

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION**

OIL & GAS DOCKET NO. 03-0255994

APPLICATION OF KELPETRO, INC., TO SUPERCEDE THE FINAL ORDER SIGNED ON DECEMBER 18, 2007, IN OIL & GAS DOCKET NO. 03-0252769 REQUIRING THAT THE MANVEL GAS UNIT, WELL NO. 1 (RRC NO. 208313), MANVEL, W. (MIOCENE B) FIELD, BRAZORIA COUNTY, TEXAS, BE PLUGGED, ENABLING KELPETRO, INC. TO BECOME THE OPERATOR OF RECORD

FINAL ORDER

The Commission finds that after statutory notice the captioned proceeding was heard by the examiner on July 28, 2008. The proceeding having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least 10 days notice of this proceeding was given to Kelpetro, Inc. (“Kelpetro”) and Goldmark Energy Corporation (“Goldmark”). Kelpetro appeared at the hearing on July 28, 2008, and presented evidence. No person appeared at the hearing in opposition to the application. Kelpetro has waived the issuance of a proposal for decision in this docket, and has agreed, in writing, that this Final Order shall be effective on the date a Master Order relating to this Final Order is signed.
2. On December 18, 2007, the Commission signed a Final Order in Oil & Gas Docket No. 03-0252769 requiring, among other things, that Goldmark plug the Manvel Gas Unit, Well No. 1 (RRC No. 208313) (“subject well”), Manvel, W. (Miocene B) Field, Brazoria County, Texas.
3. Goldmark has not complied with the Final Order in Oil & Gas Docket No. 03-0252769 by plugging the subject well, and Goldmark presently is the designated operator of the well on records of the Commission. The Commission has officially noticed that the Form P-5 organization report of Goldmark has been delinquent since June 1, 2008.
4. On February 28, 2008, Kelpetro filed a single-signature Form P-4 (Certificate of Compliance and Transportation Authority) with the Commission requesting a change of operator of the subject well from Goldmark to Kelpetro.

5. On March 10, 2008, Kelpetro filed with the Commission a request for hearing to consider whether the Commission should enter an order superceding the Final Order in Oil & Gas Docket No. 03-0252769 insofar as it required that the subject well be plugged.
6. Kelpetro has an active Form P-5 organization report. As of the date of the hearing in this docket, although it had an active organization report, Kelpetro did not have financial assurance on file with the Commission because it was not the operator of any wells in Texas and was not performing any other operations subject to the Commission's jurisdiction. The Commission has officially noticed that subsequent to the date of the hearing, Kelpetro filed approved financial assurance in an amount sufficient to enable it to take a transfer of the subject well.
7. Kelpetro was established as an operator of oil and gas properties in 1981. Currently, it is the owner of various non-operating mineral interests in Texas, and also has mineral interests and operations in California.
8. Kelpetro's owner put together the leases which make up the Manvel Gas Unit, and such leases were taken in the name of Orbit Resource Corporation ("Orbit"), which is under common ownership with Kelpetro.
9. On February 4, 2003, Orbit made a partial assignment of the oil and gas leases underlying the Manvel Gas Unit to Goldmark Energy Corporation covering depths from the surface down to 4,200 feet subsurface or the base of the Miocene "C" sand formation or its stratigraphic equivalent. This assignment obligated Goldmark to assume all the obligations imposed on Orbit by the underlying oil and gas leases. The assignment also provided that should Goldmark intend to release, surrender, abandon or allow to terminate the leases covered by the assignment, notice thereof was to be provided to Orbit, upon which Orbit was then to notify Goldmark whether it desired to receive a reassignment of the leases. Upon providing notice of a desire for reassignment, Orbit was given the immediate right to take possession of the leases.
10. The Commission has officially noticed from the Final Order in Oil & Gas Docket No. 03-0252769, that the subject well ceased to produce after April 2003, and a plugging extension for the well was canceled on May 10, 2007, for violations of Commission rules.
11. By letter dated February 8, 2008, Orbit notified Goldmark that pursuant to the terms of the assignment dated February 4, 2003, Orbit was electing to receive a reassignment from Goldmark of the oil and gas leases covered by the assignment. Goldmark did not respond to this letter.

