its field operations supervisor, Ralph Gillespie, engaged in a pattern of illegal and deceitful conduct with the intent to convert Gulftex equipment and assets to his own personal use. Gulftex claimed that it was unaware of Mr. Gillespie's actions until Mr. Gillespie was severely injured in an automobile accident in August 2001. Gulftex then sent its current operations manager, David York into the field. Mr. York testified that he quickly discovered a wide ranging practice by Mr. Gillespie of stealing equipment from wells and failing to install equipment paid for by Gulftex. Mr. York testified that this was true with respect to the subject well as Mr. Gillespie oversaw operations to remove tubing from one of Gulftex' inactive wells for installation in the J. L. Hedrick Well No. 1B. Documentation of the work on the inactive well was submitted, and Mr. York testified that Mr. Gillespie sold the tubing and kept the proceeds instead of using the tubing in the J. L. Hedrick Well No. 1B. Mr. Gillespie's services for Gulftex were terminated shortly after his wrongdoing became known to Mr. York.

Gulftex also claims that the independent contractor it hired with respect to the permitting of the subject well, Matt Davis, was incompetent and unaware of the proper permitting procedure for an injection well. Gulftex noted that Mr. Davis's services were terminated when Gulftex learned of his actions. Gulftex also claims that it acted immediately to correct the problems created by its two former agents. Gulftex presented evidence that it tested the mechanical integrity of the well shortly after the well was shut in by the District Office and that Commission District Office personnel witnessed two of the four mechanical integrity tests performed. Gulftex also submitted evidence that

it purchased tubing to reset the packer at the proper depth on November 28, 2001, the day after it was informed of the violation by the Commission's District Office.

Gulftex also urges that the well is mechanically sound and that mechanical integrity tests performed on November 29, 2001, December 13, 2001, December 27, 2001 and March 6, 2002 show that there is no danger of the migration of injected fluids to zones other than the intended zone. Gulftex further notes that the integrity of the surface casing in conjunction with the Texas Natural Resources Conservation Commission recommendation that usable quality water be protected down to a depth of 100 feet shows that there is no danger that injected fluids will pollute or contaminate usable quality fresh water.

Finally, Gulftex contends that the injection well is a necessary component of the continuing recovery of hydrocarbons from the J. L. Hedrick Lease. Gulftex claims that the limited production capability of the lease makes it uneconomical to truck produced water to a commercial disposal well. Gulftex also claims that drilling a new well for lease disposal purposes would not be economical. Absent the current permit to dispose of produced fluids, Gulftex claims that any additional remaining hydrocarbons underlying the lease in the Mitchell Creek Field would be wasted.

EXAMINERS' OPINION

The examiners recommend that the Commission should not cancel the injection permit for the subject well. The results from the four mechanical integrity tests on the well between November 2001 and March 2002 show that well is mechanically sound and will not allow the migration of injected fluids to zones other than the intended zone. Additionally, the presence of surface casing cemented to a depth of 281' and the Texas Natural Resources Conservation Commission recommendation that usable quality water be protected down to a depth of 100 feet show that there is no danger that injected fluids will pollute or contaminate usable quality fresh water. All of these factors would be considered favorably in determining whether to grant a permit for an injection well, and are relevant to the issue of whether the permit for the subject well should be canceled.

With respect to Gulftex' conduct and whether its violations of Commission rules should be considered in canceling the permit, Gulftex acknowledges it is responsible for the actions of the agents it hired for field operations and permitting related to the subject well. Gulftex apparently trusted the expertise of these agents and claims that current management was unaware of the violations of Commission rules and the inaccurate information included in the Commission forms for the permit of the well. While the examiners are not completely convinced that Gulftex was ignorant of the permitting problems associated with the subject well, the evidence does indicate that Gulftex responded quickly and appropriately when the Commission's District Office advised it of the violations. After the well was shut-in and sealed by the District Office, Gulftex took the necessary steps to correct the violation of Statewide Rule 46(j)(2) by conducting mechanical integrity tests on four separate occasions, two of which were witnessed by Commission District personnel. Additionally, when it was confirmed on November 27, 2001 that the packer was not set at the proper depth in violation of Statewide Rule 46(g)(1), Gulftex quickly obtained necessary additional tubing to reset the packer at the proper depth.

