

# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

OIL & GAS DOCKET NO. 03-0296791

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**ENFORCEMENT SECTION REQUEST FOR A GOOD FAITH CLAIM REVIEW OF THE PROPOSED P-4 TRANSFER OF THE MILLER OIL UNIT (22756) LEASE, WELL NO. B1, ALLIGATOR BAYOU (12-D) FIELD; MILLER, A.L. ET AL "A" (23274) LEASE, WELL NO. 2, ALLIGATOR BAYOU (3-E) FIELD; AND THE MILLER, A.L. "A" (23370) LEASE, WELL NO. 1, ALLIGATOR BAYOU (6700) FIELD, IN CHAMBERS COUNTY, TEXAS FROM LAYTON ENERGY, INC. AND RED FISH REEF PIPELINE TO GREEN EXPLORATION COMPANY.**

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### FINAL ORDER

The Commission finds that after notice and opportunity for hearing, the operator of the captioned leases filed a written response only and did not request a hearing. The proceeding having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following Findings of Fact and Conclusions of Law.

### FINDINGS OF FACT

1. At least ten days notice was given to Layton Energy, Inc. (Op. No. 491399) ("Layton"), Red Fish Reef Pipeline, LLC ("Red Fish") and Green Exploration Company (Op. No. 330179) ("Green Exploration") of the good faith claim review requested by the Enforcement Section of the Commission. By letter dated June 2, 2015, the examiner afforded Layton, Red Fish and Green Exploration the opportunity to submit evidence of a continuing right to operate the subject lease and wells or request a hearing on the matter. Layton responded with written evidence but did not request a hearing. Red Fish and Green Exploration did not respond.
2. By Forms P-4 dated April 30, 2013, Layton requested transfer of the Certificate of Compliance and Transportation Authority for the A.L. Miller et al "A" (23274) Lease, Well No. 2, the A.L. Miller "A" (23370) Lease, Well No. 1 and the Miller Oil Unit (22756) Lease, Well No. B1 from Layton to Green Exploration.
3. Green Exploration did not initiate this Form P-4 transfer request. Layton is attempting a "Forced" transfer of its wells to Green Exploration. In this type of Form P-4 transfer, the Commission notifies the attempted transferee of the attempted "Forced" transfer. If the transferee declines to accept responsibility for the subject leases and wells or simply does not

respond, the Commission does not make the transfer and leaves the parties to their remedies in District Court.

4. Green Exploration did not respond to the examiner's letter of June 2, 2015 offering Layton, Red Fish and Green Exploration an opportunity to provide further evidence.
5. By providing a written response to the examiner's June 2, 2015 letter and failing to request a hearing, Layton chose to rely on informal disposition of the docket pursuant to Tex. Gov't Code §§2001.056 and 2001.062(e).
6. By failing to respond to the examiner's June 2, 2015 letter and failing to request a hearing, Red Fish and Green Exploration chose to rely on informal disposition of the docket pursuant to Tex. Gov't Code §§2001.056 and 2001.062(e).
7. Green Exploration Company has an active Form P-5 and has tendered financial assurance in the amount of a \$50,000 cash deposit for its wells.
8. Layton is currently subject to a SB 639 hold (Tex. Nat. Res. Code §91.114) and its Form P-5 is delinquent. Layton last filed a Form P-5 in February, 2012.
9. Layton is currently subject to Oil & Gas Docket No. 03-0288273: Enforcement Action Against Layton Energy Inc. (Operator No. 491399) for violations of Statewide Rules on the Miller Oil Unit (22756) Lease, Well No. B1, Alligator Bayou (12-D) Field; A.L. Miller et al "A" (23274) Lease, Well No. 2, Alligator Bayou (3-E) Field, and the Miller, A.L. "A" (23370) Lease, Well No. 1, Alligator Bayou (6700) Field, Chambers County, Texas.
10. A "good faith claim" is defined in Commission Statewide Rule 15(a)(5) as "A factually supported claim based on a recognized legal theory to a continuing possessory right in the mineral estate, such as evidence of a currently valid oil and gas lease or a recorded deed conveying a fee interest in the mineral estate." 16 Tex. Admin. Code §15(a)(5).
11. The Miller Oil Unit (22756) Lease last reported production in June, 2012 and has been inactive since that time, a period of three years.
12. The Miller, A.L. "A" (23370) Lease, Well No. 1, last reported production in October, 2004, and has been inactive since that time, a period of nine years and approximately eight months.
13. The Miller, A.L. et al "A" (23274) Lease, Well No. 2, last reported production in October, 2004, and has been inactive since that time, a period of nine years and approximately eight months.

