

CONSOLIDATED PROPOSAL FOR DECISION

OIL & GAS DOCKET NO. 01-0234663

APPLICATION OF AMINEX USA, INC., TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING ON THE GORDON S. -A- (11001) LEASE, VARIOUS WELLS, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

OIL & GAS DOCKET NO. 01-0234664

APPLICATION OF AMINEX USA, INC., TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING ON THE BENNETT (10974) LEASE, VARIOUS WELLS, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

OIL & GAS DOCKET NO. 01-0234665

APPLICATION OF AMINEX USA, INC., TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING ON THE WILLIAMS, MINNIE E. (10946) LEASE, VARIOUS WELLS, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

OIL & GAS DOCKET NO. 01-0234666

APPLICATION OF AMINEX USA, INC., TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING ON THE WINN (11068) LEASE, VARIOUS WELLS, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT:

Rex White, Attorney

John Hayes, Senior Vice President

APPLICANT:

Aminex USA, Inc.

Aminex USA, Inc.

PROCEDURAL HISTORY

APPLICATION FILED:	March 21, 2003
NOTICE OF HEARING:	June 27, 2003
INITIAL HEARING DATE:	July 17, 2003
REOPENED HEARING:	December 18, 2003
RECORD CLOSED:	December 18, 2003
HEARD BY:	Scott Petry - Hearings Examiner Thomas Richter - Technical Examiner
PFD CIRCULATION DATE:	March 9, 2004

STATEMENT OF THE CASE

Aminex USA, Inc. (“Applicant” or “Aminex”) has applied for an exception to Statewide Rule 21 to produce 89 various wells (“subject wells”) on its Gordon S. -A-(11001) Lease, Bennett (10974) Lease, Williams, Minnie E. (10946) Lease, and Winn (11068) Lease (“subject leases”) by regularly swabbing the wells with a mobile swabbing unit. This application seeks authority to use swabbing as a production method as outlined in the Commission’s October 2002 amendments to Statewide Rule 21. Aminex appeared at the hearing and presented evidence in support of its applications. Given that the four applications involve the same field and the subject leases are adjacent to one another, the examiners have consolidated these dockets for the purpose of issuing the Proposal for Decision. The examiners recommend that Aminex’s authority to produce the subject wells by swabbing be approved.

BACKGROUND

“Swabbing” is a procedure which uses a device “...equipped with an upward-opening check valve that is designed to fit snugly within the well casing or tubing through which oil is produced. Lowered on a wire line to a point well below the surface of the fluid in the well, it is rapidly withdrawn to the surface, lifting above it the oil through which it has been lowered.” HOWARD R. WILLIAMS & CHARLES J. MEYERS, OIL & GAS TERMS, 745 (5th ed. 1981).

Statewide Rule 21 provides that swabbing is prohibited as a *production* method for wells unless an exception to the rule is granted. Specifically, Statewide Rule 21 requires that a hearing be held and that notice of this hearing be given at least 10 days prior to the date of the hearing. At the

hearing, the applicant is required to:

(A) provide the Commission with the names and mailing addresses of the mineral interest owners of record and surface owners of record of the lease on which a well for which an exception is sought is located; and to

(B) present evidence at the hearing which establishes the proposed method of production, the means by which the production is to be properly accounted for, the necessity of the proposed exception in preventing waste or protecting correlative rights, the sufficiency of the wellhead control in preventing releases from the well, the possession of a continuing good faith claim to operate the subject well, and that no pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the wells.

Additionally, Statewide Rule 21 sets out factors which the Commission *may* consider in deciding whether to grant or deny an exception to the rule. These factors include: (A) whether the well has passed a mechanical integrity test within the preceding 12 months; (B) the estimated monthly and cumulative production from the well if the requested exception is granted; (C) whether production will be into an on-lease tank battery or a mobile tank; (D) the adequacy of the financial assurance provided by the operator to assure that the well will be timely and properly plugged; (E) whether production volume, fine sands in the reservoir, or other factors render pumping of the well impracticable; (F) whether the reservoir from which the well produces contains hydrogen sulfide; and (G) the operator's history of compliance with Commission rules.

DISCUSSION OF EVIDENCE

Aminex has operated in the State of Texas for almost 20 years¹, and filed its most recent Organization Report in March 2003. The examiners took official notice of the Commission's mainframe records, which indicate that Aminex is currently listed as an "active" operator of 709 wells

¹ Commission records indicate that the Organization Report for Aminex USA, Inc. has been active since 1994, but that the Organization Report for a prior incarnation, Osceola Oil & Gas, was first filed in 1986.

in Texas with a combined depth of 1,100,082 feet. It has posted financial assurance with the Commission in the form of a \$250,000 bond.

