

**ENFORCEMENT ACTION AGAINST MASTERS OIL & GAS, LLC (OPERATOR NO. 532951) FOR VIOLATIONS OF STATEWIDE RULES ON THE RFR TRACT 223 LEASE, WELL NO. 8 (RRC NO. 041621), RED FISH REEF (FB A-1, FRIO) FIELD, RFR TRACT 248 (12314) LEASE, WELL NO. 3, RED FISH REEF (FB A-2 N, FRIO 1) FIELD, AND RFR TRACT 248 (19400) LEASE, WELL NO. 193, RED FISH REEF (FB A-3, FRIO 6) FIELD, CHAMBERS COUNTY, TEXAS**

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**APPEARANCES:**

**FOR MOVANT:**

Susan German

**MOVANT:**

Enforcement Section  
Railroad Commission of Texas

**FOR RESPONDENT:**

Walter H. Walne

**RESPONDENT:**

Masters Oil & Gas, LLC

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

**DATE OF ORIGINAL COMPLAINT:**

December 20, 2007

**DATE OF NOTICE OF HEARING:**

March 12, 2008

**DATE OF HEARING:**

May 22, 2008

**HEARD BY:**

James M. Doherty, Hearings  
Examiner

**DATE PFD CIRCULATED:**

June 9, 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 Masters Oil & Gas, LLC (“Masters”) 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 RFR Tract 223 Lease, Well No. 8 (RRC No. 041621), Red Fish Reef (FB A-1, Frio) Field, RFR Tract 248 (12314) Lease, Well No. 3, Red Fish Reef (FB A-2 N, Frio 1) Field, and RFR Tract 248 (19400) Lease, Well No. 193, Red Fish Reef (FB A-3, Frio 6) Field, Chambers County, Texas (“subject leases/subject wells”);

2. Whether Masters 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 or otherwise failing to place the subject wells into compliance with Statewide Rule 14(b)(2);
3. Whether, pursuant to Texas Natural Resources Code §81.0531, Masters should be assessed administrative penalties of not more than \$10,000 per day for each offense committed regarding the subject wells; and
4. Whether any violations of Statewide Rule 14(b)(2), by Masters 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 May 22, 2008. This docket was heard jointly with Oil & Gas Docket Nos. 03-0254795 and 03-0254797 which are the subject of separate proposals for decision. Susan German, Staff Attorney appeared representing the Enforcement Section of the Office of General Counsel, Railroad Commission of Texas (“Enforcement”). Walter H. Walne, attorney, appeared representing Masters and presented evidence. Enforcement’s certified hearing file was admitted into evidence.

#### **APPLICABLE LAW**

Statewide Rule 14(b)(2) requires that a well be plugged after 12 months of inactivity, unless a plugging extension is obtained. To be entitled to a plugging extension for a well, the operator must have on file a current Form P-5 organization report and the required amount of financial assurance, the well and its associated facilities must be in compliance with all laws and Commission rules, and, upon request, the operator must demonstrate that it has a good faith claim of a continuing right to operate the well.

#### **DISCUSSION OF THE EVIDENCE**

##### ***Matters Officially Noticed***

The examiner has officially noticed the Commission’s P-5 Master Inquiry and P-5 Remarks Inquiry databases for Masters showing that as of the date of the hearing in this docket, the Form P-5 organization report of Masters was delinquent and was set to delinquent on August 17, 2007, for non-compliance with Statewide Rule 78.

The examiner has also officially noticed the Commission’s On-Schedule Leases, Wells, Wellbores by Operator and Wells Subject to Rule 14(b)(2)-Operator Summary Data databases which show that as of the date of the hearing in this docket, Masters was the designated operator of 12 wellbores, including the subject wells, all classified as bay wells, having total wellbore depth of

128,573 feet. As of the date of the hearing, 11 of these wells were subject to Rule 14(b)(2) and 8 had been shut in for 36 months or more. None of the wells had a Rule 14(b)(2) plugging extension as of the date of the hearing.

### *Enforcement*

According to its most recently approved Form P-5 organization report, Masters is a limited liability company, and its Co-Managers are Rickard Henry Lee and John William Barton. Masters designated itself the operator of the RFR Tract 223 Lease, Well No. 8 (RRC No. 041621) and the RFR Tract 248 (12314) Lease, Well No. 3 by filing Forms P-4 (Certificate of Compliance and Transportation Authority) which were approved on July 10, 2003, effective January 1, 2003. Masters designated itself the operator of the RFR Tract 248 (19400) Lease, Well No. 193 by filing a Form P-4 which was approved on March 4, 2003, effective January 1, 2003.

