

September 15, 2006

OIL & GAS DOCKET NO. 04-0247650

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**APPLICATION OF VTEX ENERGY, INC., REGARDING REVOCATIONS OF PLUGGING EXTENSIONS FOR VARIOUS LEASES, SAMEDAN (FRIO) FIELD, KLEBERG COUNTY, TEXAS.**

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**APPEARANCES:**

**FOR APPLICANT VTEX ENERGY, INC.:**

John Hays  
Chad Costello  
Stephen Noser  
Tom Kaetzer

**FOR OBSERVER TEXAS GENERAL LAND OFFICE:**

Daryl Morgan

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

<b>DATE OF REQUEST FOR HEARING:</b>	May 19, 2006
<b>DATE OF NOTICE OF HEARING:</b>	June 30, 2006
<b>DATE OF HEARING:</b>	July 17, 2006
<b>PROPOSAL FOR DECISION PREPARED BY:</b>	Mark Helmueller, Hearings Examiner Thomas Richter, Technical Examiner
<b>DATE RECORD CLOSED:</b>	September 15, 2006
<b>PROPOSAL FOR DECISION CIRCULATED:</b>	September 15, 2006

## INTRODUCTION

VTEX Energy, Inc. (hereinafter “VTEX”) requested a Commission hearing to contest the proposed revocation of plugging extensions for seven inactive offshore wells. The proposed revocation arose after the Commission was copied on correspondence prepared by the Texas General Land Office (hereinafter “GLO”) advising VTEX that the lease had terminated for the tract on which the wells are located. Upon receipt of this correspondence, the Commission contacted VTEX concerning the wells eligibility for plugging extensions in the absence of a good faith claim of a continuing right to operate. VTEX responded that the lease was held by production and requested a hearing to address the revocation issue.

At the hearing, VTEX did not contest the termination of the lease. However, it urged the examiners recommend that the wells not be ordered immediately plugged.

## APPLICABLE RULES

Statewide Rule 14(b)(2) provides in part:

Plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed. Plugging operations on delinquent inactive wells shall be commenced immediately unless the well is restored to active operation. For good cause, a reasonable extension of time in which to start the plugging operations may be granted pursuant to the following procedures.

Statewide Rule 14(b)(2)(C)(i) concerning revoking plugging extensions provides:

The Commission or its delegate may revoke a plugging extension if the operator of the well that is the subject of the extension fails to maintain the well and all associated facilities in compliance with Commission rules; fails to maintain a current and accurate organizational report on file with the Commission; fails to provide the Commission, upon request, with evidence of a continuing good faith claim to operate the well; or fails to obtain or maintain financial security as required by §§3.78 of this title (relating to Fees and Financial Security Requirements) (Statewide Rule 78).

### MATTERS OFFICIALLY NOTICED

The examiners took official notice of Commission records showing VTEX is the operator of 15 offshore wells with a total depth of 170,700 feet. The examiners have also officially noticed Commission production history records on its “Production Data Query” system for the subject wells. The examiners also took official notice of the record, Proposals for Decision and Final Orders in *Oil & Gas Docket No. 04-0240479: Application of VTEX Energy, Inc., to Consider Reduction of the Amount of Financial Assurance Required Pursuant to Statewide Rule 78(g) for Various Leases in Railroad Commission District 4, Kleberg County, Texas.*

### DISCUSSION OF EVIDENCE

VTEX is in the business of acquiring “marginal” oil and gas properties and attempting to enhance their productivity and extend their economic life. Its offshore wells are located 2 miles offshore of South Padre Island, just south of Corpus Christi. All of VTEX’s offshore wells are located on the western half of State Tract 818-L. Eight wells are located on the 1440 acre southwest quarter of Tract 818-L. The seven wells at issue in this docket (“subject wells”) are located on 1440 acres in the northwest quarter. A copy of a map generated from the Commission mapping database depicting the wells and their locations is attached as Exhibit 1 to this proposal for decision. The following table identifies the seven wells located on the northwest quarter of Tract 818-L.

