

COMMISSION CALLED HEARING TO TRANSFER THE GONZALES ET AL UNIT, WELL NO. 1H, PEARSALL (AUSTIN CHALK) FIELD, FRIO COUNTY, TEXAS FROM ARPEL, INC. TO TIZA ENERGY, INC. AND TO RESCIND THE PLUGGING ORDER UNDER DOCKET NO. 01-0229773

APPEARANCES

FOR APPLICANT:

Curtis Boyles, President

Tiza Energy, Inc.

PROCEDURAL HISTORY

Hearing Held:

March 17, 2003

Heard By:

Mark H. Tittel, Hearings Examiner
Margaret Allen, Technical Examiner

PFD Circulation Date:

April 25, 2003

Current Status:

Unprotested

STATEMENT OF THE CASE AND DISCUSSION OF THE EVIDENCE

This was a Commission-called hearing to consider the transfer of the Gonzales Et Al Unit Lease, Well No. 1H, RRC Gas Id No. 161542 (hereinafter “the subject well” or “the subject lease”) from Arpel, Inc. to Tiza Energy, Inc.

On September 12, 2002, the Commission entered a Final Order in Oil & Gas Docket No. 01-0229773. The Commission found that Arpel, Inc. was the operator of the subject well and ordered that Arpel, Inc. plug the well and that it be assessed a total administrative penalty in the amount of \$5,000¹. Arpel, Inc. filed a Motion for Rehearing which was denied by the Commission on October 21, 2002. Arpel, Inc. has not filed an appeal of the Commission’s order in Travis County District Court in accordance with Texas Government Code § 2001.176. On October 30, 2002, the case was referred to the Office of Attorney General for enforcement of the Final Order.

In December 2002, the Commission received a Form P-4 (Producer’s Transportation

¹ The \$5,000 total administrative penalty consisted of \$2,750 for violations of Commission rules on the subject lease and \$2,250 for violations on another lease.

Authority and Certificate of Compliance) to transfer the subject lease from Arpel, Inc. to Tiza Energy, Inc. (hereinafter "Tiza"). The Form P-4 was signed by both operators. Tiza also submitted a copy of an Oil, Gas and Mineral Lease executed by the mineral owners. The primary term of Tiza's lease expires in October 2003. Tiza has a current Form P-5 (Organization Report) and has no outstanding final orders or violations of Commission rules. Tiza operates a total of 48 wells and has a \$50,000 bond on file with Commission.

Arpel, Inc. filed a Form G-1 (Initial Potential - Deepening Report) on August 5, 1996, which indicates that the subject well was completed on July 14, 1994. The subject well was never produced after its completion due to a dispute between the operator and the mineral owner over whether the operator's lease had expired. According to Commission District Office personnel, the total estimated cost to plug the subject well is \$12,600.

The original drilling permit issued to Arpel, Inc. in 1991 shows the well was to be a horizontal completion in the Pearsall (Austin Chalk) Field with a 2700' lateral. Commission records show Arpel drilled the wellbore as a vertical well in 1991, and then abandoned it without removing the casing. When it re-entered the well in 1994, it reported that the old well was deepened by 30', and that the producing interval was from the base of the casing at 6287' to 6317'. Tiza testified that when Arpel re-entered the well, it drilled horizontally for 30'.

Tiza estimates the subject well can produce 125 MCF and 5-6 barrels of condensate per day. Arpel, Inc. reported that the well's initial potential, measured in 1994, was 2 BO and 110 MCF of gas, at a flowing tubing pressure of 60 psi. The well is not now equipped to produce and Tiza testified that Arpel, Inc. removed the surface equipment. Tiza has moved a work-over rig onto the subject well and reports that the wellbore still has casing and one joint of tubing. According to Tiza, the surface pressure is 1500 psi and there is a Larkin head on the wellbore to secure it.

