

ENFORCEMENT ACTION AGAINST INTEGRITY PETROLEUM GROUP, INC. (OPERATOR NO. 424776) FOR VIOLATIONS OF STATEWIDE RULES ON THE CHAMBCO INTEREST LP LEASE, WELL NO. 5 (DRILLING PERMIT NO. 554327), IPG/CHAMBCO LEASE, WELL NO. 9 (DRILLING PERMIT NO. 560118), AND IPG/CHAMBCO INTEREST LP LEASE, WELL NO. 8 (DRILLING PERMIT NO. 556043), BROOKSHIRE FIELD, WALLER COUNTY, TEXAS

APPEARANCES:

FOR MOVANT:

Susan German

MOVANT:

Enforcement Section
Office of General Counsel

FOR RESPONDENT:

R. C. Noel

RESPONDENT:

Integrity Petroleum Group, Inc.

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE COMPLAINT FILED:

October 29, 2007

DATE OF NOTICE OF HEARING:

January 30, 2008

DATE OF HEARING:

March 20, 2008

HEARD BY:

James M. Doherty, Hearings
Examiner

DATE PFD CIRCULATED:

May 28, 2008

STATEMENT OF THE CASE

This proceeding was called by the Commission on the recommendation of the District Office to determine the following:

1. Whether the respondent Integrity Petroleum Group, Inc. ("IPG") should be required to plug or otherwise place into compliance with Statewide Rule 14(b)(2) [Tex. R.R. Comm'n, 16 TEX. ADMIN. CODE §3.14(b)(2)] the Chambco Interest LP Lease, Well No. 5 (Drilling Permit No. 554327), IPG/Chambco Lease, Well No. 9 (Drilling Permit No. 560118), and

IPG/Chambco Interest LP Lease, Well No. 8 (Drilling Permit No. 556043) (“subject wells”), Brookshire Field, Waller County, Texas;

2. Whether IPG violated Statewide Rule 3 [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §3.3] by failing to post identification signs at the lease entrances and well sites regarding the subject leases and wells;
3. Whether IPG violated Statewide Rule 5(a) [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §3.5(a)] by failing to call the District Office a minimum of eight hours prior to the setting of surface casing, intermediate casing, and production casing regarding the Chambco Interest LP Lease, Well No. 5 and the IPG/Chambco Lease, Well No. 9.
4. Whether IPG violated Statewide Rule 16(b) [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §3.16(b)] by failing to file completion reports within 30 days after completion of the subject wells or within 90 days after the date on which drilling operations were completed;
5. Whether IPG violated provisions of Title 3, Oil and Gas, Subtitles A, B, and C, Texas Natural Resources Code, Chapter 27 of the Texas Water Code, and Commission rules and laws pertaining to safety or prevention or control of pollution by failing to plug the subject wells and/or otherwise failing to place the subject wells and leases into compliance with Statewide Rules 3, 5(a), 14(b)(2) and 16(b);
6. Whether, pursuant to Texas Natural Resources Code §81.0531, IPG should be assessed administrative penalties of not more than \$10,000 per day for each offense committed regarding the subject leases and wells; and
7. Whether any violations of Statewide Rules 3, 5(a), 14(b)(2) and 16(b) by IPG should be referred to the Office of the Attorney General for further civil action pursuant to Texas Natural Resources Code §81.0534.

A hearing was held on March 20, 2008. Susan German, Staff Attorney, appeared representing the Enforcement Section of the Office of General Counsel (“Enforcement”). R. C. Noel, President, appeared representing IPG and presented evidence. Enforcement’s certified hearing file was admitted into evidence.

APPLICABLE LAW

Statewide Rule 3(1) requires that an identification sign be posted at lease entrances reflecting the lease name, name of the operator, and number of acres in the lease. Statewide Rule 3(2) requires an identification sign at each well site reflecting the name of the lease, name of the operator, and well number.

