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HEARINGS SECTION

RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 10-0275954

THE APPLICATION OF ETX FLUID SOLUTIONS, LLC FOR COMMERCIAL DISPOSAL AUTHORITY PURSUANT TO STATEWIDE RULE 9 FOR THE HIGHWAY 152 SWD LEASE, WELL NO. 1, FRYE RANCH (CONSOLIDATED) FIELD, WHEELER COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Terry Johnson - Legal Examiner

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
George C. Neale	ETX Fluid Solutions, LLC
Christopher Hotchkiss	
Rick Johnston	
Glyn Pigg	
Taylor Withrow	
PROTESTANTS:	
Tom Puryear	Puryear Ranch, LP
Jayme Schlabs	Truett and Jayme Schlabs
Melinda Stiles	Bill and Melinda Stiles
Bonnie Davidson	Self

PROCEDURAL HISTORY

Application Filed:	March 20, 2012
Protest Received:	March 21, 2012
Request for Hearing:	April 23, 2012
Notice of Hearing:	May 25, 2012
Hearing Held:	June 20, 2012
Transcript Received:	June 25, 2012
Proposal for Decision Issued:	July 5, 2012

EXAMINERS' REPORT AND PROPOSAL FOR DECISION

STATEMENT OF THE CASE

ETX Fluid Solutions, LLC ("ETX") requests commercial disposal authority pursuant to Statewide Rule 9 for the Highway 152 SWD Lease, Well No. 1, Frye Ranch (Consolidated) Field, Wheeler County, Texas.

Notice of the subject application was published in the *County Star-News*, a newspaper of general circulation in Wheeler County, on March 15, 2012. Notice of the application was sent to the Wheeler County Clerk, offset operators within 1/2 mile and the surface owners of each tract which adjoins the disposal tract on March 12, 2012.

The application is protested by surface owners adjacent to the tract on which the proposed disposal well is located.

DISCUSSION OF THE EVIDENCE

Applicant's Evidence

The proposed Well No. 1 and disposal facility are located on an 8 acre tract that is adjacent to, and south of, State Highway 152. The tract is situated in a rural area approximately 7 miles east of the town of Wheeler, Texas. ETX plans to drill a new injection well down to 5,500 feet. The well will have 9 5/8" surface casing set at 350 feet that will be cemented to the surface with 180 sacks of cement. ETX proposes to run 7" production casing down to 5,500 feet that will be cemented up to 1,000 feet with 950 sacks of cement. The well will be equipped with 3 1/2" tubing and packer set at 4,650 feet (See attached ETX Exhibit No. 2 - Wellbore Diagram).

The proposed disposal interval is the Brown Dolomite formation between 4,700 feet and 5,400 feet. The interval is suitable for disposal and is used for disposal in other area wells. There is no Brown Dolomite formation production located within 5 miles of the proposed disposal well. Additionally, there is approximately 1,700 feet of red clay beds, salt and anhydrite impervious zones above the proposed disposal interval, which will serve to prevent the migration of injected fluids out of the Brown Dolomite formation. ETX requests authority to dispose of a maximum of 10,000 barrels of saltwater and RCRA exempt waste per day with a maximum surface injection pressure of 1,200 psig.

The Commission Groundwater Advisory Unit ("GAU") recommends that usable-quality ground water be protected to a depth of 250 feet below the land surface. The base of the underground source of drinking water ("USDW") is 550 feet. ETX submitted a GAU letter dated February 22, 2012, which stated that injection into the proposed injection interval will not harm usable quality water.

There are two Granite Wash formation producing wells located within the 1/4 mile radius of review for the proposed disposal well. Additionally, there are four Granite Wash formation producing wells located within the 1/2 mile radius of review for the proposed disposal well. All of the wells are properly cased and cemented and will not provide a conduit for the migration of injected fluids from the injection interval into other oil, gas or mineral bearing formations or useable-quality groundwater zones.

The proposed ETX facility is located in the northeastern portion of Wheeler County. There are thirteen commercial disposal wells in Wheeler County within a 15 mile radius of the proposed facility. Some of the facilities are private and only have piped-in produced saltwater with no truck unloading facilities. ETX stated that the existing facilities in the 15 mile radius are, at or near, capacity and have wait times. County Road 22 intersects State Highway 152 from the north approximately one mile to the east of the proposed facility and contains a lot of oilfield traffic, as there are many drilling rigs running north of State Highway 152. ETX contends that the use of the proposed disposal well will reduce truck traffic, travel time and miles traveled, resulting in reduced costs to operators.

