

COMMISSION CALLED HEARING ON THE APPLICATION OF NUTEK OIL, INC., TO SUPERCEDE THE FINAL ORDER ISSUED JULY 9, 2002, IN DOCKET NO. 01-0230486, LASKOWSKI -B- (08378) LEASE, WELL NO. 1, PRUSKE (BUDA) FIELD, WILSON COUNTY, TEXAS

APPEARANCES:

FOR APPLICANT:

Peter R. Maupin, Agent
Dave Cummings, Vice President

APPLICANT:

Nutek Oil, Inc.

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE OF REQUEST FOR HEARING:	January 29, 2004
DATE OF NOTICE OF HEARING:	February 2, 2004
DATE CASE HEARD:	February 13, 2004
HEARD BY:	James M. Doherty, Hearings Examiner Margaret Allen, Technical Examiner
PFD CIRCULATION DATE:	March 1, 2004

STATEMENT OF THE CASE

On July 9, 2002, the Commission issued a Final Order in Oil & Gas Docket No. 01-0230486 ordering that T. N. Thomas, Jr., Owner, T. N. Thomas Oil Company ("Thomas") plug the Laskowski -B- (08378) Lease, Well No. 1, Pruske (Buda) Field, Wilson County, Texas ("subject well") and pay an administrative penalty. Thomas has not complied with this Final Order, and the subject well remains unplugged.

Nutek Oil, Inc. ("Nutek") has filed a Form P-4 (Certificate of Compliance and Transportation Authority) requesting that the operator of the subject well be changed from Thomas to Nutek. In addition, Nutek has filed an application requesting that the Commission enter an order superceding the Final Order dated July 9, 2002, ordering that the subject well be plugged, in order that Nutek may become operator and produce the well.

A hearing was held on February 13, 2004. Nutek appeared and presented evidence. No party appeared at the hearing to oppose the application.

DISCUSSION OF THE EVIDENCE

The current operator of record for the subject lease and well is Thomas. The examiners have officially noticed from Commission records that Thomas last filed a Form P-5 (Organization Report) on January 9, 1999. Thomas' Form P-5 has been delinquent since December 1, 1999, and Thomas could not be found when his signature on a Form P-4 was sought by Nutek.

Nutek currently has an active Form P-5 and has filed financial assurance in the form of a \$50,000 letter of credit. Commission records officially noticed by the examiners disclose that Nutek currently is the operator of 89 wells. There is no affiliation between Nutek and Thomas.

Within the past 18 months, Clipper Operating Co. acquired mineral leases on all tracts comprising a 40 acre pooled unit for the subject well originally formed by S & R Oil Co., Inc., in 1987. All of these mineral leases are within their primary term and are currently in effect. Clipper Operating Co. has contracted with Nutek to operate these leases.

The subject well was completed in 1982. Commission production records officially noticed by the examiners disclose that production from the well was last reported in May 1999. During the first five months of 1999, the subject well produced 15 barrels of oil. During 1998, the well produced 128 barrels of oil.

Offsetting the subject lease is the Stanley Unit. A well drilled on the Stanley Unit about 1,675 feet from the subject well and completed in the Austin Chalk formation produced 26,853 barrels of oil and 21,036 MCF of gas before the well ceased to produce in 1993. Nutek obtained a log for the subject well, and log analysis has persuaded Nutek that the Austin Chalk is productive in the well. Nutek plans to recomplete the subject well in the Austin Chalk, and expects a recovery comparable to the recovery of the adjacent Stanley Unit well. Clipper Operating Co. has also obtained leases on more than 500 acres surrounding the subject lease, and in the future Nutek plans to drill a lateral in the subject well to achieve additional recovery of reserves from the Austin Chalk. Nutek believes that the subject well is usable for this purpose. Shut in wellhead pressure of 1,250 psi was measured in the subject well by Nutek.

Nutek believes that approval of its request to supercede the plug order will promote conservation of natural resources and prevent expenditure of State funds to plug the well.

EXAMINERS' OPINION

The examiners believe that the plug order in Oil & Gas Docket No. 01-0230486 should be superceded. Conditions which led to the issuance of the plug order have changed materially. At the time of issuance of the plug order in July 2002, Thomas had a delinquent organization report, and

the delinquency had existed since December 1, 1999. The subject well had not produced since May 1999, and Thomas had defaulted at the enforcement case hearing. There was no evidence that Thomas continued to have a good faith claim of a right to operate the well.

