

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 08-0297176

IN RE: COMMISSION CALLED HEARING ON THE PROPOSED FORM P-4 TRANSFER OF THE SEVEN-D- GAS UNIT, WELL NO. 1 (RRC ID# 057501), GOMEZ (ELLENBURGER) FIELD, PECOS COUNTY, TEXAS FROM LAKEHILLS PRODUCTION, INC. TO BC OPERATING, INC.

FINAL ORDER

The Commission finds that after notice and opportunity for hearing, the prior operator of the captioned lease did not respond and the docket proceeded as a default. 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 Lakehills Production, Inc. (Operator No. 483440) and BC Operating, Inc. (Operator No. 058893) By letter dated December 21, 2015, Lakehills Production, Inc. ("Lakehills") was afforded the opportunity to submit evidence of a continuing right to operate the subject lease and wells or request a hearing on the matter. Lakehills did neither.
2. By Form P-4 dated June 11, 2015, BC Operating, Inc. ("BC") requested transfer of the Certificate of Compliance and Transportation Authority for the Seven -D- Gas Unit (057501) Lease from Lakehills to BC.
3. By failing to respond to notice and opportunity for hearing, Lakehills chose to rely on informal disposition of the docket pursuant to Tex. Gov't Code §§2001.056 and 2001.062(e).
4. Lakehills has a delinquent Form P-5 and tendered financial assurance in the amount of a \$25,000 Cash Deposit for its wells. The Cash Deposit expired February 28, 2012.
5. BC has a current, active Form P-5 with sufficient financial assurance to acquire the lease and wells in dispute. BC has filed a \$50,000 Letter of Credit with the Commission as financial assurance.
6. 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.”

7. The subject Commission-recognized lease, the Seven -D- Gas Unit, Well No. 1 (RRC ID# 057501), last reported production for January, 2011 and has not reported production since.
8. The current operator, Lakehills, did not present a “good faith claim” to operate the captioned lease and did not respond to a December 21, 2015 Commission letter requesting that it either provide a good faith claim to operate the subject lease or request a hearing.
9. BC presented an Operating Agreement dated September 1, 2015 with four Non-Operators designating BC as the Operator as part of its “good faith claim” to operate the Seven -D- Gas Unit, Well No. 1 (RRC ID# 057501).
 - a. The Operating Agreement list numerous contractual oil & gas leases taken in 2014 as BC’s underlying good faith claim.
 - b. BC provided a lease dated May 29, 2014 with a primary term of 2 years as its good faith claim to operate the Seven -D- Unit, Well No. 1 (RRC ID# 057501).

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. The current Commission-recognized operator, Lakehills, of the subject lease is delinquent.
4. BC Operating, Inc. has a “Good Faith Claim” to operate the subject lease and wells.

IT IS THEREFORE ORDERED that the application of BC Operating, Inc. (Operator No. 058893) for transfer of the Form P-4 “Certificate of Compliance and Transportation Authority” for the Seven -D- Gas Unit, Well No. 1 (RRC ID# 057501), Gomez (Ellenburger) Field, Pecos County, Texas, is hereby **APPROVED**.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 25 days after the Commission’s Order is signed, unless the time for filing a motion for rehearing has been extended under Tex. Gov’t Code §2001.142, by agreement under Tex. Gov’t Code §2001.147, or by written Commission Order issued pursuant to Tex. Gov’t Code §2001.146(e). If a timely motion for rehearing of an application 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 Commission Order is signed.

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

Done this 23rd day of February, 2016, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
HD Unprotected Master Order dated
February 23, 2016)**