

September 25, 2007

OIL AND GAS DOCKET NO. 01-0251053

APPLICATION OF AMINEX USA, INC., TO CONSIDER EXCEPTIONS TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING OF WELL NOS. 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, AND 21, ON THE MIRELES, JESUS (10858) LEASE, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0251054

APPLICATION OF AMINEX USA, INC., TO CONSIDER EXCEPTIONS TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING OF WELL NOS. 8, 10, 13, 14, 18, 21, 24, 25, 26, 27, 28, AND 29, ON THE NICHOLS, LUCY (10856) LEASE, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0251055

APPLICATION OF AMINEX USA, INC., TO CONSIDER EXCEPTIONS TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING, BAILING, OR JETTING OF WELL NOS. 1A, 2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A, 10A, 11A, 12A, 13A, 14A, 15A, 16A, 17A, 18A, 19A, 20A, 21A, 22A, 23A, AND 24A, ON THE WEIMERS, C.T. -A- (11211) LEASE, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS

APPEARANCES FOR APPLICANT AMINEX USA, INC.:

Rex White, Attorney
Antonio G. Prado, President

CONSOLIDATED PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE OF REQUEST FOR ACTION:	February 27, 2007
NOTICE OF HEARING:	April 27, 2007
DATE CASE HEARD:	May 23, 2007
RECORD CLOSED:	May 31, 2007
HEARD BY:	Mark Helmueller, Hearings Examiner Andres Trevino, Technical Examiner
PFD CIRCULATION DATE:	September 25, 2007

STATEMENT OF THE CASE

Aminex USA, Inc. (hereinafter “Aminex”) has applied for exceptions to Statewide Rule 21 to allow it to permanently produce by swabbing 53 wells in the Somerset Field in Atascosa County: Well Nos. 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, and 21, on the Mireles, Jesus (10858) Lease (hereinafter “Mireles Lease”); Well Nos. 8, 10, 13, 14, 18, 21, 24, 25, 26, 27, 28, and 29, on the Nichols, Lucy (10856) Lease (hereinafter “Nichols Lease”); and, Well Nos. 1A, 2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A, 10A, 11A, 12A, 13A, 14A, 15A, 16A, 17A, 18A, 19A, 20A, 21A, 22A, 23A, and 24A, on the Weimers, C.T. -A- (11211) Lease (hereinafter “Weimers Lease”).

Aminex appeared at the hearing and presented evidence in support of its applications. The record was left open until May 31, 2007. The examiners recommend the applications be granted.

MATTERS OFFICIALLY NOTICED

Official Notice was taken of the following printouts of reports from the Commission’s mainframe database: 1) Aminex’s most recent Commission Form P-5 (Organization Report) filing; 2) Commission Form P-4 (Producer’s Transportation Authority and Certificate of Compliance) filings for the Mireles, Nichols, and Weimers Leases; and 3) On-Schedule Leases, Wells, Wellbores By Operator Records for Aminex as of May 23, 2007 identifying the leases and wells for which Aminex is currently recognized as the operator. Official Notice was also taken of printouts from the Commission’s Production Data Query database from January 1993 through March 2007 regarding reported production and dispositions from the Mireles, Nichols, and Weimers Leases.

Official Notice was also taken of the proposals for decision and/or Commission Orders in the following dockets which approved permanent swabbing operations in the Somerset Field:

Oil & Gas Docket No. 01-0234663 et al.: Applications of Aminex USA, Inc., to Consider an Exception to Statewide Rule 21 to Allow Production by Swabbing, Bailing, or Jetting on the Various Leases, Various Wells, Somerset Field, Bexar County, Texas. (“Aminex dockets”); and,

Oil & Gas Docket No. 01-0245199: Application of U. D. Man, Inc., to Consider Exceptions to Statewide Rule 21 to Allow Production by Swabbing, Bailing, or Jetting of Well Nos. 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, and 13, on the Stockard (10864) Lease, Somerset Field, Atascosa County, Texas (“U.D. Man docket”).

SUMMARY OF EVIDENCE

Aminex filed its most recent Organization Report on December 8, 2006. Aminex is currently listed as the operator of 607 wells with a total depth of 935,229 feet. Aminex submitted a \$250,000 bond as its financial assurance at the time of its most recent Form P-5 (Organization Report) filing.

