



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

January 6, 2016

OIL AND GAS DOCKET NO. 10-0298669

GOOD FAITH CLAIM REVIEW OF QUEST-TEX ENERGY OP II, LLC (OPERATOR NO. 684645) FOR THE YAKE-B-LEASE (LEASE NO. 023821), WELL NO. 1, AND THE YAKE-A-LEASE (LEASE NO. 00992), WELL NOS. 1, 3, 4, AND 8, PANHANDLE, WEST & PANHANDLE HUTCHISON COUNTY FIELDS, HUTCHINSON COUNTY, TEXAS

HEARD BY: Michael Crnich, Hearings Examiner
Laura Miles-Valdez, Hearings Examiner

PREPARED BY: Ryan M. Lammert, Administrative Law Judge

CONFERENCE DATE: January 12, 2016

APPLICANT: Steven E. Looper, Managing Member,
Quest-Tex Energy OP II, LLC
Robin M. Looper, Managing Member,
Quest-Tex Energy OP II, LLC
Lisa Barfield, Representative

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

In a separate matter (Complaint File No. 2013-078), Michael R. Bradle filed with the Commission a letter of complaint alleging that Quest-Tex Energy OP II, LLC (Quest-Tex) did not have a "Good Faith Claim" to a continuing right to operate the Yake-B-Lease, Well No. 1, and the Yake-A-Lease, Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, located in Hutchinson County, Texas. As a result, Quest-Tex was required to submit evidence of its "Good Faith Claim", but failed to do so. Accordingly, a Commission Final Order was entered on October 14, 2014, denying renewal of Quest-Tex's P-5 Organization Report.

Thereafter, in the above captioned Docket, Quest-Tex submitted to the Commission evidence of its "Good Faith Claim" in an effort to renew its P-5 Organization Report. No party formally intervened.

The Administrative Law Judge (ALJ) recommends that the Commission find that Quest-Tex has a “Good Faith Claim” to a continuing right to operate the Yake-B-Lease, Well No. 1, and the Yake-A-Lease, Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, located in Hutchinson County, Texas. Additionally, the ALJ recommends that all “lack of good faith claim” extension violations relating to the subject wells—as reflected on the Commission’s online P-5 Renewal Status Query—be removed.

DISCUSSION OF EVIDENCE

On July 29, 2013, Mr. Bradle filed with the Commission a letter of complaint (Complaint File No. 2013-078) against “Petrolia Group LLC and Vindex Holdings LLC, whomever (sic) owns all of the leases and wells” alleging that the operators of record did not have a “Good Faith Claim” to a continuing right to operate several leases and wells, including the Yake-B-Lease, Well No. 1 and the Yake-A-Lease, Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, located in Hutchinson County, Texas. Quest-Tex Energy OP II, LLC (Quest-Tex) is the operator of record for the subject leases and wells.

On August 16, 2013, Hearings Examiner Michael Crnich issued a letter to Quest-Tex apprising it of Mr. Bradle’s complaint—and thereby requesting evidence of Quest-Tex’s “Good Faith Claim” to continue operating the subject leases and wells. Quest-Tex was required to submit evidence of same by September 16, 2013, but failed to do so.

On November 6, 2013, Hearings Examiner Crnich issued to Quest-Tex a letter notifying it that “no timely response to my letter dated August 16, 2013 . . . has been received from you” and that, “pursuant to Statewide Rule 15(h), the plugging extensions for these wells are hereby cancelled by reason of your failure to establish, upon request, that Quest-Tex has a good faith claim to a continuing right to operate the wells.” The letter concluded that “Quest-Tex is now required to plug these wells pursuant to Statewide Rule 14(b)(2).” A Commission Final Order (signatures affixed by Rule 15 Inactive Well Master Order) dated October 14, 2014, denied renewal of Quest-Tex’s P-5 Organization Report and ordered Quest-Tex to bring the subject wells into compliance with Statewide Rule 15. TEX. ADMIN. CODE §3.15.

