



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0298264

APPROVING THE APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING BRISCOE, JOE E. "A" LEASE, WELL NOS. 5 and 6, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0298265

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING BRISCOE, JOE E. "B" LEASE, WELL NOS. 1, 2, 3, 4, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0298266

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING BRISCOE, JOE E. LEASE, WELL NOS. 1, 2, 3, 4, 5, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0298267

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, TICK, STEVE LEASE, WELL NOS. 21, 22, 23, 24, 25, 26, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, J. KOEHLER SOUTH LEASE, WELL NO. 44, SOMERSET FIELD, BEXAR COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0298270

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, IMA FOWLER LEASE, WELL NOS. 1, 2, 3, 4, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0297788

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, BAILEY, JAMES M. LEASE, WELL NOS. 2B, 4A, 5A, 6A, 7A, 8A, 9A, 10A, 11A, 12A, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0297789

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, AGUIRRE, LEONARD B. LEASE, WELL NOS. 1, 1A, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0297790

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, BAILEY, EVERETT N. LEASE, WELL NOS. 2, 3, 4, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0297791

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, BAILEY, E. N. LEASE, WELL NO. 1A, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 01-0297792

APPLICATION OF PETROSAURUS INC. TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING, BAILING OR JETTING, BRANDT, HERBERT C. LEASE, WELL NOS. 3A, 4, SOMERSET FIELD, ATASCOSA COUNTY, TEXAS.

HEARD BY: Richard Eyster, P.G.— Technical Examiner
Ryan Lammert — Administrative Law Judge

HEARING DATE: November 02, 2015

CONFERENCE DATE: December 15, 2015

APPEARANCES:

REPRESENTING:

Antonio Prado, Vice President
Ruben Smith, Operations Manager

Petrosaurus, Inc.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Petrosaurus, Inc. (hereinafter "Petrosaurus") seeks swabbing authority for its leases and wells in the Somerset Field of Atascosa and Bexar Counties. Those leases and wells are:

1. Briscoe, Joe E. "A" (11494) Lease, Atascosa County, Texas
Well Nos. 5 and 6,

2. Briscoe, Joe E. "B" (11362) Lease, Atascosa County, Texas
Well Nos. 1, 2, 3, 4,
3. Briscoe, Joe E. (06318) Lease, Atascosa County, Texas
Well Nos. 1, 2, 3, 4, 5,
4. Tick, Steve Lease, (10947) Bexar County, Texas
Well Nos. 21, 22, 23, 24, 25, 26,
5. J. Koehler South Lease, (11627) Bexar County, Texas
Well No. 44
6. Ima Fowler Lease, (10857) Atascosa County, Texas
Well Nos. 1, 2, 3, 4,
7. Bailey, James M. Lease, (11208) Atascosa County, Texas
Well Nos. 2b, 4a, 5a, 6a, 7a, 8a, 9a, 10a, 11a, 12a
8. Aguirre, Leonard B. Lease, (11207) Atascosa County, Texas
Well Nos. 1, 1a,
9. Bailey, Everett N. Lease, (10832) Atascosa County, Texas.
Well Nos. 2, 3, 4,
10. Bailey, E. N. Lease, (10833) Atascosa County, Texas
Well No. 1a,
11. Brandt, Herbert C. Lease, (10831) Atascosa County, Texas
Well Nos. 3a, 4.

DISCUSSION OF EVIDENCE

The applied-for wells currently are produced by swabbing by Petrosaurus. For the purpose of giving notice of the applications here involved, Petrosaurus provided the Commission with the addresses of the surface owners and mineral owners of the affected tracts. Notice by publication was not necessary. Petrosaurus appeared and presented evidence at the hearing through its Vice President Antonio Prado and its Operations Manager Ruben Smith. No one appeared in opposition to the applications.

