

OIL AND GAS DOCKET NO. 03-0270442

THE APPLICATION OF GULF COAST ACQUISITIONS CO., LC FOR COMMERCIAL DISPOSAL AUTHORITY PURSUANT TO STATEWIDE RULE 9 FOR THE ZAPALAC GAS UNIT, WELL NO. 1, LARIO (10400) FIELD, MATAGORDA COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
James M. Doherty - Legal Examiner

APPEARANCES:

REPRESENTING:

APPLICANT:

Doug Dashiell
David M. Klatt

Gulf Coast Acquisitions Co., LC

PROTESTANTS:

Robert and Stacey Henske
Glenn and Janis Hayes
Steve Parks
Jose Ybarra
Gene Maretta

Selves
Selves
Self
Self
Self

Haskell Simon

Coastal Plains Groundwater Conservation
District

PROCEDURAL HISTORY

Application Filed:	January 13, 2011
Protest Received:	January 3, 2011
Request for Hearing:	April 13, 2011
Notice of Hearing:	May 5, 2011
Hearing Held:	June 3, 2011
Transcript Received:	June 14, 2011
Proposal for Decision Issued:	June 29, 2011

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EXAMINERS' REPORT AND PROPOSAL FOR DECISION

STATEMENT OF THE CASE

Gulf Coast Acquisitions Co., LC ("Gulf Coast") requests commercial disposal authority pursuant to Statewide Rule 9 for the Zapalac Gas Unit, Well No. 1, Lario (10400) Field, Matagorda County, Texas.

Notice of the subject application was published in the *Bay City Tribune*, a newspaper of general circulation in Matagorda County, on December 26, 2010. Notice of the application was sent to the Matagorda County Clerk, offset operators within ½ mile and to the surface owners of each tract which adjoins the disposal tract on December 30, 2010.

This application is protested by surface owners adjacent to the tract on which the proposed disposal well is located and the Coastal Plains Groundwater Conservation District.

DISCUSSION OF THE EVIDENCE

Applicant's Evidence

The Zapalac Gas Unit, Well No. 1, was drilled to a total depth of 10,050 feet and completed as a gas well in January 2008. The well is located on a 25 acre tract adjacent to and west of FM 1468. The tract is large, relatively flat and open and is situated approximately 1.5 miles south of the town of Markham, Texas.

Gulf Coast plans to plug back the well and convert it to a commercial disposal well. The well has 9 5/8" surface casing set at 2,062 feet and is cemented to the surface with 845 sacks of cement. The well has 4 1/2" production casing set at 10,050 feet and is cemented with 780 sacks of cement. The calculated top of cement is estimated to be at 7,300 feet. The well will be equipped with 2 3/8" tubing and packer set at 3,250 feet (See attached Gulf Coast Exhibit No. 14 - Wellbore Diagram). Since there is no cement behind the production casing across the proposed injection interval, Commission Technical Permitting staff is requiring Gulf Coast to cement squeeze the production casing at 4,050 feet with 65 sacks of cement and at 3,350 feet with 120 sacks of cement. In addition, Gulf Coast will be required to set a CIBP inside the production casing no deeper than 4,000 feet.

The proposed disposal interval is located in the Miocene formation between 3,350 feet and 3,850 feet. Gulf Coast requests authority to dispose of a maximum of 10,000 barrels of salt water per day with a maximum injection pressure of 1,600 psig. The Texas Commission on Environmental Quality ("TCEQ") recommends that usable-quality ground water be protected down to a depth of 1,250 feet below the land surface. There is over 2,000 feet of impermeable shale and sand between the top of the proposed injection interval at 3,350 feet and the base of usable quality water at 1,250 feet. Gulf Coast

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submitted a TCEQ letter dated December 22, 2010, which stated that injection into the proposed injection interval will not harm usable quality water. Gulf Coast also reviewed over 200 freshwater wells in nine 2.5 minute state grids surrounding the proposed injection well and noted that the deepest freshwater well was at 1,120 feet.

There are no wells located within the 1/4 mile radius of review for the proposed disposal well. There is one plugged dry hole located within the 1/2 mile radius of review and the well is properly plugged.

