

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL & GAS DOCKET NO. 09-0304300

IN RE: SINGLE SIGNATURE P-4 TRANSFER OF RECORD OPERATOR FOR THE MCCLELLAN LEASE (LEASE NO. 30491), WELL NO. 1, MEDICINE MOUNDS (CONGL. 7430) FIELD, HARDEMAN COUNTY, TEXAS TO CHANGE THE OPERATOR FROM CHESTNUT EXPLOR. AND PROD., INC. (OPERATOR NO. 147847) TO BUFFCO PRODUCTION INC. (OPERATOR NO. 106406)

FINAL ORDER

The Railroad Commission of Texas ("Commission" or "RRC") finds that after statutory notice and an opportunity for hearing regarding the captioned proceeding, Chestnut Explor. and Prod., Inc. failed to request a hearing and did not otherwise respond such that this docketed case 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. On January 12, 2017, Buffco Production Inc. ("Buffco"), RRC Operator No. 106406, 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 McClellan Lease, Lease No. 30491, Well No. 1 (the "Well"). The Form P-4 did not contain the signature of the current Commission operator of record for the Well.
2. Chestnut Explor. and Prod., Inc. ("Chestnut"), RRC Operator No. 147847, is the current Commission operator of record for the Well.
3. In a letter dated April 5, 2017, a Commission Administrative Law Judge ("ALJ") requested in writing that Chestnut 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 May 3, 2017. This writing expressly notified Chestnut 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. Chestnut failed to provide evidence that it holds a good faith claim to a continuing right to operate the Well, failed to respond to the ALJ's April 5, 2017 letter, and failed to request a hearing.
6. At least ten days' notice of an opportunity for hearing was given to Buffco and Chestnut.
7. Chestnut became the RRC operator of record for the Well in December 2011. There has been no reported production for the Well since February 2016.
8. Chestnut is delinquent in filing the annual Commission Organization Report (Form P-5).
9. To demonstrate its good faith claim to operate the Well, Buffco submitted leases with Black Shale Materials, LLC ("Black Shale"), a sister company of Buffco, as lessee. The leases grant Black Shale the right to right to operate the property where the Well is located. Black Shale has designated Buffco as the operator of the Well.
10. Buffco's status at the Commission is active. Buffco has a current annual Commission Organization Report (Form P-5) with a \$250,000 letter of credit as its financial assurance. Buffco has sufficient financial assurance to operate the Well. See 16 TEX. ADMIN. CODE § 3.78(d) and (g).
11. Chestnut does not have a good faith claim to operate the Well.
12. Pursuant to TEX. GOV'T CODE §§ 2001.056 and 2001.062(e), Chestnut was provided an opportunity to request a hearing and failed to do so.
13. Buffco has demonstrated a good faith claim to a continuing right to operate the Well.
14. The Well should be transferred to Buffco as operator of record.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to appropriate persons entitled to notice. See, e.g., TEX. GOV'T CODE § 2001.051; 16 TEX. ADMIN. CODE § 1.45(a).
2. The Commission has jurisdiction in this case. See, e.g., TEX. NAT. RES. CODE § 81.051.
3. Chestnut does not have a good faith claim, as that term is defined in Statewide Rule 15(a)(5), to continue operating the Well. 16 TEX. ADMIN. CODE § 3.15(a)(5).

4. Buffco does have a good faith claim to operate the Well.

IT IS THEREFORE ORDERED that the application of Buffco to change the RRC operator of record for the Well is **APPROVED** and Buffco's submitted Form P-4 "Certificate of Compliance and Transportation Authority" reflecting itself as the current operator for the Well 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 6th day of June 2017, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

(Order approved and signatures affixed by HD
Unprotested Master Order date June 6, 2017)

JNC/rnf