The Granite Wash formation development core area encompasses most of northeastern Wheeler County. ETX submitted a map depicting numerous permitted and completed Granite Wash formation horizontal wells within a five mile radius of the proposed disposal well. The wells are being completed with large multi-stage fracs and, with the large number of permitted locations, this will create a tremendous volume of frac flow-back water. ETX opined that the Granite Wash formation trend wells will produce significant volumes of frac and produced water. ETX believes that additional disposal facilities are necessary to accommodate the Granite Wash formation development that is ongoing in this part of Wheeler County.

The Facility

The area surrounding the proposed injection facility is rural ranching and farming land. Access to the disposal facility will be off of State Highway 152, which is a paved two lane public highway. The surface facility will comply with all permit conditions requested by the Commission staff. At an average injection rate of 5,000 BWPD, there will be approximately 40 trucks per day accessing the facility. The facility will have a circular driveway and will be of sufficient size to allow trucks access without having to wait on the highway.

ETX submitted a Traffic Analysis Study for the proposed saltwater disposal site. The study showed that 3,400 vehicles currently travel State Highway 152 on a daily basis. It was estimated that the traffic generated by the proposed disposal facility on State Highway 152 will increase by 5% and will have no adverse impact on a roadway that currently carries minimal volumes of traffic. ETX has already applied for and is expected to receive a permit from TxDOT for the construction of an entrance driveway off of State Highway 152. The proposed access to the facility will have adequate sight distance for

entering and exiting trucks with over 1,000 feet of sight distance in each direction. ETX's expert witness opined that the proposed project will have minimal impact on the traffic volume on State Highway 152 and should not impact traffic safety in the area of the access.

ETX submits that it has the expertise to build and manage the proposed facility. ETX has a current approved Form P-5 (Organization Report), a posted $25,000 financial assurance bond and no pending Commission enforcement actions.

Protestants' Evidence

The protestants are surface owners adjacent to the proposed disposal tract. They believe that the application for the proposed commercial disposal well and facility should be denied. The protestants' evidence fell into several general categories: 1) potential of pollution of surface or subsurface waters; 2) noise, dust and odor nuisances which would result from the operation of the facility; 3) possible explosions at the facility due to lightening strikes; and 4) increased heavy truck traffic on State Highway 152 near the intersection of County Road 22, causing county road deterioration and public safety issues.

Several protestants described a recent lightning strike at a commercial disposal facility located on State Highway 152 west of the proposed disposal site. The resulting explosion and fire destroyed at least two storage tanks and the facility burned to the ground. The explosion was felt by residents up to several miles from the site. Collectively, the testimony and statements in opposition to the facility assert that the proposed commercial disposal facility will have adverse effects on traffic safety, property values and the quality of life in and around the area of the intersection of State Highway 152 and County Road 22.

EXAMINERS' OPINION

The examiners recommend that the application for commercial disposal authority be approved. ETX has established:

1. The freshwater resources (surface and sub-surface) will be adequately protected from pollution;

2. The proposed injection well will not endanger or injure any oil, gas, or mineral formations;

3. The proposed injection is in the public interest; and

4. The applicant has made a satisfactory showing of financial responsibility, as required under Commission statutes and Commission regulatory requirements.

The well will be completed in a manner which will protect usable-quality water resources and injected fluids will be confined to the injection interval. The proposed disposal well will have cement behind the production casing up to 1,000 feet and there is 1,700 feet of redbeds, salt and anhydrite impervious zones overlying the Brown Dolomite disposal interval. Injection will be through tubing set on a packer to confine injected fluids to the Brown Dolomite formation between 4,700 feet and 5,400 feet. Finally, there are only two Granite Wash formation producing wells located within the 1/4 mile radius of review for the proposed disposal well. The wells are properly cased and cemented and will not provide a conduit for the migration of injected fluids from the injection interval into other oil, gas or mineral bearing formations or useable-quality groundwater zones.

