



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

### PROPOSAL FOR DECISION

OIL AND GAS DOCKET NO. 01-0306688

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**THE COMPLAINT OF ALTA MIRA LAND & CATTLE THAT PATTERSON ENERGY CORPORATION (008490) DOES NOT HAVE A GOOD FAITH CLAIM TO OPERATE THE CHITTIM (145261) LEASE, CHONAN (S.M.D.), ZAVALA COUNTY, TEXAS**

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### APPEARANCES

**ALTA MIRA LAND & CATTLE L.P.:** Stephen M. "Mickey" Gerdes, Atty  
James Chittim "Chico" Parker

**PATTERSON ENERGY CORPORATION:** George Neale, Atty  
Robert E. Patterson, CEO

### **PROCEDURAL HISTORY:**

Notice of Hearing:	December 12, 2017
Hearing on the Merits:	March 27, 2018
Proposal for Decision:	April 17, 2018
Heard by:	Clayton J. Hoover, <i>Administrative Law Judge</i> Robert Musick <i>Technical Examiner</i>

### SUMMARY

In Docket No. 01-0306688, the Complainant, Alta Mira Land & Cattle L.P. ("Alta Mira"), through its principal, James "Chico" Parker, ("Parker") filed with the Commission a complaint letter challenging Patterson Energy Corporation's ("Patterson") "good faith claim" to a continued right to operate the Chittim Lease, Well No. 1, Chonan (S.M.D.) Field, Zavala County, Texas ("Lease"). Specifically, Alta Mira alleges that the Lease has expired by its own terms for lack of production. In response to the Complaint, Patterson requested a hearing on the merits.

The sole issue before the Commission is whether Patterson has a "good faith claim" to operate the Lease, as that term is defined in Statewide Rule 15.

At the hearing on the merits, Alta Mira presented the testimony of James “Chico” Parker to show that the Complaint was filed after he observed a spill, which was shortly followed by a severance in October, 2017. Mr. Parker also testified that Alta Mira had received a conveyance of a mineral interest in the well from his father, James Parker, Jr. and that according to his layman’s understanding of the terms of the 1989 lease covering the subject well, the Lease had terminated by virtue of 150 days of no production due to the severance.

George Neale introduced the testimony of Robert E. Patterson, the Managing Member of Protestant, to show that the well never ceased to produce for 150 days or more and that, in addition, a capillary string was run into the well in January of 2018 shortly before it began producing again, after a short interruption, in January or February of 2018. Such testimony was supported by Patterson Exhibit 2, which is a plot of monthly gas production from the well based on Commission records.

The record evidence demonstrates that Alta Mira failed to carry its burden of proof to show that the Lease has terminated. Patterson, on the other hand, did prove with both testimony and documentary evidence that it has a “good faith claim” to operate the Lease. It is recommended that the Commission dismiss the Complaint.

### **EVIDENCE PRESENTED**

#### **PARKER/ALTA MIRA**

James “Chico”Parker, who brought the complaint on behalf of Alta Mira, testified about the spill (caused by failure of the hammer union at the well<sup>1</sup>) and the resulting severance of the well.<sup>2</sup> He failed to show the absence of production or operations for more than 150 days which would result in lease termination under the Lease. Parker read from, and testified as to, his understanding of a copy of a 1989 lease purportedly covering the subject well and surrounding acreage. His understanding is that the Lease will terminate if there is an interruption in production and operations for more than 150 days. He also testified that Alta Mira has received no royalty payments from Patterson. Finally, he read into the record a provision of the Lease requiring that a lessor furnish the lessee a copy of any conveyance before the lesee would be bound by such conveyance.<sup>3</sup>

#### **PATTERSON**

In support of its argument that it has a “good faith claim” to operate the Lease, Robert E. Patterson testified that Patterson Energy holds a currently valid producing lease and that Patterson Energy has continuously produced the well, with minor interruptions of less

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<sup>1</sup> Trns pg 39, ln 15-18

<sup>2</sup> Trns pg 12, ln 16-pg. 13, ln 6

<sup>3</sup> Parker Ex. 1 ,2

than 150 days, which interruptions occurred because of the severance in October, 2017, and because of operations to install a capillary string in January, 2018.<sup>4</sup>

### OPINION

The sole issue before the Commission is whether Patterson holds a “good faith claim” to a continuing right to operate the Lease. Statewide Rule 15(a)(5) defines “good faith claim” 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.

