



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 01-0269762

THE APPLICATION OF SANDY SWD, LLC FOR COMMERCIAL DISPOSAL AUTHORITY
PURSUANT TO STATEWIDE RULE 46 FOR THE ASHERTON SWD LEASE, WELL
NOS. 1 AND 2, THIRTEEN, W. (OLMOS 3450) FIELD, DIMMIT COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Marshall F. Enquist - Legal Examiner

APPEARANCES:

REPRESENTING:

APPLICANT:

Clay Nance
Jay Stewart
Tim Ligocky
Kelly Knight
Corky Goodman
Carter Davis

Sandy SWD, LLC

PROTESTANTS:

Ramon Saldivar, Jr.

Mayor of Asherton, Texas

Onesimo S. Martinez

Self

PROCEDURAL HISTORY

Application Filed:	October 14, 2010
Protest Received:	January 20, 2011
Request for Hearing:	February 15, 2011
Notice of Hearing:	April 1, 2011
Hearing Held:	April 25, 2011
Transcript Received:	May 4, 2011
Proposal for Decision Issued:	June 8, 2011

EXAMINERS' REPORT AND PROPOSAL FOR DECISION**STATEMENT OF THE CASE**

Sandy SWD, LLC ("Sandy") requests commercial disposal authority pursuant to Statewide Rule 46 for the Asherton SWD Lease, Well Nos. 1 and 2, Thirteen, W. (Olmos 3450) Field, Dimmit County, Texas.

Notice of the subject application was published in *The Carrizo Springs Javelin*, a newspaper of general circulation in Dimmit County, on January 6, 2011. Notice of the application was sent to the Dimmit County Clerk, offset operators within ½ mile and to the surface owners of each tract which adjoins the disposal tract on October 13, 2010.

This application is protested by the Mayor and one citizen of Asherton, Texas.

DISCUSSION OF THE EVIDENCE**Applicant's Evidence**

The subject wells have not yet been drilled, but will be located on a 125 acre tract at the intersection of U.S. Highway 83 and Martinez Road. The tract has approximately 2,500 feet of frontage on each highway, but Sandy plans to have trucks enter the injection facility off of Martinez Road. The tract is large, relatively flat and open and is situated approximately 1.4 miles north of the city of Asherton, Texas. The injection facility will be located on the highest portion of the tract, which is not contained within any flood zone area.

Sandy proposes that the wells be drilled through the Olmos formation to a maximum depth of 4,000 feet. It is proposed that the wells will have 1,000 feet of 8 5/8" surface casing set with cement circulated from the casing shoe to the ground surface. The 5 1/2" longstring casing will be set at the estimated total depth of 4,000 feet with cement circulated from the casing shoe to the ground surface (See attached Sandy Exhibit No. 23 - Wellbore Diagrams). The two proposed injection wells will be approximately 1,500 feet apart.

The Texas Commission on Environmental Quality ("TCEQ") recommends that usable-quality ground water be protected through the Upper Wilcox, estimated to occur at a depth of 1,000 feet below the land surface. There is over 2,400 feet of shale and impermeable formations between the top of the proposed injection interval at 3,400 feet and the base of usable quality water at 1,000 feet. The deepest water well within a two mile radius is 760 feet.

The proposed injection will be through 4 ½" tubing set on a packer at approximately 3,400 feet, but no higher than 100 feet above the top of the injection interval. The

proposed injection interval is the Olmos formation between 3,400 feet and 3,900 feet. The proposed maximum injection volume for each well is 5,000 BWPD, with an estimated average of 3,500 BWPD. The proposed maximum surface injection pressure is 1,700 psig. The closest Olmos production, in the Thirteen, W. (Olmos 3450) Field, is located two miles east of the proposed injection wells.

There are two producing oil wells and one plugged dry hole located within a 1/2 mile radius of review for each of the proposed disposal wells. The two producing oil wells are operated by Carrizo Exploration, Inc. and produce from the Buda formation at an average depth of 6,500 feet. Both wells are cased and cemented in a manner which will not provide a conduit for the migration of injected water from the injection interval into other oil, gas or mineral bearing formations or useable quality groundwater zones. The dry hole is properly plugged and abandoned.

Sandy's owner stated that Sandy is the surface owner of the 125 acre tract where the proposed disposal facility will be located. Sandy currently operates two disposal wells in Dimmit County. Sandy's owner also owns NTZ Vacuum Trucks which operates 22 saltwater disposal trucks in Dimmit County. Sandy plans to use the proposed disposal wells for its own disposal needs, but they will be available for use by other saltwater disposal haulers.