API Number	Lease Name	Well	RRC ID	Last Production
702-30139	State Tract 818L Lease	A 2	094611	11/1995
702-30156	State Tract 818L Lease	A 6	093474	1/2005
702-30117	State Tract 818L Lease	B 1	085834	8/1996
702-30157	State Tract 818L Lease	B 2	095563	10/1996
702-30144	State Tract 818L Lease	B 3	095564	1/1998
702-00702	State Tract 818L N/W4 Lease	B 4	096204	1/1993
702-30146	State Tract 818L Lease	F 2	092493	1/1993

VTEX admits the lease for the northwest quadrant of State Tract 818-L has terminated. The acreage was nominated for the July 25, 2006 Oil and Gas Lease Sale conducted by the GLO, but no lease was awarded.

VTEX claims the wells should not be plugged because they can be restored to production or converted to injection wells. VTEX asserts the area has immense potential for reworking operations in the existing formation, or for exploiting other productive formations. The cost of a workover program for the seven wells is between \$4 million to \$10 million and would recover between 4 and 15 Bcf of natural gas. The estimated cost to drill new wells would be \$20 million to \$25 million. VTEX claims the uncertainty inherent in drilling new wells would make this an unlikely prospect.

*In Oil & Gas Docket No. 04-0240479: Application of VTEX Energy, Inc., to Consider Reduction of the Amount of Financial Assurance Required Pursuant to Statewide Rule 78(g) for Various Leases in Railroad Commission District 4, Kleberg County, Texas*, the Commission denied VTEX's request to waive the additional financial security required for the continued operation of its inactive offshore wells, including the seven wells in this docket. VTEX appealed the Final Order to the Travis County District Court. Consistent with existing Commission policy, the appeal operates as a deemed plugging extension for the wells, pending a final judicial determination.

#### **EXAMINERS' OPINION**

VTEX does not have a lease related to the seven wells at issue in this docket. The deemed plugging extensions are based on the continuing appeal of a Commission determination with respect to financial security requirements for offshore wells. The requirement of posting proper financial security to obtain a plugging extension under Statewide Rule 14(b)(2)(C)(i) is independent of the requirement to provide a good faith claim of an existing right to operate. Because this case goes only to the requirement concerning the right to operate, and VTEX admits it has no such right for the wells at issue, it is appropriate to cancel the plugging extensions for these wells deemed to be in effect by virtue of the appeal in the District Court.

The issue of how the Commission should enforce compliance with Statewide Rule 14(b)(2) is not appropriately before the examiners in this docket. Compliance issues require the involvement of the District Office, Field Operations, and Enforcement Section of the Office of General Counsel. There has been no participation in this docket by the Commission sections responsible for compliance issues. Accordingly, the examiners do not believe the compliance issue should be addressed at this time, as there is no evidence in the record concerning the position of the Commission personnel charged with ensuring compliance with Statewide Rule 14(b)(2).

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 (10) days notice of the hearing in this docket was sent to all parties entitled to notice. VTEX Energy, Inc. (“VTEX”) appeared at the hearing and presented evidence. The Texas General Land Office (“GLO”) also appeared as an observer at the hearing.
2. Commission “On-Schedule Leases, Wells, Wellbores By Operator” records show that VTEX is currently the operator of 15 offshore wells with a total depth of 170,700 feet.
3. Commission records from the “Production Data Query” system show that as of August 31, 2006, the following seven wells which are at issue in this proceeding (“subject wells”) are inactive.
  - A. State Tract 818L Lease, Well No. A2, RRC Gas ID No. 094611, API No. 702-30139, last reported production in November 1995;
  - B. State Tract 818L Lease, Well No. A6, RRC Gas ID No. 093474, API No. 702-30156, last reported production in January 2005;
  - C. State Tract 818L Lease, Well No. B1, RRC Gas ID No. 085834, API No. 702-30117, last reported production in August 1996;
  - D. State Tract 818L Lease, Well No. B2, RRC Gas ID No. 095563, API No. 702-30157, last reported production in October 1996;
  - E. State Tract 818L Lease, Well No. B3, RRC Gas ID No. 095564, API No. 702-30144, last reported production in January 1998;
  - F. State Tract 818L N/W4 Lease, Well No. B4, RRC Gas ID No. 096204, API No. 702-00702, last reported production in January 1993; and,
  - G. State Tract 818L Lease, Well No. F2, RRC Gas ID No. 092493, API No. 702-30146, last reported production in January 1993.
4. The subject wells are located on the 1440 acres in the northwest quarter of Tract 818-L.
5. In *Oil & Gas Docket No. 04-0240479: Application of VTEX Energy, Inc., to Consider Reduction of the Amount of Financial Assurance Required Pursuant to Statewide Rule 78(g) for Various Leases in Railroad Commission District 4, Kleberg County, Texas*, the Commission denied VTEX’s request to waive the additional financial security required for the continued operation of its inactive offshore wells, including the seven wells in this docket. VTEX appealed the Final Order to the Travis County District Court.