Statewide Rule 5(a) provides that applications for drilling permits shall be made under other statewide rules pertaining to well spacing and density, proration and drilling units, contiguity of acreage, and assignment of acreage to pooled development and proration units, or as an exception thereto, or under governing special field rules, and filed with the Commission on Form W-1. This rule provides further that an application must be accompanied by any relevant information, form, or certification required by the Commission necessary to determine compliance with this rule or State law.

Statewide Rule 14(b)(2) requires that a well be plugged after 12 months of inactivity, unless a plugging extension is obtained.

Statewide Rule 16(b), as pertinent, requires an operator of a well to file an appropriate completion report within 30 days after the completion of a well or within 90 days after the date on which the drilling operation is completed, whichever is earlier.

DISCUSSION OF THE EVIDENCE

Enforcement

IPG is an active Form P-5 operator with approved financial assurance on file in the amount of \$25,000. IPG is a corporation, and its officers, as listed on its most recent Form P-5, are Robert Chet Noel, President. IPG designated itself the operator of the subject wells by filing Forms W-1 (Application for Permit to Drill, Recomplete, or Re-Enter), as to the Chambco Interest LP Lease, Well No. 5, received and approved January 11, 2005, as to the IPG/Chambco Lease, Well No. 9, received and approved April 7, 2005, and as to the IPG/Chambco Interest LP Lease, Well No. 8, received and approved December 2, 2004.

On the occasion of four District Office inspections of the subject leases and wells between June 26, 2007, and October 16, 2007, the identification signs required to be posted at the lease entrances and at the site of the three wells were found to be missing. A followup inspection on March 10, 2008, disclosed that identification signs required to be posted at the Chambco Interest LP Lease, Well No. 5 and the IPG/Chambco Lease, Well No. 9 were still missing.

Enforcement alleges that the drilling permits granted to IPG for the subject wells contained a standard condition requiring that IPG notify the District Office a minimum of 8 hours prior to setting surface casing, intermediate casing and production casing. District Office inspection reports dated June 26, 2007, contain notations by the inspector that the Chambco Interest LP Lease, Well No. 5 and the IPG/Chambco Lease, Well No. 9 were noncompliant with Statewide Rule 5, either by checking the “No” box for Statewide Rule 5 under the “Compliance” column on the report or by entering the comment “Rule 5 no spud call given.”

Five district office inspections between June 26, 2007, and March 10, 2008, disclosed that each of the subject wells was inactive and not equipped to produce. No production has ever been reported for any of the subject wells, and the wells have never had a Statewide Rule 14(b)(2) plugging extension. The drilling permits for the subject wells expired more than one year ago, in the case of the Chambco Interest LP Lease, Well No. 5 on January 11, 2007, in the case of the IPG/Chambco Lease, Well No. 9 on April 7, 2007, and in the case of the IPG/Chambco Interests LP Lease, Well No. 8 on December 2, 2006. A certification by the Commission's Secretary dated March 18, 2008, certified that no Plugging Record (Form W-3) or Cementing Affidavit (Form W-15) has been filed or approved for the subject wells. This certification also certified that a diligent search of Commission records disclosed that IPG had failed to file Form G-1 or Form W-2 completion reports for the subject wells. According to District Office Plug Hearing Data sheets in the certified hearing file, the estimated cost to the State to plug the subject wells is \$6,400 per well, assuming there are no downhole problems.

The District Office corresponded with IPG on four occasions between July 3, 2007, and October 24, 2007, notifying IPG of violations of Commission rules on the subject leases and wells and requesting voluntary compliance. On August 9, 2007, IPG corresponded with the District Office representing that the subject wells would be plugged "in the very near future." On October 24, 2007, IPG filed Forms W-3A (Notice of Intention to Plug and Abandon) for each of the subject wells. The wells have not been plugged.

An affidavit of Ramon Fernandez, Jr., P. E., Field Operations, in the certified hearing file stated that in the event of a pollution or safety violation or other emergency, the lack of legible identification signs as required by Statewide Rule 3 may cause confusion as to the responsible operator to be contacted and the actual location of the violation or emergency, causing delay in containing and remediating the violation or emergency and threatening the public health and safety.