Sandy requests commercial authority to allow disposal of frac fluids and saltwater produced by wells in Dimmit and adjacent counties within a 50 mile radius of the proposed injection wells. There are currently only 5 active commercial disposal wells contained within Dimmit County, which includes the two wells owned by Sandy. All of the facilities are at or near capacity and Sandy's owner submitted a tabulation of the number of loads that NTZ has hauled to disposal wells located in Frio and La Salle Counties. In addition to the extra two hours of driving time, NTZ trucks are having to wait two to four hours before they can unload. To date in 2011, NTZ has hauled 384 loads of saltwater requiring 2,182 total hours of truck time and 30,990 highway miles which cost the oil and gas well operators \$174,400. A facility located at the proposed location, would reduce the round trip haul time by two hours and eliminate 80 miles of truck traffic on the highways.

Sandy asserts additional disposal capacity in Dimmit County is necessary to address disposal of frac and salt water produced by wells located in the area within a 50 mile radius. A drilling permit query of the RRC online system showed that 79 new drilling permits were issued in Dimmit, Frio, La Salle, Maverick, Webb and Zavala Counties in 2009 for Eagle Ford development. In 2010, there were 601 drilling permits issued and in 2011, as of the date of the hearing, 373 drilling permits have been issued. If the trend continues in 2011, there will be a total of 1,400 drilling permits issued in 2011. Sandy opines that if injection permits are issued for the two proposed injection wells, their facility will only be able to handle approximately 25% of the estimated produced frac and salt water volumes from the new Eagle Ford producing wells.

A representative of another salt water disposal company, Select Energy Services ("Select"), appeared at the hearing in support of Sandy's application. Select currently

operates two disposal wells in Dimmit and Frio Counties that are at capacity. Select would add 30 additional saltwater disposal trucks in the area if there was additional disposal capacity. Select stated that it would use the proposed injection facility, as the facility location would save Select 60 miles of truck travel per load and would reduce the one to four hour wait times that are occurring at other facilities.

At a total average injection rate of 7,000 BWPD, there will be approximately 60 loads per day delivered to the facility. The facility will be constructed to accommodate numerous trucks at any one time and will be large enough to allow trucks access without waiting on Martinez Road. The surface facility will be manned 24 hours per day. A firewall will be constructed around the entire facility to contain any spilled fluids. The tanks will be equipped with high water level switches to prevent overflows. Additionally, the facility will comply with all of the permit conditions required by the Commission staff.

Sandy submits that it has the expertise to build and manage the proposed facility. Sandy has a current approved Form P-5 (Organization Report), has posted financial assurance in the form of a \$25,000 bond and has no pending Commission enforcement actions.

Protestants' Evidence

The application is protested by the Mayor and one citizen of Asherton, Texas. The protestants are primarily concerned that the facility will pose a threat to their usable water quality and that noise, dust and fumes from the facility will affect their quality of life. They are also concerned that a spill could contaminate the surface water, as drainage from the facility would flow into the creek that runs west of Asherton. Although the Mayor alleged that he had a petition signed by 300 to 400 residents in protest of the application, no petition was submitted as evidence at the hearing.

EXAMINERS' OPINION

The examiners recommend approval of the application for commercial disposal authority pursuant to Statewide Rule 46 for the Asherton SWD Lease, Well Nos. 1 and 2. The proposed injection wells will be completed in a manner which will protect useable quality water resources and will confine the injected fluids to the injection interval. Injected fluids will be confined to the injection interval by over 2,400 feet of shale and impermeable formations between the top of the injection interval and the base of usable quality water and by over 3,000 feet of impermeable rock below the injection interval and above the shallowest production. Finally, there are only two producing oil wells and one plugged dry hole located within a 1/2 mile radius of review for each of the proposed disposal wells.

Approval of the application is in the public interest. The Eagle Ford development core area encompasses Dimmit and surrounding Counties and disposal wells are the best means for disposing of produced frac and salt water. There are currently only five active commercial disposal wells contained within Dimmit County. All of the wells dispose of

produced saltwater into the Olmos formation. Saltwater disposal volumes within a 50 mile radius of the proposed injection facility have picked up within the last year, as a direct result of increased drilling activity. According to Sandy, the disposal facilities that the company is currently using are at capacity and have two to four hour wait times. The proposed disposal wells are closer to a vast majority of recently permitted wells than any other commercial disposal well.