In the above captioned Docket, on October 22, 2015, Quest-Tex submitted to the Commission evidence of its “Good Faith Claim” to a continuing right to operate the subject leases and wells, to wit:

1. An Oil and Gas Lease dated August 27, 1952, from Henry Yake et al., Lessors, to J. C. Sherrill, Lessee, purporting to cover 320 acres of land, including portions of the subject leases, for a primary term of 10 years;
2. An Oil, Gas and Mineral Lease dated February 18, 1953, from Henry Yake and wife, Mary L. Yake, Lessors, to J. C. Sherrill, Lessee,

purporting to cover 85.85 acres of land, including portions of the subject leases, for a primary term of 10 years; and

3. An Assignment and Bill of Sale dated effective December 1, 2011, from Tembo Holding Company, Assignor, to Questus Energy, L.L.C., Assignee, of all Assignor's right, title and interest in and to several leases, including the subject leases.

On November 3, 2015, Hearings Examiner Laura Miles-Valdez issued to Quest-Tex a letter notifying it that "the Examiner has made the following determinations":

1. There is an incomplete chain of title from the 1953 base lease for the (subject leases).
2. (Quest-Tex) only received the same assignment as the previous lessor, Tembo Holding Company. Based on Quest-Tex's submission to the Commission, there is nothing to establish the validity of Tembo's assignment and how Tembo received it.
3. There has been no reported production for the subject leases for the past five (5) calendar years.
4. Being ordered to plug the subject wells does not constitute Quest-Tex having a good faith claim to the subject leases and wells.

In that letter, Hearings Examiner Miles-Valdez established a 30-day deadline for Quest-Tex to submit further evidence of its "Good Faith Claim". Mr. Bradle was cc'ed on this letter.

On December 2, 2015, Quest-Tex requested a continuance on the matter. On December 4, 2015, Hearings Examiner Miles-Valdez granted a 30-day continuance.

On December 11, 2015, and December 14, 2015, Quest-Tex submitted to the Commission the following as evidence of its "Good Faith Claim" to continue operating the subject leases and wells:

1. An Oil and Gas Lease dated December 10, 2015, from Shirley Yake; Robert Lee Sanders; Alice Yake, Trustee of the Bud and Alice Yake Family Trust; Marsha Yake Stout; Margie Modean Yake Lewis; and JJTK, LLC, Lessors, to Borger Acquisitions, Inc., Lessee, purporting to cover 320 acres, including the Yake-A-Lease, Well Nos. 1, 3, 4, 6, and 8, for a primary term of 6 months;
2. An Oil and Gas Lease dated December 10, 2015, from Shirley Yake; Robert Lee Sanders; Alice Yake, Trustee of the Bud and Alice Yake Family Trust; Marsha Yake Stout; Margie Modean Yake Lewis; and JJTK, LLC, Lessors, to Borger Acquisitions, Inc., Lessee, purporting

to cover 80 acres, including the Yake-B-Lease, Well Nos. 1, 2, and 3, for a primary term of 6 months; and

3. A Model Form Operating Agreement dated December 8, 2015, whereby Steven E. Looper, President of Borger Acquisitions, Inc., designated Quest-Tex Energy OP II, LLC as operator for the areas covered by the above-described leases dated December 10, 2015.

No party formally intervened in the instant matter.

FINDINGS OF FACT

1. Quest-Tex Energy OP II, LLC holds Operator No. 684645.
2. Quest-Tex Energy OP II, LLC is the P-4 Record Operator of the Yake-A-Lease (Lease No. 00992), Well Nos. 1, 3, 4, and 8, Panhandle Hutchinson County Field, Hutchinson County, Texas.
3. Quest-Tex Energy OP II, LLC is the P-4 Record Operator of the Yake-B-Lease (Lease No. 023821), Well No. 1, Panhandle, West Field, Hutchinson County, Texas.
4. On July 29, 2013, Michael R. Bradle filed with the Commission a letter of complaint (Complaint File No. 2013-078) alleging that Quest-Tex Energy OP II, LLC did not have a "Good Faith Claim" to a continuing right to operate the Yake-B-Lease, Well No. 1 and the Yake-A-Lease, Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, located in Hutchinson County, Texas.
5. At least ten days notice was given to Quest-Tex Energy OP II, LLC, Respondent, and Michael R. Bradle, Complainant. By letter dated August 16, 2013, Quest-Tex Energy OP II, LLC was afforded the opportunity to submit evidence of a continuing right to operate the subject leases and wells or request a hearing on the matter. Quest-Tex Energy OP II, LLC did neither.
6. On November 6, 2013, Hearings Examiner Crnich issued to Quest-Tex a letter notifying it that "no timely response to my letter dated August 16, 2013 . . . has been received from you" and that, "pursuant to Statewide Rule 15(h), the plugging extensions for these wells are hereby cancelled by reason of your failure to establish, upon request, that Quest-Tex has a good faith claim to a continuing right to operate the wells." The letter concluded that "Quest-Tex is now required to plug these wells pursuant to Statewide Rule 14(b)(2)."
7. On October 14, 2014, a Commission Final Order (signatures affixed by Rule 15 Inactive Well Master Order), denied renewal of Quest-Tex Energy OP II, LLC's P-5 Organization Report and ordered Quest-Tex Energy OP II, LLC to bring the subject wells into compliance with Statewide Rule 15.

