

**COMMISSION CALLED HEARING TO DETERMINE PROPER OPERATOR FOR THE SIMMS-HOOKS (03905) LEASE, SOUR LAKE FIELD, HARDIN COUNTY, TEXAS**

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**APPEARANCES:**

For Midchannel Oil & Gas, Inc:

Paul Eschenfelder, Jr.

For RKK Production Company:

Gary Craighead

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

Date of Notice of Hearing:	March 12, 1991
Date Case Heard:	April 16, 1991
Heard By:	Barbara Epstein, Hearings Examiner Willis Steed, Technical Examiner
PFD Circulation Date:	May 13, 1991
Current Status:	Protested

**STATEMENT OF THE CASE**

Midchannel Oil & Gas, Inc., hereinafter referred to as Midchannel, has requested that the Commission hold a hearing to determine the proper operator of the Simms-Hooks (03905) Lease, Sour Lake Field, Hardin County, Texas. Midchannel asserts that RKK Production Company, hereinafter referred to as RKK, is the operator of the subject lease because RKK presently owns the lease. Based on this assertion, Midchannel asks the Commission to designate RKK the operator of the Simms-Hooks (03905) Lease.

**BACKGROUND**

The Railroad Commission designates an entity as operator of a lease over which the Commission has jurisdiction based on the voluntary filing of a P-4 (Producer's Transportation Authority and Certificate of Compliance). When a dispute arises about title, the Railroad Commission has jurisdiction to determine which party will be designated on Commission records as the operator, though the Railroad Commission does not have the jurisdiction to interpret contracts and will look to the courts to determine who has legal title to a lease.

### **DISCUSSION OF THE EVIDENCE**

Mr. Paul Eschenfelder, testifying on behalf of Midchannel, stated that it acquired the Simms-Hooks lease in February, 1989, taking a lease from the mineral owner, Hooks. The lease had been operated by Covey Oil & Gas from the early 1980's to 1985, when Mr. Covey died and the company ceased doing business.

Mr. Eschenfelder testified that he obtained a P-4 for the Simms-Hooks lease in December, 1989, and filed W-1X forms (Application for Future Re-entry of Inactive Well Bore). Midchannel then determined that it needed to raise some capital and sold the Simms-Hooks lease at auction to RKK Production Company. RKK attempted to file a P-4 transferring the operator status from Midchannel but the P-4 was rejected because the wells were not in compliance; not only was there a 14(b)(2) hold, which could be rectified by RKK filing W-1X forms, but there was also a UIC hold for failure to file H-5 and H-10 forms.

Mr. Gary Craighead, on behalf of RKK, testified that he did not want to take over the Simms-Hooks lease because the condition of the lease had been misrepresented to him. Mr. Craighead said that he had re-assigned the lease back to Midchannel after uncovering undisclosed problems on the lease through a hired investigator.

### **EXAMINERS' OPINION**

It is the examiners' opinion that Midchannel should remain the designated operator of the subject lease. The binding filings of a P-4 and W-1X have not been rebutted by the testimony, and could not be rebutted until a court determined the outcome of any continuing contractual disputes between Midchannel and RKK. The examiners cannot determine which assignment is valid or binding on the parties, but can determine that the Commission still looks to Midchannel for compliance based on its filings with the Commission.

Based on the testimony presented at the hearing and the evidence admitted into the record, the examiners make the following findings of fact and conclusions of law.

### **FINDINGS OF FACT**

1. At least ten (10) days notice was given to all interested persons of this hearing to determine the proper operator of the subject lease.
2. Midchannel Oil & Gas, Inc. has been the P-4 operator of the Simms-Hooks (03905) Lease, Sour Lake Field, Hardin County, Texas, since December 4, 1989.

3. Midchannel Oil & Gas, Inc. filed W-1X extensions with the Railroad Commission for wells located on the Simms-Hooks (03905) Lease.
4. At the hearing, Midchannel Oil & Gas, Inc. testified that the Simms-Hooks (03905) Lease has been sold by assignment to RKK Production Company.
5. No P-4 or W-1X filed by RKK Petroleum Company for the Simms-Hooks has been approved by the Railroad Commission.
6. Commission records reflect that RKK Petroleum was notified by memorandum dated September 13, 1990 that a 14(b)(2) and a U.I.C. hold were in effect on the Simms-Hooks (03905) Lease, so that any transfer would first require that the lease be brought into compliance with all applicable Commission rules.
7. Midchannel Oil & Gas, Inc. admitted at the hearing that the W-1X extensions for the Simms-Hooks (03905) Lease have expired.

### **CONCLUSION OF LAW**

1. Proper notice was issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things have been done or have occurred to give the Railroad Commission jurisdiction to decide this matter.
3. The Railroad Commission may accept a P-4 transfer designating an entity as the operator of a lease if the lease is in compliance with Commission rules.
4. The Railroad Commission does not have the jurisdiction to interpret contracts.

### **RECOMMENDATION**

The examiners recommend that the above findings of fact and conclusions of law be adopted and that Midchannel Oil & Gas, Inc. remain as the designated operator of the Simms-Hooks (03905) Lease and that this lease be referred to the Field Operations section for investigation of possible violations of pollution and safety rules.

Respectfully submitted,

Barbara Epstein  
Hearings Examiner

Willis Steed  
Technical Examiner