Approval of the application is in the public interest. The Granite Wash formation development core area encompasses all of northeastern Wheeler County. ETX has shown that the proposed disposal well is necessary to provide needed capacity for disposal of frac and produced water from numerous Granite Wash formation wells to be drilled and produced within northeastern Wheeler County. The proposed disposal well is closer to the most recently permitted wells than any other commercial disposal well and the existing commercial disposal wells in the area have a limited capacity with some wait times. Use of the proposed disposal well will reduce truck traffic, travel time and miles traveled, resulting in reduced disposal costs to operators. The reduced disposal costs will lower the economic limit of the producing wells and, thereby, ultimately increase total production.

The surface facility will be newly constructed and is of sufficient size to accommodate trucks hauling water to the facility without backing up onto the highway that provides access to the facility. The proposed access to the facility will have adequate sight distance for entering and exiting trucks with over 1,000 feet of sight distance in each direction. The proposed project will have minimal impact on the traffic volume on State Highway 152. Compliance with permit conditions will minimize the risk of spills at the facility and will prevent the migration of any spills that occur, thereby protecting both ground and surface water.

FINDINGS OF FACT

1. Notice of the application and hearing was provided to all persons entitled to notice. Notice of the application was sent to the Wheeler County Clerk, offset operators within 1/2 mile and the surface owners of each tract which adjoins the disposal tract on March 12, 2012.

2. Notice of the subject application was published in the *County Star-News*, a newspaper of general circulation in Wheeler County, on March 15, 2012.

3. The proposed injection into the Highway 152 SWD Lease, Well No. 1, will not endanger useable quality water.

    a. The Commission Groundwater Advisory Unit ("GAU") recommends that usable-quality ground water be protected to a depth of 250 feet below the land surface.

b. The well will have 9 5/8" surface casing set at 350 feet that will be cemented to the surface with 180 sacks of cement.

c. There is 1,700 feet of red clay beds, salt and anhydrite impervious zones overlying the Brown Dolomite disposal interval.

4. The proposed injection into the Highway 152 SWD Lease, Well No. 1, will not endanger production from other oil, gas or mineral bearing formations.

a. ETX plans to drill a new injection well down to 5,500 feet.

b. ETX proposes to run 7" production casing down to 5,500 feet that will be cemented up to 1,000 feet with 950 sacks of cement.

c. The well will be equipped with 3 1/2" tubing and packer set at 4,650 feet.

d. There are only two Granite Wash formation producing wells located within the 1/4 mile radius of review for the proposed disposal well. The wells are properly cased and cemented and will not provide a conduit for the migration of injected fluids from the injection interval into other oil, gas or mineral bearing formations or useable-quality groundwater zones.

5. Use of the Highway 152 SWD Lease, Well No. 1, as commercial disposal well is in the public interest because it will reduce hauling distances and will provide needed commercial disposal capacity for wells to be drilled, completed and produced in the area of the proposed facility.

a. The Granite Wash formation development core area encompasses all of northeastern Wheeler County.

b. The proposed disposal well is necessary to provide needed capacity for disposal of frac and produced water from numerous Granite Wash formation wells to be drilled and produced within northeastern Wheeler.

c. The proposed disposal well is closer to a vast majority of recently permitted wells than any other commercial disposal well and the existing commercial disposal wells in the area have a limited capacity with some wait times.

d. The Granite Wash formation trend wells are being fraced with large volumes of freshwater and, with the large number of permitted locations, this will create a tremendous volume of frac flow-back water.

e. The Granite Wash formation trend wells will produce significant volumes of frac and produced water and additional disposal facilities are necessary to accommodate the Granite Wash formation development that is expected in northeastern Wheeler County.

f. Use of the proposed disposal well will reduce truck traffic, travel time and miles traveled, resulting in reduced disposal costs to operators.

g. The reduced disposal costs will lower the economic limit of the producing wells and, thereby, ultimately increase total production.

6. ETX has a current approved Form P-5 (Organization Report), a posted $25,000 financial assurance bond and no pending Commission enforcement actions.

CONCLUSIONS OF LAW

1. Proper notice was issued in accordance with the applicable statutory and regulatory requirements.

2. All things necessary to give the Railroad Commission jurisdiction to consider this matter have occurred.

3. Approval of the application will not harm useable quality water resources, will not endanger oil, gas, or geothermal resources, will promote further development in this area of Wheeler County and is in the public interest pursuant to Sec. 27.051 of the Texas Water Code.