According to the applicant, all of the wells that are the subject of these consolidated dockets have proper casing and are cemented from the bottom of the wells' total depth to the surface. These 89 wells were originally drilled in the 1980's and range in depth from approximately 1,300 feet to 1,850 feet. Usable quality water is observed at a depth of approximately 400 -500 feet. The four leases are adjacent to one another and are completed in the Somerset Field ("subject field"). Applicant asserts that its primary target within the subject field is the Olmos sand, which is a "very low volume but long life reservoir." Applicant estimates that there are approximately 600 wells completed in the subject field.

Aminex asserts that its swabbing operations are part of a larger operation which includes traditional drilling and production methods such as pumping, gas lift, or flowing wells. In terms of company wide operations for Texas and Louisiana, the applicant submitted documentation asserting that it produces 2,748 barrels (gross) of oil per day and 17,300 mcf (gross) of gas per day. Aminex acknowledges that swabbing only constitutes approximately 2% of its daily oil production, but that swabbing economics allow for these subject leases to be profitable.

In support of its application, the applicant provided a description of the production process and how it maintains proper accounting for all oil produced on the subject leases. With regard to the actual swabbing of the subject wells, Aminex described both how the wells are equipped and how the actual swabbing process occurs. Aminex purchased a Klaeger/MIA Portable Production Unit in 1997, which is attached to a John Deere tractor. The subject leases are adjacent to each other, and the applicant testified that the unit does not have to use state or federal roads to go from lease to lease. When the unit is ready to produce a subject well, a swabbing cup is lowered by a retractable cable until it reaches just above the uppermost perforations in the wellbore. The swabbing cup is then retracted, forming a seal against the casing and forcing fluid to the surface. The raised fluid is then pumped into a tank on the back of the unit. When swabbing is completed, the unit is disconnected and the wellhead cap is placed on the subject well. After the tank on the swabbing tractor is filled, the swabber proceeds to the tank battery, pumps the fluids into a storage tank and records the increased fluid level.

In this swabbing process, the applicant employs a system of controls to insure that the

production is properly accounted for. Specifically, after each lease's wells are produced, the oil is deposited in a tank battery specific to that lease. Each lease has one tank battery, and the oil is transferred to that tank battery before the pumping unit moves on to another lease. The applicant's pumper gauges the tanks "regularly",² a third party gatherer picks up production when the tanks reach capacity, and the gatherer leaves run tickets for the operator and the land owner. Applicant provided copies of its daily swabbing logs and testimony to illustrate how it uses its accounting procedures on the subject leases. Aminex asserts that it has been producing oil and gas for almost 20 years, and that its compliance record is indicative of the measure of care that it takes to insure that production will be properly accounted for.

Aminex asserts that the proposed exceptions are necessary to prevent waste. The applicant's representative, Mr. John Hayes, testified that swabbing allows Aminex to recover reserves which would not be economic to recover via any other traditional production method. Specifically, Aminex noted that many of the subject wells are over twenty years old, and, starting in 1996, many of the wells were starting to go off line due to "wear and tear" and aging equipment. Applicant sees swabbing as a viable method of extending the productive life of the subject wells, and that, absent a grant to produce via swabbing, these reserves will never be recovered.

Specifically, applicant estimates that swabbing would initially produce approximately 350 barrels of oil per month on the subject leases. Applicant estimated that swabbing would result in cumulative production of 39,944 barrels of oil for the subject leases over the next twenty years. Using statistical analysis in its economic forecast, Aminex predicts that the cumulative production would result in a net cash recovery of \$679,898.

Aminex also argued that its wellhead assembly control is sufficient to prevent releases from the subject wells. Applicant's representative testified that the wellhead control assembly consists of "...steel tubing, certified welded head, a one-inch swage and valve" and that the "...the valve is there to relieve pressure". In addition to wellhead controls, Aminex argues that safeguards for the subject wells will prevent pollution of usable quality water. These safeguards include cement in all the wells from total depth to the surface, the fact that all the wells were drilled since 1980 and have newer pipe, and that the static fluid levels in the wells are below usable quality water. The applicant

²Specifically, the pumper gauges the tank at least once a week, and the pumper's measurements are then compared with the gatherer's pickups to insure that the amounts equal out.

submitted correspondence from the Texas Natural Resources Conservation Commission,³ which indicated that the usable quality water occurred in the Wilcox formation and ranged in depth from the surface to approximately 500 feet.⁴

Aminex asserts that all leases for the subjects wells are in full force and effect, and that it maintains a continuing good faith claim to operate the subject leases. In furtherance of this assertion, the applicant provided correspondence from two of the landowners for the subject leases. One such letter from Mr. Marvin Gordon, Jr., states that he and his wife were "...extremely pleased with the swabbing extraction of oil..." on their land and that they were in support of Aminex's applications. Aminex asserted that good landowner relationships are essential to its plans.

