

May 6, 2009

OIL AND GAS DOCKET NO. 01-0261269

APPLICATION OF GOG FIELDS, INC., TO CONSIDER EXCEPTIONS TO STATEWIDE RULE 21 TO ALLOW PRODUCTION BY SWABBING OF WELL NOS. 1A, 1B, 1C, 1E AND 1F, ON THE BROWN UNIT (13645) LEASE, SALT FLAT, WEST FIELD, CALDWELL COUNTY, TEXAS

APPEARANCES FOR APPLICANT GOG Fields, Inc.:

Damon Wagley, President
Warren Cole, Regulatory Consultant

PROPOSAL FOR DECISION
PROCEDURAL HISTORY

DATE OF APPLICATION:	January 15, 2009
NOTICE OF HEARING:	March 20, 2009
DATE CASE HEARD:	April 17, 2009
RECORD CLOSED:	April 30, 2009
HEARD BY:	Mark Helmueller, Hearings Examiner
PFD CIRCULATION DATE:	May 6, 2009

STATEMENT OF THE CASE

GOG Fields, Inc. (hereinafter "GOG") has applied for exceptions to Statewide Rule 21 to allow it to permanently produce by swabbing Well Nos. 1A, 1B, 1C, 1E and 1F, on the Brown Unit (13645) Lease, (hereinafter "Brown Unit Lease") Salt Flat, West Field, Caldwell County, Texas. GOG appeared at the hearing and presented evidence in support of its application. Notice was provided to the mineral interest owner who supports granting the application.

MATTERS OFFICIALLY NOTICED

Official Notice was taken of the following printouts of reports from the Commission's mainframe database: 1) GOG'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 Brown Unit Lease; and 3) On-Schedule Leases, Wells, Wellbores By Operator Records for GOG as of April 30, 2009 identifying the leases and wells for which GOG 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 2009.

Official Notice was also taken of Commission inspection reports, memoranda, and correspondence as follows: 1) an inspection report dated January 30, 2009 by the San Antonio District Office of the Brown Unit Lease; 2) a March 17, 2009 memorandum prepared by the Oil and Gas Division, Field Operations Unit noting no objection to the proposed application; and, 3) correspondence from the Field Operations Unit to GOG dated February 4, 2008 advising that an air powered production system which would include permanent equipment installed at each well would not require an exception to Statewide Rule 21.

Official Notice was also taken of the proposal for decision and Commission Order in the following docket which approved swabbing operations in the Salt Flat, West Field:

Oil & Gas Docket Nos. 01-0234784, et al.: *Consolidated Applications of Caltex Energy Co. for Exceptions to Statewide Rule 21 to Produce by Swabbing, Bailing, or Jetting, of 320 Wells on 96 Leases, Salt Flat and Salt Flat West Fields, Caldwell County, Texas.* (hereinafter referred to as the “Caltex docket.”)

SUMMARY OF EVIDENCE

GOG filed its most recent Form P-5 (Organization Report) on August 22, 2008. GOG is currently listed as the operator of 6 wells which have a cumulative total depth of 16,181 feet. GOG submitted a \$25,000 bond as its financial assurance at the time of its most recent filing. GOG has no past or pending dockets against it for violation of Commission rules.

GOG was recognized as the operator of the Brown Unit Lease when the Commission approved its Form P-4 (Producer’s Transportation Authority and Certificate of Compliance) on October 18, 2007. GOG has reported continuous flowing production from October 2007 through March 2009. None of the wells are currently equipped to produce by pumping. For fiscal year 2009, the cost to plug wells in the San Antonio District is estimated at \$3.05 per foot based on state funded plugging.

Good Faith Claim of Right to Operate

GOG’s oil, gas and mineral lease is still within its primary term. GOG further claims that continuous production from the time it was recognized as the operator by the Commission supports its right to produce the wells on the Brown Unit Lease. Commission production records confirm continuous production reported from the Brown Unit Lease since the time GOG was recognized as the operator. An affidavit from the mineral interest owner for the Brown Unit Lease acknowledges GOG’s claimed right to operate the wells and supports the application to produce by swabbing.

Proposed Operations and Other Requirements

Commission records show that all of the wells GOG proposes to swab were drilled between 1981 and 1992. The wells are perforated between 2476 feet and 2590 feet. 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 650 feet below the surface. Testimony and the inspection show that wellhead control is currently maintained on all wells. The wells are not equipped for pumping production, but flow lines connect them to a central tank battery.

GOG 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 mandrel on the 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. Any fluid raised by this process will be carried by flow lines into the tank battery for the Brown Unit Lease. When swabbing is completed, the unit will be disconnected and the cap reinstalled.

Between May 1997 and September 2007 when GOG was recognized as the operator, the Brown Unit Lease reported production of 94 barrels of oil with only 65 barrels reported as sold in August 2000. Since acquiring the Brown Unit Lease, GOG has reported 668 barrels of production with sales of 633 barrels. GOG opines that the current flowing production is due to pressure build up in the reservoir as the wells were not produced for 12 years. After this flush production tails off, GOG believes swabbing will produce 2 barrels of oil each time a well is swabbed. Based on this estimate, the five wells will cumulatively produce approximately 40 - 50 barrels of oil each month, assuming access to swab the wells as regularly scheduled. This would result in annual production from the five wells of approximately 500 to 600 barrels.

