

**OIL & GAS DOCKET NO. 10-0237648**

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**COMMISSION CALLED HEARING ON THE APPLICATION OF QUESTA ENERGY CORPORATION TO SUPERCEDE THE FINAL ORDER ISSUED JANUARY 11, 2000, IN DOCKET NO. 10-0221408, HODGES LEASE, WELL NO. 1-39, HODGES (MORROW, MIDDLE) FIELD, ROBERTS COUNTY, TEXAS**

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**APPEARANCES:**

**FOR APPLICANT:**

Dale E. Miller, Engineer

**APPLICANT:**

Questa Energy Corporation

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

<b>DATE OF REQUEST FOR ACTION:</b>	January 26, 2004
<b>DATE OF NOTICE OF HEARING:</b>	January 29, 2004
<b>DATE CASE HEARD:</b>	February 13, 2004
<b>HEARD BY:</b>	James M. Doherty, Hearings Examiner Margaret Allen, Technical Examiner
<b>PFD CIRCULATION DATE:</b>	March 1, 2004

**STATEMENT OF THE CASE**

On January 11, 2000, the Commission signed a Final Order in Oil & Gas Docket No. 10-0221408 ordering that Deep Reef Industries (“Deep Reef”) plug the Hodges Lease, Well No. 1-39 (RRC ID No. 078338), Hodges (Morrow, Middle) Field, Roberts County, Texas (“subject well”). Deep Reef has not complied with this Final Order, and the subject well remains unplugged.

Questa Energy Corporation (“Questa”) has filed a Form P-4 (Certificate of Compliance and Transportation Authority) requesting that the operator of the subject well be changed from Deep Reef to Questa. Questa has also filed an application requesting that the Commission enter an order superceding the Final Order signed January 11, 2000, ordering that the subject well be plugged, in order that Questa may become operator and produce the well. Questa requests that the Form P-4 be approved only in the

event the Commission supercedes the Final Order signed January 11, 2000,

without imposing upon Questa the administrative penalty assessed against Deep Reef in the Final Order.

Following the issuance of notice, a hearing was held on February 13, 2004. Questa appeared and presented evidence. No party appeared at the hearing to oppose the application.

### **DISCUSSION OF THE EVIDENCE**

The current operator of record for the subject well is Deep Reef. Deep Reef last filed a Form P-5 (Organization Report) with the Commission on March 6, 2001, and its P-5 currently is delinquent.

Questa currently has an active Form P-5 Organization Report, and the examiners have officially noticed from Commission records that Questa has filed financial assurance in the form of a \$50,000 letter of credit. There is no affiliation of any kind between Questa and Deep Reef.

The subject well was drilled by Deep Reef in 1978 and completed in the Hodges (Morrow, Upper) Field. In 1982, Deep Reef recompleted the well in the Hodges (Morrow, Middle) Field, but filed a completion report indicating that the new perforations were in the Hodges (Morrow, Upper) Field. Completion of the well in the Hodges (Morrow, Middle) Field required a Rule 37 exception permit, which Deep Reef did not obtain. Many years later, an offset operator, J. M. Huber Corporation ("Huber") learned of this violation of Rule 37 and filed a complaint against Deep Reef. Deep Reef then filed an application for a Rule 37 exception, but did not appear at the hearing to prosecute the application. In Oil & Gas Docket No. 10-0221408 and Rule 37 Case No. 0221255, the Commission signed a Final Order on January 11, 2000, ordering Deep Reef to plug the subject well and pay an administrative penalty. The Deep Reef Rule 37 application was dismissed with prejudice.

Deep Reef lost its oil and gas lease on the subject property due to a cessation of production. Questa has taken a new oil and gas lease of 640 acres on which the subject well is located, and this oil and gas lease currently is in effect. Questa has filed a Form P-4 (Certificate of Compliance and Transportation Authority) to change the operator of the subject well from Deep Reef to Questa. Huber has agreed to participate with Questa in the well, and supports the application of Questa to supercede the Final Order in Oil & Gas Docket No. 10-0221408 insofar as this Final Order orders that the well be plugged. On October 21, 2003, Questa filed an application for a Rule 37 exception permit for the subject well, and Huber waived objection. A Rule 37 exception permit for the well was issued to Questa on February 3, 2004.