Discretionary factors under Statewide Rule 21

With regard to the discretionary factors in Statewide Rule 21, Aminex points out that the Somerset Field is not known to have H₂S present. Aminex also asserted that it maintains adequate financial assurance for all of its wells and that it has a long history of compliance with Commission rules and regulations. It notes that it has a \$250,000 bond as financial assurance, that it has good credit and a positive company financial statement, and that it has been profitable for nine of the last ten years.

Finally, Aminex asserts that the nature of the low volume, but long life, production capability in the Olmos sand of the subject field is conducive to swabbing. The low volumes produced by the wells while on pump makes pumping the wells uneconomic. However, Aminex asserts that swabbing will prolong the life of the subject wells, that swabbing will result in significant production of oil that would otherwise go unrecovered, and that its compliance record is indicative of the safe and efficient swabbing that it will perform should the applications be approved. In conclusion, the representative for Aminex stated that "Aminex USA is a safe, reliable, bonded operator in full compliance with the Railroad Commission rules and regs..." and that "... the request for ...swabbing as a means of production should be approved."

³Which is now the Texas Department on Environmental Quality.

⁴The applicant points out that the wells do not build up enough pressure for fluid to reach the surface "...or even to four or five hundred feet. If they would...you would pump them."

EXAMINERS' OPINION

The examiners believe that Aminex has met the requirements of Statewide Rule 21(k) and that it should be permitted to produce the subject wells via swabbing. As outlined in Statewide Rule 21, an operator must address six issues to meet the minimum requirements for an exception to produce a well by swabbing, bailing or air jetting. The minimum requirements that the operator must address are: 1) the method of production; 2) the production accounting method; 3) that the exception is necessary to prevent waste or protect correlative rights; 4) that wellhead control is sufficient to prevent releases from the well; 5) that the production method for the well is safe and will not result in pollution; and 6) that it has good faith claim of a right to operate the well. Additionally, Statewide Rule 21 lists several discretionary factors that may be considered in an application. In analyzing these mandatory and discretionary factors, the examiners find that Aminex has established the minimum threshold necessary to produce the subject wells and leases by swabbing.

First, the examiners believe that Aminex has satisfied the six mandatory requirements under Statewide Rule 21. Proper notice was provided to the parties pursuant to Rule 21, the swabbing procedure was properly described and explained, and Aminex provided a basis on which its production is properly accounted for.

As to the requirement that swabbing will prevent waste or protect correlative rights, the applicant provided evidence which indicates that approximately 39,944 barrels of oil will be recovered that would otherwise be wasted due to the prohibitive costs of pumping. The evidence adduced at hearing indicates that it has a good faith claim to a right to operate the subject leases and that the landowners are generally supportive of its operations.

The evidence further indicates that the reported fluid levels are below the usable quality water and that the subject wells are cemented from total depth to the surface. These factors help to minimize any threat of pollution to the usable quality water as required by Statewide Rule 21. Further, the evidence supports a finding that the wellhead control is sufficient to prevent releases from the well as required by Statewide Rule 21.

Second, the evidence supports granting Aminex authority to produce the subject leases by

swabbing based on discretionary issues which the Commission may consider under Statewide Rule 21(k)(2). As referenced above, the applicant provided estimates which indicate a cumulative production of approximately 39,994 barrels of oil over the next two decades, and an initial estimated production of 350 barrels of oil per month for the subject leases. The evidence indicates that production will be transferred to an on-lease tank battery for each specific lease to insure that no commingling of oil will take place among the subject leases. Further, there is no indication that any of the subject wells contain hydrogen sulfide, the applicant has the maximum financial assurance required under statute, and the applicant appears to have an acceptable record of compliance.⁵

Accordingly, the examiners find that the evidence in these dockets support a recommendation that Aminex be allowed to produce the subject wells via swabbing. Based on the record in this docket, the examiner recommends adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. Aminex USA, Inc. (“Applicant” or “Aminex”) has applied for an exception to Statewide Rule 21 to produce 89 various wells (“subject wells”) on its Gordon S. -A-(11001) Lease, Bennett (10974) Lease, Williams, Minnie E. (10946) Lease, and Winn (11068) Lease (“subject leases”) by regularly swabbing the wells with a mobile swabbing unit.
2. Applicant and all other affected parties identified by the applicant, were given at least 10 days notice of this proceeding at the addresses provided by applicant. Aminex appeared at the hearing, was represented by counsel and presented evidence in support of the application.
3. Aminex has maintained its Commission Form P-5 (Organization Report) since January 1994 and filed its most recent Organization Report in March 2003. Aminex is currently listed as an “active” operator, with financial assurance in the form of a \$250,000 bond. It operates 709 wells in Texas with a combined total depth of 1,100,082 feet.

