Quiz #2 Due on Wednesday February 5th

Name: **Jacob Wall**

1. In the Kelly v. Ohio Oil Company case the property and wells were located in Ohio. Why is that significant?

It was significant because Kelly was not located in Ohio but the laws of the land, Ohio, were applied in this case.

2. Swine Oil Company drills a well on its oil and gas lease and is able to drain oil from under the adjoining owner's property. Is that a trespass or theft of the adjoining owner’s oil?

This is not illegal as shown in Kelly v. Ohio Oil Company. You as a mineral owner has the right to drill for the minerals BUT not the exclusivity of the minerals below. It is called the rule of capture.

3. Swine Oil Company drills a well and purposely deviates the well bore so that the bottom hole of the well is located under the adjoining owner’s property. Is that considered a trespass, and if Swine produces oil from the well is that a theft of the adjoining owner’s oil?

Yes, this would be considered trespassing as shown in Kelly v. Ohio Oil Company and their explanation of the rule of capture. If the well bore was located under the adjoining property AND captured oil from the adjoining property this is illegal under the rule of capture. Once you cross the line with the bore head you have lost title.

4. Most property lines in the United States are straight due to the survey system we use. Most oil and gas wells drain oil or gas from a roughly circular radius around the well. Does this create any issues?

The courts have ruled, most notably with Kelly v. Ohio Oil Company that although property lines are straight and wells produce in circular radius that this is entirely legal. Their reasoning is multi fold:

1. You as an individual have exclusive rights to capture what is under your land, not exclusivity to everything itself.
2. As long as the extraction takes place on the property of which the individual drilling has the mineral rights you are OK.
3. You can protect yourself as a landowner by drilling for oil on your own land.

5. Flaring, the burning of natural gas at a well site, is commonly seen when a well has been drilled. Is this activity regulated by the states (Texas Railroad Commission)?

Yes, this is regulated by the TRC. There is a request that must be made with the TRC if the well is flared for greater than 24 hours. Below is further points of interest from the TRC website:

“The Commission’s Statewide Rule 32 allows an operator to flare gas while drilling a well and for up to 10 days after a well’s completion for operators to conduct well potential testing. The majority of flaring permit requests received by the Commission are for flaring cashinghead gas from oil wells. Permits to flare from gas wells are not typically issued as natural gas is the main product of a gas well.”

6. In general, what is the maximum amount of time that a well can't be flared for in Texas?

Did you mean the max time that the well can be flared? If so, it’s 180 days except in extreme cases of which the TRC approves.

7. If Swine Oil drills a natural gas well that has a very low downhole pressure, can they legally install a compressor engine on the well to help move the gas up the wellbore and push the gas into a pipeline?

Yes, this allows the decline curve to become less steep and for extraction at lower pressures. There was a case of which the courts ruled that this is OK.

8. If Swine Oil drills an oil well can they drop a nitroglycerin torpedo in the well, or use a similar device, in an attempt to enhance production by draining oil reserves from under adjoining land?

You can use explosive down a hole if you get regulatory approval.

9. If you discover massive amounts of natural gas in a place such as the rain forest in Papua New Guinea which is hundreds of miles away from any market, what regulatory and developmental issues would you face as a financier or investor in such a venture?

One must take into account the lack of infrastructure to get the newly captured oil into the market such as the lack of pipelines. On top of that one must take into account the political differences between the US and Papua New Guinea. On top of that, what are the tax implications of being in Papua New Guinea?