Statewide Rule 21

Effective October 2, 2002, the Commission adopted amendments to Statewide Rule 21 which prohibited swabbing, bailing or jetting as a production method for wells unless

the Commission has, after notice and hearing, granted an exception to Statewide Rule 21. Statewide Rule 21(k)(1) and (2) set the mandatory and discretionary issues considered by the Commission for exceptions allowing swabbing as a production method:

(1) An operator seeking an exception to allow swabbing, bailing, or air jetting of a well shall:

(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;

(B) present evidence at the hearing establishing:

- (i) the method of production proposed;
- (ii) that any production is properly accounted for pursuant to §3.26 of this title (relating to Separating Devices, Tanks, and Surface Commingling of Oil);
- (iii) that the proposed exception is necessary to prevent waste or protect correlative rights;
- (iv) that wellhead control is sufficient to prevent releases from the well;
- (v) that no pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the well; and
- (vi) that the operator possesses a continuing good faith claim to the right to operate the well.

(2) In addition to the information set out in paragraph (1) of this subsection, factors that the Commission may consider in ruling on a request for an exception 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.

On September 16, 2013, Petrosaurus filed an application with the Commission

requesting approval to produce the above-listed wells on eleven leases by swabbing.

DISCUSSION OF THE EVIDENCE

Organization Information

Petrosaurus first filed a P-5 Organization Report with the Commission on August 30, 2011. There is a \$250,000 Blanket Bond in Place

Proposed Production Method and Proper Accounting

Petrosaurus will use swabbing as a means of production for the applied-for leases and wells. On the eleven leases that are the subject of these applications, there are a total of 40 active wells on 712 acres. All will be swabbed.

Each lease has an on-site tank battery. The Petrosaurus swabbing rig, a truck carrying swabbing equipment and a tank, swabs each well into the mobile tank. The contents of the mobile tank are then pumped into the on-site tank battery before the swabbing unit leaves the lease. This method allows Petrosaurus to keep track of the amount of oil the swabbed wells are producing on each lease.

The wells that are swabbed have threaded casing above the ground, with wellhead control maintained by a threaded collar screwed onto the casing. The collar has a flat plate welded on top and there is a short section of pipe, with a valve, welded to the flat plate. The valve allows any pressure build-up in the well to be relieved before the collar is unscrewed and the well is opened to atmosphere. The swabbing tool ("stinger") is inserted into the well and a rubber cup lowered into the fluids. As the cup is retrieved, it expands and forces a column of fluid upward into the hose connected to the mobile tank. When swabbing is completed and the swabbing tool is withdrawn from the well, a pan swings under the tool to catch any drippings, preventing oil-staining of the ground around the wellbore. By pumping the recovered fluids from the swabbed wells into the lease tank battery, there is no commingling with production from other leases.

Waste and Correlative Rights

Petrosaurus will be swabbing in the Somerset Field, which produces from the Olmos Sands. The Somerset Field was discovered in 1911, with the majority of the drilling activity occurring in the 1980s. The Somerset Field is a low volume field with a long life. It is currently pressure-depleted with the majority of production obtained from stripper wells.

The production curves for the wells are essentially flat. The wells are estimated to produce only 0.33 barrels of oil per day per well. The wells are expected to produce at these low levels for at least another fifteen years. Petrosaurus believes that if swabbing permit is not granted, waste of hydrocarbons will occur. If swabbing authority is granted,

Petrosaurus believes the correlative rights of it and its lessors will be protected

The cost of maintaining a pumping unit on these stripper wells is prohibitive. The conventional cost (pumping) is \$60 per barrel. The swabbing costs are \$14 per well. A savings of \$46 per barrel. Petrosaurus believes that if it is denied the authority to produce these wells by swabbing, that it will be forced to plug them causing the waste of hydrocarbons.

Wellhead Control

Each well has continuous wellhead control, with a threaded collar on the well casing, and a flat plate welded to the collar to prevent the escape of fluids. Each flat plate has a short pipe welded to it, with a valve attached, to maintain wellhead control and to allow the venting of each well prior to attachment of the swabbing rig.