The Fernandez affidavit stated also that a well that is in violation of Statewide Rule 14 must be plugged in order to prevent pollution of usable quality surface and subsurface waters. Any wellbore, cased or otherwise, is a potential conduit for flow from oil or saltwater zones to zones of usable quality water or to the surface. Holes or leaks may develop in cased wells, allowing oil or saltwater to communicate with usable quality zones or to flow to the surface. Uncased wells allow direct communication between zones and provide unimpeded access to the surface.

The Fernandez affidavit stated further that without an appropriate completion report, the Commission does not have sufficient information to determine if a wellbore has been properly cased and cemented to protect usable quality water from pollution or adequate information to re-enter the well if required.

Enforcement recommends that IPG be assessed a total penalty in the amount of \$10,000, calculated on the basis of six Rule 3 violations at \$250 each, two Rule 5 violations at \$500 each, three Rule 14(b)(2) violations at \$2,000 each, and three Rule 16(b) violations at \$500 each. Enforcement also recommends that IPG be ordered to bring the subject leases and wells into

compliance with Commission rules.

IPG

R. C. Noel, IPG's President, presented evidence on behalf of IPG. A financial strain was placed on IPG by problems experienced by a drilling contractor while drilling the IPG/Chambco Lease, Well No. 9 and by water influx in IPG's John Edgar Lewis Lease, Well No. 7. After water hit Well No. 7, IPG discovered that an inactive and unplugged well on the same lease, Well No. 2, was near the location of Well No. 7. Noel says that Well No. 2 had been mis-spotted on a Commission map. Noel claims that he was unsuccessful in persuading the District Office to make plugging of Well No. 2 with State funds a priority.

IPG bought signs for the subject leases and wells, but Noel was not on the leases for about a year and does not know what happened to the signs. Noel thought he had delivered completion records to the District Office respecting the Chambco Interest LP Lease, Well No. 5 and the IPG/Chambco Interests LP Lease, Well No. 8, but copies of these records were not presented at the hearing. A completion report for the IPG/Chambco Lease, Well No. 9 could not be filed because IPG had trouble getting a cementing report from the cementer. Noel also thought he had called the District Office to advise of spud dates for the subject wells.

IPG's oil and gas lease covering the property where the subject wells are located has terminated. The landowner has requested that the subject wells be plugged and, according to Noel, has agreed to give IPG a new oil and gas lease when this happens. IPG intends to plug the subject wells, and, additionally, offered to plug the John Edgar Lewis Lease, Well No. 2 as a means of compromising this complaint docket.¹

EXAMINER'S OPINION

Enforcement proved violations by IPG of Statewide Rules 3, 14(b)(2), and 16(b). The examiner is not persuaded, however, that Enforcement proved a violation of Statewide Rule 5(a). This rule does not speak directly to the requirement that an operator notify the District Office a minimum of 8 hours prior to setting surface casing, intermediate casing and production casing. Enforcement says that this is a standard condition of the drilling permits granted to IPG, but copies of the drilling permits are not in evidence. Some of the District Office inspection reports contain comments that IPG failed to give prior notification of spud dates, but the source of the inspectors' information about this is not disclosed. District Office correspondence to IPG also refers to the alleged failure of IPG to give prior notification of spud dates, but no one from the District Office testified at the hearing or submitted an affidavit to establish what District Office records show on the notification issue. Mr. Noel testified at the hearing that he gave the required spud date notifications, and Enforcement's evidence is insufficient to prove the contrary.

¹ This offer was declined by Enforcement subsequent to the hearing.

In determining the amount of the penalty to be imposed against IPG, the Commission is required by Texas Natural Resources Code §81.0531 to consider the operator's previous violations, the seriousness of the violation, any hazard to the health or safety of the public, and the demonstrated good faith of the person charged. According to Enforcement's complaint in this docket, IPG has no history of prior final enforcement orders entered against it for violations of Commission rules. On the other hand, the involved violations are serious, and present a hazard to the health and safety of the public, because of the threat of pollution of usable quality water presented by inactive and unplugged wellbores. IPG cannot be considered to have acted in good faith because IPG failed to correct the violations voluntarily in response to multiple written requests of the District Office for such compliance.