The Commission’s authority to determine a “good faith claim” arises from the *Magnolia* case. In discussing the Commission’s authority to grant a drilling permit, the Texas Supreme Court stated, “The function of the Railroad Commission in this connection is to administer the conservation laws. When it grants a permit to drill a well it does not undertake to adjudicate questions of title or rights of possession. These questions must be settled in the courts.”<sup>5</sup> The Court concluded, “Of course, the Railroad Commission should not do the useless thing of granting a permit to one who does not claim the property in *good faith*.”<sup>6</sup>

In the context of the right to continue operation of a lease, the Commission looks to the operator’s lease and the production history from the Lease.

In the instant Docket, Patterson contends that its lease remains valid because the well has been producing with no cessation of more than 150, that it holds a valid P-4 covering the Lease and that Patterson therefore holds a “good faith claim” to a continuing right to operate the Lease.

First, it should be noted that there has been reported production from the Lease every month in question except possibly January, 2018. The well is currently producing.

Second, the record evidence demonstrates that Patterson became the operator of record for the Lease in December 2011, that it has continuously produced the well and that the Lease is compliant based on recent inspections.

Parker’s testimony failed to refute the assertions made and evidence presented by Patterson as to such “good faith claim”.

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<sup>4</sup> *Trns. pg 43, lns 2-5*

<sup>5</sup> *Magnolia Petroleum Co. v. Railroad Commission*, 170 S.W. 2d 189, 191 (Tex. 1943)

<sup>6</sup> *Id.* At 191 (emphasis added).

### **CONCLUSION**

The Examiners conclude that Patterson did present a "good faith claim" to operate the Lease and make the following Findings of Fact and Conclusions of Law:

### **FINDINGS OF FACT**

1. On or about September 5, 2017, James Chittim "Chico" Parker, on behalf of Alta Mira Land & Cattle, L.P., filed with the Commission a written complaint alleging that Patterson Energy Corporation did not hold a "good faith claim" to operate the Chittim (145261) Lease, Chonan (S.M.D.) Field, Zavala County, Texas.
2. Alta Mira is a mineral and royalty owner in the well.
3. By letter mailed September 6, 2017, Patterson was notified of the Complaint.
4. Patterson requested a hearing on the merits.
6. A Notice of Hearing was issued December 12, 2017.
7. A Hearing on the merits was held on March 27, 2018.
8. Patterson Energy Corporation is the Form P-4 Record Operator of the Chittim (145261) Lease, Chonan (S.M.D.) Field, Zavala County, Texas.
9. Patterson Energy Corporation presented documentary evidence and testimony to show that it has continuously produced the well and that the Lease has not expired due to a cessation of production of 150 days as stated in the Lease.
10. 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)]

### **CONCLUSIONS OF LAW**

1. Proper notice was timely issued to all persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.

3. Patterson Energy Corporation has a "good faith claim" to operate the Chittim (145261) Lease, Chonan (S.M.D.) Field, Zavala County, Texas.
4. James "Chico" Parker's Complaint, filed on behalf of Alta Mira Land & Cattle, L.P., should be dismissed.

**RECOMMENDATIONS**

The Administrative Law Judge and Technical Examiner recommend the Commission dismiss the Complaint brought by James "Chico" Parker on behalf of Alta Mira Land & Cattle, L.P. against Patterson Energy Corporation.

RESPECTFULLY SUBMITTED,



CLAYTON J. HOOVER  
*Administrative Law Judge*



ROBERT MUSICK  
*Technical Examiner*