Deliverability for the subject well in 1998, the last full year during which production was had, averaged a reported 104 MCF of gas per day. Three surrounding wells completed in the Hodges (Morrow, Middle) Field have deliverabilities ranging from 138 MCF per day to 267 MCF per day. Based

on the deliverabilities of the surrounding wells in the field, Questa's consulting engineer has the opinion that none of the surrounding wells will drain the acreage around the subject well in the Hodges (Morrow, Middle) Field.

The subject well last produced in 1999 when it was sealed by the Commission. The well has cumulative production in the Hodges (Morrow, Upper) and Hodges (Morrow, Middle) Fields of 1,288,706 MCF of gas and 7,836 barrels of condensate. The well has produced an estimated 933,794 MCF of gas from the Hodges (Morrow, Middle) Field. A graph of production for the subject well shows a relatively flat decline rate over the last six full years of production. From an isopach map, Questa's consulting engineer calculated 3.2 BCF of original recoverable gas in place in the Hodges (Morrow, Middle) Field under the subject lease, using a 80% recovery factor. Using a 90% recovery factor, Questa calculated 3.6 BCF of original recoverable gas in place. Wells in the Hodges (Morrow, Middle) Field have been shown to be able to recover upwards of 90% of the reserves in place, and Questa's consulting engineer believes that approval of this application will prevent waste of a portion of the more than 2.25 BCF of remaining recoverable gas underlying the subject lease. Questa's consulting engineer calculated that the subject well will recover 553,511 MCF of remaining recoverable gas, using an annual decline rate of 5.7% over the remaining life of the well to an economic limit of 15 MCF per day. The subject well has shut in wellhead pressure, and is subject to being produced by Questa when the Commission's plug order is superceded.

### **EXAMINERS' OPINION**

The examiners believe that the plug order in Oil & Gas Docket No. 10-0221408 should be superceded. Conditions which led to the issuance of the plug order have changed materially. At the time of the issuance of the plug order in January 2000, the subject well was in violation of Statewide Rule 37, and Deep Reef had failed to appear at the hearing to prosecute an application for a Rule 37 exception permit for the well.

Questa is a currently active and bonded operator. It has acquired a new oil and gas lease from the mineral owners of the subject property, establishing its good faith claim of right to operate the subject well. Huber, the complainant against Deep Reef, has agreed to participate in the subject well along with Questa and supports Questa's application to supercede the Final Order in Oil & Gas Docket No. 10-0221408. In addition, supported by Huber's waiver of objection, Questa has obtained a Rule 37 exception permit for the subject well. The conditions which led to the Commission order that the well be plugged have now disappeared.

Superceding the plug order in Oil & Gas Docket No. 10-0221408 will promote the goals of conserving natural resources and preventing waste. The evidence establishes that there were at least 3.2 BCF of original recoverable gas in place and more than 2.25 BCF of remaining recoverable gas in the Hodges (Morrow, Middle) Field under the subject lease. The subject well will recover 553,511 MCF of

the remaining recoverable gas under the lease if allowed to produce to its economic limit. The evidence also establishes that none of the surrounding wells completed in the Hodges (Morrow, Middle) Field are capable of draining the acreage around the subject well, and that unless the subject well is allowed to produce, a substantial amount of hydrocarbons will be wasted. There is no evidence that superceding the plug order and enabling Questa to become operator of the subject well will circumvent Commission rules or harm natural resources.

The examiners recommend that the Final Order in Oil & Gas Docket No. 10-0221408 be superceded only insofar as it requires that the subject well be plugged and that the Form P-4 filed by Questa be approved changing the operator of the well from Deep Reef to Questa.