The examiner recommends that IPG be assessed a penalty in the amount of \$9,000, calculated on the basis of six violations of Statewide Rule 3 at \$250 each, three violations of Statewide Rule 14(b)(2) at \$2,000 each, and three violations of Statewide Rule 16(b) at \$500 each. These penalties are consistent with those provided by the standard penalty schedule for enforcement cases. The examiner recommends further that IPG be required to plug the subject wells. Plugging of the wells is recommended because the wells have never produced and are not equipped to produce, IPG has lost its oil and gas lease on the property where the wells are located, and IPG has stated an intention to plug the wells in conformity with the mineral owner's request.

Based on the record in this case, the examiner recommends adoption of the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Integrity Petroleum Group, Inc. ("IPG") was given at least ten (10) days notice of this hearing by certified mail. IPG appeared at the hearing and presented evidence.
2. IPG is a corporation and its most recent Form P-5 organization report on file as of the date of the hearing in this docket listed its officer as Robert Chet Noel, President.
3. As an officer, Robert Chet Noel was a person in a position of ownership or control of IPG at the time the violations in this docket were committed.
4. The violations involved in this docket are violations of Commission rules related to safety and the prevention or control of pollution.
5. As of the date of the hearing in this docket, IPG's Form P-5 organization report was active and IPG had approved financial assurance on file in the amount of \$25,000.
6. IPG designated itself the operator of the subject wells by filing Forms W-1 (Application for Permit to Drill, Recomplete, or Re-Enter), as to the Chambco Interest LP Lease, Well No. 5 (Drilling Permit No. 554327), received and approved January 11, 2005, as to the

IPG/Chambco Lease, Well No. 9 (Drilling Permit No. 560118), received and approved April 7, 2005, and as to the IPG/Chambco Interests LP Lease, Well No. 8 (Drilling Permit No. 556043), received and approved December 2, 2004.

7. On the occasion of four District Office inspections of the subject leases and wells between June 26, 2007, and October 16, 2007, the identification signs required by Statewide Rule 3 to be posted at the lease entrances and at the site of the three wells were found to be missing. A followup inspection on March 10, 2008, disclosed that identification signs required to be posted at the Chambco Interest LP Lease, Well No. 5 and the IPG/Chambco Lease, Well No. 9 were still missing.
8. The subject wells have been inactive for more than one year, do not have Statewide Rule 14(b)(2) plugging extensions, and have not been plugged.
 - a. Five district office inspections between June 26, 2007, and March 10, 2008, disclosed that each of the subject wells was inactive and not equipped to produce.
 - b. No production has ever been reported for any of the subject wells, and the wells have never had a Statewide Rule 14(b)(2) plugging extension.
 - c. The drilling permits for the subject wells expired more than one year ago, in the case of the Chambco Interest LP Lease, Well No. 5 on January 11, 2007, in the case of the IPG/Chambco Lease, Well No. 9 on April 7, 2007, and in the case of the IPG/Chambco Interests LP Lease, Well No. 8 on December 2, 2006.
 - d. No Plugging Record (Form W-3) or Cementing Affidavit (Form W-15) has been filed or approved for the subject wells.
 - e. The estimated cost to the State to plug the subject wells is \$6,400 per well, assuming there are no downhole problems.
9. IPG failed to file with the Commission Form G-1 (Gas Well Back Pressure Test, Completion or Recompletion Report or Log) or Form W-2 (Oil Well Potential Test, Completion or Recompletion Report, and Log) for the subject wells, as required by Statewide Rule 16(b).