Pollution and Safety Hazards

Petrosaurus believes that the equipment it uses for swabbing, including the rotating pan that will catch any dripping oil once the swabbing rig is detached from the well, provides a method of hydrocarbon production that will prevent almost all oil from reaching the ground. The Somerset Field does not produce any hydrogen sulfide, so there is no necessity for safety equipment or controls to deal with this hazard.

Good Faith Claim

The Applicant stated all eleven leases have produced continuously since at least 2003, supporting Petrosaurus' good faith claim to operate.

Mechanical Integrity Tests

Page No. 3 of the Applicant's Exhibit No. 3 states Petrosaurus has no history of any Railroad Commission rule violations. Fluid Level and Mechanical Integrity Tests are not required for any of the subject wells.

Estimated Production Amounts

The evidence shows that the applied-for leases have produced by swabbing an average of 16 to 85 barrels of oil per month and that, collectively, the eleven leases will produce 600-700 barrels of oil per month. As the production curve for all of the leases has already flattened, it is likely that the leases will produce at their average monthly rate with only a gradual decline for the next 10 to 15 years.

Financial Assurance

Petrosaurus has filed financial assurance in the amount of \$250,000 pursuant to Texas Natural Resources Code §91.1042 and Statewide Rule 78(g)(1)(B) in the form of a bond.

Practicality of Pumping Operations

As previously stated, the subject leases and wells do not produce a sufficient volume of oil, to justify equipping for pumping. As an example, the Brandt, Herbert C. Lease is estimated to produce 18 barrels of oil per month. The lease has two wells. Averaged over the entire lease, each well on this lease is estimated to produce only 9 barrels of oil in a month or 0.15 barrels of oil per well per day.

History of Compliance

Petrosaurus has no history of violations of Commission rules.

Examiners' Opinion

Statewide Rule 21 sets forth both mandatory requirements and discretionary considerations in evaluating an application to use swabbing as a production method for a well. It is the examiners' conclusion that, based on the uncontested evidence, Petrosaurus' application satisfies all of the mandatory requirements set forth in Statewide Rule 21 to approve its applications.

Mandatory Requirements

Statewide Rule 21 provides that an operator seeking an exception to the rule prohibiting swabbing as a production method must present evidence establishing: (1) the method of production proposed; (2) that any production is properly accounted for pursuant to Statewide Rule 26 (relating to Separating Devices, Tanks, and Surface Commingling of Oil); (3) that the proposed exception is necessary to prevent waste or protect correlative rights; (4) that wellhead control is sufficient to prevent releases from the well; (5) that no pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the well; and (6) that the operator possesses a continuing good faith claim to the right to operate the well.

(A) The Method of Production Proposed: Petrosaurus proposes to produce the wells involved in this proceeding by swabbing. There is sufficient evidence of the type of equipment and procedures used by Petrosaurus for this purpose to support the applications.

(B) Proper Accounting for Production: This mandatory consideration applies to the

requirements of Statewide Rule 26 relating to Separating Devices, Tanks, and Surface Commingling of Oil. All oil produced on each lease by Petrosaurus will be properly accounted for by being pumped into the on-site tank battery of each lease. There is nothing in the evidence to suggest that Petrosaurus will not properly account for production by swabbing on the leases that are the subject of this proceeding.

(C) Waste and Correlative Rights: Petrosaurus has presented sufficient evidence to support its claim that swabbing will result in the prevention of waste. The leases and wells at issue are producing up to 85 barrels of oil per month per lease by swabbing, and are anticipated to produce this amount, or slightly less, in the next fifteen years. Denial of authority to produce these wells by swabbing would result in the waste of at least some of this oil, and possible confiscation due to production on adjacent leases. The subject wells are no longer equipped for production by pumping, and re-equipping the wells for pumping production does not appear to be economical.

The Examiners concludes that granting of the requested Statewide Rule 21 exception will prevent waste of hydrocarbons. The production decline curve for these leases and wells is essentially flat, and may remain so for the foreseeable future.