14. A previous attempt to transfer the A.L. Miller (23370) Lease, Well No. 1, to Green Exploration from Layton by a two-signature Form P-4 submission dated April 30, 2013 was received at the Commission on April 30, 2013.
  - a.) By letter dated July 22, 2013, Examiner Terry Johnson requested that Green Exploration provide, within 30 days, a valid lease or otherwise explain how the submitted assignment conveyed a valid, legal right to operate the lease.
  - b.) Green Exploration did not respond to Examiner Johnson's letter.
  - c.) Due to Green Exploration's failure to respond, the file was closed and the Form P-4 transfer was not processed.
15. A previous attempt to transfer the Miller Oil (22756) Unit, Well No. B1, to Green Exploration from Layton by a two-signature Form P-4 submission dated April 30, 2013 was received at the Commission on April 30, 2013. A Field Ops hold on the lease prevented the Form P-4 transfer.
16. A previous attempt to transfer the A.L. Miller et al "A" (23274) Unit, Well No. 2, to Green Exploration from Layton by a two-signature Form P-4 submission dated April 30, 2013 was received at the Commission on April 30, 2013. A Field Ops hold prevented the Form P-4 transfer. Green Exploration sent the Commission a request to withdraw the proposed Form P-4 transfer.
17. The Forms P-4 by which Layton currently seeks transfer of the A.L. Miller (23370) Lease, Well No. 1; the Miller Oil (22756) Unit, Well No. B1 and the A.L. Miller et al "A" (23274) Unit, Well No. 2 are xerox copies of the same Forms P-4 submitted, but not processed, in 2013. Each of the three Forms P-4 submitted by Layton bears the Commission's file-stamp date of April 30, 2013. Layton's current Form P-4 submissions are xerox copies of the Forms P-4 submitted in 2013.
18. The Commission's P-4 Section does not process attempted Form P-4 transfers made by xeroxed copies. The Commission requires the Forms P-4 to have original signatures. The Forms P-4 submitted by Layton do not have original signatures.
19. Shortly prior to May 14, 2015, Layton provided several documents intended to prove that Layton was no longer responsible for the captioned leases. Layton's claim that Green Exploration should be required to accept the Form P-4 liability for operating the three subject leases is based on a "Purchase Agreement" in which Layton and Redfish purport to convey a 100% working interest in the subject leases and wells to Green Exploration.
  - a.) Exhibit A to the "Purchase Agreement" is a "Partial Assignment of Oil and Gas Lease" which primarily conveys a working interest in the Miller, A.L. B-1, B-2 and

A-1 wells. Layton Energy submitted its Exhibits 1 through 16 in this docket. The sixteen exhibits are oil and gas leases made on April 11, 2006 between Red Fish Reef Pipeline as lessee and various mineral owners as lessors. The leases have a primary term of 3 years, 90-day continuous operations clauses and 90-day cessation of production clauses.

- i.) Layton did not provide any evidence that the leases were held in effect by continuous operations.
  - ii.) Layton did not provide any evidence that the leases were held in effect by continuous production.
- b.) Exhibit B states “Attached to and made a part of that certain Surface Use Agreement by and between Texas Genco II, LP, a Texas Limited Partnership, and Layton Energy, Inc., whose address is 2100 West Loop South, Ste. 1601, Houston, Texas 77028”. The agreement then lists three tracts of land subject to the Surface Use Agreement. No Surface Use Agreement was offered. There is no indication that the tracts are subject to mineral leases.
- c.) “Schedule 1 to Assignment of Oil and Gas Lease Between Layton Energy Wharton LP, as Assignor, and Green Exploration, as Assignee” describes 40 acres around the Miller, A.L. “B” Well No. 1 and A.L. Miller “B” Well No. 2, and mentions the A.L. Miller A-1 Saltwater Disposal Well API No. 42-07100983. The “Schedule” does not provide any exact reference to an oil and gas lease.
20. A working interest in a lease survives only as long as the lease survives. If a lease terminates, any working interest under the lease also terminates. The alleged transfer of a working interest from Layton to Green Exploration is without legal effect without reference to valid and continuing oil and gas leases.
21. Layton has failed to explain how the submitted documents convey an actual right to operate the subject leases and wells to Green Exploration.
22. Green Exploration has not consented to the “Forced” transfer of the subject leases and wells.

**CONCLUSIONS OF LAW**

- 1. Proper notice of hearing was timely issued to appropriate persons entitled to notice.
- 2. All things necessary to the Commission attaining jurisdiction have occurred.

3. Layton has failed to demonstrate that the submitted documents constitute a good faith claim to operate the subject leases and wells or to “Force” Green Exploration to accept the Form P-4 liability for the subject wells.
4. Pursuant to Commission Statewide Rule 58(a)(2), “An approved certificate of compliance and transportation authority shall bind the operator until another operator files a subsequent certificate and the Commission has approved the subsequent certificate and transferred the property on commission records to the subsequent operator.” Layton Energy Inc. remains the operator of the subject leases and wells.

**IT IS THEREFORE ORDERED** that the application of Layton Energy, Inc. (Operator No. 491399) for the forced transfer of the Form P-4 “Certificate of Compliance and Transportation Authority” for the Miller Oil Unit (22756) Lease, Well No. B1, Alligator Bayou (12-D) Field; Miller, A.L. et al “A” (23274) Lease, Well No. 2, Alligator Bayou (3-E) Field; and Miller, A.L. “A” (23370) Lease, Well No. 1, Alligator Bayou (6700) Field, Chambers County to Green Exploration Company is hereby **DENIED**.

It is further **ORDERED** that this order shall not be final and effective until 20 days after a party is notified of the Commission’s order. A party is presumed to have been notified of the Commission’s order three days after the date on which the notice is actually mailed. If a timely Motion for Rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV’T CODE §2001.146(e), the time allotted for Commission action on a Motion for Rehearing in this case, prior to its being overruled by operation of law, is hereby extended until 90 days from the date the parties are notified of the order.

All pending motions and requests for relief not previously granted or granted herein are denied.

Done this 25th day of August, 2015, in Austin, Texas.

**RAILROAD COMMISSION OF TEXAS**

**(Order approved and signatures affixed by  
Hearings Division Master Order dated  
August 25, 2015)**