10. The District Office corresponded with IPG on four occasions between July 3, 2007, and October 24, 2007, notifying IPG of violations of Commission rules on the subject leases and wells and requesting voluntary compliance. On August 9, 2007, IPG corresponded with the District Office representing that the subject wells would be plugged “in the very near future.” On October 24, 2007, IPG filed Forms W-3A (Notice of Intention to Plug and Abandon) for each of the subject wells. As of the date of the hearing in this docket, the wells had not been plugged.
11. In the event of a pollution or safety violation or other emergency, the lack of legible identification signs as required by Statewide Rule 3 may cause confusion as to the responsible operator to be contacted and the actual location of the violation or emergency, causing delay in containing and remediating the violation or emergency and threatening the public health and safety.
12. A well that is in violation of Statewide Rule 14 must be plugged in order to prevent pollution of usable quality surface and subsurface waters. Any wellbore, cased or otherwise, is a potential conduit for flow from oil or saltwater zones to zones of usable quality water or to the surface. Holes or leaks may develop in cased wells, allowing oil or saltwater to communicate with usable quality zones or to flow to the surface. Uncased wells allow direct communication between zones and provide unimpeded access to the surface.
13. Without an appropriate completion report, the Commission does not have sufficient information to determine if a wellbore has been properly cased and cemented to protect usable quality water from pollution or adequate information to re-enter the well if required.
14. No prior final enforcement orders have been entered against IPG for violations of Commission rules.
15. An order requiring IPG to plug the subject wells is necessary and appropriate to achieve compliance with Commission rules.
 - a. The wells have never produced and are not equipped to produce.
 - b. IPG has lost its oil and gas lease on the property where the wells are located, and the wells do not qualify for Statewide Rule 14(b)(2) plugging extensions.
 - c. IPG has stated an intention to plug the wells in conformity with the mineral owner’s request.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Integrity Petroleum Group, Inc. is the operator of the Chambco Interest LP Lease, Well No. 5 (Drilling Permit No. 554327), IPG/Chambco Lease, Well No. 9 (Drilling Permit No. 560118), and IPG/Chambco Interest LP Lease, Well No. 8 (Drilling Permit No. 556043) (“subject wells”), Brookshire Field, Waller County, Texas, as defined by Statewide Rules 14, 58, and 79 [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §§3.14, 3.58, and 3.79] and Chapters 85 and 89 of the Texas Natural Resources Code.
4. As operator, Integrity Petroleum Group, Inc., has the primary responsibility for complying with Statewide Rules 3, 14(b)(2), and 16(b) [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §§3.3, 3.14(b)(2), and 3.16(b)], Chapters 89 and 91 of the Texas Natural Resources Code, and other applicable statutes and Commission rules respecting the subject leases and wells.
5. Integrity Petroleum Group, Inc., violated Statewide Rule 3 by failing to post and maintain identification signs at the lease entrances and well sites of the subject leases and wells.
6. Integrity Petroleum Group, Inc., violated Statewide Rule 14(b)(2) by failing to plug the subject wells within one year after operations ceased.
7. Integrity Petroleum Group, Inc., violated Statewide Rule 16(b) by failing to file completion reports for the subject wells within 30 days after the completion of the wells or within 90 days after the date on which drilling operations were completed on the wells.
8. The documented violations committed by Integrity Petroleum Group, Inc., constitute acts deemed serious and a hazard to the public health and safety within the meaning of Texas Natural Resources Code §81.0531.
9. Integrity Petroleum Group, Inc., has not demonstrated good faith within the meaning of Texas Natural Resources Code §81.0531.
10. As an officer of Integrity Petroleum Group, Inc., at the time Integrity Petroleum Group, Inc., violated Commission rules related to safety and the prevention or control of pollution, Robert Chet Noel and any organization subject to the Commission’s jurisdiction in which he may hold a position of ownership or control, are subject to the restrictions of Texas Natural Resources Code §91.114(a)(2).

RECOMMENDATION

The examiner recommends that a Integrity Petroleum Group, Inc., be required to plug the subject wells and pay a penalty in the amount of \$9,000.

Respectfully submitted,

James M. Doherty
Hearings Examiner