Aminex was recognized as the operator of the Mireles and Nichols Leases when the Commission approved its Form P-4 (Producer's Transportation Authority and Certificate of Compliance) on January 14, 1994. Aminex was recognized as the operator of the Weimers Lease when the Commission approved its Form P-4 on June 14, 1994

Good Faith Claim of Right to Operate

Aminex claims continuous production of oil and gas from the time it was recognized as the operator by the Commission supports its right to produce the wells on the Nichols and Weimers Leases. Commission Production records confirm continuous production has been reported on the Nichols and Weimers Leases since the time Aminex was recognized as the operator. Aminex also submitted a late filed exhibit in which the mineral interest owner for the Mireles Lease acknowledges Aminex's claimed right to operate the wells on that property.

Proposed Operations and Other Requirements

All of the wells Aminex proposes to swab are slimhole wells drilled between 1980 and 1986. The wells are currently equipped, but the equipment is in a state of disrepair. The wells are perforated between 1495 feet and 1569 feet on the Mireles Lease, between 1673 feet and 1779 feet on the Nichols Lease, and between 1471 feet and 1627 feet on the Weimers Lease. The wells are cemented from the total depth to the surface. Correspondence from the Texas Commission on Environmental Quality notes that fresh water in the area is required to be protected to a depth of 850 feet below the surface. Testimony and Commission inspections show that well head control is currently maintained on all wells.

Aminex seeks to initiate regular swabbing operations on a once or twice weekly basis. It proposes the following step-by-step process to swab the subject wells. Upon arriving at each well, the swabber will first remove the cap on the wellhead. A boom on the tractor mounted swabbing unit will be lowered over the well and then hooked up to the wellbore. Swabbing cups will be lowered by a retractable cable until they reach the top of the fluid level in the well. The swabber will then lower the cups to the uppermost perforations in the wellbore. The cable will then be retracted. As the cable is retracted, the swabbing cups will form a seal against the casing, thereby forcing any fluid to the surface. Any fluid raised by this process will be carried by a tank hose into a mobile tank trailer behind the tractor rig. When swabbing is completed, the unit will be disconnected and the cap reinstalled. After all the wells on a lease are swabbed, the swabber will proceed to pump the fluids into an on-lease storage tank and record the increased fluid level.

All of Aminex wells are in the Somerset Field. 50 of the wells are currently producing on pump at an average rate of 7-8 barrels per month. Aminex expects the wells it swabs to produce approximately 85% of the oil that its pumping wells currently produce in the Somerset Field based on its prior experience swabbing wells in this field. Aminex believes that weekly swabbing would produce at the same level as a pump on a timer, but recognizes that weather may preclude regular access for its swabbing rig.

Aminex also notes that swabbing operations have been approved for other operators in the Somerset Field. Aminex notes that the Somerset Field was discovered in 1911 and primarily produces from the Olmos Sands. There are over 3000 wells in the field, but all are “stripper wells” due to pressure depletion. Commission production records from January 2005 through December 2005 report field wide production of 124,307 barrels. Aminex reported 7,710 barrels of production from its 50 pumping wells in the field in 2005. The field is not an H₂S associated field.

Aminex believes that the subject wells will produce by swabbing with no decline in production for the next 10 years at a rate of 1500 to 2000 barrels annually. It claims that it would cost \$4,000.00 to \$5,000.00 to reequip each well to pumping production, but that reequipping the wells does not make economic sense because they will produce at roughly the same rate on pump placed on timer as they will by weekly swabbing.

Aminex also contends that it regularly plugs non-producing wells and provided documentary evidence identifying the plugged wells and wells it intends to plug in the near future. Over the past four years, Aminex plugged 75 wells, including two wells on the subject leases which were identified as having potential casing leaks. Aminex is engaged to plug an additional 120 wells when it can obtain the services of a plugging contractor.

EXAMINERS’ OPINION

An operator must present evidence addressing six issues outlined in Rule 21(k)(1)(B) to meet the minimum requirements for an exception to produce a well by swabbing, bailing or air jetting. The operator must show: 1) the method of production; 2) the production accounting method; 3) the exception is necessary to prevent waste or protect correlative rights; 4) wellhead control is sufficient to prevent releases from the well; 5) the production method for the well is safe and will not result in pollution; and 6) it has good faith claim of a right to operate the well. Additionally, Rule 21(k)(2) delineates several potentially relevant factors to the Commission’s consideration of an application for an exception under Rule 21. The examiners believe Aminex meets the mandatory requirements of Rule 21(k)(1), and that balancing these mandatory requirements with all of the applicable discretionary elements of Rule 21(k)(2) warrants granting authority to Aminex to produce the wells on the Mireles, Nichols, and Weimers Leases by swabbing.

