

March 5, 2009

OIL & GAS DOCKET NO. 7C-0259788

COMMISSION CALLED HEARING REQUIRING PHARAOH OIL & GAS, INC. TO SHOW CAUSE WHY THE PLUGGING EXTENSIONS FOR ALL WELLS ON THE HOOVER, A.C. "A" (01281) LEASE; HOOVER, A.C. -D- (01282) LEASE; HOOVER, A.C. -E- (01283) LEASE; HOOVER, A.C. -B- (02286) LEASE; HOOVER, A.C. (07091) LEASE; AND, HOOVER "A" (07447) LEASE, SHANNON (SAN ANDRES) FIELD, CROCKETT COUNTY, TEXAS SHOULD NOT BE CANCELLED AND PHARAOH OIL & GAS, INC. SHOULD NOT BE ORDERED TO IMMEDIATELY PLUG THE WELLS

APPEARANCES:

For Respondent Pharaoh Oil & Gas, Inc.:

Gary Bolen

For Complainant McClure Oil Company/Ranchero Esperenza, Ltd.

Rodney Satterwhite

Brian Sullivan

Anna Irion

Donald McClure

Pamela Sledge

Lee Roberts

Ken Hartman

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

COMPLAINT FILED:

September 9, 2008

NOTICE OF HEARING ISSUED:

October 31, 2008

HEARING HELD:

December 19, 2008

HEARD BY:

Mark Helmueller, Hearings Examiner

PROPOSAL FOR DECISION CIRCULATED:

February 27, 2009

INTRODUCTION

This hearing was called to determine whether 29 wells on the Hoover, A.C. "A" (01281) Lease; Hoover, A.C. -E- (01283) Lease; Hoover, A.C. -B- (02286) Lease; Hoover, A.C. (07091) Lease; and Hoover "A" (07447) Lease¹ (hereinafter "Hoover Leases" and "subject wells") operated by Pharaoh Oil & Gas, Inc. (hereinafter "Pharaoh") should be subject to the Commission's plugging extension requirements under Statewide Rule 14(b)(2) and whether the plugging extensions should be denied. The Hoover Leases are located on Sections 17 and 18 of the GC & SF RR Company Survey in Crockett County.

This case arose from a complaint filed by one of the mineral interest owners, McClure Oil Company/Ranchero Esperanza, Ltd. (hereinafter "Ranchero Esperanza"). Ranchero Esperanza claims Pharaoh's leases have terminated. Upon receipt of Ranchero Esperanza's complaint, the Commission contacted Pharaoh to request documentation of a good faith claim of a continuing right to operate the subject wells. Pharaoh failed to file a response to the Commission's inquiry, and the plugging extensions for the four wells listed as inactive on Commission records were cancelled.²

Pharaoh requested a hearing to contest the cancellations. Ranchero Esperanza filed a notice of appearance and a motion to broaden the scope of the hearing contending that all of the wells on the Hoover Leases are inactive and therefore are required to have plugging extensions. Additionally, Ranchero Esperanza requested that the wells on the Hoover, A.C. -E- (01283) Lease be added to the docket. There was no objection and the Notice of Hearing was amended consistent with these requests.

MATTERS OFFICIALLY NOTICED

The examiner took official notice of Commission records showing Pharaoh filed its most recent Commission Form P-5 (Organization Report) on January 9, 2009. Gary Bolen is listed as the President of the company. Pharaoh is currently shown as the operator of 624 wells with a total depth of 1,407,313 feet. Pharaoh has posted a cash deposit of \$250,000 to meet its financial security requirements.

Official notice was also taken of Commission Form P-4 (Certificate of Compliance and Transportation Authority) records showing that Pharaoh was recognized as the operator of the Hoover Leases on November 21, 2006. Finally, official notice was taken of the most recently filed

¹Commission Form P-4 records show that the Hoover, A.C. -D- (01282) Lease which was identified in the Notice of Hearing for this docket, is no longer an individual lease on Commission records as the wells were consolidated into the Hoover A.C. (03564) Lease in June 1995.

²Plugging extensions were cancelled for Well Nos. 4 and 6 on the Hoover, A.C. "A" (01281) Lease, Well No. 5 on the Hoover, A.C. -B- (02286) Lease, and Well No. 1 on the Hoover "A" (07447) Lease.

production reports for all of the Hoover Leases to reflect the production reported in December 2008.