There are 7 permitted commercial disposal wells in Matagorda County. However, only four are currently injecting saltwater. The two newest commercial injection permits were issued in 2009 and one of the wells has only injected 47,014 barrels since it began injection in July 2010 and the other well has not yet been placed on injection. Gulf Coast's expert witness opined that Gulf Coast has business partners in the area and these business partners haul saltwater from existing producing wells. He felt that the proposed injection well would reduce hauling distances and provide Gulf Coast's business partners a more cost effective disposal alternative in Matagorda County.

Gulf Coast has a current approved Form P-5 (Organization Report), a posted \$25,000 financial assurance bond and no pending Commission enforcement actions.

Protestants' Evidence

The protestants are surface owners adjacent to the proposed disposal site. They are primarily concerned that the facility will pose a threat to their usable quality water and that the presence of the facility will decrease their property values. They are also concerned that a spill could contaminate the surface water, as drainage from the facility would eventually flow into Caney and Chinquapin Creeks. They are also worried about traffic safety, as a result of the increased number of trucks on the road going into the facility. In addition, they are concerned that noise, dust and fumes from the facility will affect their quality of life.

Robert and Stacey Henske were especially concerned for the safety and health of their 18 month old daughter, as their home is only 25 yards from the caliche access road to the proposed facility. In addition, they are trying to build a new home and felt that their appraised property value would be decreased because of the disposal equipment and operations. They were worried that they would be unable to qualify for a new home loan or sell their property.

Haskell Simon is President of the Coastal Plains Groundwater Conservation District and the District is primarily concerned with the protection of the fresh water and brackish water resources in Matagorda County. The brackish water contains 3,000 to 10,000 ppm chlorides and occurs from 800 feet down to 4,000 feet. Mr. Simon felt that injection into the proposed injection interval would contaminate potential brackish water supplies. He stated that the District had issued a \$20,000 contract to investigate developing the brackish

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water resources to make it potable by reducing the chlorides down below 1,000 ppm.

Mr. Simon was also concerned that the proposed injection well might have a mechanical failure and release saltwater to the surface. He was aware that, in 1999 in Matagorda County, there was an eruption of material from an injection well. The blowout required 10 vacuum trucks for several weeks to haul the erupting material to a disposal site. Mr. Simon believed that the incident cost the Railroad Commission around \$250,000 in containment and cleanup costs.

EXAMINERS' OPINION

The examiners recommend denial of Gulf Coast's application for commercial disposal authority. The burden of proof to establish that a proposed commercial disposal facility is in the "public interest" as required under Texas Water Code §27.051(b)(1) is placed on the applicant for the permit. "Public interest" is typically established by showing that: 1) the safe and proper disposal of saltwater serves the public interest; and, 2) the economic disposal of produced saltwater due to the proximity to the new disposal facility serves the public interest as it allows for the recovery of additional reserves that would otherwise be uneconomical to produce.

Gulf Coast did not establish that there is an industry need in Matagorda County or a conclusion that the disposal well is in the public interest. There are 7 permitted commercial disposal wells in Matagorda County. However, only four wells are currently injecting saltwater and three wells have never been converted to injection. The two newest commercial injection permits were issued in 2009 and one of the wells has only injected 47,014 barrels since it began injection in July 2010 and the other well has not yet been placed on injection.

No evidence was presented regarding drilling permit activity, wait times at existing facilities, production in the area or industry support for an injection well at this location. In addition, there was no support from any saltwater haulers that another disposal well was needed. In fact, Gulf Coast's area of review map only showed three producing wells, but showed 13 plugged wells and the one shut-in well that is the subject of this application. This translates as a producing to inactive well count ratio of only 18%.¹

Applicant's evidence does not address the issue of whether the proposed well will serve the public interest by allowing for the recovery of additional reserves because it does not directly establish an industry need for the well. Gulf Coast's expert witness only opined that the proposed injection well would reduce hauling distances and provide Gulf Coast's

¹ The Commission has denied other commercial disposal applications based on a lack of industry need (**Oil and Gas Docket No. 09-0262947**; *The Application of IWOC, Inc. for Commercial Disposal Authority Pursuant to Statewide Rule 9 for the Guru SWD Lease, Well No. 1, Newark, East (Barnett Shale) Field, Bosque County, Texas* - Order dated February 23, 2010).