Further, Gulftex advises that it would have to shut in its producing wells on the J. L Hedrick Lease if it does not have a permit to reinject the salt water produced in conjunction with the oil production. Gulftex position is supported by comparing the reported production for the J. L Hedrick Lease from before Gulftex obtained the injection permit, with production after the District Office cleared Gulftex to use the subject well for injection. Based on this information, the examiners find that if Gulftex is not allowed to continue to dispose of the produced salt water in the J. L. Hedrick Well No. 1B, that any additional future production will be wasted.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons required to be given notice. Gulftex appeared at the hearing and presented evidence.
2. Gulftex became the operator of the J. L. Hedrick Lease, Well No. 1B (“subject lease” and “subject well”) by filing a Commission Form P-4 (Producer’s Transportation Authority and Certificate of Compliance) on February 10, 1999 which was approved by the Commission as of March 30, 1999.
3. Gulftex’ Organization Report is currently active. At the time of its most recent renewal of its Organization Report, Gulftex posted financial assurance with the Commission in the form of a \$50,000 surety bond.
4. Production reports generated from the Commission’s ACTI database for 1999, 2000, 2001 and 2002 show that:
 - a. Gulftex is currently producing approximately 180 barrels each month from the J. L. Hedrick Lease;
 - b. Gulftex reported no production in December 2001 when its injection well was shut-in; and
 - c. Gulftex reported sporadic production for the J. L. Hedrick Lease from the time Gulftex was designated as operator through the time it obtained the injection permit for Well No. 1B.
5. The subject well was completed as an oil well in August 1981 in the Mitchell Creek Formation. Surface casing of 8 5/8" was set at 281' and cemented to the surface. Longstring of 5 1/2" was set at 4684'.
6. On April 19, 2001, the Commission issued Permit No. F15874 to inject fluid into a reservoir productive of oil and gas for the J. L. Hedrick Well No. 1B subject to special conditions: 1) limiting the maximum daily volume of injected fluids to 500 barrels; 2) limiting the maximum pressure to 1,000 psig; and 3) limiting injection to the interval between -4,517 feet and -4,522 feet.

7. Standard conditions of the permit included, but were not limited to, the requirements: 1) that injection be through tubing set on a packer; 2) that District Office be notified before running tubing and setting the packer; 3) that District Office be notified before beginning any workover or remedial operations; 4) that District Office be notified before conducting any required pressure tests or surveys; and 5) the well pass an annulus pressure test before being used for injection.
8. The J. L. Hedrick, Well No. 1B is completed in such a manner as to prevent the vertical migration of fluids thus removing the possibility of endangering usable quality water and will not endanger any oil, gas or other mineral formation.
 - a. The Texas Natural Resources Conservation Commission recommends that usable quality water be protected down to a depth of 100 feet.
 - b. The well has sufficient surface casing cemented from below the base of the usable quality water to the ground surface.
 - c. Mechanical integrity tests performed on November 29, 2001, December 13, 2001, December 27, 2001 and March 6, 2002 show that there is no danger of the migration of injected fluids to zones other than the intended zone.
9. Injection of GulfTex' lease produced water will lower the lease operating costs of GulfTex' wells which will allow them to produce longer because of a lower economic limit.
10. Injection of produced water into the Mitchell Creek Field may provide additional oil and gas production response in any offsetting leases.
11. GulfTex responded appropriately when advised of the violations concerning the well.
 - a. After the well was shut-in and sealed by the District Office, GulfTex took the necessary steps to correct the violation of Statewide Rule 46(j)(2) by conducting mechanical integrity tests on four separate occasions, two of which were witnessed by Commission District personnel.
 - b. When it was confirmed on November 27, 2001 that the packer was not set at the proper depth in violation of Statewide Rule 46(g)(1), GulfTex immediately obtained necessary additional tubing to reset the packer at the proper depth.

CONCLUSIONS OF LAW

1. Proper notice was timely given to all parties entitled to notice.
2. All things have occurred to give the Commission jurisdiction in this case.

3. The proper use of the permitted injection well will not endanger oil, gas, or geothermal resources or cause the pollution of surface water or fresh water strata unproductive of oil, gas, or geothermal resources.
4. Continued operation of the well will prevent waste of hydrocarbons that otherwise would remain unrecovered.

RECOMMENDATION

Based on the above findings and conclusions, the examiners recommend that the Commission should not cancel injection Permit F15874 for the J. L. Hedrick Lease, Well No. 1B.

Respectfully submitted,

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Technical Hearings Examiner
Office of General Counsel

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