The Applicant argued that swabbing authority is necessary to protect Petrosaurus' correlative rights because operators of wells on adjacent leases would be allowed to produce their wells, potentially draining reserves from the Petrosaurus properties. However, Petrosaurus offered no evidence that offsetting production could drain reserves from its properties which would be produced by swabbing. Petrosaurus failed to address a central premise behind any claim that a permit is necessary to protect correlative rights; i.e., that protection of correlative rights addresses the opportunity to recover the fair share of reserves underlying the property. There is no evidence that Petrosaurus is being denied such an opportunity. Accordingly, the Examiners can only recommend a grant of swabbing authority based on prevention of waste.

(D) Wellhead Control: Petrosaurus presented evidence that all of its wells have wellhead control. Petrosaurus presented a photograph of a representative well, with threaded collar, plate and valve, indicating adequate wellhead control.

(E) Pollution and Safety Hazards: The evidence presented by Petrosaurus indicates that swabbing the subject wells will not result in pollution of usable quality water or a safety hazard. The wells produce a minimal amount of gas, if any, and no hydrogen sulfide. Swabbing as conducted by Petrosaurus does not inherently present a threat of oil spills. Spills can always occur from leaks, but these are a possibility under any production method.

(F) Good Faith Claim: The applicant for exceptions to Statewide Rule 21 must present evidence establishing that the applicant possesses a continuing good faith claim to the right to operate the wells proposed to be produced by swabbing, bailing, or jetting.

Statewide Rule 21 does not define "good faith claim," but Statewide Rule 14 does. Pursuant to Statewide Rule 14(a)(1)(E), "good faith claim" means "A factually supported claim based on a recognized legal theory to a continuing possessory right in a mineral estate, such as evidence of a currently valid oil and gas lease or a recorded deed conveying a fee interest in the mineral estate." Petrosaurus presented sufficient evidence that it holds currently valid oil and gas leases with respect to all of the leases involved in these applications.

Discretionary Considerations

Pursuant to Statewide Rule 21, the Commission may consider: (1) whether the wells for which exceptions are sought have passed a mechanical integrity test within the preceding 12 months; (2) the estimated monthly and cumulative production from the wells if the requested exceptions are granted; (3) whether production will be into an on-lease tank battery or a mobile tank; (4) the adequacy of the financial assurance provided by the operator to assure that the wells will be timely and properly plugged; (5) whether production volume, fine sands in the reservoir, or other factors render pumping of the wells impracticable; (6) whether the reservoir from which the well produces contains hydrogen sulfide; and (7) the operator's history of compliance with Commission rules.

(A) Mechanical Integrity Testing: Almost all of the Petrosaurus wells in these applications are over 25 years old, but none have been inactive for a period of one year. Consequently, MIT tests are not required to be performed.

(B) Monthly and Cumulative Production: The evidence shows that the applied-for leases have produced by swabbing an average of 16 to 85 barrels of oil per month and that, collectively, the eleven leases will produce 600-700 barrels of oil per month. The decline curve for the wells is flat and so they may produce 126,000 barrels of oil, or slightly less, over the next fifteen years.

(C) Production Into Tanks: Petrosaurus swabs the wells by hooking them up to its swabbing unit mounted on a tractor and producing the recovered fluids into a mobile tank attached to the tractor. All produced fluids are taken to storage tanks on-lease.

(D) Adequacy of Financial Assurance: Petrosaurus has filed financial assurance with the Commission in the form of a \$250,000 bond.

(E) Practicality of Pumping Wells: Petrosaurus presented credible testimony that it is not economically practical to produce the wells by equipping them with pumps.

(F) Hydrogen Sulfide: The wells involved in these applications do not produce hydrogen sulfide gas.

(G) History of Compliance: Petrosaurus has not been the subject of any

enforcement dockets.

Based on all of the factors that the Commission must, or in its discretion may, consider, the Examiners have concluded that these applications for exceptions to Statewide Rule 21 should be approved for so long as Petrosaurus remains the operator of the wells.