Aminex Meets the Requirements Necessary to Permit Production by Swabbing

Aminex’s application satisfies the six mandatory requirements under Statewide Rule 21(k)(1)(B). Proper notice was provided to the parties pursuant to Rule 21(k)(1)(A). The swabbing procedure was outlined as required by Rule 21(k)(1)(B)(i). Aminex also showed that production would be properly accounted for under Commission rules as required under Rule 21(k)(1)(B)(ii). As to the requirement that swabbing will prevent waste or protect correlative rights, Aminex asserts that the subject wells will produce by swabbing with no decline in production for the next 10 years at a rate of 1500 to 2000 barrels annually. Additionally, the Commission has approved swabbing authority for other wells in the Somerset Field. Wellhead control is sufficient to prevent releases

from the well as required by Rule 21(k)(1)(B)(iv). Further, the reported fluid levels in the wells and the fact that they are cemented from the total depth to the surface minimize any threat of pollution to usable quality water as required by Rule 21(k)(1)(B)(v). Finally, Aminex has a good faith claim of the right to operate as required by Rule 21(k)(1)(B)(vi) through the continued production on the Nichols and Weimers Leases and the acknowledgment by the mineral interest owner that the lease for the Mireles wells remains in force and effect.

Aminex Satisfies Several Discretionary Issues Related to Swabbing

The evidence also supports granting Aminex authority to produce the subject wells by swabbing based on several discretionary issues which may be considered under Statewide Rule 21(k)(2).¹ The concern addressed by Rule 21(k)(2)(C) appears to be addressed as all oil is transferred to on-lease tanks after the wells have been swabbed. Further, both the absence of any reservoir pressure and the historical production volumes indicates that reequipping the wells for pumping production at an average cost of \$4000 - \$5000 per well would be impracticable under Rule 21(k)(2)(E). Finally, under Rule 21(k)(2)(G), Aminex has an acceptable record of compliance.

The only discretionary factor which would weigh against authorizing Aminex to produce the subject wells by swabbing is found in Rule 21(k)(2)(D) related to the financial security Aminex has posted with the Commission. Aminex has filed blanket financial security in the form of a \$250,000 bond. Because the total depth of all of Aminex's wells is 935,229 feet, Aminex's financial security would not be sufficient to plug all of its wells. Accordingly, it cannot be shown under Rule 21(k)(2)(D) that the financial security provided by Aminex is adequate to assure that the wells will be timely and properly plugged.

Any applicable provisions of Rule 21(k)(2) may be considered by the Commission in each exception application. Because these factors are discretionary, as opposed to the mandatory requirements of Rule 21(k)(1), any negative factor under Rule 21(k)(2) does not automatically preclude the Commission from granting an exception, but instead must be balanced against both the mandatory requirements and the positive discretionary factors. After balancing all of the applicable factors set forth by Rule 21, it is the examiners' opinion that Aminex's authority to produce the wells by swabbing should be granted.

Based on the record in this docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

¹ It appears that neither the provisions relating to mechanical integrity tests set in Rule 21(k)(2)(A) nor the provisions relating to hydrogen sulfide reservoirs set in Rule 21(k)(2)(F) are applicable in this case.