PHARAOH'S POSITION AND EVIDENCE

Pharaoh claims it took over the Hoover Leases two years ago only to find out that Rancho Esperanza wanted all oil operations to cease. Numerous attempts were made to clean up old spills, properly close open pits, haul off old equipment, and otherwise address the landowner concerns. Pharaoh believes that the general condition of the subject wells and associated equipment is much better than when it took over the Hoover Leases.

Pharaoh believes it still has valid leases, but did not articulate a legal theory to support this contention. It notes that there is ongoing litigation in the Crockett County District Court filed by Rancho Esperanza and requests that the Commission take no action pending the outcome of the court case. Pharaoh also presented documentation that it has an agreement with the Estate of Al Talbott, the owner of 50% of the mineral interests in Section 18 to enter into a new oil and gas lease if it is determined that the original lease has terminated. Pharaoh believes this is sufficient documentation to support a continued right to operate Well Nos.1-12 on the Hoover, A.C. (07091) Lease and Well No. 1 on the Hoover "A" (07447) Lease.

RANCHERO ESPERANZA'S POSITION AND EVIDENCE

Rancho Esperanza contends that the original lease agreements for the wells on Section 17 and Section 18 have expired due to the lack of production. It also contends that Pharaoh deliberately filed numerous Commission reports with false information.

Section 17 Leases and Wells

Section 17 is a 640 acre section which includes: Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease; Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease; and, Well Nos. 1-7 on the Hoover, A.C. -B- (02286) Lease. The original oil and gas leases were entered into by A.C. and Dora Hoover in April 1944, and February 1954. The 1944 oil and gas lease had a 10 year primary term and covered 240 acres. The 1954 oil and gas lease had a two year primary term and covered an additional 240 acres. Mineral title is currently owned 50% by Rancho Esperanza and 50% by Southwest Royalties. Both of the leases have provisions allowing an operator 60 days to drill new wells, or otherwise attempt to restore production after production ceases.

Inspections of the Hoover, A.C. "A" (01281) and Hoover, A. C. -E- (01283) Leases

Rancho Esperanza notes that in July 2007 two barrels of production were reported for both the Hoover, A.C. "A" (01281) Lease, and the Hoover, A.C. -E- (01283) Lease. A single barrel of production was reported on each lease in February 2008 and May 2008 which Rancho Esperanza claims was falsely reported.

Ranchero Esperanza's contention that the production was falsely reported was based on inspections of the 9 wells on the two leases conducted by retired Commission District Inspector Lee Roberts. Mr. Roberts first inspected the wells in April 2008. Follow up inspections were made in July 2008, September 2008 and November 2008.

Mr. Roberts's photographs and testimony show that none of the wells have been active in the past twelve months. Mr. Roberts testified that Commission Form W-10s (Oil Well Status Report) filed in 2007 and 2008 are clearly false, showing no changes in reported testing from year to year, and reporting test results for wells which are not capable of production. Additionally, Mr. Roberts testified that Commission Form H-15s (Test on an Inactive Well More than 25 Years Old) for Well Nos. 4 and 6 on the Hoover, A.C. "A" (01281) Lease and Well No. 7 on the Hoover, A.C. -E- (01283) Lease report the results of fluid level tests which could not have been performed based on the observed condition of the wells and the surrounding area at the time they were allegedly tested.

Ranchero Esperanza therefore urges that all nine of the wells on the Hoover, A.C. "A" (01281) Lease, and the Hoover, A.C. -E- (01283) Lease should be properly classified as inactive and therefore subject to the requirements of Statewide Rule 14(b)(2) with respect to plugging extensions.

Inspections of the Hoover, A. C. -B- (02286) Lease

In January 2007, Pharaoh reported production of 3 barrels of oil from the 7 wells on the Hoover, A.C. -B- (02286) Lease. No other production was reported until October 2007. Between the six month period of October 1, 2007 through March 30, 2008, the total reported production was 8 barrels of oil.

Mr. Roberts conducted inspections of the seven wells on the Hoover, A.C. -B- (02286) Lease in April 2008, July 2008, September 2008 and November 2008. The only well which was active in April 2008 was Well No. 4. All of the other wells were inactive, and the condition of the equipment indicated that there had been no recent production from the wells. Photographs were taken documenting the conditions reported by Mr. Roberts. Additionally, Well No. 5 is equipped with a swabbing/bailing rig which is inactive, and for which there is no Commission permit under Statewide Rule 21. A follow up inspection in July 2008 found the condition of the inactive wells remained unchanged. However, beginning in September 2008, Well Nos. 1, 2, 4, 6 and 7 were all reported as active.