Nutek is a currently active and bonded operator. Clipper Operating Co. has acquired new mineral leases, which are currently effective, and has contracted with Nutek to operate the subject lease. Nutek has established that it has a good faith claim of a current right to operate the subject well. The amount of hydrocarbons that will be recovered by Nutek when the well is recompleted in the Austin Chalk formation is only estimated, based on log analysis and past production of a well on an adjacent unit. However, the conclusion is warranted that the well will be productive in the Austin Chalk, and the drilling of a new well to recover these reserves would be wasteful economically. If the subject well had been plugged, Nutek would have been allowed to reenter the well for the purpose of recompleting it in the Austin Chalk simply by filing and obtaining approval of a Form W-1.

There is no evidence that superceding the plug order and enabling Nutek to become operator of the subject well will circumvent Commission rules or harm natural resources. Furthermore, superceding the plug order and approving the transfer of the subject well to Nutek will eliminate the necessity for expenditure of money from the Oil Field Clean Up Fund to plug the well.

The examiners recommend that the Final Order in Oil & Gas Docket No. 01-0230486 be superceded only insofar as it requires that the subject well be plugged and that the Form P-4 filed by Nutek be approved changing the operator of the well from Thomas to Nutek.

Based on the record in this docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least 10 days notice of this proceeding was given to Nutek Oil, Inc. (“Nutek”) and to T. N. Thomas, Jr., Owner, T. N. Thomas Oil Company (“Thomas”). Nutek appeared at the hearing and presented evidence.
2. The current operator of record of the Laskowski -B- (08378) Lease, Well No. 1, Pruske (Buda) Field, Wilson County, Texas (“subject well”), is Thomas.
3. On July 9, 2002, the Commission issued a Final Order in Oil & Gas Docket No. 01-0230486 ordering that Thomas plug the subject well and pay an administrative penalty for violation of Commission rules. Thomas has not complied with this Final Order, and the subject well has not been plugged.
4. Nutek has filed a Form P-4 (Certificate of Compliance and Transportation Authority)

requesting a change of operator for the subject lease and well from Thomas to Nutek. Nutek has also filed an application requesting that the Commission supercede the Final Order in Oil & Gas Docket No. 01-0230486 insofar as it orders that the subject well be plugged.

5. Nutek has an active Form P-5 (Organization Report) and has filed financial assurance in the form of a \$50,000 letter of credit. There is no affiliation of any kind between Nutek and Thomas.
6. Clipper Operating Co., Inc., is lessee under a currently effective mineral leases covering the subject property, and has contracted with Nutek to operate the property.
7. The subject well was completed in 1982 and produced until May 1999.
8. Nutek plans to recomplete the subject well in the Austin Chalk formation which lies above the Buda formation in the subject well. A well on the adjacent Stanley Unit 1,675 feet from the subject well produced 26,853 barrels of oil and 21,036 MCF of gas from the Austin Chalk through March 1993. Log analysis for the subject well indicates that the Austin Chalk is productive in the well, and Nutek expects a recovery similar to that experienced by the Stanley Unit well.
9. Plugging the subject well at this time would result in the waste of hydrocarbons. Drilling of a new well to recover the reserves that will be recovered upon recompletion of the subject well in the Austin Chalk would be economically wasteful.
10. Superceding the plug order in Oil & Gas Docket No. 01-0230486 and permitting Nutek to produce the well as operator will not endanger natural resources or circumvent Commission rules.

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. Nutek Oil, Inc., is an active operator and has sufficient financial assurance on file with the Commission pursuant to Texas Natural Resources Code §§91.104, 91.1042, and 91.107.
4. Conditions respecting the subject lease and well have changed since entry of the Commission's Final Order on July 9, 2002, in Oil & Gas Docket No. 01-0230486.
5. Nutek Oil, Inc., has a good faith claim of a current right to operate the subject lease and well.

5. Superceding the Final Order dated July 9, 2002, in Oil & Gas Docket No. 01-0230486 only insofar as it orders that the subject well be plugged and approval of a change of operator of the well to Nutek Oil, Inc., will promote conservation of natural resources and prevention of waste pursuant to Texas Natural Resources Code §85.201.

RECOMMENDATION

The examiners recommend that the above findings and conclusions be adopted and the attached order be approved.

Respectfully submitted,

James M. Doherty
Hearings Examiner

Margaret Allen
Technical Examiner