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Via email: rulescoordinator@rrc.texas.gov

Rules Coordinator, Office of General Counsel
Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

Re: Comments on Proposed Amendments to 16 TAC §3.15 and §3.58

Rules Coordinator:

Merit Energy Company (Merit) is writing in support of the formal comments of the Texas Independent Producers and Royalty Owners Association (TIPRO) regarding the Railroad Commission of Texas' proposed amendments to Statewide Rules 15 and 58 implementing Senate Bill 1150.

We respectfully urge the Commission to give particular consideration to TIPRO's comments regarding Statewide Rule 58 and the transfer of inactive wells.

Also, Merit would like to thank the Commissioners and, particularly, the Commission staff who have worked diligently with Texas oil and gas operators and industry organizations throughout this rulemaking process. The current proposal reflects meaningful consideration of concerns raised by industry and represents significant progress toward a rule that can achieve the Legislature's objectives while remaining workable for responsible operators.

Rule 58 and the Acquisition and Divestiture Market

Merit Energy Company, like many other operators, is an acquisition and divestiture-focused oil and gas company. Acquiring mature producing assets from other operators is a fundamental part of this business and incredibly important to the continued value add to the State, royalty owners, and all other stakeholders who benefit from oil and Gas. Disposition of assets frequently include inactive wells along with producing wells, facilities, leases, contractual obligations, etc.

For that reason, the treatment of transferred 15/25 wells under Rule 58 is not an abstract regulatory question for us. The regulation pertaining to Rule 58 will directly affect whether an acquisition can be evaluated, financed, closed and successfully integrated as time constraints many times dominate the deal structures.

The final proposal made helpful technical corrections to Rule 58, including correcting cross-references identified by TIPRO. However, significant substantive transfer issues remain unresolved. According to TIPRO's analysis, the proposal did not incorporate a defined 45-day

administrative review period with provisional operating authority, a one-year grace period for the acquiring operator, or an explicit release of the transferor following Commission acceptance of the transfer affirmation.

The Commission should consider answers to several practical questions.

First, how will the transfer process actually work, and how long will Commission approval take?

Oil and gas acquisitions often involve large numbers of wells with deal term complexity and time constraints. Regulatory certainty concerning timing is critical to both buyer and seller. An open-ended regulatory approval process creates uncertainty around transaction closing, effective dates, operational responsibility and potentially significant financial obligations.

TIPRO has recommended a defined review period and provisional operating authority while the Commission conducts its review. Establishing a predictable process and timeframe so that responsible transactions are not delayed simply because the regulations provide no clear administrative timeline is paramount.

Second, what happens to the compliance status of a transferred well?

SB 1150 expressly recognizes an approved compliance plan as a means of addressing a qualifying inactive well. The proposed rule similarly contemplates compliance plans that ultimately address qualifying wells by September 1, 2042.

This raises an important question for acquisitions:

If a 15/25 well is included in an approved compliance plan and the operator is meeting the requirements of that plan, is that well considered compliant for purposes of Rule 58 and a transfer?

That answer should be unmistakable in the final rule.

A 15/25 well managed under a Commission-approved compliance plan should not create an unintended barrier to an otherwise responsible asset transfer simply because the well has not yet been plugged or returned to active operation.

Third, what reasonable transition period will an acquiring operator receive?

A buyer needs an appropriate opportunity after assuming an asset to evaluate the acquired wells and determine the best path for each one. Depending upon the circumstances, that may mean returning a well to production, plugging it, utilizing for reservoir monitoring, providing financial assurance, or incorporating it into the buyer's approved compliance plan.

TIPRO's comments recommend a one-year grace period from the date of transfer for a transferred 15/25 well precisely to address this issue. The Commission's existing inactive-well framework already recognizes a six-month period for a receiving operator to bring certain transferred wells into compliance, making it especially important that the final Rule 58 clearly explain how that provision interacts with the new 15/25 requirements.

Responsible operators acquiring mature properties are frequently in the best position to evaluate whether an inactive well has remaining economic potential or should be permanently plugged.

The Commission should avoid creating a regulatory structure that unintentionally discourages responsible companies from acquiring mature assets.

Getting This Rule Right Matters Far Beyond Our Industry

The importance of striking the right balance is difficult to overstate.

Texas' oil and natural gas industry paid **$27 billion in state and local taxes and state royalties in fiscal year 2025**, approximately **$74 million every day** supporting Texas schools, universities, roads, first responders and other essential services. The Permanent University Fund received $1.72 billion and the Permanent School Fund received $1.40 billion from oil and natural gas royalties in FY2025.

The industry also directly supported **more than 495,000 Texas jobs in 2025** across the broader oil and natural gas sector.

Texas' importance extends well beyond the state's borders. During the first half of 2025, Texas accounted for approximately **42.9% of U.S. crude oil production and 29.6% of U.S. marketed natural gas production**.

And America's energy position has global consequences. The United States was once again the **world's largest crude oil producer in 2025**, averaging a record 13.6 million barrels per day. The Permian Basin alone accounted for approximately 48% of U.S. crude production that year. In other words, thoughtful oil and gas regulation in Texas is not merely a Texas issue. It affects domestic energy security, American economic competitiveness and the ability of the United States to supply energy into global markets.

A Workable Rule Can Accomplish Both Objectives

We are in support of the Legislature's and Commission's objective of reducing the number of long-term inactive wells that can ultimately become orphaned and leave plugging liabilities with the State. TIPRO shares that objective as well.

But the way the rule is implemented matters.

A successful rule should encourage responsible operators to acquire and responsibly manage mature assets, not create unnecessary uncertainty around those transactions.

In Summary:

For these reasons, Merit supports TIPRO's formal comments and encourage the Commission, before adopting the final rule, to provide clear and workable provisions addressing:

1. **A defined Commission review period for transfers under Rule 58;**

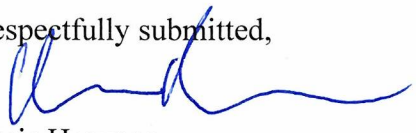
2. **Clear treatment of transferred 15/25 wells that are already subject to an approved compliance plan;**
3. **A reasonable transition period for an acquiring operator to evaluate and bring transferred wells into compliance or incorporate them into its compliance plan;**
4. **Allow fluid levels as an approved method for testing wells. If a hydraulic mechanical integrity test is required every five years, allow for a phased in approach to avoid having to pull every well in year one.**
5. **Clear coordination between Rule 58's transfer requirements and Rule 15's existing six-month transfer provisions; and**
6. **Regulatory certainty concerning when responsibility has passed from the selling operator to the acquiring operator.**

These are not requests to avoid plugging obligations. They are requests for clarity, predictability and sufficient flexibility to allow responsible operators to satisfy those obligations while continuing to invest in Texas oil and gas assets.

We thank the Commissioners and Commission staff for the substantial time and effort they have devoted to this rulemaking and for their willingness to engage with industry throughout the process. The proposed rule has improved considerably through that engagement. With additional clarification regarding Rule 58 and asset transfers, I believe the Commission can adopt a framework that meaningfully reduces the risk of future orphan wells while preserving a healthy acquisition and divestiture market for mature Texas oil and gas properties.

Thank you for your consideration.

Respectfully submitted,



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