In September and October 2008, Pharaoh reported production of 59 barrels of oil in each month. The production report for November 2008 only showed 4 barrels of oil produced. For December 2008, Pharaoh reported 39 barrels of production.

Ranchero Esperanza urges that with the exception of Well No. 4, all of the wells on the Hoover, A.C. -B- (02286) Lease should have been classified as inactive beginning in March 2008 as the evidence shows that there was no actual production from these wells in the preceding 12 months. Additionally, while the inspections in September and November show that five of the wells are now producing, it does not appear that production has been continued in sufficient quantities over a three month period for the wells to be restored to active status on Commission records. Accordingly, all of the wells with the exception of Well No. 4 should be subject to the requirements of Statewide Rule 14(b)(2). This would require the five wells to maintain plugging extensions.

Section 18 Leases and Wells

Section 18 is a 640 acre section which includes: Wells Nos. 1-12 on the Hoover, A.C. (07091) Lease; and, Well No. 1 on the Hoover "A" (07447) Lease. The original oil and gas lease was entered into by A. C. and Dora Hoover in October 1945 covering 400 acres out of the 640 acre section. The primary term was for two years. Mineral title was divided over the years so that current mineral ownership is 25% Ranchero Esperanza, 25% Southwest Royalties, Inc., and 50% by the Estate of Al Talbott.

Inspections of the Hoover, A.C. (07091) and Hoover "A" (07447) Leases

Mr. Roberts inspected the 13 wells on the Hoover, A.C. (07091) and Hoover "A" (07447) Leases to evaluate the condition of the wells and whether required Commission reports related to the wells were accurate. Mr. Roberts inspected the leases in April 2008, July 2008, September 2008 and November 2008. Mr. Roberts's inspections in April 2008 found all of the wells were inactive. The follow up inspection in July 2008 observed that all of the wells remained inactive. Based on the lack of production reported in 2007, Mr. Roberts concluded that Commission Form W-10s (Oil Well Status Report) filed in 2007 for both leases are clearly false as there was no production reported in June 2007 when the tests were allegedly performed. Additionally, the 2007 W-10 reports test results for wells which were not capable of production. Mr. Roberts also concluded that the W-10 report which allegedly tested Well Nos. 6, 7, 9, 10 on the Hoover, A.C. (07091) Lease and Well No. 1 on the Hoover "A" (07447) Lease is also false as none of the wells were capable of production, and inspection of the wells found no physical evidence to support that the wells were tested in August 2008 as indicated in the report.

Inspections in September and November 2008 found Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 on the Hoover, A.C. (07091) had been restored to production. Additionally, Mr. Roberts observed a swabbing unit on the Hoover "A" (07447) Lease which lacked the required permit under Statewide Rule 21.

Ranchero Esperanza argues that all 13 wells on the Hoover, A.C. (07091) and Hoover "A" (07447) Leases should have been classified as inactive beginning in November 2007 because Pharaoh reported no production from November 2006 through November 2007. Additionally, while the inspections in September and November show that eight of the wells are now producing, it does not appear that production has been continued in sufficient quantities over a three month period for the wells to be restored to active status on Commission records. Accordingly, all of the wells should remain subject to the requirements of Statewide Rule 14(b)(2). This would require the eight producing wells to maintain plugging extensions.

APPLICABLE RULES

Statewide Rule 14(a)(1)(A) provides:

In the case of a well that has been inactive for 12 consecutive months or longer and that is not permitted as a disposal or injection well, the well remains inactive for purposes of this section, regardless of any minimal activity, until the well has reported production of at least 10 barrels of oil for oil wells or 100 mcf of gas for gas wells each month for at least three consecutive months.

Statewide Rule 14(b)(2) provides in part:

Plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed. Plugging operations on delinquent inactive wells shall be commenced immediately unless the well is restored to active operation. For good cause, a reasonable extension of time in which to start the plugging operations may be granted pursuant to the following procedures.

