

September 12, 2006

OIL AND GAS DOCKET NO. 10-0248478

APPLICATION OF AMERICAN STAR ENERGY AND MIN. CORP FOR EXCEPTION TO STATEWIDE RULE 53 FOR THE WHITTENBURG B LEASE, PANHANDLE HUTCHINSON COUNTY FIELD, HUTCHINSON COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: August 29, 2006

APPEARANCES:

Carroll Beaman

REPRESENTING:

American Star Energy and Min. Corp.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unopposed application of American Star Energy and Min. Corp. for the Commission to consider approving an exception to Statewide Rule 53 and more specifically Special Field Rule No. 6 of the Oil Field Rules of the Panhandle Hutchinson County Field to exempt the annual testing of marginal wells on the Whittenburg B Lease. The examiner recommends approval.

DISCUSSION OF THE EVIDENCE

The Panhandle Hutchinson County Rules for Oil Wells (Special Field Rule No. 6) provides for annual individual well testing for wells where the "lease" gas-oil ratio (GOR) for the preceding 12 months exceeds 5000 cubic feet of gas per barrel of oil (5000:1). Lease testing is permissible where the lease GOR for the preceding 12 months is less than 5000:1. In the event that the lease GOR is between 5,000:1 and 30,000:1 and each well on the lease has been tested within the past 3 calendar years and qualifies as an oil well, then such individual well testing shall not be required annually if the lease wide GOR has not increased from the year in which the individual well tests were performed. American Star submits that Statewide Rule 53 was amended to grant testing relief for marginal wells. Rule 53 was amended effective February 13, 1997 stating most wells able to produce only two barrels or less a day are no longer required to be tested. It shall be acceptable to report the required oil, gas, water volumes based on an allocation of the well's production on a prorated daily basis. However, this allocation option is excepted for certain fields and the Panhandle Hutchinson County Field is one.

American Star Energy and Min requests that its Whittenburg "B" Lease (05284) be exempted from annual individual well testing because the lease meets the marginal requirement and produces such a small volume of hydrocarbon that the economic limit is quickly being approached. Individual well testing is expensive. There are 11 wells on the lease and the 2005 average per well production was 0.15 BOPD and 6.64 MCF of casinghead gas per day. In 1992 the average per well production was 1 BOPD and 12.5 MCFD per well (range was .3 to 1.5 BOPD and 4 to 18 MCFD). The average

lease GOR was 17,445:1.

Well testing results for the past three calendar years:

	YEAR	OIL	GAS	GOR
average (per well)	2003	.3	6.45	21515
range		.1-.6	1-24	
average (per well)	2004	.2	9.00	45500
range		.1-.3	2-18	
average (per well)	2005	.15	6.64	44266
range		.1-.3	1-15	

The lease continues to decline in production of both oil and gas. The current water production is 187 BWPD (average per well is 17 BD and a range of 7 - 30 BD).

The only offset operator, Jaten Oil Company, supports the application.

EXAMINER’S OPINION

The wells on the subject lease do not meet the specific limitations of Special Field Rule 6 of the Panhandle Hutchinson County Field Rules but does meet the standard for marginal wells pursuant to Statewide Rule 53. However, special field rules take priority over Statewide Rules. Several wells on the lease do fall within the 5,000 to 30,000:1 range for the past three years. However the overall lease GOR did not decrease for the 3 consecutive calendar years. Casinghead gas production did decrease on every well. The purpose of the Panhandle Field Rules are to prevent waste and protect correlative rights.¹ In the instant case, the offsetting operator supports the application. The continuing decreasing oil and gas volumes indicate that the lease is in the very late stage of reservoir depletion and approaching its economic limit. Additional reserves may be recovered by eliminating the required annual “individual well” testing. The examiner recommends that the subject lease be exempt from annual individual well testing as required by Special Field Rule No. 6 of the Panhandle Hutchinson County Field Rules. The lease shall be subject to annual lease wide testing for reporting purposes as permitted by Rule No. 6 but shall not be bound by the prescribed gas-oil ratio limits unless there are subsequent new wells completed or re-completions of the existing wells.

FINDINGS OF FACT

1. Notice of this hearing was sent to all operators in the subject field at least ten (10) days prior to the subject hearing.

¹ Conclusion of Law No. 2 Oil & Gas Docket No. 10-87,017.

2. There was no protest at the call of the hearing.
3. The Panhandle Hutchinson County Rules for Oil Wells (Special Field Rule No. 6) provides for annual individual well testing.
 - a. Lease testing is permissible where the lease GOR for the preceding 12 months is less than 5000:1.
 - b. In the event that the lease GOR is between 5,000:1 and 30,000:1 and each well on the lease has been tested within the past 3 calendar years and qualifies as an oil well, then such individual well testing shall not be required annually if the lease wide GOR has not increased from the year in which the individual well tests were performed.
4. American Star Energy and Min. requests that its Whittenburg "B" Lease (05284) be exempted from annual individual will testing because it produces such a small volume of hydrocarbon that the economic limit is quickly being approached.
 - a. Individual well testing is expensive.
 - b. There are 11 wells on the lease and the 2005 average production was 0.15 BOPD and 6.64 MCF of casinghead gas per day.
 - c. In 1992 the average production was 1 BOPD and 12.5 MCFD per well (range was .3 to 1.5 BOPD and 4 to 18 MCFD). The average lease GOR was 17,445:1.
 - d. The lease continues to decline in production of both oil and gas. The current water production is 187 BWPD (average per well is 17 BD and a range of 7 - 30 BD).
 - e. Additional reserves may be recovered by eliminating the need for annual individual well testing.
6. The only offset operator, Jaten Oil Company, supports the application.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.

3. The purpose of the Panhandle Hutchinson County Field Rules are to prevent waste and protect correlative rights pursuant to Conclusion of Law No. 2 in the Final Order of Oil & Gas Docket No. 10-87,017.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the application of American Star Energy and Min. for the subject lease be exempt from annual individual well testing as required by Special Field Rule No. 6 of the Panhandle Hutchinson County Field Rules. The lease shall be subject to annual lease wide testing for reporting purposes as permitted by Rule No. 6 but shall not be bound by the prescribed gas-oil ratio limits unless there are subsequent new wells completed or re-completions of the existing wells.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Examiner
Office of General Counsel