

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

OIL & GAS DOCKET NO. 08-0260338

APPLICATION OF CROWNQUEST OPERATING, LLC TO SUPERCEDE THE FINAL ORDER SIGNED ON DECEMBER 19, 2006, IN OIL & GAS DOCKET NO. 08-0243759 REQUIRING THAT THE HIGHWAY UNIT LEASE, WELL NO. 1 (RRC NO. 098638), BIG SPRING (ATOKA) FIELD, HOWARD COUNTY, TEXAS, BE PLUGGED, ENABLING CROWNQUEST OPERATING, LLC TO BECOME THE OPERATOR OF RECORD

FINAL ORDER

The Commission finds that after statutory notice the captioned proceeding was heard by the examiner on February 19, 2009. 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 CrownQuest Operating, LLC (“CrownQuest”) and Pintail Production Co., Inc. (“Pintail”). CrownQuest appeared at the hearing on February 19, 2009, and presented evidence. No person appeared at the hearing in opposition to the application. CrownQuest 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 19, 2006, the Commission signed a Final Order in Oil & Gas Docket No. 08-0243759 requiring, among other things, that Pintail plug the Highway Unit Lease, Well No. 1 (RRC No. 098638) (“subject well”), Big Spring (Atoka) Field, Howard County, Texas.
3. Pintail has not complied with the Final Order in Oil & Gas Docket No. 08-0243759 by plugging the subject well, and Pintail 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 Pintail has been delinquent since May 1, 2007.
4. On November 25, 2008, CrownQuest 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 Pintail to CrownQuest.

5. On December 9, 2008, CrownQuest 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. 08-0243759 insofar as it required that the subject well be plugged.
6. By letter dated February 18, 2009, Pintail notified the Commission that it did not oppose superceding the Final Order signed on December 19, 2006, in Oil & Gas Docket No. 08-0243759 or approval of the single-signature Form P-4 filed by CrownQuest requesting a change of operator of the Highway Unit Lease, Well No. 1 (RRC No. 098638) from Pintail to CrownQuest.
7. CrownQuest has an active Form P-5 organization report and approved financial assurance on file with the Commission in the amount of \$250,000.
8. There is no affiliation between CrownQuest and Pintail.
9. The acreage where the subject well is located is covered by currently effective oil and gas leases to EnerQuest Oil & Gas, Ltd. This acreage, among other acreage, is covered by an August 25, 2004, Operating Agreement to which EnerQuest and CrownQuest, among others, are parties. The Operating Agreement names CrownQuest as the operator of the Contract Area covered by the Agreement.
10. If this application is approved, CrownQuest proposes to convert the subject well to a salt water disposal well for the disposal of salt water produced by CrownQuest's Driver No. 1 well which is located on the same lease as the subject well.
11. Superceding the Final Order in Oil & Gas Docket No. 08-0243759 insofar as it required that the subject well be plugged, and permitting CrownQuest to become the designated operator of the well, likely will prevent the ultimate loss of hydrocarbons.
 - a. No production has been reported to the Commission for the Highway Unit Lease, Well No. 1 (RRC No. 098638) since February 2002.
 - b.. CrownQuest has evaluated the subject well and determined that the well is suitable for conversion to a salt water disposal well.
 - c. If the application in this docket is approved, CrownQuest will file a Form W-14 (Application to Dispose of Oil and Gas Waste By Injection Into A Formation Not Productive of Oil and Gas) seeking a disposal well permit for the subject well.
 - d. Disposal in proposed into the San Andres formation in the interval between 3,380' and 3,626'.

- e. The source of the salt water proposed to be injected into the subject well, once the well has been properly permitted, will be the CrownQuest Driver No. 1 well located on the same lease as the subject well. Salt water will be piped from the Driver No. 1 to the subject well for disposal.
 - f. The Driver No. 1 well is a producing oil well completed on March 18, 2008, in the Spraberry (Trend Area) Field.
 - g. At the time of the hearing in this docket, the Driver No. 1 well was making about 300 barrels of water per day. This water is being trucked to a disposal facility at a cost of \$1.92 per barrel.
 - h. With current disposal costs, CrownQuest calculates that the Driver No. 1 well will have an economic life of 52 months and ultimate recovery of 32,785 barrels of oil and 58,251 mcf of gas.
 - i. Assuming use of the subject well as a disposal well, CrownQuest estimates that water from the Driver No. 1 well can be disposed of at a cost of \$0.25 per barrel.
 - j. According to CrownQuest's calculations, the lower disposal cost realized from use of the subject well as a disposal well will extend the economic life of the Driver No. 1 well to 331 months. CrownQuest calculates further, based on decline curve analysis, that during its economic life of 331 months, ultimate recovery from the Driver No. 1 will be 112,336 barrels of oil and 201,443 mcf of gas.
 - k. If CrownQuest cannot use the subject well as a means of disposing of water produced by the Driver No, 1, there is at least the potential that 79,551 barrels of oil and 143,192 mcf of gas ultimately will be lost.
12. Surface equipment left on the subject lease by the previous operator is junk. CrownQuest will remove this equipment and clean up the lease at an estimated cost of \$10,000-\$15,000 pursuant to an understanding with the owner of the surface.
13. There is no evidence that superceding the Final Order in Oil & Gas Docket No. 08-0243759 insofar as it required that the subject well be plugged, and permitting CrownQuest 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. CrownQuest Operating, LLC 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. 08-0243759.
5. CrownQuest Operating, LLC has a good faith claim to a current right to operate the subject well.
6. Superceding the Final Order in Oil & Gas Docket No. 08-0243759 insofar as it required that the subject well be plugged, and permitting CrownQuest Operating, LLC 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 March 11, 2009.

It is accordingly **ORDERED** that the Final Order signed on December 19, 2006, in Oil & Gas Docket No. 08-0243759 is hereby superceded only insofar as it required that the Highway Unit, Lease, Well No. 1 (RRC No. 098638), Big Spring (Atoka) Field, Howard County, Texas, be plugged. All other provisions of the Final Order in Oil & Gas Docket No. 08-0243759 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 November 25, 2008, requesting a change of operator of the Highway Unit Lease, Well No. 1 (RRC No. 098638), Big Spring (Atoka) Field, Howard County, Texas, from Pintail Production Co., Inc., to CrownQuest Operating, LLC is hereby **APPROVED**.

It is further **ORDERED** that this Final Order shall be effective on March 11, 2009, 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 11th day of March 2009, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotected Master Order dated
March 11, 2009)**