Statewide Rule 14(b)(2)(C)(i) concerning revoking plugging extensions provides:

The Commission or its delegate may revoke a plugging extension if the operator of the well that is the subject of the extension fails to maintain the well and all associated facilities in compliance with Commission rules; fails to maintain a current and accurate organizational report on file with the Commission; fails to provide the Commission, upon request, with evidence of a continuing good faith claim to operate the well; or fails to obtain or maintain financial security as required by §§3.78 of this title (relating to Fees and Financial Security Requirements) (Statewide Rule 78).

EXAMINER'S OPINION

The two questions presented in this case are relatively simple: 1) which wells on the Hoover Leases are inactive and therefore subject to the plugging extension requirements under Statewide Rule 14(b)(2); and 2) does Pharaoh possess a continuing good faith claim to support its right to operate the Hoover Leases for any inactive wells.

The undisputed evidence clearly establishes that Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease and Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease did not produce any oil and gas from July 2007 through December 2008. Accordingly, all of these wells should be carried on Commission records as inactive and subject to the plugging requirements under Statewide Rule 14(b)(2). With respect to Well Nos. 1-7 on the Hoover, A.C. -B- (02286) Lease, no production at all was reported from February 2007 through October 2007. Additionally, based on the inspections performed by Mr. Roberts, the only one well which was active from October 2007 through September 2008 was Well No. 4. Accordingly, Well Nos. 1, 2, 3, 5, 6, and 7 should all be classified as inactive and subject to the plugging requirements under Statewide Rule 14(b)(2).

Pharaoh failed to provide documentary evidence to support a continuing right to operate these wells. Accordingly, the Commission should affirm the prior cancellation of the plugging extensions for Well Nos. 4 and 6 on the Hoover, A.C. "A" (01281) Lease, Well No. 5 on the Hoover, A.C. -B- (02286) Lease and deny plugging extensions for Well Nos. 2 and 3 on the Hoover, A.C. "A" (01281) Lease; Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease; and Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease. A Final Order should therefore be entered requiring Pharaoh to cease attempts to produce and plug the wells.

With respect to the 12 wells on the Hoover, A.C. (07091) Lease and Well No. 1 on the Hoover "A" (07447) Lease, no production was reported from November 2006 through August 2008. Accordingly, all of these wells should be classified as inactive and subject to the requirements of Statewide Rule 14(b)(2). Pharaoh was able to provide documentation of a right to operate Well Nos. 1-12 on the Hoover A.C. (07091) Lease; and, Well No. 1 on the Hoover "A" (07447) Lease. Plugging extensions should be granted for all of these inactive wells. Additionally, the plugging extension for the Hoover "A" (07447) Lease should be reinstated.

Inactive Well Status

Pharaoh did not contest the evidence concerning the physical inspections and photographs of the wells on the Hoover Leases by Mr. Roberts. This evidence clearly establishes that there was a 12 month period during which the wells had not produced any oil or gas even though Pharaoh reported production in minimum quantities. The only exception was Well No. 4 on the Hoover, A.C. -B- (02286) Lease which may not have been inactive for a full 12 months as the well was reported as active in April 2008 and production was reported from the lease from October 2007 through April 2008.

Additionally, while the inspections indicated Well Nos. 1, 2, 4, 6 and 7 on the Hoover, A.C. -B- (02286) Lease and Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 on the Hoover A.C. (07091) Lease were

producing as of September 2008, they cannot be considered “active” wells as defined under Statewide Rule 14 as there has not been three consecutive months of significant production.

Production reports for the Hoover, A.C. -B- (02286) Lease do not show that Well Nos. 1, 2, 6 and 7 have produced at least 10 barrels of oil per well for three consecutive months. Production of 59 barrels was reported in September 2008 and October 2008, but only 4 barrels were reported produced by the five wells which were producing in November 2008. Production reports for the Hoover A.C. (07091) Lease also do not show that Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 have produced at least 10 barrels of oil per well for three consecutive months. Pharaoh reported 41 barrels of production in August 2008, 156 barrels of production in September 2008, 48 barrels of production in October 2008 and only 2 barrels of production in November 2008. Accordingly, there has not been production in the amounts required over the three consecutive month time period to allow Well Nos. 1, 2, 6 and 7 on the Hoover, A.C. -B- (02286) Lease and Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 on the Hoover A.C. (07091) Lease to be considered “active” wells. These wells therefore remain subject to the requirements of Statewide Rule 14(b)(2) with respect to plugging extensions.

