BUSE 4332 - Quiz 3

1. The rule of capture that states you don't own the crude oil or natural gas you discover until you physically reduce it to possession. This rule of capture is modified by the fair share doctrine. What three methods does the Texas Railroad Commission use to implement the fair share doctrine?
   1. Allow one oil well per 40 acres
   2. Prorationing rules that restrict the amount of oil and gas each well can produce
   3. Compulsory pooling acts that allow a drained landowner to force neighbors to share their wells’ production with him.
2. In general the Texas Railroad Commission allows crude oil wells to be placed closer together then natural gas wells, that is the agency allows the well density to be higher. Why is this so?
   1. Oil wells can only be recovered / captured in a smaller area relative to natural gas.
   2. Some of this is public safety issue.
   3. Some regulated by local counties and cities, for public protection (schools, air models, noise, etc.)
3. Regulatory commissions designate a well as either a crude oil or alternatively as a natural gas well. How does the Texas Railroad Commission determine whether a well is an oil or gas well?
   1. The Texas Railroad Commission offers the following guidelines for classifying whether a well is gas or oil.
      1. Gas
         1. Any well which produces one barrel or more crude petroleum oil to each 100,000 cubic feet of natural gas.
      2. Oil
         1. Which produces natural gas not associated or blended with crude petroleum oil at the time of production;
         2. Which produces more than 100,000 cubic feet of natural gas to each barrel of crude petroleum oil from the same producing horizon; or
         3. Which produces natural gas from a formation or producing horizon productive of gas only encountered in a wellbore through which crude petroleum oil also is produced through the inside of another string of casing or tubing. A well which produces hydrocarbon liquids, a part of which is formed by a condensation from a gas phase and a part of which is crude petroleum oil, shall be classified as a gas well unless there is produced one barrel or more of crude petroleum oil per 100,000 cubic feet of natural gas; and that the term "crude petroleum oil" shall not be construed to mean any liquid hydrocarbon mixture or portion thereof which is not in the liquid phase in the reservoir, removed from the reservoir in such liquid phase, and obtained at the surface as such.
4. Assume you are going to buy a 10 acre tract of land in Texas. It had previously been used as a refinery. As a potential buyer do you have the right to go on the property and take samples without the current owner’s permission?
   1. You do not have the right to take samples without the owners permission.
   2. A seller who only provides partial disclosure is breaking the law. The buyer has the right to request it. If the seller discloses the information they must disclose everything.
5. You are a seller of property on which an oil refinery operated. A party who is interested in buying your land wants to take samples on the property. What concerns might you have?
   1. You should consider the implications from an environmental standpoint.
      1. Spills and leaks from different chemicals
   2. Cost
      1. If they buy the property and the cost of some cleanup or remediation is not factored into the sale price.
   3. Due Diligence
      1. Any cleanup obligation of a spill that they didn’t cause is clearly defined and still left with the seller.
   4. Superfund Law
      1. Make sure that they’re doing their due diligence. By virtue of taking over the site they can be responsible for it all.
6. When you are developing and exploring for oil and gas by drilling and completing a well it is considered the development of real property. What are the implications of this designation?
   1. Because it is exploration it is regulated by the TRC, not the EPA, and thus exempt from other environmental laws such as CERCLA.
   2. You have to have permission and have the mineral rights.
7. When you have produced crude oil or natural gas and store or sell it the hydrocarbons become personal property. If you put the crude oil in a storage tank and it accidentally leaks and travels over to your neighbor’s property, can the neighbor collect and sell that claiming ownership under the rule of capture?
   1. The rule of capture states that it is yours once you take it out of the ground. In a case where it seeps over into a neighbors property, although it would be on their land, you were the one who originally captured the oil or natural gas.