



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 04-0276393

COMMISSION CALLED HEARING TO PROVIDE HIGH ISLAND OIL CORPORATION AN OPPORTUNITY TO SHOW CAUSE WHY THE PROVISIONS OF THE FINAL ORDER IN OIL & GAS DOCKET NO. 4-83,328 REGARDING PRODUCTION AND PLUGGING OF THE KIRK GAS UNIT, WELL NOS. A-1 AND A-3, WHITE POINT EAST (CONSOLIDATED) FIELD, SAN PATRICIO COUNTY, TEXAS, SHOULD BE SUPERCEDED IN PART

APPEARANCES:

FOR APPLICANT:

Fermin Munoz, Jr.
Thomas E. Smith

APPLICANT:

High Island Oil Corporation

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE OF NOTICE OF HEARING:	May 24, 2012
DATE OF HEARING:	June 11, 2012
HEARD BY:	Michael Crnich, Hearings Examiner Brian Fancher, Technical Examiner
DATE TRANSCRIPT RECEIVED:	June 21, 2012
DATE PFD CIRCULATED:	October 15, 2012

STATEMENT OF THE CASE

In this matter, High Island Oil Corporation ("*High Island*") requests that the Commission supercede and modify the Commission's Final Order in Oil & Gas Docket No. 4-83,328 (the "*1984 Final Order*"), which imposed requirements for the plugging of two wells. The Commission held a hearing on June 11, 2012, to provide High Island an opportunity to show why the Commission should supercede its previous order. Fermin Munoz and Thomas Smith appeared to represent High Island and presented evidence.

BACKGROUND

This matter centers around wells A-1 and A-3 on the Kirk Gas Unit, White Point East (Consolidated) Field, San Patricio County, Texas. In October 1979, Phillips & Spradley drilled and completed the A-1 well. In October 1980, the A-1 well had a massive blowout. Phillips & Spradley drilled the A-3 well as a relief well to intersect the A-1 well and kill the blowout. After completion in March 1981, the A-3 well began producing hydrocarbons. The A-1 blowout died in July 1981 and has been inactive ever since.

Issued in November 1983, the Commission's Final Order in Docket No. 4-78,314 ordered Phillips & Spradley to plug the A-1 well and to cease producing the A-3 well in commingled status upon successful plugging of the A-1 well. Before the A-1 well could be plugged successfully, this order was rescinded by the Commission's Final Order in Docket No. 4-83,328 in December 1984. The 1984 Final Order allowed Phillips & Spradley to continue producing the A-3 well in commingled status while leaving the A-1 well unplugged and temporarily abandoned. Further, the 1984 Final Order dictated that the A-3 well would be produced until economic depletion of the Crumpton and Guedin Lower reservoirs, at which point the A-1 and A-3 wells would be plugged simultaneously, utilizing the A-3 wellbore.

Phillips & Spradley operated the wells until 1988, when San Patricio Corporation became the operator of record of the wells. High Island became operator of the wells by Commission Form P-4 approved on May 30, 2003.

High Island seeks to amend the following three paragraphs from the 1984 Final Order:

1. That the Phillips & Spradley Kirk A-1 Well remain in a temporarily abandoned status until the Crumpton and Guedin Lwr. Reservoirs are produced to economic depletion by the Kirk A-3 well.
2. That upon depletion of the Crumpton and Lower Guedin reservoirs, the Kirk A-1 and Kirk A-3 wells be plugged simultaneously, utilizing the wellbore for the Kirk A-3 well, all in accordance with Railroad Commission rules and regulations and under Railroad Commission supervision.
4. That an exception to Statewide rule 10 to permit downhole commingling between the White Point East (Guedin Lwr) and White Point East (Crumpton) Fields, San Patricio County, Texas be approved.

DISCUSSION OF THE EVIDENCE

In short, High Island desires to amend the 1984 Final Order to enable it to immediately plug the A-1 well and to continue producing from the A-3 well. Paragraph 1 of the 1984 Final Order requires High Island to carry the A-1 well as an inactive well until the A-3 well produces to economic depletion from the Guedin Lower and Crumpton reservoirs. High Island argues that allowing it to plug the A-1 well will accomplish the salutary goals of reducing the number of unplugged inactive wells in the state and complying with Statewide Rule 14. With respect to paragraph 2 of the 1984 Final Order, High Island contends that it will not be possible to plug the A-1 well utilizing the A-3 wellbore. Specifically, it doubts that cement can be pumped through

the formation from the A-3 well to the A-1 well. High Island also believes that paragraph 4, which approved downhole commingling for the A-3 well, is obsolete because in 2006 the Commission consolidated the interval from 10,490 feet to 13,100 feet into one field, the White Point East (Consolidated) Field.

Thomas Smith, the President of High Island, testified that from a business convenience perspective, he desires to plug the A-1 well immediately. As an inactive well, the A-1 would require integrity testing and observation. The A-3 well is the last active well that High Island operates. High Island would like to remove the A-1 well as a concern and focus on its last producing well.

EXAMINERS' OPINION

High Island is requesting that the Commission supercede and amend the Commission's 1984 Final Order. As such, High Island has the burden of proof. To compel the Commission to supercede and amend the 1984 Final Order, High Island must establish that conditions have changed materially since the adoption of the order and that these changed conditions justify the proposed amendments.¹ The examiners have concluded that High Island failed to establish that conditions have changed materially.