6. The current plugging extensions for the subject wells are based on the appeal of the Final Order in Oil & Gas Docket No. 04-0240079 with respect to financial security requirements for inactive offshore wells.
7. There is no lease currently in effect for the 1440 acres in the northwest quarter of State Tract 818-L.
8. Statewide Rule 14(b)(2)(C)(i) requires an operator to establish a good faith claim of a continuing right to operate a well as a condition to obtaining a plugging extension.

### 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. VTEX does not possess a current right to operate the following wells
  - A. State Tract 818L Lease, Well No. A2, RRC Gas ID No. 094611, API No. 702-30139;
  - B. State Tract 818L Lease, Well No. A6, RRC Gas ID No. 093474, API No. 702-30156;
  - C. State Tract 818L Lease, Well No. B1, RRC Gas ID No. 085834, API No. 702-30117;
  - D. State Tract 818L Lease, Well No. B2, RRC Gas ID No. 095563, API No. 702-30157;
  - E. State Tract 818L Lease, Well No. B3, RRC Gas ID No. 095564, API No. 702-30144;
  - F. State Tract 818L N/W4 Lease, Well No. B4, RRC Gas ID No. 096204, API No. 702-00702; and,
  - G. State Tract 818L Lease, Well No. F2, RRC Gas ID No. 092493, API No. 702-30146.
4. Pursuant to Statewide Rule 14(b)(2)(c)(i), the plugging extension for the following wells should be revoked because VTEX does not possess a current right to operate.
  - A. State Tract 818L Lease, Well No. A2, RRC Gas ID No. 094611, API No. 702-30139;
  - B. State Tract 818L Lease, Well No. A6, RRC Gas ID No. 093474, API No. 702-30156;
  - C. State Tract 818L Lease, Well No. B1, RRC Gas ID No. 085834, API No. 702-30117;
  - D. State Tract 818L Lease, Well No. B2, RRC Gas ID No. 095563, API No. 702-30157;

- E. State Tract 818L Lease, Well No. B3, RRC Gas ID No. 095564, API No. 702-30144;
- F. State Tract 818L N/W4 Lease, Well No. B4, RRC Gas ID No. 096204, API No. 702-00702; and,
- G. State Tract 818L Lease, Well No. F2, RRC Gas ID No. 092493, API No. 702-30146.

**RECOMMENDATION**

The examiners recommend the plugging extensions for the following wells be revoked:

- 1. State Tract 818L Lease, Well No. A2, RRC Gas ID No. 094611, API No. 702-30139;
- 2. State Tract 818L Lease, Well No. A6, RRC Gas ID No. 093474, API No. 702-30156;
- 3. State Tract 818L Lease, Well No. B1, RRC Gas ID No. 085834, API No. 702-30117;
- 4. State Tract 818L Lease, Well No. B2, RRC Gas ID No. 095563, API No. 702-30157;
- 5. State Tract 818L Lease, Well No. B3, RRC Gas ID No. 095564, API No. 702-30144;
- 6. State Tract 818L N/W4 Lease, Well No. B4, RRC Gas ID No. 096204, API No. 702-00702; and,
- 7. State Tract 818L Lease, Well No. F2, RRC Gas ID No. 092493, API No. 702-30146.

Respectfully submitted,

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Thomas Richter  
Technical Examiner

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Mark Helmueller  
Hearings Examiner