

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 01-0279591

APPLICATION OF LULING O&G, LLC FOR AN EXCEPTION TO RULE 21 TO PRODUCE MULTIPLE WELLS BY SWABBING ON VARIOUS LEASES IN SALT FLAT FIELD, CALDWELL COUNTY, TEXAS

FINAL ORDER

The Commission finds that, after statutory notice in the above-numbered docket, heard on January 23, 2014, the Examiners have made and filed a report and proposal for decision containing findings of fact and conclusions of law, which was served on all parties of record, and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the record evidence hereby adopts 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, and notice was published for four consecutive weeks in a newspaper of general circulation in Caldwell County, Texas.
2. Luling O & G, LLC ("Luling O & G") requests that the Commission grant exceptions to Statewide Rule 21 to permit Luling O & G to produce 54 wells on 15 leases by swabbing as a method of production. **Exhibit "A"** to this Order identifies the leases and wells which are the subject of this application by field name, lease name and number, and API number, and are adopted and incorporated into this finding by reference.
3. The subject wells are completed in the Salt Flat Field in Guadalupe and Caldwell Counties which is in the latter stages of development. Total depth of these wells range from 2530' to 2800'.
4. Luling O & G owns and operates two mobile swabbing units used in swabbing the subject wells. The swabbing units are equipped with a tank into which the oil produced by swabbing is deposited. A sight glass mechanism on the tank enables the swabbing unit operator to measure the oil on a well-by-well basis. When the tank on the swabbing unit is near capacity, the swabbing unit moves to a tank battery into which the oil is pumped.

5. Luling O & G's swabbing operations have been witnessed by Commission District Office personnel.
6. There is minimal risk of pollution or safety hazard resulting from the swabbing operations, if properly conducted, or from the condition of the subject wells.
 - a. All of the wells are low pressure wells.
 - b. Wellhead control on most of the subject wells consists of a steel cap screwed on pipe which extends above ground level.
 - c. Luling O & G's mobile swabbing units are properly equipped to retain oil within the swabbing apparatus and prevent discharges to the ground.
 - d. The wells which are the subject of this application are equipped with casing and cement to the surface to protect usable quality water.
7. Luling O & G's applications have been reviewed by the Field Operations Section of the Commission's Oil and Gas Division, and Field Operations has stated that it has no objection to consideration of the subject leases and wells for Statewide Rule 21 exceptions.
8. Luling O & G's production records and other required reports have been reviewed by the Field Operations Section of the Commission's Oil and Gas Division. Corrections and clarifications were requested, and have been made.
9. Production by Luling O & G from swabbing individual wells on a lease is moved by Luling O & G's swabbing truck to a tank battery authorized in the surface commingling permit and is properly allocated to the lease from which it was produced according to the terms of the permit.
10. All oil produced by Luling O & G from swabbing of wells on the involved leases is properly accounted for pursuant to Statewide Rule 26 (relating to Separating Devices, Tanks, and Surface Commingling of Oil).
11. The applied for fields are suitable candidates for the use of swabbing as a method of production.
 - a. The subject fields are in the very late stages of their producing life. Currently, none of the subject fields have any drive beyond gravity, and the oil flows very marginally into wellbores.
 - b. All of the subject wells were stripped of equipment by prior operators before being taken over by Luling O & G, and the wells are no longer equipped to be produced by pumping.

- c. Suction created by swabbing causes fluids to come into the wells and actually cleans perforations and casing.
 - d. For the subject wells, the estimated average amount of oil per swab is 3.59 bbls, with an estimated 12 swabs per month per well.
 - e. Swabbing is a more efficient and less costly production method as compared to pumping.
 - f. Luling O & G estimates that on average, the involved wells will produce at least four barrels of oil per well per month with swabbing operations.
 - g. Remaining reserves of approximately 11,620 bbls, can be produced with swabbing that will otherwise be left unrecovered.
12. All of the involved wells are equipped with wellheads to maintain surface control.
 13. Granting of the requested exceptions to Statewide Rule 21 subject to conditions requiring monitoring of the involved leases for proper wellhead surface control and for compliance with the identification or H2S sign requirements of Statewide Rules 3 and 36 will not result in pollution of usable quality water or safety hazard.
 14. Luling O & G's swab truck operators are H2S certified and are required to wear H2S monitors on their belts. Further, during swabbing operations, any H2S associated gas is captured and circulated to a vent mounted on the top of the swabbing truck.
 15. Luling O & G presented current leases for each of the associated subject mineral leases with one or more mineral owners.
 16. Luling O & G intends to plug its wells as necessary out of operating revenues, and estimates that its plugging costs will average \$8,000.00 per well. Luling O & G is a plugger in the area and has its own well-plugging equipment. It has commenced a program to plug non-producing wells to assure that Luling O & G's operations meet the requirements set out in Commission Rule Statewide 14.
 17. Under the previous operator Caltex, these leases had a history of prior violations of Commission rules. See Oil & Gas Docket Nos. 01-0223541, 01-0226631, and 01-0227812. There have been no enforcement orders against Luling O & G., LLC to date.

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. Luling O & G has a good faith claim of a current right to operate the leases and wells.
4. Luling O & G presented sufficient evidence to meet the mandatory and discretionary standards of Statewide Rule 21 [16 TEX.ADMIN. CODE §3.21] for approval of exceptions to permit the swabbing of the applied for wells and leases.
5. Approval of the exceptions to Statewide Rule 21 [16 TEX. ADMIN. CODE §3.21] requested by Luling O & G will prevent the waste of hydrocarbons.

Accordingly, it is **ORDERED** that the application of Luling O & G for exceptions to Statewide Rule 21 to produce by swabbing the leases and wells, attached as **Exhibit "A"** hereto, is hereby **GRANTED**, subject to the following conditions:

CONDITIONS

1. **Wellhead Control.** All wells must remain equipped with wellhead control consistent with the requirements of Statewide Rule 13.
2. **Signage.** The subject lease, wells, and tank batteries must be properly identified with clearly legible identification signs as required by Statewide Rule 3.
3. **On Lease Storage.** All fluids produced by swabbing must be transferred to an on-lease tank battery and be measured before they leave the lease, unless the Commission specifically has authorized off-lease storage.
4. **Production Reporting.** All hydrocarbons produced must be reported to the Commission consistent with the requirements of Statewide Rule 58.
5. **Plugging of Wells.** In the event the wells are plugged, all plugging operations must strictly conform to the requirement of Statewide Rule 14, and upon plugging and abandonment of a well, the authority for the well as granted herein shall cease.

6. **Permit Expiration.** The authority granted herein shall remain valid for as long as Luling O & G is recognized by the Commission as the operator of record for the subject leases. The authority granted herein is, after notice and opportunity for hearing, subject to revocation by the Commission for violations of Commission rules with respect to the subject wells. The authority granted herein is not transferrable.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notification of the Commissions' Order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party of interest, this order shall not become final and effective until such motion is overruled, or is such motion is granted, this Order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the parties are notified of the Order.

All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

Done this 27th day of January, 2015, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Divisions' Unprotested Master Order
dated January 27, 2015)**