

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANT: MASA ENERGY, LLC)
)
 RELIEF SOUGHT: CHANGE OF OPERATOR)
 HOOVER #1 WELL)
 HOOVER NUCO #A2 WELL)
 HOOVER #3 WELL)
 HOOVER #4 WELL)
 HOOVER #5 WELL)
 HOOVER #5C WELL)

CAUSE CD NO.
201600574-T

LEGAL DESCRIPTION: SOUTHEAST QUARTER OF)
 SECTION 27, TOWNSHIP 15)
 NORTH, RANGE 15 EAST,)
 MUSKOGEE COUNTY,)
 OKLAHOMA)

FILED
JUN 29 2016

COURT CLERK'S OFFICE - TULSA
CORPORATION COMMISSION
OF OKLAHOMA

APPLICANT: MASA ENERGY, LLC)
)
 RELIEF SOUGHT: SPACING)

CAUSE CD NO.
201600575-T

LEGAL DESCRIPTION: SOUTHEAST QUARTER OF)
 SECTION 27, TOWNSHIP 15)
 NORTH, RANGE 15 EAST,)
 MUSKOGEE COUNTY,)
 OKLAHOMA)

APPLICANT: MASA ENERGY, LLC)
)
 RELIEF SOUGHT: POOLING)

CAUSE CD NO.
201600576-T

LEGAL DESCRIPTION: NORTHWEST QUARTER OF)
 THE SOUTHEAST QUARTER OF)
 SECTION 27, TOWNSHIP 15)
 NORTH, RANGE 15 EAST,)
 MUSKOGEE COUNTY,)
 OKLAHOMA)

APPLICANT: MASA ENERGY, LLC)
)
 RELIEF SOUGHT: POOLING)

CAUSE CD NO.
201600577-T

LEGAL DESCRIPTION: NORTHEAST QUARTER OF)
 THE SOUTHEAST QUARTER OF)
 SECTION 27, TOWNSHIP 15)
 NORTH, RANGE 15 EAST,)
 MUSKOGEE COUNTY,)
 OKLAHOMA)

APPLICANT:	MASA ENERGY, LLC)	
)	
RELIEF SOUGHT:	POOLING)	
)	
LEGAL DESCRIPTION:	SOUTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 27, TOWNSHIP 15 NORTH, RANGE 15 EAST, MUSKOGEE COUNTY, OKLAHOMA)	CAUSE CD NO. 201600578-T
)	
APPLICANT:	MASA ENERGY, LLC)	
)	
RELIEF SOUGHT:	POOLING)	
)	
LEGAL DESCRIPTION:	SOUTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 27, TOWNSHIP 15 NORTH, RANGE 15 EAST, MUSKOGEE COUNTY, OKLAHOMA)	CAUSE CD NO. 201600579-T
)	

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The causes came on for hearing before **Kathleen M. McKeown**, Administrative Law Judge (ALJ), in the Oklahoma Corporation Commission (Commission) courtroom, Kerr Building, Tulsa, Oklahoma, pursuant to notice given as required by law and the rules of the Commission for the purpose of taking testimony and reporting to the Commissioners.

CASE SUMMARY

The 6 wells involved in these matters were drilled by Nuco Energy, LLC (Nuco); Masa Energy, LLC (Masa) seeks to be designated operator of the wells, space the subject lands and pool the wells with initial and subsequent drilling provisions in the pooling orders. While Nuco has had other wells shut in and its plugging bond/surety forfeited by the Commission through a contempt action, Semper Fidelis Exploration and Production, LLC (Semper Fidelis), an associate of Nuco, seeks to retain the operations of the wells under an operating agreement between Nuco and Semper Fidelis which covers the subject wells.

RECOMMENDATIONS

The applications should be granted and Masa should be named operator of the wells. Masa was named as operator at an uncontested emergency hearing on February 19, 2016 resulting in Order No. 650278. Nuco was unable to conduct business in the State of Oklahoma until it received a Limited Liability Company Certificate from the Oklahoma Secretary of State on May 26, 2016; Semper Fidelis was reinstated with the office of the Oklahoma Secretary of State on May 27, 2016; neither company has a current plugging bond on file with the Commission. There has been no accounting by Nuco or Semper

Fidelis with any of the participants regarding the investments made by the respondents to the pooling orders.

HEARING DATES

May 25 and 27, 2016

APPEARANCES

William H. Huffman appeared for **Masa**;
Brent Blackstock appeared for **Semper Fidelis**.

SUMMARY OF EVIDENCE

1. CD 201600574-T requests an order deleting Nuco as operator of the Hoover #1 well, Hoover Nuco #2A, aka Hoover #2 well, Hoover #3 well, Hoover #4 well, Hoover #5 and Hoover #5C and designating Masa as operator of said wells.

CD 201600575-T requests an order establishing 40-acre spacing units for the Booch, Dutcher, Cromwell, Pitkin Lime, Woodford, Misener, Viola, Wilcox and Arbuckle underlying the SE/4 of Section 27, Township 15 North, Range 15 East, Muskogee County, Oklahoma.

