

**RAILROAD COMMISSION OF TEXAS  
HEARINGS DIVISION**

**OIL & GAS DOCKET NO. 6E-0307215**

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**COMPLAINT BY MELROSE INVESTMENTS, LLC ET AL. THAT EMBASSY WELL SERVICE (OPERATOR NO. 250943) DOES NOT HAVE A GOOD FAITH CLAIM TO OPERATE THE WEBB KENNEDY LEASE (LEASE NO. 06442), EAST TEXAS FIELD, RUSK COUNTY, TEXAS**

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**FINAL ORDER**

The Railroad Commission of Texas ("Commission" or "RRC") finds that after statutory notice and an opportunity for hearing regarding the captioned proceeding, Embassy Well Service 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. On or about September 29, 2017, Melrose Investments, LLC et al. ("Melrose") filed a complaint with the Commission alleging that Embassy Well Service ("Embassy"), RRC Operator No. 250943 does not have a good faith claim to operate the Webb Kennedy Lease, Lease No. 06442 ("Lease"), East Texas Field, Rusk County, Texas.
2. Embassy is the current Commission operator of record for the Lease.
3. In a letter dated October 18, 2017, a Commission Administrative Law Judge ("ALJ") requested in writing that Embassy 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 November 17, 2017. This writing expressly notified Embassy 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. Embassy failed to provide evidence that it holds a good faith claim to a continuing right to operate the Lease, failed to respond to the ALJ's October 18, 2017 letter and failed to request a hearing.
6. On December 18, 2017, Commission staff sent a Notice of Hearing via first class mail to both Melrose and Embassy setting a hearing date of January 19, 2018. 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 January 19, 2018, Melrose appeared. Embassy did not appear.
8. At the hearing Melrose presented testimony and documentation—including a leasehold title opinion, an assignment of lease and other documentation showing that Melrose has a leasehold interest (including an ownership percentage in a leasehold, working and property and equipment) in the property covering the Lease.
9. At hearing there was testimony that Embassy has no current contractual lease covering the Lease or any other right to operate the Lease.
10. Melrose requests that the Commission designated operator of this lease be transferred from Embassy to Shappell Oil Company, L.L.C. ("Shappell"). Melrose provided testimony and documentation showing that Shappell has a good faith claim to operate the Lease, including the fact that Melrose has authorized Shappell to operate the Lease and Shappell has agreed.
11. After the hearing, Melrose submitted a single-signature Form P-4 *Certificate of Compliance and Transportation Authority* ("Form P-4") in which Shappell requests that it be designated the Commission operator of record for Lease. The Form P-4 did not contain the signature of the current Commission operator of record, Embassy.
12. Shappell has a current annual Commission Organization Report (Form P-5) with a \$50,000 cash deposit as its financial assurance on file with the Commission. Shappell is the operator of record of 20 wells. Shappell's status at the Commission is active.
13. Embassy does not hold a good faith claim to operate the property.
14. Pursuant to TEX. GOV'T CODE §§ 2001.056 and 2001.062(e), Embassy was provided notice and an opportunity for hearing and failed to appear at the hearing.
15. Shappell has a good faith claim to a continuing right to operate the Lease.

16. The property should be transferred to Shappell 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 §§ 1.42 and 1.45.
2. The Commission has jurisdiction in this case. See, e.g., TEX. NAT. RES. CODE § 81.051.
3. Embassy does not have a good faith claim to continue operating the property. Shappell does have a good faith claim to operate the property. 16 TEX. ADMIN. CODE § 3.15(a)(5).
4. The RRC record operator of the property should be transferred from Embassy to Shappell. See 16 TEX. ADMIN. CODE § 3.58(a)(4).

**IT IS THEREFORE ORDERED** that the application of Melrose and Shappell to change the RRC operator of record for the Lease is **APPROVED** and the submitted Form P-4 "Certificate of Compliance and Transportation Authority" reflecting Shappell as the current operator for the Lease 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, 3.78.

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 § 1.128(e), 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 100 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 24<sup>th</sup> day of April 2018, in Austin, Texas.

### RAILROAD COMMISSION OF TEXAS

(Order approved and signatures affixed by HD  
Unprotested Master Order dated April 24, 2018)

JNC/mls