

March 5, 2009

OIL & GAS DOCKET No. 7C-0259789

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**COMMISSION CALLED HEARING REQUIRING PHARAOH OIL & GAS, INC. TO SHOW CAUSE WHY THE PLUGGING EXTENSIONS FOR WELL NOS. 8 AND 50 ON THE KING, RICHARD NCT-1 (00955) LEASE, MCCAMEY FIELD, UPTON COUNTY, TEXAS SHOULD NOT BE CANCELLED AND PHARAOH OIL & GAS, INC. SHOULD NOT BE ORDERED TO IMMEDIATELY PLUG THE WELLS**

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**APPEARANCES:**

**For Respondent Pharaoh Oil & Gas, Inc.:**

Gary Bolen

**For Complainant King Ranch Minerals, Inc.:**

Scott Detwiler

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

<b>COMPLAINT FILED:</b>	July 23, 2008
<b>NOTICE OF HEARING ISSUED:</b>	October 31, 2008
<b>HEARING HELD:</b>	December 19, 2008
<b>HEARD BY:</b>	Mark Helmueller, Hearings Examiner
<b>PROPOSAL FOR DECISION CIRCULATED:</b>	March 5, 2009

**INTRODUCTION**

This hearing was called to determine whether Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease, McCamey Field, Upton County, Texas (hereinafter "King Lease" and "subject wells") operated by Pharaoh Oil & Gas, Inc. (hereinafter "Pharaoh") should remain cancelled and whether Pharaoh should be ordered to plug the wells.

This case arose from a complaint filed by King Ranch Minerals, Inc. (hereinafter "King Ranch"). King Ranch claims Pharaoh's lease has terminated. Upon receipt of King Ranch'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 were cancelled. Pharaoh requested a hearing to contest the cancellations.

Pursuant to the agreement of the parties at the hearing, the record was left open for 60 days to allow Pharaoh the opportunity to plug the wells. On March 3, 2009, after receiving no update on the filing of either Commission Form W-3 (Plugging Report) or Commission Form W-3A (Notice of Intent to Plug), the evidentiary record was closed.

### **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 King Lease on July 11, 1996. Production records for the King Lease show that the last reported production was in April 1994.

### **POSITIONS AND EVIDENCE**

Pharaoh admits it no longer possesses a valid lease for the subject wells and believes the lease may have expired prior to its acquisition of the wells. It intends to plug the wells and requested 6 months to complete plugging operations. King Ranch did not object to Pharaoh having sufficient time to complete plugging operations, but expressed concern with allowing six months to plug the wells, if no actions were taken by Pharaoh.

### **APPLICABLE RULES**

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**

Pharaoh admits it no longer possess a continuing good faith claim to support its right to operate Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease. The only question to address is how long Pharaoh should be given to plug the wells.

This complaint was originally filed in July 2008. Pharaoh requested a hearing in this matter on October 6, 2008. By the time a Final Order is issued, it will be at least 6 months since Pharaoh requested a hearing, and at least 9 months since the complaint was filed. Pharaoh has not obtained Commission approval for the procedure to be used to plug the wells, and provided no documentation to show it has taken any action towards bringing the wells into compliance since the hearing was held in this docket. Accordingly, the examiner recommends the prior cancellation of the plugging extensions be confirmed and that the Final Order use the standard 30 day time period for Pharaoh to plug 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. King Ranch Minerals, Inc. (hereinafter "King Ranch") 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 Form P-4 (Certificate of Compliance and Transportation Authority) records showing that Pharaoh was recognized as the operator of the Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease on July 11, 1996.
4. Production records for Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease show that the last reported production was in April 1994.

5. Pharaoh admits that it no longer has a valid lease for Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease.

### **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. 8 and 50 on the King, Richard NCT-1 (00955) Lease.
5. Pursuant to Statewide Rule 14(b)(2)(c)(i), the cancellation of the plugging extensions for Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease should be affirmed because Pharaoh did not provide a factually supported claim of a current right to operate.

### **RECOMMENDATION**

The examiner recommends that the Commission enter a Final Order:

- 1) affirming the prior cancellation of plugging extensions for Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease; and,
- 2) requiring Pharaoh, within 30 days from the day immediately following the date a Commission order becomes final, to plug Well Nos. 8 and 50 on the King, Richard NCT-1 (00955) Lease.

Respectfully submitted,

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Mark Helmueller  
Hearings Examiner