CD 201600576-T requests an order pooling the interests in the northwest quarter of the southeast quarter of Section 27, Township 15 North, Range 15 East, Muskogee County, Oklahoma.

CD 201600577-T requests an order pooling the interests in the northeast quarter of the southeast quarter of Section 27, Township 15 North, Range 15 East, Muskogee County, Oklahoma.

CD 201600578-T requests an order pooling the interests in the southeast quarter of the southeast quarter of Section 27, Township 15 North, Range 15 East, Muskogee County, Oklahoma.

CD 201600579-T requests an order pooling the interests in the southwest quarter of the southeast quarter of Section 27, Township 15 North, Range 15 East, Muskogee County, Oklahoma.

2. **Exhibits** were marked and accepted into evidence as follows (exhibit sponsor in parentheses):

1. Commission Order No. 652507 (Masa)
2. Screenshot of Semper Fidelis corporation status in Texas (Masa)
3. Screenshot of Nuco Energy, LLC corporation status in Nevada (Masa)
4. Production Base Map covering the SE/4 of Section 27 (Masa)
5. Authority for Expenditure (AFE) for Hoover #1 (Masa)
6. AFE for Hoover #2 aka Hoover Nuco #A2 (Masa)
7. AFE for Hoover #3 (Masa)
8. AFE for Hoover #4 (Masa)
9. AFE for Hoover #5 (Masa)
10. AFE for Hoover #5C (Masa)
11. Oil and Gas Lease between Frances D. Reynolds and Masa (Masa)
12. Oil and Gas Lease between Jean Bryan Johnson and Masa (Masa)
13. Oil and Gas Lease between Jane Ann Johnson Newquist and Masa (Masa)

14. Screenshot of Semper Fidelis corporation status in Oklahoma (Masa)
 15. Participation Agreement between Semper Fidelis and Masa (Masa)
 16. Oklahoma Certificate of Limited Liability (Semper Fidelis)
 17. Texas Tax Clearance Letter for Reinstatement (Semper Fidelis)
 18. Notification of Well Spud for Hoover #3 (Semper Fidelis)
 19. Notification of Well Spud for Hoover #4 (Semper Fidelis)
 20. Notification of Well Spud for Hoover #5 (Semper Fidelis)
 21. Notification of Well Spud for Hoover #5C (Semper Fidelis)
 22. Commission Emergency Order No. 650278 (Masa)
 23. Spread Sheet for all Well Costs (Semper Fidelis)
 24. Operating Agreement dated March 1, 2014 (Semper Fidelis)
 25. Gas Purchase and Processing Agreement (Semper Fidelis)
 26. Texas Secretary of State Certificate of Filing (Semper Fidelis)
3. On behalf of **Masa** expert testimony and evidence was presented through **Carter Bandy**, attorney; **Stacy Clark**, petroleum geologist; and **Veera Raman**, Masa owner and investor.
- A. Masa hired a title attorney to review ownership in the subject area and discovered that slightly less than half of the area had been leased despite Nuco's assertion that it held leases to 100% of the subject lands. Masa took 3 oil and gas leases as a result of this discovery of open interests and now has a 15% interest in the subject lands. While there have been Notices of Spud filed by Nuco in the unit, there have been no completion reports filed nor have the subject lands been spaced or pooled which is why Masa filed the applications to space the proposed units and formations as well as pool all of the owners. While parties named in the pooling applications may already have paid participation costs, they would have an option to remain as participating parties (if so, no election would be needed) or they would be able to opt out if they prefer; only non-participating parties named in the applications would have to make an election as to participation or cash bonus options. The fair market value options to participation offered by Masa under the proposed pooling orders are: 1) a cash bonus of \$35 per mineral acre and a 5/32nds royalty; and 2) a cash bonus of \$25 per mineral acre and a 3/16ths royalty. Masa's estimated completed well costs are \$199,850 per well; actual well costs have been requested of Nuco but not received. The subject poolings are a vehicle to allow all parties to continue participating in the subject wells and would allow the named non-participating parties a chance to elect to participate. The poolings should include provisions for subsequent wells with the only party allowed to propose subsequent wells being Masa, which is also to be named as the operator of the units; the former operator, Nuco, has now received a certificate of limited liability from the Oklahoma Secretary of State but is not a bonded operator with the Commission as its surety was forfeited and several wells Nuco operated (not relevant to this proceeding) were shut in as a result of Commission Order No. 652507 pursuant to a contempt action.
- B. Masa seeks to establish spacing for four 40-acre oil units in the SE/4 of the subject Section 27 for the following formations at the listed depths:
- | | |
|----------|-------|
| Booch | 1210' |
| Dutcher | 1640' |
| Cromwell | 1900' |

Pitkin Lime	1950'
Woodford	2090'
Misener	2130'
Viola	2150'
Wilcox	2180'
Arbuckle	2450'

The units are to be composed of the governmental quarter quarter section with the proper well location being anywhere within the unit, but no closer than 330' to the unit boundary. The existing Hoover wells should be named as the unit wells for each of the quarter quarter sections in which they are located.