Swabbing operations have been approved by the Commission for numerous wells in the Salt Flat, West Field. The field is an H₂S associated field, however tests of the Brown Unit Lease wells show that the H₂S level is minimal, less than 4 ppm. GOG will conduct monthly safety meetings for its employees swabbing the wells.

GOG further urges that the testimony, photographs, and documents show that the wells are located within the flood plain of Plum Creek. Past floods damaged or destroyed the production equipment for the Brown Unit Lease wells. Because none of the wells are currently equipped to produce by pumping, GOG believes that swabbing, with its minimal surface equipment, is a more practical method for production for this area.

GOG also contends that it studied the wells to install a jetting system which would not require an exception to Statewide Rule 21 because each well has permanently installed production equipment. GOG estimates the cost to install the jetting units would be \$100,000 in shared equipment plus \$50,000 in equipment per well. The estimated cost of reequipping the wells for pumping production is \$70,000 per well. GOG believes the costs to equip the wells are not justified by the anticipated production from each well.

EXAMINER'S OPINION

An operator must present evidence addressing six issues outlined in Rule 21(k)(1)(B) to satisfy the mandatory requirements to produce a well by swabbing. 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 examiner believes GOG 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 GOG to produce the wells by swabbing.

GOG Meets the Requirements Necessary to Permit Production by Swabbing

GOG's application satisfies the mandatory requirements under Statewide Rule 21(k)(1)(B). The proposed swabbing procedure was outlined as required by Rule 21(k)(1)(B)(i). GOG 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, GOG asserts that the subject wells will produce by swabbing at a rate of 500 to 600 barrels annually. Additionally, the Commission has approved swabbing authority for other wells in the Salt Flat, West Field. Wellhead control is sufficient to prevent releases from the well as required by Rule 21(k)(1)(B)(iv). Further, the wells are cemented from the total depth to the surface which will minimize any threat of pollution to usable quality water as required by Rule 21(k)(1)(B)(v). Finally, GOG established a good faith claim of the right to operate as required by Rule 21(k)(1)(B)(vi).

GOG Satisfies Several Discretionary Issues Related to Swabbing

The evidence also supports granting GOG authority to produce the subject wells by swabbing based on several discretionary issues which may be considered under Statewide Rule 21(k)(2).¹ All oil produced is transported through flow lines to a central tank battery. Further, historical production volumes indicate that reequipping the wells for pumping production would be

¹ The provisions relating to mechanical integrity tests set in Rule 21(k)(2)(A) are not applicable in this case.

impracticable under Rule 21(k)(2)(E). Finally, GOG has an acceptable record of compliance with no history of enforcement cases filed against it for violations of Commission rules.

There are two discretionary factors which neither support nor undermine GOG's application. First, the Salt Flat, West Field is an H₂S associated field which raises the discretionary concerns set forth in Rule 21(k)(2)(F). In the *Caltex* docket which previously granted swabbing authority in the Salt Flat, West Field, findings were made that the operator's field personnel were H₂S certified and required to wear H₂S monitors on their belt during swabbing operations. Additional safeguards outlined in the *Caltex* docket included observing wind direction so that wells were approached from upwind, and a capture and circulation system for any gas produced during the operations. GOG did not provide this type of detail with respect to safety precautions. However, it noted that well tests showed minimal levels of hydrogen sulfide content even when sufficient pressure was present to allow for flowing production. GOG also represented that monthly safety meetings would be held for its field personnel. Finally, Field Operations noted in its memoranda that the lease produces less than 1 mcf of gas per day.

Because testing shows minimal levels of hydrogen sulfide content and actual gas produced, the lack of detail can be supplemented by the inclusion of permit conditions. While monthly safety meetings will be an important component with respect to GOG's operations, the examiner recommends permit conditions be included in this application consistent with the safety measures outlined in the *Caltex* docket for swabbing operations in the Salt Flat, West Field. Accordingly, the Final Order includes permit conditions requiring GOG's personnel to be H₂S certified and to use H₂S monitors during swabbing operations.

The second discretionary factor to consider is related to the financial security GOG has posted with the Commission. GOG has filed blanket financial security in the form of a \$25,000 letter of credit. Because GOG is the operator of 6 wells which have a cumulative total depth of 16,181 feet, its financial security is approximately 50% of the estimated plugging costs based on the fiscal year 2009 average for wells plugged with state funds in the San Antonio District of \$3.05 per foot. However, because GOG could acquire additional wells without posting additional financial security, it cannot be concluded that the blanket financial security currently posted will be adequate to assure that the wells will be timely and properly plugged. Therefore, GOG's financial security is neither a negative or positive consideration with respect to granting the requested authority.