⁵While this statement was factually accurate at the time of hearing, it is duly noted that on February 24, 2004, the Commission signed a final order in Docket No. 01-0235659, *An Enforcement Action Against Aminex USA, Inc. for Alleged Violations of Statewide Rules on the Wm. James (02697) Lease, Well Nos. 1, 4, 7, 8, 9, 11, 15, and 16, Somerset Field, Bexar County, Texas*. This docket dealt with the production of oil from the James Lease while severed by the Commission.

4. Aminex was recognized as the operator of the subject leases via Commission approved Forms P-4 (Producer's Transportation Authority and Certificate of Compliance), which were approved by the Commission on January 14, 1994 and made effective October 1, 1993.
5. All of the subject wells are completed in the Somerset Field.
6. The applicant has current, valid mineral lease agreements for the subject leases.
7. The Texas Commission on Environmental Quality has determined that usable quality fresh water in the area is present in the Wilcox formation to a depth of 500 feet below the surface. Information supplied by Aminex with respect to its swabbing operations found that the fluid level in each of the wells is significantly below this depth.
8. Each well is equipped with wellhead control sufficient to prevent releases from the well.
9. All production from each lease will be immediately transferred from the tank on the swabbing tractor to the corresponding on-lease tank battery.
10. For all swabbing operations, Aminex records the date, the well swabbed, the depth where fluid is encountered in the wellbore, the type of fluid swabbed, and the amount of fluid transferred to the storage tanks on the lease.
11. An exception to produce the wells on the subject leases by swabbing is necessary to prevent waste, as conventional production methods may not allow for economic production of any remaining reserves present in the reservoir.
 - A. There are an estimated 39,994 barrels of oil underlying the subject leases that may not be economically feasible to recover by traditional production methods.
12. The production from the Somerset Field does not contain hydrogen sulfide emissions.
13. Aminex has an acceptable history of compliance with Commission rules relating to well plugging.
 - A. After the hearing, but before issuance of this proposal for decision, Aminex USA was ordered by the Commission to pay \$500 in Oil & Gas Docket No. 01-0235659. This

penalty was for producing Well Nos. 1, 4, 7, 8, 9, 11, 15, and 16, on the Wm. James (02697) Lease, Somerset Field, in Bexar County, Texas, while the lease was severed by the Commission.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred to give the Commission jurisdiction to decide this matter.
3. Aminex's application satisfies the mandatory requirements for an exception to Statewide Rule 21 to produce the wells on the subject lease by swabbing.
 - A. Aminex will produce the wells on the subject lease through the use of a mobile swabbing truck.
 - B. For all swabbing operations, Aminex records the date, the well swabbed, the depth where fluid is encountered in the wellbore, the type of fluid swabbed, and the amount of fluid transferred to the storage tanks on the lease.
 - C. An exception to produce the wells on the subject lease by swabbing is necessary to prevent waste, as conventional production methods may not allow for economic production of any remaining oil and gas present in the reservoir.
 - D. Each well is equipped with wellhead control sufficient to prevent releases from the well.
 - E. The proposed production method will not pollute usable quality water as the fluid levels in the wells are below the depth of usable quality water present in the area.
 - F. Aminex has a good faith claim of the right to operate the wells on the subject leases.
4. Aminex's application satisfies several discretionary issues which the Commission may consider with respect to ruling on a request for an exception to Statewide Rule 21 to produce the wells on the subject lease by swabbing.

- A. All production will be immediately transferred from the tank on the swabbing tractor to the corresponding on-lease tank battery.
- B. Estimated monthly production by swabbing is 350 barrels of oil per month, and estimated ultimate recovery over the next 20 years is 39,944 barrels of oil.
- C. Aminex has filed a \$250,000 bond as its financial assurance, the maximum amount required by the Texas Natural Resources Code.
- D. The Somerset Field does not produce any known hydrogen sulfide emissions.

RECOMMENDATION

The examiners recommend that Aminex's application be granted to allow the authority to produce the wells on the subject leases by swabbing, and in accordance with the attached final order.

Respectfully submitted,

Scott Petry
Hearings Examiner

Thomas Richter
Technical Examiner