- C. Masa, as operator, would need to analyze the existing zones completed in the various wells and decide on which, if any, to commingle. Since November 2014 there has been no revenue, contracts, joint operating agreements or COPAS Bulletins received from Nuco or Semper Fidelis regarding the wells which were originally presented as turnkey operations to the various participants. Once production begins, a gas contract will be re-negotiated with Kinder-Morgan; the pipeline is owned by an investor in the Hoover wells.
4. On behalf of **Semper Fidelis** expert testimony and evidence was presented through **Jerry G. Grigg**, owner/operator of Nuco; and **Nicholas P. Yukich, III**, operations chief of Semper Fidelis. Nuco currently has pumps up and operating on the Hoover wells and it plans to run an MIT test. Outside of Commission Order No. 650278, Nuco is not in violation of any Commission rules or regulations. Nuco was unaware of the interim order that issued before the Commission final order that addressed the forfeiture of bond and shut in of wells so no efforts were made to comply with clean up of the well sites involved. Completion reports have been filed or should have been filed on all of the Hoover wells. A new surety bond will be posted with the Commission. The operating agreement for the Hoover lease was entered into on March 1, 2014 between Nuco and Semper Fidelis (as representative of itself and all other working interests); the Hoover wells were then drilled prior to November 24, 2014; no violations have occurred by Semper Fidelis or Nuco in equipping or operating any of the wells. While Nuco is ready to move forward with further development on the Hoover lease, the process has been slowed due to various district court lawsuits that have been filed. At the time of the drilling of the wells, Nuco believed it owned 100% of the interest although no title opinion had been procured when the drilling took place; once aware of the outstanding interests, Nuco planned to pool the wells but felt that drilling the wells was a way to get the development started.

RECOMMENDATIONS

1. After taking into consideration all of the facts, circumstances, evidence and testimony presented in the causes, it is the recommendation of the ALJ that the subject applications of Masa be granted and that Masa should be named operator of the wells. Under any pooling orders issuing from the causes, the ALJ recommends that the alternatives to participation be as follows: 1) a cash bonus of \$35 per acre with a 5/32^{nds} royalty; and 2) a cash bonus of \$25 per acre with a 3/16ths royalty.

2. Masa presented expert testimony as to current fair market value in the subject unit as well as testimony regarding its plans to function as operator of the wells with an accounting of the well costs, well status and ongoing development. Masa is an investor in the subject area and has contacted many of the other participants who have, like Masa, not received satisfactory answers from Nuco or Semper Fidelis regarding their investments.
3. The Commission is charged with determining who should be operator of the units and formations involved in the pooling applications. This requires a consideration of several factors including (among others) ownership, competence and drilling/exploration plans; it also requires a finding of which operator will be the best fiduciary representative for the participating interests as well as the non-participating owners in the unit. Nuco has not carried out its fiduciary duty as an operator in the State of Oklahoma. At the opening of the hearing, Nuco was not licensed to do business in Oklahoma with the Secretary of State; Nuco did receive a certificate of limited liability the next day but the ALJ finds that was prompted by the arguments made at the opening of the hearing regarding Nuco's ability to defend itself in any Oklahoma court. As a backup to Nuco being removed as operator, Semper Fidelis now seeks to assume operations of the wells under the Operating Agreement it entered into with Nuco on March 1, 2014; Semper Fidelis is designated in this agreement as "Sole Indisputable Representative of all other Non-Operating Participants". No evidence was presented to this court that the any other non-operating participants ever agreed to have Semper Fidelis be the group representative; rather, the investors/participants were concerned because they had not received any return on their investments nor could they get any questions regarding these issues answered by Nuco or Semper Fidelis.
4. Finally, neither Nuco nor Semper Fidelis is a bonded operator in the State of Oklahoma. This status has been in place for Nuco since Order No. 652507 issued on May 10, 2016; one of the Nuco witnesses testified that he was unaware of the Interim Order or the final Order in this contempt cause and that all of these problems were the result of the 6-week employment in the beginning of 2015 of Vera Raman, an investor in the Hoover well and current owner of Masa. Regardless of who or what is to blame, the fact remains that the only bonded operator before the Commission is Masa. Further, Masa is the only entity with a plan to space and pool the subject lands and proceed with further development to help insure that the current investors are able to receive some benefit.

Thus, in light of the aforementioned conclusions, it is the recommendation of the ALJ that the applications of Masa in CD 201600574-T, 201600575-T, 201600576-T, 201600577-T, 201600578-T and 201600579-T be granted. Any orders issuing out of the causes should contain the recommendations provided herein.

Respectfully submitted this 29th day of June 2016,


KATHLEEN M. MCKEOWN
Administrative Law Judge