Good Faith Claim of Right to Operate

The Commission has jurisdiction to determine an applicant’s claimed possessory interest in the mineral estate when issuing a permit as held in *Magnolia Petroleum Co. v. Railroad Commission*, 170 S.W.2d 189, 191 (Tex. 1943). The Texas Supreme Court recognized in *Magnolia*:

“... the Railroad Commission should not do the useless thing of granting a permit to one who does not claim the property in good faith. The Commission should deny the permit if it does not reasonably appear to it that the applicant has a good-faith claim in the property.” *Magnolia* at p. 191.

The Commission has incorporated *Magnolia*’s holding in determining the eligibility of an inactive well for a plugging extension. This is reflected by the language of Statewide Rule 14(b)(2)(C)(i):

“The Commission or its delegate may revoke a plugging extension if the operator of the well that is the subject of the extension . . . fails to provide the Commission, upon request, with evidence of a continuing good faith claim to operate the well...”

The legal theory advanced by Pharaoh is sufficient to establish a right to operate the 13 wells and 2 leases on Section 18: Wells Nos.1-12 on the Hoover A.C. (07091) Lease; and, Well No. 1 on the Hoover “A” (07447) Lease. Pharaoh provided documentation that the owner of 50% of the mineral interests has agreed to enter into an oil and gas lease which would include these wells. Accordingly, even though the evidence indicates that many, if not all, of these wells had not produced since Pharaoh became the operator, the agreement to enter into an oil and gas lease is sufficient documentation of a good faith claim of a continuing right to operate these leases and wells. The plugging extension for Well No. 1 on the Hoover “A” (07447) Lease which was previously

cancelled should be reinstated.

However, Pharaoh did not establish a continuing good faith claim of a right to operate the 15 inactive wells located on the three leases in Section 17: Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease; Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease; and, Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease. While Pharaoh claims it has a continuing right to operate, no affirmative evidence was provided to document that right. Based on these facts, the required plugging extensions for these 15 wells should be shown on Commission records as denied.

Finally, the inspections by Mr. Roberts suggest that production reports and well tests were deliberately filed with false information. While any potential false filing violations are not at issue in this docket, the examiner recommends that this matter be referred to the Enforcement Section in the Office of General Counsel for investigation, and if warranted, prosecution of any false filing violations.

Provisions of Final Order

Finally, with respect to the 15 inactive wells for which Pharaoh failed to provide evidence of a continuing right to operate, it is recommended that the Final Order require Pharaoh to cease production and plug the wells. In other words, in the absence of any evidence of a continuing right to operate the wells, Pharaoh should not be allowed to produce the wells.

Based on the record in this case, the examiner recommends adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least ten (10) days notice of the hearing in this docket was sent to all parties entitled to notice. Pharaoh appeared at the hearing and presented evidence. McClure Oil Company/Ranchero Esperanza, Ltd. (hereinafter "Ranchero Esperanza") also appeared at the hearing.
2. Pharaoh filed its most recent Commission Form P-5 (Organization Report) on January 9, 2009. Gary Bolen is listed as the President of the company. Pharaoh is currently shown as the operator of 624 wells with a total depth of 1,407,313 feet. Pharaoh has posted a cash deposit of \$250,000 to meet its financial security requirements.
3. Commission P-4 (Certificate of Compliance and Transportation Authority) records show that Pharaoh was recognized as the operator of the Hoover Leases on November 21, 2006.
4. The Hoover Leases are located on Sections 17 and 18 of the GC & SF RR Company Survey in Crockett County.