FINDINGS OF FACT

1. Aminex USA, Inc. (hereinafter “Aminex”) has applied for exceptions to Statewide Rule 21 to allow it to permanently produce by regularly swabbing 53 wells in the Somerset Field in Atascosa County: Well Nos. 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, and 21, on the Mireles, Jesus (10858) Lease (hereinafter “Mireles Lease”); Well Nos. 8, 10, 13, 14, 18, 21, 24, 25, 26, 27, 28, and 29, on the Nichols, Lucy (10856) Lease (hereinafter “Nichols Lease”); and, Well Nos. 1A, 2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A, 10A, 11A, 12A, 13A, 14A, 15A, 16A, 17A, 18A, 19A, 20A, 21A, 22A, 23A, and 24A, on the Weimers, C.T. -A- (11211) Lease (hereinafter “Weimers Lease”).
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 and presented evidence in support of the application.
3. Aminex filed its most recent Organization Report on December 8, 2006. Aminex is currently listed as the operator of 607 wells with a total depth of 935,229 feet. Aminex submitted a \$250,000 bond as its financial assurance at the time of its most recent Form P-5 (Organization Report) filing.
4. Aminex was recognized as the operator of the Mireles and Nichols Leases when the Commission approved its Form P-4 (Producer’s Transportation Authority and Certificate of Compliance) on January 14, 1994. Aminex was recognized as the operator of the Weimers Lease when the Commission approved its Form P-4 on June 14, 1994.
5. Aminex claims continuous production of oil and gas from the time it was recognized as the operator by the Commission supports its right to produce the wells on the Nichols and Weimers Leases. Commission Production records confirm continuous production has been reported on the Nichols and Weimers Leases since the time Aminex was recognized as the operator.
6. The mineral interest owner for the Mireles Lease acknowledges Aminex’s claimed right to operate the wells on that property.
7. All of the wells Aminex proposes to swab are slimhole wells drilled between 1980 and 1986. The wells are currently equipped, but the equipment is in a state of disrepair. The wells are perforated between 1495 feet and 1569 feet on the Mireles Lease, between 1673 feet and 1779 feet on the Nichols Lease, and between 1471 feet and 1627 feet on the Weimers Lease. The wells are cemented from the total depth to the surface. Correspondence from the Texas Commission on Environmental Quality notes that fresh water in the area is required to be protected to a depth of 850 feet below the surface. Testimony and Commission inspections show that well head control is currently maintained on all wells.

8. Aminex proposes regular swabbing operations with a tractor mounted mobile swabbing unit.
 - A. Upon arriving at each well, the swabber will first remove the cap on the wellhead.
 - B. A boom on the swabbing unit will be lowered over the well and then hooked up to the wellbore.
 - C. Swabbing cups will be lowered by a retractable cable until they reach the top of the fluid level in the well. The swabber will then lower the cups to the uppermost perforations in the wellbore. The cable will then be retracted. As the cable is retracted, the swabbing cups will form a seal against the casing, thereby forcing any fluid to the surface. Any fluid raised by this process will be carried by a tank hose into a mobile tank trailer behind the swabbing tractor.
 - D. When swabbing is completed, the unit will be disconnected and the cap reinstalled. After all the wells on a lease are swabbed, the swabber will proceed to pump the fluids into an on-lease storage tank and record the increased fluid level.
9. The Somerset Field was discovered in 1911 and primarily produces from the Olmos Sands. There are over 3000 wells in the field, but all are “stripper wells” due to pressure depletion. Commission production records from January 2005 through December 2005 report field wide production of 124,307 barrels. Aminex reported 7,710 barrels of production from its 50 pumping wells in the field. The field is not an H₂S associated field.
10. Swabbing operations have been approved for other operators in the Somerset Field.
11. Aminex operates 61 wells in the Somerset Field. 50 of the wells are currently producing on pump at an average rate of 7-8 barrels per month.
12. The estimated cost to reequip each well to pumping production is \$4,000.00 to \$5,000.00.
13. Aminex will swab the wells at least once per week, depending on weather and access issues.
14. Aminex estimates that the subject wells will produce by swabbing with no decline in production for the next 10 years at a rate of 1500 to 2000 barrels annually.
15. In December 2005, Aminex discovered that two of the wells on the subject leases had potential casing leaks. Aminex promptly plugged both of the wells.

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 applications satisfy the requirements for an exception to Statewide Rule 21 to continue to produce the wells by swabbing.
 - A. Aminex will produce the wells on the subject lease with a mobile swabbing rig mounted on a tractor.
 - B. For all swabbing operations, Aminex records the date, the well swabbed, the fluid depth, and the amount of fluid transferred to the storage tanks on the lease.
 - C. Exceptions to produce the wells by swabbing is necessary to prevent waste of a significant volume of oil.
 - D. The wellhead control for each well is sufficient to prevent releases.
 - 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 and the wells are cemented from total depth to the surface.
 - F. Aminex has a good faith claim of the right to operate the subject wells.
4. Aminex's applications satisfy three of the applicable discretionary issues which the Commission may consider when ruling on a request for an exception to Statewide Rule 21.
 - A. All oil is transferred to the on-lease tank battery after the wells are swabbed.
 - B. Historical production volumes indicate that reequipping the wells for pumping production would be impracticable.
 - C. The absence of reservoir pressure indicates that re-equipping the wells for pumping production would be impracticable.
 - D. Aminex has an acceptable record of compliance with the Commission.

RECOMMENDATION

The examiners recommend that the applications be granted, in accordance with the attached final order.

Respectfully submitted,

Andres Trevino
Technical Examiner

Mark J. Helmueller
Hearings Examiner