

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION

OIL AND GAS DOCKET NO. 6E-0269843

APPLICATION OF NORTH AMERICAN DRILLING CORP. TO SUPERCEDE THE PROVISIONS OF THE FINAL ORDER IN OIL & GAS DOCKET NO. 6E-0260807 SIGNED ON AUGUST 10, 2010, REQUIRING THE PLUGGING OF THE CHRISTIAN, L. (06930) LEASE, WELL NOS. 1, 2, 4, 5, 6, 7 AND 9, EAST TEXAS FIELD, GREGG COUNTY, TEXAS, ENABLING NORTH AMERICAN DRILLING CORP. TO BECOME THE OPERATOR OF RECORD.

FINAL ORDER

The Commission finds that after statutory notice the above-captioned proceeding was heard by the examiner on April 11, 2011. 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. North American Drilling Corp (hereinafter "North American") and Glade Operating Co. (hereinafter "Glade") were given at least 10 days notice of this proceeding. North American appeared at the scheduled time and place for the hearing through its president, Mr. Larry Koonce. No person appeared in opposition to North American's application.
2. North American last filed its Commission Form P-5 (Organization Report) with the Commission on April 19, 2011. North American has posted financial assurance with the Commission in the form of a \$50,000 cash deposit, which expires May 31, 2011.
3. Glade was recognized as the operator of the Christian, L. (06930) Lease (hereinafter "subject lease") after filing a Commission Form P-4 (Producer's Transportation Authority and Certificate of Compliance), effective November 16, 2000.
4. On August 10, 2010, in Oil & Gas Docket No. 6E-0260807, *Enforcement Action Against Glade Operating Co. (307603), as to the Christian, L. (06930) Lease, Well Nos. 1, 2, 4, 5, 6, 7, and 9, and the Douglas, Martin (07156) Lease, Well No. 2, East Texas Field, Gregg county, Texas*, the Commission served a Final Order which *inter alia*, ordered that Glade plug the subject wells and pay an administrative penalty of \$24,000. Glade has not complied with the terms of the Final Order in Oil & Gas Docket No. 6E-0260807.

5. North American's application in this docket requests that the Commission issue an order superceding the Final Order in Oil & Gas Docket No. 6E-0260807, insofar as it ordered the subject wells be plugged, in order that North American may become the designated operator of these wells and restore the wells to active and compliant status. North American is not requesting to become the designated operator of the Douglas, Martin (07156) Lease, Well No. 2, which was also part of the Final Order in Docket 6E-0260807. Glade has not opposed the North American application.
6. North American has provided evidence of its good faith claim to operate the subject lease and wells by presenting several documents. The first document is the seminal lease granted by Louisiana Christian et al in 1931. The second document is a Declaration of Unitization and Designation of a Gas Unit, which encompasses a 450.8579-acre gas unit, and includes the tract(s) included in the seminal lease. The third and final document is a pair of assignments in which Glade transfers any and all right, title and interest in the subject leases and wells to North American (in the amount of 80%) and to J.S. Moyers Interests (in the amount of 20%). Production on the subject lease ceased in May of 1998. However, production on the gas unit, which includes the subject tract, has been continuous since February of 1996. Therefore, the lease is held by production.
7. There is no affiliation or other connection between Glade and North American or any of their officers, directors, or owners.
8. North American has filed with the Commission a dual-signature Form P-4 (Producer's Certificate of Compliance and Transportation Authority) to become the operator of Well Nos. 1, 2, 4, 5, 6, 7, and 9 on the Christian, L. (06930) Lease.
9. North American operates a total of 36 wellbores on 20 leases at the present time.
10. Superceding the requirement in the Final Order entered in Oil & Gas Docket No. 6E-0260807 that the Christian L. (06930) Lease, Well Nos. 1, 2, 4, 5, 6, 7, and 9 be plugged, is necessary to prevent waste.
 - a. The subject wells produced oil and/or casinghead gas every month from January 1993 until May 1998.
 - b. North American intends to make any necessary filings with the Commission that may be necessary to put the subject wells on schedule and to become the record operator of the wells.

- c. The East Texas Field is productive to the east of the base mineral lease where the subject wells are located. The Castleberry (06077) Lease, immediately to the east of the subject lease, has since 1993 produced on average 182 BOPM, and 178.24 MCFM. North American believes that it can restore the subject wells to an economically viable production rate. Additionally, North American plans to plug any well incapable of production.
11. North American has agreed on the record to waive issuance of a proposal for decision by the hearings examiner in this Docket.
12. North American has agreed on the record that, pursuant to the provisions of Texas Government Code §2001.144(a)(4), the P-4 transfer of the applied-for wells will be effective on the day the Order is signed by the Commissioners.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. North American has a good faith claim of a right to operate the subject lease and wells.
4. North American has filed financial assurance in the type and amount required under Texas Natural Resources Code §91.107 to be approved as the operator of the subject lease.
5. An Order superceding the Final Order entered in Oil & Gas Docket No. 6E-0260807 insofar as it requires the plugging of Well Nos. 1, 2, 4, 5, 6, 7, and 9 on the Christian, L. (06930) Lease, East Texas Field, Gregg County, Texas, is necessary to prevent waste.
6. Pursuant to §2001.144(a)(4) of the Texas Government Code, and the agreement of North American, this Final Order is effective when a Master Order relating to this Final Order is signed on May 10, 2011.

It is accordingly **ORDERED** that the provision in the Final Order entered in Oil & Gas Docket No. 6E-0260807 requiring plugging of Well Nos. 1, 2, 4, 5, 6, 7, and 9 on the Christian, L. (06930) Lease, East Texas Field, Gregg County, is hereby superceded. All other provisions of the Final Order shall remain in full force and effect.

It is further **ORDERED** that the Form P-4 (Certificate of Compliance and Transportation Authority) filed by North American to change the operator of Well Nos. 1, 2, 4, 5, 6, 7, and 9 on the

Christian, L. (06930) Lease, East Texas Field, Gregg County, Texas, from Glade Operating Co. to North American Drilling Corp is hereby **APPROVED**.

It is further **ORDERED** by the Commission that this order shall be effective on May 10, 2011, 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 May, 2011, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotected Master Order dated
May 9, 2011)**