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business partners a more cost effective disposal alternative in Matagorda County. This speculative opinion was the only evidence presented addressing public interest and any additional disposal well poses some risk to freshwater, however slight. Accordingly, the examiners conclude that the proposed facility is not in the public interest at this time. With no evidence to support an industry need, the examiners believe that the proposed commercial disposal well is not in the public interest and Gulf Coast's application should be denied.

FINDINGS OF FACT

1. Notice of the subject application was published in the *Bay City Tribune*, a newspaper of general circulation in Matagorda County, on December 26, 2010.
2. Notice of the application was sent to the Matagorda County Clerk, offset operators within ½ mile and to the surface owners of each tract which adjoins the disposal tract on December 30, 2010.
3. The Zapalac Gas Unit, Well No. 1, was drilled to a total depth of 10,050 feet and completed as a gas well in January 2008.
 - a. The TCEQ recommends that usable-quality ground water be protected to a depth of 1,250 feet below the land surface.
 - b. The well has 9 5/8" surface casing set at 2,062 feet and is cemented to the surface with 845 sacks of cement.
 - c. There is over 2,000 feet of impermeable shale and sand between the top of the proposed injection interval at 3,350 feet and the base of usable quality water at 1,250 feet.
4. The Zapalac Gas Unit, Well No. 1, has 4 1/2" production casing set at 10,050 feet and is cemented with 780 sacks of cement. The calculated top of cement is estimated to be at 7,300 feet.
 - a. The well will be equipped with 2 3/8" tubing and packer set at 3,250 feet.
 - b. Since there is no cement behind the production casing across the proposed injection interval, Gulf Coast will cement squeeze the production casing at 4,050 feet with 65 sacks of cement and at 3,350 feet with 120 sacks of cement. In addition, Gulf Coast will set a CIBP inside the production casing no deeper than 4,000 feet.

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- c. There are no wells located within the 1/4 mile radius of review for the proposed disposal well. There is one plugged dry hole located within the 1/2 mile radius of review and the well is properly plugged.
- 5. Use of the Zapalac Gas Unit, Well No. 1, as a commercial disposal well is not in the public interest, as Gulf Coast failed to prove an industry need.
 - a. Gulf Coast did not establish that there is an industry need in Matagorda County or that the disposal well is in the public interest.
 - b. There are 7 permitted commercial disposal wells in Matagorda County. Only four wells are currently injecting saltwater and three wells have never been converted to injection.
 - c. The two newest commercial injection permits were issued in 2009 and one of the wells has only injected 47,014 barrels since it began injection in July 2010 and the other well has not yet been placed on injection.
 - d. No evidence was presented regarding drilling permit activity, wait times at existing facilities, production in the area or industry support for an injection well at this location. In addition, there was no evidence of support from other saltwater haulers that another disposal well was needed.
 - e. Gulf Coast's area of review map only showed three producing wells, but showed 13 plugged wells and the one shut-in well that is the subject of this application. This translates as a producing to inactive well count ratio of only 18%.
 - f. Applicant's evidence does not establish that the proposed disposal well will serve the public interest by allowing for the recovery of additional reserves because it does not establish an industry need for the well.
- 6. Gulf Coast has a current approved Form P-5 (Organization Report) and has posted a \$25,000 financial assurance bond.

CONCLUSIONS OF LAW

- 1. Proper notice was issued in accordance with the applicable statutory and regulatory requirements.
- 2. All things necessary to give the Railroad Commission jurisdiction to consider this matter have occurred.

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3. Applicant did not establish that the approval of the application is in the public interest as required by Sec. 27.051 of the Texas Water Code.
4. Gulf Coast Acquisitions Co., LC has not met its burden of proof and its application does not satisfy the requirements of Chapter 27 of the Texas Water Code and the Railroad Commission's Statewide Rule 9.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the application of Gulf Coast Acquisitions Co., LC for commercial disposal authority pursuant to Statewide Rule 9 for the Zapalac Gas Unit, Well No. 1, be denied.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner

James M. Doherty
Legal Examiner