

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL & GAS DOCKET NO. 06-0300781

IN RE: SINGLE SIGNATURE P-4 TRANSFER OF RECORD OPERATOR FOR THE WILDER, HORACE LEASE (LEASE NO. 14574), WELL NO. 1, BOLTON (TRAVIS PEAK) FIELD, RUSK COUNTY, TEXAS, FROM GRAYSTONE ENERGY CORPORATION (OPERATOR NO. 328347) TO FAIRWAY OPERATING, INC. (OPERATOR NO. 259791)

FINAL ORDER

The Railroad Commission of Texas (“Commission” or “RRC”) finds that after statutory notice and an opportunity for hearing regarding the captioned proceeding, Graystone Energy Corporation failed to appear at the hearing such that this docket can proceed as a default. This proceeding having been duly submitted to the Commission at a conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Fairway Operating, Inc. (“Fairway”), RRC Operator No. 259791, filed a single-signature Form P-4 “Certificate of Compliance and Transportation Authority” (“Form P-4”) requesting that it be designated the Commission operator of record for the Wilder, Horace Lease (Lease No. 14574), Well No. 1 (“Well 1”). The Form P-4 did not contain the signature of the current operator of record for Well 1.
2. Graystone Energy Corporation (“Graystone”), RRC Operator No. 328347, is the current Commission operator of record for Well 1.
3. In a letter dated June 10, 2016, a Commission Administrative Law Judge (“ALJ”) requested in writing that Graystone either: (1) provide evidence that it holds a good faith claim to a continuing right to operate the referenced property; or (2) request a hearing on the matter on or before July 11, 2016. This writing expressly notified Graystone that failure to timely request a hearing would constitute waiver of the provided opportunity to request a hearing for this proceeding.
4. 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).
5. On July 11, 2016, Graystone requested a hearing in this matter.

6. On July 29, 2016, Commission staff sent a Notice of Hearing via first class mail to both Fairway and Graystone setting a hearing date of September 1, 2016. Consequently, both parties received more than 10 days' notice. The Notice of Hearing contained (1) a statement of the time, place, and nature of the hearing; (2) a statement of the legal authority and jurisdiction under which the hearing is to be held; (3) a reference to the particular sections of the statutes and rules involved; and (4) a short and plain statement of the matters asserted.
7. At the hearing September 1, 2016, Fairway appeared. Graystone failed to appear despite having requested the hearing.
8. Graystone is delinquent in filing the annual Commission Organization Report (Form P-5).
9. Graystone became the RRC operator of record for Well 1 in April 2006. There has been no reported production for the subject lease since August 2015.
10. To demonstrate its good faith claim to operate Well 1, at the hearing Fairway presented exhibits and testimony establishing the following:
 - a. Barbara Ann Brightwell has a fifty percent mineral interest in the real property where Well 1 is located. In a district court final judgment, the trial court declared that Ms. Brightwell is entitled to terminate its oil and gas lease with Graystone. *Barbara Ann Brightwell vs. Graystone Energy Corporation*, Cause No. 2015-134 (4th Dist. Ct., Rusk County, Tex. July 8, 2015).
 - b. Ms. Brightwell did terminate the lease with Graystone and she, as lessor, entered into an Oil, Gas and Mineral Lease Agreement, in which EMH Resources Lease Co. ("EMH"), as lessee, has the right to operate the property where Well 1 is located.
 - c. Scott and Michelle Springfield (the "Springfields") have a fifty percent mineral interest in and are the surface owners of the real property where Well 1 is located. In a final judgment, the trial court terminated Graystone's rights in its oil and gas lease with the Springfields. *Scott Springfield and Michelle Springfield vs. Graystone Energy Corporation, Taladro Recourses, Inc.*, Cause No. 2015-132 (Co. Ct. at Law, Rusk County, Tex. February 2, 2016).
 - d. On May 3, 2016, the Springfields, as lessors, entered into an Oil, Gas and Mineral Lease Agreement, in which EMH, as lessee, has the right to operate the property where Well 1 is located.
 - e. EMH has designated Fairway as the operator of Well 1.
11. Fairway has a current annual Commission Organization Report (Form P-5) with a \$25,000 cash deposit as its financial assurance on file with the Commission. Fairway is

the operator of record of two wells, not counting Well 1. Fairway has sufficient financial assurance to operate Well 1. Fairway's status at the Commission is active. *See* 16 TEX. ADMIN. CODE 3.78(d) and (g).

12. Graystone does not hold a good faith claim to operate Well 1.
13. Pursuant to TEX. GOV'T CODE §§ 2001.056 and 2001.062(e), Graystone was provided notice and an opportunity for hearing and failed to appear at the hearing.
14. Fairway has demonstrated a good faith claim to a continuing right to operate Well 1.
15. Well 1 should be transferred to Fairway as operator of record.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the persons entitled to notice. *See, e.g.*, TEX. GOV'T CODE §§ 2001.051 and 052; 16 TEX. ADMIN. CODE §§ 1.45 and 1.48.
2. The Commission has jurisdiction in this case. *See, e.g.*, TEX. NAT. RES. CODE § 81.051.
3. Graystone does not have a good faith claim to continue operating Well 1. Fairway does have a good faith claim to operate Well 1. 16 TEX. ADMIN. CODE 3.15(a)(5).
4. The RRC record operator of Well 1 should be transferred from Graystone to Fairway. *See* 16 TEX. ADMIN. CODE 3.58(a)(4).

IT IS THEREFORE ORDERED that the application of Fairway to change the RRC operator of record for Well 1 is **APPROVED** and Fairway's submitted Form P-4 "Certificate of Compliance and Transportation Authority" reflecting itself as the current operator for Well 1 is hereby **APPROVED** subject to the provisions of TEX. NAT. RES. CODE §§ 91.107, 91.114 and 91.142, and 16 TEX. ADMIN. CODE § 3.15.

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) and 16 TEX. ADMIN. CODE § 1.149(c), 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 27th day of September 2016, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

(Order approved and signatures affixed by HD
Unprotested Master Order date September 27,
2016)

JNC/rnf