

February 4, 2008

**OIL AND GAS DOCKET NO. 8A-0255063**

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**COMMISSION CALLED HEARING TO SUPERCEDE THE FINAL ORDER ISSUED AUGUST 2, 2005 IN OIL AND GAS DOCKET NO. 8A-0242076 REQUIRING PLUGGING OF WELL NO. 1, COUNTESS (66889) LEASE, SWANSON (ATOKA) FIELD, LUBBOCK COUNTY, AND TO RECOGNIZE KALA OIL COMPANY AS THE OPERATOR OF RECORD OF THE WELL.**

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**APPEARANCES FOR APPLICANT:**

Donald Camp  
Dick Milam

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

<b>DATE OF REQUEST FOR ACTION:</b>	December 20, 2007
<b>NOTICE OF HEARING:</b>	January 11, 2008
<b>DATE CASE HEARD:</b>	February 1, 2008
<b>HEARD BY:</b>	Mark Helmueller, Hearings Examiner
<b>PFD CIRCULATION DATE:</b>	February 4, 2008

**STATEMENT OF THE CASE**

Kala Oil Company (hereinafter "Kala") requests that the Commission supercede the provisions in the Final Order entered in Oil and Gas Docket No. 8A-0242076 requiring plugging of Well No. 1, Countess (66889) Lease, Swanson (Atoka) Field, Lubbock County, (hereinafter "subject lease" and/or "subject well") and recognize Kala as the operator.

**SUMMARY OF EVIDENCE**

The examiner took official notice of records related to Kala's most recent Commission Form P-5 (Organization Report), and records identifying the wells it currently operates. Kala filed its most recent P-5 on July 11, 2007. Kala has posted financial assurance with the Commission in the form of a \$50,000 letter of credit. Kala is the operator of 26 wells with a total depth of 136,491 feet.

The prior operator of the subject well, Jasmar Oil Company (hereinafter "Jasmar") submitted a Commission Form P-4 (Producer's Transportation Authority and Certificate of Compliance) to operate the subject lease which was approved on June 21, 1992. The well is currently identified on Commission records as an orphan well.

Production from the subject lease was last reported on or before January 1, 1993. The Commission ordered Jasmar to plug the well due to a violation of Statewide Rule 14 on August 2, 2005. Jasmar was further ordered to pay an administrative penalty of \$2,000.00.

Kala has secured currently effective oil and gas leases covering the subject property from all of the mineral interest owners. Kala represented that Jasmar and its principals possess no current interest in the well and are not affiliated with Kala. Kala believes the well can be restored to production on a pump. Kala asserts that a workover in 1992 was successful, but production was not economic due to the price per barrel at the time, and the cost of disposing 50-60 barrels of produced water. Kala believes the well will produce between 5-10 barrels of oil per day. It is estimated that the well will produce in paying quantities for the next 20 years and will recover an additional 38,000 barrels which would otherwise be wasted.

### **AUTHORITY**

Texas Natural Resources Code §85.049(a) provides:

On a verified complaint of any person interested in the subject matter that waste of oil or gas is taking place in this state or is reasonably imminent, or on its own initiative, the commission after proper notice, may hold a hearing to determine whether or not waste is taking place or is reasonably imminent and if any rule or order should be adopted or if any other action should be taken to correct, prevent or lessen the waste.

Texas Natural Resources Code §91.107 requires that an operator file financial assurance in the form of a bond, letter of credit or cash deposit in the amount necessary for both existing wells operated and any wells being transferred, prior to Commission approval of the transfer.

Under Statewide Rules 14 and 58, the Commission may require an operator of a well to provide evidence of a good faith claim of a continuing right to operate.

### **EXAMINER'S OPINION**

Kala claims that it can meet the requirements to be recognized as the operator of the subject well. However, this claim is complicated by the Final Order requiring that Jasmar plug the well. An order superceding a plug only requirement in a Commission Final Order may be warranted if the operator shows: 1) that it has a good faith claim of a continuing right to operate the well or lease; 2) that it has met the financial assurance requirements of Texas Natural Resources Code §91.107; and 3) that a superceding order is necessary to prevent waste. Kala has satisfied these requirements.

Kala met all requirements necessary for the entry of a Final Order superceding the provisions requiring plugging of Well No. 1, Countess (66889) Lease, Swanson (Atoka) Field. Kala has established a good faith claim to operate the subject well, and verified that Jasmar does not possess any interest in the well. Kala has sufficient financial security in place and demonstrated that the well may be restored to productive use. Accordingly the examiner concludes that an order superceding the plug only provision should be entered, and Kala should be recognized as the operator of the subject well. All other provisions in the Final Order shall remain in full force and effect.

### FINDINGS OF FACT

1. Kala Oil Company (hereinafter “Kala”), was given at least 10 days notice of this proceeding. Kala appeared at the hearing and presented evidence.
2. Kala filed its most recent P-5 on November 14, 2007. Kala has posted financial assurance with the Commission in the form of a \$25,000 letter of credit. Kala is currently listed as the operator of 7 wells with a total depth of 61,811 feet.
3. The prior operator of Well No. 1 on the Countess (66889) Lease, Swanson (Atoka) Field, (hereinafter “subject well” and/or “subject lease”) Jasmar Oil Co., submitted a Commission Form P-4 (Producer’s Transportation Authority and Certificate of Compliance) to operate the subject lease which was approved on June 21, 1992. The well is currently identified on Commission records as an orphan well.
4. Production from the subject lease was last reported on or before January 1, 1993. The Commission ordered Jasmar to plug the well due to violations of Statewide Rule 14 on August 2, 2005. Jasmar was further ordered to pay an administrative penalty of \$2,000.00.
5. Kala has secured currently effective oil and gas leases covering the subject property from allo of the mineral interest owners. Kala represented that Jasmar and its principals possess no current interest in the well and are not affiliated with Kala.
6. Kala believes the well can be restored to production on a pump. Kala asserts that a workover in 1992 was successful, but production was not economic due to the price per barrel at the time, and the cost of disposing 50-60 barrels of produced water. Kala believes the well will produce between 5-10 barrels of oil per day. It is estimated that the well will produce in paying quantities for the next 20 years and will recover an additional 38,000 barrels which would otherwise be wasted.
7. Superceding the plug only requirement in the Final Order entered in Oil and Gas Docket No. 8A-0242076 requiring plugging of Well No. 1 on the Countess (66889) Lease, Swanson (Atoka) Field, will prevent waste of oil and gas resources that would not be produced if the well is plugged.

### **CONCLUSIONS OF LAW**

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Kala has a good faith claim of a continuing right to operate the subject well.
4. Kala has filed financial assurance in the type and amount required under Texas Natural Resources Code §91.107 to be approved as the operator of the subject well.
5. A Final Order superceding the “plug only” provision in the Final Order entered in Oil and Gas Docket No. 8A-0242076 requiring plugging of Well No. 1 on the Countess (66889) Lease, Swanson (Atoka) Field, will prevent waste of oil and gas resources.

### **RECOMMENDATION**

The examiner recommends that the Commission grant the request to supercede the provisions in the Final Order entered in Oil and Gas Docket No. 8A-0242076 requiring plugging of Well No. 1 on the Countess (66889) Lease, Swanson (Atoka) Field. Additionally, the examiner recommends that Kala be recognized as the operator of Well No. 1, Countess (66889) Lease, Swanson (Atoka) Field.

Respectfully submitted,

Mark J. Helmueller  
Hearings Examiner