Access to the disposal facility will be off of Martinez Road, which is a public highway that has minimal traffic. The surface facility will be newly constructed and is of sufficient size to accommodate trucks hauling saltwater to the facility without creating a traffic hazard on the highway that provides access to the facility. The Sandy tract has approximately 2,500 feet of frontage along Martinez Road with good visibility of traffic flow in both directions. Because the proposed injection wells will be closer to the point of production, use of the wells for disposal of produced saltwater will reduce traffic and use of public highways for hauling produced saltwater to a disposal site, thereby decreasing public risk from the truck traffic. A facility located at the proposed location, would reduce the round trip haul time by two hours. Compliance with permit conditions will minimize the risk of spills at the facility and will prevent the migration of any spills that occur, thereby protecting both ground and surface water.

FINDINGS OF FACT

1. Notice of hearing was given to all affected persons, the Dimmit County Clerk, all surface owners of adjoining tracts and all operators within one-half mile. Notice of the subject application was published in *The Carrizo Springs Javelin*, a newspaper of general circulation in Dimmit County, on January 6, 2011.
2. The proposed injection by Sandy SWD, LLC into the Asherton SWD Lease, Well Nos. 1 and 2, will not endanger useable quality water.
 - a. The TCEQ recommends that usable-quality ground water be protected to a depth of 1,000 feet below the land surface.
 - b. The proposed wells will have 1,000 feet of 8 5/8" surface casing set with cement circulated from the casing shoe to the ground surface.
 - c. There is over 2,400 feet of shale and impermeable formations between the top of the proposed injection interval at 3,400 feet and the base of usable quality water at 1,000 feet.
 - d. There is over 3,000 feet of impermeable rock below the proposed disposal interval.
3. The proposed injection into the Asherton SWD Lease, Well Nos. 1 and 2, will not endanger production from other oil, gas or mineral bearing formations.

- a. The proposed wells will have 5 1/2" longstring casing set at the estimated total depth of 4,000 feet with cement circulated from the casing shoe to the ground surface.
 - b. The proposed injection will be through 2 7/8" tubing set on a packer at approximately 3,400 feet, but no higher than 100 feet above the top of the injection interval.
 - c. There are two producing oil wells and one plugged dry hole located within a 1/2 mile radius of review for each of the proposed disposal wells. The wells are properly cased or plugged in a manner which will not provide a conduit for the migration of injected water from the injection interval into other oil, gas or mineral bearing formations or useable quality groundwater zones.
 - d. The closest Olmos production, in the Thirteen, W. (Olmos 3450) Field, is located two miles east of the proposed injection wells.
4. Use of the Asherton SWD Lease, Well Nos. 1 and 2, as commercial disposal wells is in the public interest.
- a. It will allow Sandy to be competitive in the area market and reduce its hauling distances. Shorter hauls decrease truck time on the public roadways, thereby decreasing traffic accidents, operator expenses, wear on roadways and spill risks.
 - b. In 2010, there were 601 drilling permits issued in Dimmit, Frio, La Salle, Maverick, Webb and Zavala Counties and in 2011, as of the date of the hearing, 373 drilling permits have been issued. If the trend continues in 2011, there will be a total of 1,400 drilling permits issued in 2011.
 - c. There are currently only five active commercial disposal wells contained within Dimmit County and the disposal facilities that Sandy is currently using are at capacity and have two to four hour wait times.
 - d. A facility located at the proposed location, would reduce the round trip haul time by two hours.
5. Use of the Asherton SWD Lease, Well Nos. 1 and 2, for commercial disposal of produced saltwater will not create a traffic safety hazard.
- a. The surface facility is of sufficient size to accommodate trucks hauling water to the facility without creating a traffic hazard on the highway that provides access to the facility.

- b. The area surrounding the proposed injection facility is large, relatively flat and open. Access to the disposal facility will be off of Martinez Road, which is a public highway that has minimal traffic.
 - c. The Sandy tract has approximately 2,500 feet of frontage along Martinez Road with good visibility of traffic flow in both directions.
6. Sandy has a current approved Form P-5 (Organization Report) and has posted a \$25,000 financial assurance bond.

CONCLUSIONS OF LAW

- 1. Proper notice was issued in accordance with the applicable statutory and regulatory requirements.
- 2. All things necessary to give the Railroad Commission jurisdiction to consider this matter have occurred.
- 3. Approval of the application will not harm useable quality water resources, will not endanger oil, gas, or geothermal resources, will promote further development in this area of Dimmit County and is in the public interest pursuant to Sec. 27.051 of the Texas Water Code.
- 4. Sandy SWD, LLC has met its burden of proof and its application satisfies the requirements of Chapter 27 of the Texas Water Code and the Railroad Commission's Statewide Rule 46.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the application of Sandy SWD, LLC for commercial disposal authority pursuant to Statewide Rule 46 for the Asherton SWD Lease, Well Nos. 1 and 2, be approved, as set out in the attached Final Order.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Marshall F. Enquist
Legal Examiner