



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

November 18, 2008

OIL AND GAS DOCKET NO. 02-0259680

COMMISSION CALLED HEARING TO SUPERCEDE THE FINAL ORDER ISSUED JUNE 6, 2000 IN OIL AND GAS DOCKET NO. 02-0223201 REQUIRING PLUGGING OF WELL NO. 1 ON THE DAHLSTROM LEASE, RRC GAS ID NO. 094863, MAYO (FRIO 6530) FIELD, JACKSON COUNTY, AND TO RECOGNIZE TXO PRODUCTION CORPORATION AS THE OPERATOR OF RECORD

APPEARANCES FOR APPLICANT:

Donald Mamerow

PROPOSAL FOR DECISION PROCEDURAL HISTORY

DATE OF REQUEST FOR ACTION:	October 20, 2008
NOTICE OF HEARING:	October 28, 2008
DATE CASE HEARD:	November 18, 2008
HEARD BY:	Mark Helmueller, Hearings Examiner
PFD CIRCULATION DATE:	November 18, 2008

STATEMENT OF THE CASE

TXO Production Corporation (hereinafter "TXO") requests that the Commission supercede the provisions in the Final Order entered in Oil and Gas Docket No. 02-0223201 requiring plugging of Well No. 1 on the Dahlstrom Lease, RRC Gas ID No. 094863, Mayo (Frio 6530) Field, Jackson County, (hereinafter "Dahlstrom No. 1"). TXO further requests it be recognized as the operator of the well.

SUMMARY OF EVIDENCE

The examiner took official notice of records related to TXO's most recent Commission Form P-5 (Organization Report), and records identifying the wells it currently operates. TXO's P-5 is currently active. TXO has posted financial assurance with the Commission in the form of a \$25,000 letter of credit. TXO is the operator of 5 wells with a total depth of 36,648 feet.

The prior operator of the Dahlstrom No. 1, East Texas Production Mgt. Inc., designated itself to the Commission as the operator by filing Form P-4 (Producer's Transportation Authority and Certificate of Compliance) with the Commission, effective January 1, 1994.

East Texas Production Mgt. Inc. is a corporation, whose officers are Bill Roberts, President, and Tina Roberts, Secretary/Treasurer. East Texas Production Mgt. Inc. last filed an Organization Report with the Commission on October 20, 1998.

The last reported production from the Dahlstrom No. 1 was in May 1995. The Commission ordered East Texas Production Mgt. Inc. to plug the well due to violations of Statewide Rule 14 on June 6, 2000 in Oil & Gas Docket No. 02-0223201. East Texas Production Mgt. Inc. was further ordered to pay an administrative penalty of \$4,000.00.

TXO obtained a new lease from the mineral interest owner on May 30, 2008. The lease has a primary term of one year.

TXO represented that East Texas Production Mgt. Inc. and its principals possess no current interest in the Dahlstrom No. 1 and are not affiliated with TXO. The Dahlstrom No. 1 is currently included on the Commission's Orphan Well List.

TXO believes the Dahlstrom No. 1 can be restored to active production. TXO operates several wells in the area and has identified potentially productive sands located above the currently completed interval in the Dahlstrom No. 1. The well log for the Dahlstrom No. 1 shows that these sands, which have been successfully produced in other wells, have not been perforated in the Dahlstrom No. 1. TXO intends to re-enter the well, perforate the potentially productive sands, and restore the well to active production of natural gas.

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

TXO claims it can meet the requirements to be recognized as the operator of the Dahlstrom No. 1. However, this claim is complicated by the Final Order requiring that East Texas Production Mgt. Inc. 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. TXO satisfied these requirements.

TXO has met all requirements necessary for the entry of a Final Order superceding the provisions requiring plugging of the Dahlstrom No. 1. TXO has established a good faith claim to operate the Dahlstrom No. 1, and verified that East Texas Production Mgt. Inc. does not possess any interest. TXO has sufficient financial security in place and demonstrated that the Dahlstrom No. 1 may be restored to productive use. Accordingly the examiner concludes that an order superceding the plug only provision should be entered, and TXO should be recognized as the operator of the Dahlstrom No. 1. All other provisions in the Final Order shall remain in full force and effect.

FINDINGS OF FACT

1. TXO Production Corporation (hereinafter "TXO"), was given at least 10 days notice of this proceeding. TXO appeared at the hearing by telephone and presented evidence. TXO waived its opportunity to file exceptions to this Proposal for Decision.
2. TXO has an active and current Organization Report on file with the Commission. TXO has posted financial assurance with the Commission in the form of a \$25,000 letter of credit. TXO is the operator of 5 wells with a total depth of 36,648 feet.
3. The prior operator of the Dahlstrom Lease, Well No. 1, East Texas Production Mgt. Inc. designated itself to the Commission as the operator of the Dahlstrom No. 1 by filing Form P-4 (Producer's Transportation Authority and Certificate of Compliance) with the Commission, effective January 1, 1994.
4. East Texas Production Mgt. Inc. is a corporation, whose officers are Bill Roberts, President, and Tina Roberts, Secretary/Treasurer. East Texas Production Mgt. Inc. last filed an Organization Report with the Commission on October 20, 1998.
5. The last reported production from the Dahlstrom No. 1 was in May 1995.
6. The Commission ordered East Texas Production Mgt. Inc. to plug the well due to violations of Statewide Rule 14 on June 6, 2000 in Oil & Gas Docket No. 02-0223201. East Texas

Production Mgt. Inc. was further ordered to pay an administrative penalty of \$4,000.00.

7. TXO has secured a currently effective oil and gas lease covering the subject property from the mineral interest owners. TXO represented that East Texas Production Mgt. Inc. and its principals possess no current interest in the well and are not affiliated with TXO. The Dahlstrom No. 1 is currently included on the Commission's Orphan Well List
8. TXO believes the Dahlstrom No. 1 can be restored to active production.
 - a. TXO operates several wells in the area and has identified potentially productive sands located above the currently completed interval in the Dahlstrom No. 1.
 - b. The well log for the Dahlstrom No. 1 shows that these sands, which have been successfully produced in other wells, have not been perforated in the Dahlstrom No. 1.
 - c. TXO intends to re-enter the well, perforate the intervals with potentially productive sands, and restore the well to active production of natural gas.
9. Superceding the requirement in the Final Order entered in Oil and Gas Docket No. 02-0223201 requiring plugging of Well No. 1 on the Dahlstrom Lease, RRC Gas ID No. 094863, Mayo (Frio 6530) Field, Jackson County, will prevent waste of oil and gas resources that would not be produced if the well is plugged.

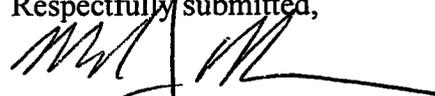
CONCLUSIONS OF LAW

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. TXO has a good faith claim of a continuing right to operate the subject wells.
4. TXO 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 provision in the Final Order entered in Oil and Gas Docket No. 02-0223201 requiring plugging of Well No. 1 on the Dahlstrom Lease, RRC Gas ID No. 094863, Mayo (Frio 6530) Field, Jackson County, and recognizing TXO as the operator, 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. 02-0223201 requiring plugging of Well No. 1 on the Dahlstrom Lease, RRC Gas ID No. 094863, Mayo (Frio 6530) Field, Jackson County. Additionally, the examiner recommends that TXO be recognized as the operator of Well No. 1 on the Dahlstrom Lease, RRC Gas ID No. 094863. All other provisions of the Final Order in Oil & Gas Docket No. 02-0223201 shall remain in force and effect.

Respectfully submitted,



Mark J. Helmueller
Hearings Examiner