Tiza testified that a new well to this field would cost an estimated \$300,000, while the cost to re-enter the subject well is estimated at \$15,000. The expected production will be economic because Tiza has several wells nearby and will be able to use a single pipeline to produce them. Tiza plans to re-enter another nearby well and intends to develop a salt-water disposal well to reduce expenses on the subject well.

EXAMINERS' OPINION

The examiners recommend that the Commission approve the transfer of the subject well from Arpel, Inc. to Tiza. Tiza has demonstrated that it has a valid mineral lease and has sufficient financial assurance on file with the Commission. Approval of the

requested transfer will result in significant savings to the State as the Commission will no longer have to expend State funds to plug the well. Furthermore, Tiza has presented plausible evidence that the subject well will likely be productive and that plugging the well will likely result in the waste of hydrocarbons. Accordingly, approval of the lease transfer is consistent with the Commission's duty pursuant to Texas Natural Resources Code §85.201 to promote conservation and prevent waste of oil and gas.

Because Docket No. 01-0229773 has been referred to the Office of Attorney General for enforcement, the Commission should advise that office not to pursue enforcement of the order with respect to plugging the subject well. However, enforcement of the Final Order in that docket should proceed in all other respects.

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. Tiza Energy, Inc. (hereinafter "Tiza") was given at least 10 days notice of this proceeding.
2. On September 12, 2002, the Commission entered a Final Order in Oil & Gas Docket No. 01-0229773. The Commission found that Arpel, Inc. is the operator of the Gonzales Et Al Unit Lease, Well No. 1H, RRC Gas Id No. 161542 (hereinafter "the subject well" or "the subject lease") and ordered that Arpel, Inc. plug the well and that it be assessed a total administrative penalty in the amount of \$5,000. Arpel, Inc. filed a Motion for Rehearing which was denied by the Commission on October 21, 2002.
3. Tiza filed with the Commission a Form P-4 (Producer's Transportation Authority and Certificate of Compliance) to transfer the subject lease from Arpel, Inc. to Tiza.
4. Tiza has obtained an Oil, Gas and Mineral Lease whose primary term expires in October 2003.
5. Tiza has a current Form P-5 (Organization Report) and has no outstanding final orders or violations of Commission rules.
6. Tiza operates a total of 48 wells and has a \$50,000 bond on file with Commission.
7. Arpel, Inc. filed a Form G-1 (Initial Potential - Deepening Report) on August 5, 1996, which indicates that the subject well was completed on July 14, 1994.

8. The subject well was never produced after its completion due to a dispute between the operator and the mineral owner over whether the operator's lease had expired.
9. The total estimated cost to plug the subject well is \$12,600.
10. Tiza estimates the subject well can produce 125 MCF and 5-6 barrels of condensate per day. Arpel, Inc. reported that the well's initial potential, measured in 1994, was 2 BO and 110 MCF of gas, at a flowing tubing pressure of 60 psi.
11. The subject wellbore still has casing and one joint of tubing. The surface pressure measures 1500 psi and there is a Larkin head on the wellbore to secure it.
12. A new well would cost an estimated \$300,000, while the cost to re-enter the subject well is estimated at \$15,000. The expected production will be economic because Tiza has several wells nearby and will be able to use a single pipeline to produce them.

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 or have occurred.
3. Tiza has a good faith claim to operate the subject lease.
4. Tiza has sufficient financial assurance on file with the Commission pursuant to Texas Natural Resources Code §91.104, §91.1042, and §91.107.
5. The facts concerning the operation of the subject well have changed in material respects since the entry of the September 12, 2002 Final Order in Oil & Gas Docket No. 01-0229773.
6. Approval of the transfer of the subject well in lieu of requiring that it be plugged is consistent with the Commission's duty pursuant

to Texas Natural Resources Code §85.201 to promote conservation and will likely prevent the waste of producible hydrocarbons.

RECOMMENDATION

The examiners recommends that the above findings and conclusions be adopted and that the attached order be approved transferring the subject well to Tiza.

Respectfully submitted,

Margaret Allen,
Technical Examiner

Mark H. Tittel,
Hearings Examiner