8. Quest-Tex Energy II, LLC has a delinquent Form P-5. Quest-Tex Energy OP II, LLC is the operator of 31 wells, of which 5 lack a Good Faith Claim.
9. 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 § 3.15(a)(5)].
10. Quest-Tex Energy OP II, LLC elected for the above captioned Docket to be set for informal disposition pursuant to TEX. GOV’T. CODE §§ 2001.056 and 2001.062(e).
11. Quest-Tex Energy OP II, LLC presented a “Good Faith Claim” to operate the captioned leases, to wit:
 - a. An Oil and Gas Lease dated December 10, 2015, from Shirley Yake; Robert Lee Sanders; Alice Yake, Trustee of the Bud and Alice Yake Family Trust; Marsha Yake Stout; Margie Modean Yake Lewis; and JJTK, LLC, Lessors, to Borger Acquisitions, Inc., Lessee, purporting to cover 320 acres, including the Yake-A-Lease, Well Nos. 1, 3, 4, 6, and 8, for a primary term of 6 months;
 - b. An Oil and Gas Lease dated December 10, 2015, from Shirley Yake; Robert Lee Sanders; Alice Yake, Trustee of the Bud and Alice Yake Family Trust; Marsha Yake Stout; Margie Modean Yake Lewis; and JJTK, LLC, Lessors, to Borger Acquisitions, Inc., Lessee, purporting to cover 80 acres, including the Yake-B-Lease, Well Nos. 1, 2, and 3, for a primary term of 6 months; and
 - c. A Model Form Operating Agreement dated December 8, 2015, whereby Steven E. Looper, President of Borger Acquisitions, Inc., designated Quest-Tex Energy OP II, LLC as operator for the areas covered by the above-described leases dated December 10, 2015.
12. No party formally intervened in the captioned Docket.

CONCLUSIONS OF LAW

1. Proper notice of an opportunity for a hearing was timely issued to appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Quest-Tex Energy OP II, LLC demonstrated a “Good Faith Claim” to operate the Yake-A-Lease (Lease No. 00992), Well Nos. 1, 3, 4, and 8, Panhandle Hutchinson County Field, Hutchinson County, Texas.

4. Quest-Tex Energy OP II, LLC demonstrated a “Good Faith Claim” to operate the Yake-B-Lease (Lease No. 023821), Well No. 1, Panhandle, West Field, Hutchinson County, Texas.
5. All “lack of good faith claim” extension violations relating to the subject wells—as reflected on the Commission’s online P-5 Renewal Status Query—should be removed.
6. Quest-Tex Energy OP II, LLC does not have a current Form P-5 Organization Report and cannot operate the Yake-B-Lease (Lease No. 023821), Well No. 1, and the Yake-A-Lease (Lease No. 00992), Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, until it satisfies all requirements to renew its Form P-5 Organization Report.

RECOMMENDATIONS

Based on the above findings of fact and conclusions of law, the Administrative Law Judge recommends that the Commission finds that Quest-Tex Energy OP II has a “Good Faith Claim” to a continuing right to operate the Yake-B-Lease, Well No. 1, and the Yake-A-Lease, Well Nos. 1, 3, 4, and 8, Panhandle, West and Panhandle Hutchinson County Fields, located in Hutchinson County, Texas.

Additionally, the Administrative Law Judge recommends that all “lack of good faith claim” extension violations relating to the subject wells—as reflected on the Commission’s online P-5 Renewal Status Query—be removed.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Lammert" with a stylized flourish at the end.

RYAN M. LAMMERT
ADMINISTRATIVE LAW JUDGE