5. Section 17 is a 640 acre section which includes: Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease; Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease; and, Well Nos. 1-7 on the Hoover, A.C. -B- (02286) Lease.
6. The original oil and gas leases for the acreage on Section 17 were entered into by A.C. and Dora Hoover in April 1944, and February 1954.
 - A. The 1944 oil and gas lease had a 10 year primary term and covered 240 acres.
 - B. The 1954 oil and gas lease had a two year primary term and covered an additional 240 acres.
 - C. Mineral title is currently owned 50% by Ranchero Esperanza and 50% by Southwest Royalties.
 - D. Both of the leases have provisions allowing an operator 60 days to drill new wells, or otherwise attempt to restore production after production ceases.
7. Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease and Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease are currently inactive wells under Statewide Rule 14.
 - A. There was no production from Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease and Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease from July 2007 through December 2008.
 - B. In July 2007 two barrels of production were reported for both the Hoover, A.C. "A" (01281) Lease, and the Hoover, A.C. -E- (01283) Lease.
 - C. A single barrel of production was reported on each lease in February 2008 and May 2008.
 - D. Physical inspections of the wells in April 2008, July 2008, September 2008 and November 2008 show that the wells were inactive and not capable of production.
8. Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease are currently inactive wells under Statewide Rule 14.
 - A. In January 2007, Pharaoh reported production of 3 barrels of oil from the 7 wells on the Hoover, A.C. -B- (02286) Lease.
 - B. No production was reported from the 7 wells on the Hoover, A.C. -B- (02286) Lease from February 2007 until October 2007.

- C. In the six month period between October 1, 2007 through March 30, 2008, the total reported production on the Hoover, A.C. -B- (02286) Lease from the seven wells was 8 barrels of oil.
 - D. Physical inspections of the seven wells on the Hoover, A.C. -B- (02286) Lease in April 2008 and July 2008, found only Well No. 4 active with the other wells inactive and incapable of production.
9. Production reports for the Hoover, A.C. -B- (02286) Lease do not show that Well Nos. 1, 2, 6 and 7 have produced at least 10 barrels of oil per well for three consecutive months.
- A. Physical inspections of the seven wells on the Hoover, A.C. -B- (02286) Lease in September 2008 and November 2008 observed that Well Nos. 1, 2, 4, 6, and 7 were producing.
 - B. Production reports for September and October 2008, reported production of 59 barrels of oil in each month.
 - C. The production report for November 2008 reported 4 barrels of oil produced.
 - D. The production report for December 2008 reported 39 barrels of production.
10. Pharaoh did not establish a factually supported claim that the April 1944 and February 1954 leases for Section 17 remained valid.
- A. There was no production from Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease and Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease from July 2007 through December 2008, a period of 18 months.
 - (i) In July 2007 two barrels of production were reported for both the Hoover, A.C. "A" (01281) Lease, and the Hoover, A.C. -E- (01283) Lease.
 - (ii) A single barrel of production was reported on each lease in February 2008 and May 2008.
 - (iii) Physical inspections of the wells in April 2008, July 2008, September 2008 and November 2008 show that the wells were inactive and not capable of production.
 - B. Pharaoh reported no production from Well Nos. 1-7 on the Hoover, A.C. -B- (02286) Lease, between February 2007 through October 2007.
 - C. The primary term for both leases have expired.

- D. Pharaoh did not provide any factual evidence to support its claim that it retains a right to operate.
 - E. No evidence was presented that Pharaoh attempted to restore production within 60 days after production ceased.
11. Section 18 is a 640 acre section which includes: Wells Nos.1-12 on the Hoover, A.C. (07091) Lease; and, Well No. 1 on the Hoover "A" (07447) Lease.
12. The original oil and gas lease was entered into by A. C. and Dora Hoover in October 1945 covering 400 acres out of the 640 acre section. The primary term was for two years.
13. Mineral title was divided over the years so that current mineral ownership is 25% Ranchero Esperanza, 25% Southwest Royalties, Inc., and 50% by the Estate of Al Talbott.
14. Wells Nos.1-12 on the Hoover, A.C. (07091) Lease and, Well No. 1 on the Hoover "A" (07447) Lease are currently inactive wells under Statewide Rule 14.
- A. No production was reported from Wells Nos.1-12 on the Hoover, A.C. (07091) Lease between November 2006 through August 2008.
 - B. No production has been reported for Well No. 1 on the Hoover "A" (07447) Lease between November 2006 and December 2008.
15. Production reports for the Hoover, A.C. (07091) Lease do not show that Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 have produced at least 10 barrels of oil per well for three consecutive months.
- C. Physical inspections confirm that Well Nos. 1, 2, 3, 4, 5, 8, 11, and 12 on the Hoover A.C. (07091) Lease were producing as of September 2008.
 - D. Pharaoh reported 41 barrels of production in August 2008.
 - E. Pharaoh reported 156 barrels of production in September 2008.
 - F. Pharaoh reported 48 barrels of production in October 2008.
 - G. Pharaoh reported 2 barrels of production in November 2008.
 - H. Pharaoh reported 103 barrels of production in December 2008.

