



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

October 5, 2012

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Re: **Complaint File No. 2012-132**; Status No. 744730; EOG Resources, Inc.'s application to drill Kotzman (Allocation) Well 1-H, Eagleville (Eagle Ford 2) Field, DeWitt County, Texas. Complaint No. 2012-138

To the Parties:

I have reviewed the various filings by the complainants and by applicant EOG regarding the proposed "allocation well" referenced above. In short, the complainants allege that the pending permit application by EOG should not be processed because EOG does not have a good faith claim to the right to drill the proposed well. The complainants assert that neither of the leases involved allow pooling for oil, that none of the lessors have entered into a production sharing agreement or other agreement authorizing the drilling of the proposed well across lease lines, and that, as a result, EOG lacks even a good faith claim to the right to drill the proposed well.

EOG responds that the Commission has previously granted a number of drilling permits based on the assertion of the operator that it had a good faith claim to the right to drill a well across multiple leases, even though the operator did not assert either that the leases were being pooled or that it had a production sharing agreement covering the leases. EOG further asserts that it is a working interest owner in leases covering 100% of the mineral estate of both tracts to be traversed by the wellbore.

EOG is correct in asserting that the Commission staff has previously accepted as sufficient proof of a good faith claim to drill a horizontal well across two or more leases operators' uncontested assertions that their leases alone give them the right to drill, even without an allegation that the leases have been pooled. EOG is also correct in noting that the Commission staff indicated that it was expressing no opinion as whether leases alone confer the right to drill across lease lines.

This is the first case of which I am aware in which a mineral owner has asserted, prior to the permitting of the well, that the specific terms of its leases bar an operator from having even a good faith claim to the right to drill a horizontal well across lease lines. In my view, the complainants' assertions cast sufficient doubt on the applicant's assertion of a good faith claim to preclude the administrative approval of the requested permit at this juncture. Accordingly, the referenced permit application will not be processed at this time.

At the request of either the complainants or applicant EOG, I will refer this matter to Docket Services to set an evidentiary hearing to allow both parties to present evidence and argument regarding whether, on the specific facts of this case, EOG has a sufficient good faith claim to authorize issuance of an RRC drilling permit for the proposed allocation well.

This letter reflects the opinion of the undersigned, based on my understanding of relevant statutes, Commission rules and current Commission policy and procedure. The statements in this letter are not, and should not be construed as, a final opinion or decision of the Railroad Commission.

Sincerely,


Colin K. Lineberry, Director
Hearings Division

CKL

cc: Lorenzo Garza - RRC, Austin