The primary justification offered by High Island in support of the proposed amendments is that allowing immediate plugging of the A-1 well will reduce the inventory of unplugged, non-producing wells in Texas. High Island also indicated that from a business perspective, it would prefer to plug the A-1 well, which currently requires observation and maintenance, and focus on operating the A-3 well, which is its last active well. While the examiners are not unsympathetic to the desire of High Island to streamline its business concerns, it cannot be said that the offered justifications constitute changed circumstances that would warrant amendment of a Commission Final Order. An operator's business preferences do not, by themselves, amount to materially changed conditions. Furthermore, the goal of reducing the inventory of unplugged inactive wells in the state is not a new one: the Commission assuredly had this goal when it issued the 1984 Final Order.

Based on the record, the conditions that existed at issuance of the 1984 Final Order have not changed materially. In 1984, the A-1 well, while damaged from the blowout, was in a safe, inactive condition. The A-3 well was producing economically from the Crumpton and Guedin Lower reservoirs. These same conditions existed at the time of hearing. Moreover, the Commission's purposes supporting its 1984 Final Order have not changed. By allowing the A-3 well to continue producing while the A-1 well remained temporarily abandoned, the Commission sought to prevent waste. By requiring that the A-3 and A-1 wells be plugged together and ordering the operator to post a letter of credit, the Commission sought to ensure the proper plugging of the wells without the use of State funds, particularly where the A-1 wellbore appeared to be significantly damaged and incapable of being plugged using typical methods. The purposes for which the requirements in the 1984 Final Order were imposed – preventing

¹ See *Railroad Commn. v. Aluminum Co. of Am.*, 380 S.W.2d 599, 602-3 (Tex. 1964) (holding that an operator had the right to seek a revision of previous proration orders, but it must show changed conditions and a resultant necessity to revise the orders).

waste and ensuring the proper plugging of the wells without using State funds – remain as valid today as they were in 1984, and High Island has not argued to the contrary.

Industry best practice is to plug wells from the surface by pulling all tubing out of the wellbore, setting cement plugs at the precise depths required for proper plugging, and confirming the height of each plug. The 1984 Final Order indicates that damage to the A-1 well makes it impossible to plug that well from the surface. The limited evidence provided by the applicant appears to confirm that the A-1 well still cannot be plugged from the surface due to an obstruction that prevents pulling of the tubing, properly placing the cement plugs, and confirming the plug heights. In fact, it is not at all clear that cement can be forced past the obstruction from the surface. Even if cement could be forced, there would be no way to confirm whether an effective plug had formed or at what depth in the wellbore the plug had formed. Traveling down the well from the surface, there is no mechanism available to demonstrate whether an effective plug had formed to provide the isolation required by Statewide Rule 14(d).

That the Commission approved a field consolidation in 2006 is not a material change that would require revision of the 1984 Final Order. The White Point East Field consolidation allows the A-3 well to produce from the two separate reservoirs without the need for a downhole commingling exception. Both the exception granted by paragraph 4 of the 1984 Final Order and the 2006 field consolidation allow High Island to operate the A-3 well as it is currently being operated. The commingling exception may now be superfluous, but no revision to the 1984 Final Order is required for High Island to continue its current operation of the A-3 well.

Because High Island did not establish that conditions have changed materially since the issuance of the 1984 Final Order, the examiners recommend that its application to supercede be denied. If conditions change materially in the future, High Island has the right to once again request a hearing and attempt to prove that the 1984 Final Order should be superceded. Based on the record in this case, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least ten days notice of the hearing in this docket was sent to all parties entitled to notice.
2. High Island Oil Corporation (“*High Island*”) became operator of the Kirk Gas Unit, Well A-1 and Well A-3, White Point East (Consolidated) Field, San Patricio County, Texas, by Commission Form P-4 approved on May 30, 2003.
3. By Final Order signed December 3, 1984, in Oil & Gas Docket No. 4-83,328 (the “*1984 Final Order*”), the Commission ordered that the A-1 well remain in a temporarily abandoned status until the Crumpton and Guedin Lower reservoirs are produced to economic depletion. The 1984 Final Order further ordered that upon depletion of these reservoirs, the A-1 and A-3 wells be plugged simultaneously, utilizing the wellbore for the A-3 well, all in accordance with Railroad Commission rules and regulations under Railroad Commission supervision.

4. By its application, High Island Oil Corporation requests that the Commission issue an order superceding the 1984 Final Order insofar as it requires economic depletion of the A-3 well before the A-1 well can be plugged.
5. High Island requests that it be permitted to plug and abandon the A-1 well immediately without utilizing the A-3 well and to continue producing the A-3 well until final depletion.
6. High Island did not submit sufficient evidence to establish that conditions have changed materially since issuance of the 1984 Final Order.
7. High Island did not submit any evidence establishing that superceding the 1984 Final Order as requested is necessary to prevent waste, protect correlative rights, or prevent pollution of water resources.

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 to consider this matter have been performed or have occurred.
3. High Island failed to prove that conditions have changed materially since issuance of the 1984 Final Order.

RECOMMENDATION

The examiners recommend that High Island's application be denied.

Respectfully submitted,


Michael Crnich
Hearings Examiner


Brian Fancher, P.G.
Technical Examiner