16. Pharaoh established a good faith claim of a continuing right to operate Wells Nos.1-12 on the Hoover A.C. (07091) Lease and Well No. 1 on the Hoover "A" (07447) Lease by providing documentation that the owner of 50% of the mineral interests has agreed to enter into an oil and gas lease which would include these wells.

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. Statewide Rule 14(b)(2)(C)(i) requires an operator upon request by the Commission to establish a good faith claim of a continuing right to operate a well as a condition to obtaining a plugging extension.
4. Pharaoh did not provide a factually supported claim of a current right to operate Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease.
5. Pursuant to Statewide Rule 14(b)(2)(c)(i), the plugging extensions for Well Nos. 2 and 3 on the Hoover, A.C. "A" (01281) Lease should be revoked because Pharaoh did not provide a factually supported claim of a current right to operate.
6. Pursuant to Statewide Rule 14(b)(2)(c)(i), the administrative cancellation of the plugging extensions for Well Nos. 4 and 6 on the Hoover, A.C. "A" (01281) Lease should be affirmed because Pharaoh did not provide a factually supported claim of a current right to operate.
7. Pharaoh did not provide a factually supported claim of a current right to operate Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease.
8. Pursuant to Statewide Rule 14(b)(2)(c)(i), the plugging extensions for Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease should be revoked because Pharaoh did not provide a factually supported claim of a current right to operate.
9. Pharaoh did not provide a factually supported claim of a current right to operate Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease.
10. Pursuant to Statewide Rule 14(b)(2)(c)(i), the plugging extensions for Well Nos. 1, 2, 3, 6, and 7 on the Hoover, A.C. -B- (02286) Lease on the Hoover, A.C. "A" (01281) Lease should be revoked because Pharaoh did not provide a factually supported claim of a current right to operate.
11. Pursuant to Statewide Rule 14(b)(2)(c)(i), the administrative cancellation of the plugging

extension for Well No. 5 on the Hoover, A.C. -B- (02286) Lease should be affirmed because Pharaoh did not provide a factually supported claim of a current right to operate.

12. Pharaoh possesses a good faith claim of a continuing right to operate Wells Nos.1-12 on the Hoover A.C. (07091) Lease and Well No. 1 on the Hoover "A" (07447) Lease.
13. Plugging extensions for Well Nos. 1-12 on the Hoover, A.C. (07091) Lease should be granted based on Pharaoh's good faith claim of a continuing right to operate these wells.
14. The plugging extension for Well No. 1 on the Hoover "A" (07447) Lease should be reinstated based on Pharaoh's good faith claim of a continuing right to operate these wells.

RECOMMENDATION

The examiner recommends that the Commission enter a Final Order:

- 1) identifying Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease as inactive on Commission records;
- 2) identifying Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease as inactive on Commission records;
- 3) identifying Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease as inactive on Commission records;
- 4) identifying Well Nos. 1-12 on the Hoover, A.C. (07091) Lease as inactive on Commission records;
- 5) denying plugging extensions for Well Nos. 2 and 3 on the Hoover, A.C. "A" (01281) Lease;
- 6) affirming the prior cancellation of plugging extensions for Well Nos. 4 and 6 on the Hoover, A.C. "A" (01281) Lease;
- 7) denying plugging extensions for Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease;
- 8) denying plugging extensions for Well Nos. 1, 2, 3, 6, and 7 on the Hoover, A.C. -B- (02286);
- 9) affirming the prior cancellation of the plugging extension for Well No. 5 on the Hoover, A.C. -B- (02286);
- 10) granting plugging extensions for Well Nos. 1-12 on the Hoover, A.C. (07091) Lease;

- 11) reinstating the plugging extension for Well No. 1 on the Hoover "A" (07447) Lease;
- 12) requiring Pharaoh to plug Well Nos. 2, 3, 4, and 6 on the Hoover, A.C. "A" (01281) Lease;
- 13) requiring Pharaoh to plug Well Nos. 2, 5, 6, 7, and 8 on the Hoover, A.C. -E- (01283) Lease; and,
- 14) requiring Pharaoh to plug Well Nos. 1, 2, 3, 5, 6, and 7 on the Hoover, A.C. -B- (02286) Lease.

Respectfully submitted,

Mark Helmueller
Hearings Examiner