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

#### **FINDINGS OF FACT**

1. At least 10 days notice of this proceeding was given to Questa Energy Corporation (“Questa”) and Deep Reef Industries (“Deep Reef”). Questa appeared at the hearing and presented evidence.
2. The current operator of record of the Hodges Lease, Well No. 1-39, Hodges (Morrow, Middle) Field, Roberts County, Texas (“subject well”), is Deep Reef.
3. The subject well was drilled by Deep Reef in 1978 and completed in the Hodges (Morrow, Upper) Field. In 1982, Deep Reef recompleted the well in the Hodges (Morrow, Middle) Field, but filed a completion report indicating that the new perforations were in the Hodges (Morrow, Upper) Field. Completion of the well in the Hodges (Morrow, Middle) Field required a Rule 37 exception, which Deep Reef did not obtain.
4. An offset operator, J. M. Huber Corporation (“Huber”) later complained to the Commission about Deep Reef’s violation of Statewide Rule 37. On January 11, 2000, in Oil & Gas Docket No. 10-0221408, the Commission signed a Final Order ordering Deep Reef to plug the subject well and pay an administrative penalty. Deep Reef has not complied with this Final Order, and the subject well has not been plugged.
5. Questa has filed a Form P-4 (Certificate of Compliance and Transportation Authority) requesting a change of operator for the subject well from Deep Reef to Questa. Questa has also filed an application requesting that the Commission supercede the Final Order in Oil & Gas Docket No. 10-0221408 insofar as it orders that the subject well be plugged. Huber will participate in the subject well with Questa and supports Questa’s request that the plug order be superceded.

6. Questa has an active Form P-5 (Organization Report) and has filed financial assurance in the form of a \$50,000 letter of credit. There is no affiliation of any kind between Questa and Deep Reef.
7. Questa has taken a new oil and gas lease of 640 acres on which the subject well is located, and this oil and gas lease currently is in effect.
8. Questa has applied for, and on February 3, 2004, was issued, a Rule 37 exception permit for the subject well. Huber waived objection to the granting of this permit to Questa.
9. The subject well produced until 1999 when it was sealed by the Commission. The well has cumulative production of 1,288,706 MCF of gas and 7,836 barrels of condensate. The well has produced an estimated 933,774 MCF of gas from the Hodges (Morrow, Middle) Field.
10. During 1998, the last full year during which the subject well produced, the well had a deliverability of 104 MCF of gas per day. Three surrounding wells completed in the Hodges (Morrow, Middle) Field have deliverabilities ranging from 138 MCF per day to 267 MCF per day. The surrounding wells are not capable of draining acreage around the subject well in the Hodges (Morrow, Middle) Field.
11. The subject well experienced a relatively flat production decline rate over the last six full years of production. Questa calculated 3.2 BCF to 3.6 BCF of original recoverable gas in place in the Hodges (Morrow, Middle) Field under the Hodges Lease, and there are 2.25 BCF of remaining recoverable reserves under the lease. If the subject well is allowed to continue to produce to its economic limit, the well will recover 553,511 MCF of the remaining recoverable gas from the subject field.
12. Plugging the subject well at this time would result in the waste of hydrocarbons.
13. Superceding the plug order in Oil & Gas Docket No. 10-0221408 and permitting Questa to produce the well as operator will not endanger natural resources or circumvent 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 to this hearing have been performed or have occurred.
3. Questa Energy Corporation is an active operator and has sufficient financial assurance on file with

the Commission pursuant to Texas Natural Resources Code §§91.104, 91.1042, and 91.107.

4. Conditions respecting the subject well have changed since entry of the Commission's Final Order in Oil & Gas Docket No. 10-0221408.
5. Questa Energy Corporation has a good faith claim of a current right to operate the subject well.
6. The subject well is now in compliance with Statewide Rule 37 (16 TEX. ADMIN. CODE §3.37).
7. Superceding the Final Order in Oil & Gas Docket No. 10-0221408 only insofar as it orders that the subject well be plugged and approval of a change of operator of the well to Questa Energy Corporation will promote conservation of natural resources and prevention of waste pursuant to Texas Natural Resources Code §85.201.

**RECOMMENDATION**

The examiners recommend that the above findings and conclusions be adopted and the attached order be approved.

Respectfully submitted,

James M. Doherty  
Hearings Examiner

Margaret Allen  
Technical Examiner