12. Although Goldmark was provided notice of this hearing and the request of Orbit to change the operator of the subject well from Goldmark to Kelpetro, Goldmark did not appear at the hearing to oppose the requested change of operator.
13. Orbit filed suit against Goldmark in Cause No. C1038900 in the County Court at Law of Brazoria County, Texas, in the matter styled *Orbit Resource Corporation v. Goldmark Energy Corporation* for money damages, and a default judgment against Goldmark was entered on November 20, 2007.
14. Orbit has held the leases underlying the Manvel Gas Unit by payment of delay rentals. However, because the leases covering the drillsite tract had a provision that shut in rentals would hold the lease for a period of only two years, Orbit has obtained from all eleven mineral owners under the drillsite tract an Amendment and Ratification of Lease providing that shut in rentals will hold the leases for a period of two years from the date of the Amendment and Ratification of Lease and which declares that the pre-existing leases are valid and subsisting.
15. The Commission has officially noticed the contents of the Commission's file relating to the Form P-4 filed by Kelpetro requesting a change of operator of the subject well from Goldmark to Kelpetro, and, in particular, correspondence from counsel for Kelpetro establishing that Kelpetro is the operating company for Orbit.
16. Superceding the Final Order in Oil & Gas Docket No. 03-0252769 insofar as it required that the subject well be plugged, and permitting Kelpetro to become the designated operator of the well, likely will prevent the ultimate loss of hydrocarbons.
 - a. At the time the subject well was completed, Goldmark ran a formation test that disclosed at least three zones in the Miocene formation that were productive of hydrocarbons.
 - b. Currently, the subject well is perforated only in the Miocene "B" zone. Kelpetro believes that there are additional hydrocarbons to be recovered from the Miocene "B" zone, and the well will produce about 200 MCFD from this zone alone. Kelpetro estimates that if the well is recompleted so that the Miocene "B" zone is commingled with one of the other Miocene zones found to be productive by the formation test run by Goldmark, the well may produce as much as 400-500 MCFD.
 - c. Based on log analysis, the formation test run by Goldmark, and 3-D seismic data in Kelpetro's possession, Kelpetro estimates that as much as 0.5 BCF remains to be recovered by the subject well.

- d. Use of the existing wellbore of the subject well to recover the remaining hydrocarbons beneath the Manvel Gas Unit will be more practical and economical than drilling a new well to recover the same reserves. Kelpetro believes that if the subject well is plugged, no more reserves will be recovered from the Manvel Gas Unit.
17. There is no evidence that superceding the Final Order in Oil & Gas Docket No. 03-0252769 insofar as it required that the subject well be plugged, and permitting Kelpetro to become the designated operator of the well, will endanger natural resources or circumvent Commission rules.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties to this hearing have been performed or have occurred.
3. Kelpetro, Inc., is an active operator and has sufficient financial assurance on file with the Commission pursuant to Texas Natural Resources Code §§91.104, 91.1042, and 91.107.
4. Conditions respecting the subject well have changed since issuance of the Commission's Final Order in Oil & Gas Docket No. 03-0252769.
5. Kelpetro, Inc., has a good faith claim of a current right to operate the subject well.
6. Superceding the Final Order in Oil & Gas Docket No. 03-0252769 insofar as it required that the subject well be plugged, and permitting Kelpetro, Inc., to become the designated operator of the well, will promote conservation of natural resources and prevention of waste pursuant to Texas Natural Resources Code §85.201.
7. Pursuant to Texas Government Code §2001.144(a)(4), and the agreement and consent of all parties, this Final Order is effective when a Master Order relating to this Final Order is signed on September 9, 2008.

It is accordingly **ORDERED** that the Final Order signed on December 18, 2007, in Oil & Gas Docket No. 03-0252769 is hereby superceded only insofar as it required that the Manvel Gas Unit, Well No. 1 (RRC No. 208313), Manvel, W. (Miocene B) Field, Brazoria County, Texas, be plugged. All other provisions of the Final Order in Oil & Gas Docket No. 03-0252769 remain in full force and effect.

It is further **ORDERED** that the Form P-4 (Certificate of Compliance and Transportation Authority) filed with the Commission on February 28, 2008, requesting a change of operator of the Manvel Gas Unit, Well No. 1 (RRC No. 208313), Manvel, W. (Miocene B) Field, Brazoria County, Texas, from Goldmark Energy Corporation to Kelpetro, Inc., is hereby **APPROVED**.

It is further **ORDERED** that this Final Order shall be effective on September 9, 2008, when the Master Order relating to this Final Order is signed.

All pending motions and requests for relief not previously granted or granted herein are denied.

Done this 9th day of September 2008, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated
September 9, 2008)**