The Examiners recommend adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. At least ten (10) days notice of the hearing in these dockets was sent to all parties entitled to notice.
2. Petrosaurus Inc. ("Petrosaurus") first filed a P-5 Organization Report with the Commission on August 30, 2011.
3. Petrosaurus has filed blanket financial assurance pursuant to Texas Natural Resources Code §91.1042 and Statewide Rule 78(g)(1)(B) in the form of a \$250,000 bond, the minimum amount required based on the number of wells Petrosaurus operates.
4. Petrosaurus requests that the Commission grant exceptions to Statewide Rule 21 to permit the production of its wells on eleven leases by swabbing. These leases and wells are:
 - a. Briscoe, Joe E. "A" (11494) Lease, Atascosa County, Texas
Well Nos. 5 and 6,
 - b. Briscoe, Joe E. "B" (11362) Lease, Atascosa County, Texas
Well Nos. 1, 2, 3, 4,
 - c. Briscoe, Joe E. (06318) Lease, Atascosa County, Texas
Well Nos. 1, 2, 3, 4, 5,
 - d. Tick, Steve Lease, (10947) Bexar County, Texas
Well Nos. 21, 22, 23, 24, 25, 26,
 - e. J. Koehler South Lease, (11627) Bexar County, Texas.
Well No. 44,
 - f. Ima Fowler Lease, (10857) Atascosa County, Texas
Well Nos. 1, 2, 3, 4,

- g. Bailey, James M. Lease, (11208) Atascosa County, Texas
Well Nos. 2b, 4a, 5a, 6a, 7a, 8a, 9a, 10a, 11a, 12a,
 - h. Aguirre, Leonard B. Lease, (11207) Atascosa County, Texas
Well Nos. 1, 1a,
 - i. Bailey, Everett N. Lease, (10832) Atascosa County, Texas.
Well Nos. 2, 3, 4,
 - j. Bailey, E. N. Lease, (10833) Atascosa County, Texas
Well No. 1a,
 - k. Brandt, Herbert C. Lease, (10831) Atascosa County, Texas
Well Nos. 3a, 4.
5. The granting of the requested exceptions to Statewide Rule 21 will enable Petrosaurus to produce hydrocarbons that otherwise would not likely be recovered.
- a. The reported production for the eleven leases when the involved wells were produced by swabbing, averaged 15 to 85 barrels of oil per lease per month.
 - b. The swabbed wells are not equipped to be produced by pumping. Equipping the wells to produce by pumping would be cost prohibitive.
 - c. The decline curve for the eleven leases is essentially flat.
 - d. If the requested exceptions to Statewide Rule 21 are granted, the applied-for leases and wells will produce approximately 126,000 barrels of oil, or slightly less, over the next fifteen years.
6. All of the applied-for wells are equipped with threaded collars, plates and valves to maintain wellhead control.
7. Granting of the requested exceptions to Statewide Rule 21 will not result in pollution of usable quality water or a safety hazard.
- a. Petrosaurus' swabbing of the leases and wells will not result in any significant oil spillage. When the swabbing unit is detached from the wells, a pan rotates under the "stinger" which catches any dripping oil.
 - b. The wells do not produce H₂S gas.
8. Petrosaurus has currently effective mineral leases with one or more mineral owners on each lease involved in these applications.

9. Petrosaurus plugs its wells as necessary when they are no longer capable of economic production.
10. Petrosaurus has no history of prior violations of Commission rules.


CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. Petrosaurus has a good faith claim of a current right to operate the leases and wells.
4. Approval of the exceptions to Statewide Rule 21 [16 Tex. Admin. Code §3.21] requested by Petrosaurus will prevent the waste of hydrocarbons.
5. Petrosaurus presented sufficient evidence to justify the granting of exceptions to Statewide Rule 21.

RECOMMENDATION

The Examiners recommend that the Petrosaurus applications be approved subject to the conditions of the Final Order.

Respectfully submitted,


Richard Eyster, P.G.
Technical Examiner


Ryan Lammert
Administrative Law Judge