Any applicable provisions of Rule 21(k)(2) may be considered by the Commission in each exception application. Because these factors are discretionary, neither the H₂S nor the financial security issues discussed preclude approval of swabbing operations. After balancing the mandatory requirements and the discretionary factors, it is the examiner's recommendation that GOG be granted authority to produce the wells by swabbing subject to the conditions set forth in the Final Order.

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. GOG Fields, Inc. (hereinafter "GOG") has applied for exceptions to Statewide Rule 21 to allow it to permanently produce by swabbing Well Nos. 1A, 1B, 1C, 1E and 1F, on the Brown Unit (13645) Lease, (hereinafter "Brown Unit Lease") Salt Flat, West Field, Caldwell County, Texas.
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. GOG appeared and presented evidence in support of the application.
3. GOG filed its most recent Form P-5 (Organization Report) on August 22, 2008. GOG is currently listed as the operator of 6 wells which have a cumulative total depth of 16,181 feet. GOG submitted a \$25,000 bond as its financial assurance at the time of its most recent filing. GOG has no past or pending dockets against it for violation of Commission rules.
4. GOG was recognized as the operator of the Brown Unit Lease when the Commission approved its Form P-4 (Producer's Transportation Authority and Certificate of Compliance) on October 18, 2007. GOG has reported continuous flowing production from October 2007 through March 2009.
5. The wells on the Brown Unit Lease are located within the flood plain of Plum Creek. Past floods damaged or destroyed the production equipment for the Brown Unit Lease wells. None of the wells are currently equipped to produce by pumping.
6. GOG's oil, gas and mineral lease for the Brown Unit Lease is still within its primary term. GOG further claims that continuous production from the time it was recognized as the operator by the Commission supports its right to produce the wells on the Brown Unit Lease. Commission production records confirm continuous production reported from the Brown Unit Lease since the time GOG was recognized as the operator.
7. The mineral interest owner for the Brown Unit Lease acknowledges GOG's claimed right to operate the wells on that property.
8. All of the wells GOG proposes to swab were drilled between 1981 and 1992. The wells are perforated between 2476 feet and 2590 feet. 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 650 feet below the surface. Wellhead control is currently maintained on all wells.

9. Between May 1997 and September 2007, the Brown Unit Lease reported production of 94 barrels of oil with only 65 barrels reported as sold in August 2000.
10. Since acquiring the Brown Unit Lease, GOG has reported 668 barrels of production with sales of 633 barrels. GOG opines that the current flowing production is due to pressure build up in the reservoir as the wells were not produced for 12 years. After this flush production tails off, GOG believes swabbing will produce 2 barrels of oil each time a well is swabbed.
11. GOG proposes regular swabbing operations at least once per week with a mobile swabbing unit.
 - A. Upon arriving at each well, the swabber will first remove the cap on the wellhead.
 - B. A mandrel 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 perforations in the well. Any fluid raised by this process will be carried by flow lines into the tank battery for the Brown Unit Lease. When swabbing is completed, the unit will be disconnected and the cap reinstalled.
12. GOG estimates the five wells will cumulatively produce approximately 40 - 50 barrels of oil each month, assuming access to swab the wells as regularly scheduled. This would result in annual production from the five wells of approximately 500 to 600 barrels.
13. Swabbing operations have been approved by the Commission for numerous wells in the Salt Flat, West Field
14. The Salt Flat, West Field is an H₂S associated field.
 - A. Tests of the Brown Unit Lease wells show that the H₂S level is minimal, less than 4 ppm.
 - B. Less than 1mcf of gas per day is produced from the Brown Unit Lease.
 - C. Safety measures in prior dockets involving swabbing operations in the Salt Flat, West Field included H₂S certification of field personnel and the use of H₂S monitors by field personnel during swabbing operations.
15. The estimated cost to reequip each well to pumping production is \$70,000.

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. GOG's applications satisfy the requirements for an exception to Statewide Rule 21 to continue to produce the wells by swabbing.
 - A. GOG will produce the wells on the subject lease with a mobile swabbing rig.
 - B. For all swabbing operations, any fluids will be transported by flow lines 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. GOG has a good faith claim of the right to operate the subject wells.
4. GOG's application satisfies 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 transported by flow line 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. GOG has an acceptable record of compliance with the Commission.
5. Pursuant to Texas Natural Resources Code Section 85.042 and Statewide Rule 21(k)(2)(F) the Commission has the authority to require permit conditions related to the safety of field personnel during swabbing operations in an H₂S associated field such as the Salt Flat, West Field.

6. Permit conditions requiring GOG's field personnel to be H₂S certified and to use H₂S monitors during swabbing operations for the wells on the Brown Unit Lease are necessary for the safety of field personnel during swabbing operations and consistent with the Commission's authority under Texas Natural Resources Code Section 85.042 and Statewide Rule 21(k)(2)(F).

RECOMMENDATION

The examiner recommends that the application be granted, in accordance with the attached final order.

Respectfully submitted,

Mark J. Helmueller
Hearings Examiner