4. ETX Fluid Solutions, LLC has met its burden of proof and its application satisfys the requirements of Chapter 27 of the Texas Water Code and the Railroad Commission's Statewide Rule 9.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve the application of ETX Fluid Solutions, LLC for commercial disposal authority pursuant to Statewide Rule 9 for the Highway 152 SWD Lease, Well No. 1, as set out in the attached Final Order.

Respectfully submitted,

Richard D. Atkins

Richard D. Atkins, P.E.
Technical Examiner

Terry Johnson
Legal Examiner

Highway 152 SWD # 1
API # 42-483-33429
ETX Fluid Solutions, LLC
Wheeler County, Texas

Proposed Disposal Configuration

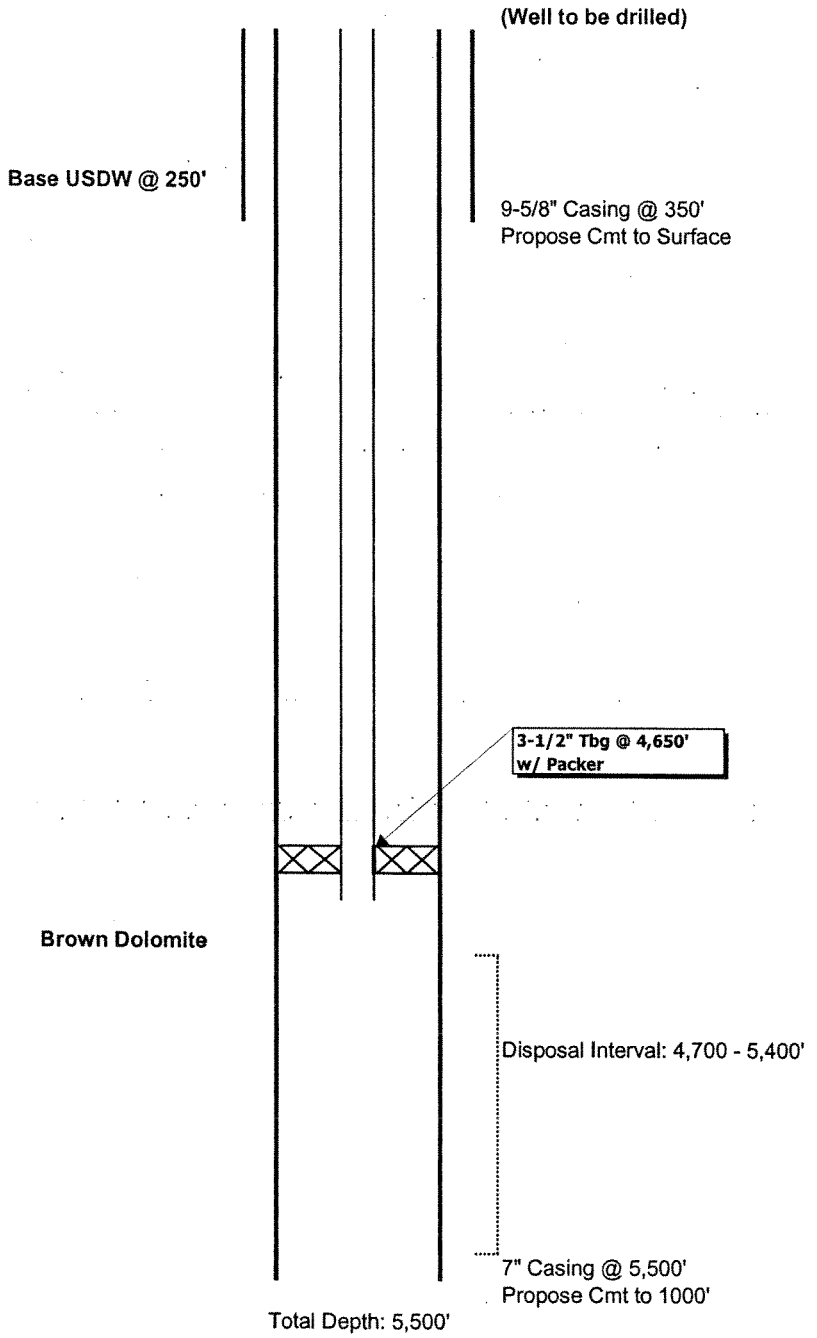

Exhibit No. 2
O & G Docket No. 10-0275954
Date: June 20, 2012
ETX Fluid Solutions, LLC