District Office inspections of the subject leases and wells on October 12, 2007, disclosed that all three wells were inactive. These wells had no identification signs and were equipped with wellhead trees without flowlines. No production has been reported to the Commission for the RFR Tract 223 Lease, Well No. 8 and the RFR Tract 248 (12314) Lease, Well No. 3 since prior to January 1, 1993. No production has been reported to the Commission for the RFR Tract 248 (19400) Lease, Well No. 193 since December 31, 2001. Statewide Rule 14(b)(2) plugging extensions for the RFR Tract 223 Lease, Well No. 8 and the RFR Tract 248 (19400) Lease, Well No. 193 were denied on August 18, 2007, based on failure of the operator to provide evidence of a good faith claim of a continuing right to operate the wells. A plugging extension for the RFR Tract 248 (12314) Lease Well No. 3 was denied on July 10, 2003, based on delinquency of a Form H-15 test (Test on an Inactive Well More than 25 Years Old) and on August 18, 2007<sup>1</sup>, based on the failure of the operator to provide evidence of a good faith claim of a continuing right to operate the well.<sup>2</sup>

On October 1, October 22, and November 13, 2007, the District Office sent Masters correspondence or copies of notices or memoranda requesting Masters voluntarily to place the subject wells into compliance with Rule 14(b)(2), but the wells were still non-compliant as of the date of the hearing in this docket.

An affidavit of Ramon Fernandez, Jr., P.E., in Enforcement's certified hearing file stated that a well that is in violation of Rule 14, by having been inactive for one year, must be plugged in accordance with the technical requirements of Rule 14 to prevent pollution of usable quality surface or subsurface waters. Any wellbore, cased or otherwise, is a potential conduit for flow from oil or

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<sup>1</sup> The examiner has officially noticed the 14(b)(2) Well History Inquiry database for the subject wells which shows these plugging extension denial dates and the reasons for denial.

<sup>2</sup> The examiner has officially noticed that at the time of the Commission's September 26, 2007, demand on Masters' Bank Letter of Credit, the Commission estimated that the cost to plug the subject wells would be \$129,345 for the RFR Tract 223 Lease, Well No. 8, \$156,285 for the RFR Tract 248 (12314) Lease, Well No. 3, \$144,630 for the RFR Tract 248 (19400) Lease, Well No. 193. These estimates were based on plugging cost of \$15 per foot for single completions.

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 water zones or to flow to the surface. Uncased wells allow direct communication between zones and provide unimpeded access to the surface.

A certification of the Commission's Secretary dated May 20, 2008, in Enforcement's certified hearing file stated that no plugging record (Form W-3) or Cementing Affidavit (Form W-15) has been filed or approved for the subject wells.

Enforcement recommended that an administrative penalty of \$30,000 be assessed against Masters, calculated on the basis of three Rule 14(b)(2) violations respecting bay wells at \$10,000 each, and that Masters be ordered to place the subject wells into compliance with Commission rules.

### *Masters*

Masters acknowledged responsibility for compliance with Commission rules respecting the subject wells and did not dispute Enforcement's allegation that the wells are in violation of Statewide Rule 14(b)(2). However, Masters made the claim that this enforcement case should be stayed, and no penalty should be assessed, because Masters has an agreement with the Commission to plug the wells, and the Commission is holding \$1,750,000 drawn down on Masters' letter of credit that is "collateral" for the agreement.<sup>3</sup>

The "agreement" consists of a letter dated February 6, 2008, from Masters' lawyers to the Executive Director of the Commission to resolve issues arising from Oil & Gas Docket No. 03-0241972<sup>4</sup>, proposing that Masters would enter into turnkey plugging contracts with Suard Workover, Inc., to plug and abandon the 12 wells for which Masters is still the designated operator. By this letter, Masters proposed that once the Commission had been provided with copies of such contracts for all 12 wells, and as plugging of each well was completed and Forms W-3 (Plugging Record) were filed and approved, the Commission would release to Masters the sum of \$100,000, so that Masters could pay Suard for the plugging job, with the balance of the funds held by the Commission to be released to Masters when proper plugging of all 12 wells had been completed. The February

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<sup>3</sup> The examiner has officially noticed that the Commission made a demand on the Bank of Nova Scotia Bank Letter of Credit in the amount of \$1,735,000 by letter dated September 26, 2007, because Masters' organization report had become delinquent, Masters was then the operator of 22 wells having an estimated cost to plug of \$3,475,620, and at that time, 20 of these wells were not being maintained in compliance with Commission rules.

<sup>4</sup> The examiner has officially noticed that in Oil & Gas Docket No. 03-0241972, Masters Resources, LLC and Masters Oil & Gas LLC, then operators of more than 140 bay wells, a majority of which were inactive, sought the Commission's approval of a reduction in bay well financial assurance required by Statewide Rule 78. By Interim Order served March 29, 2006, the Commission approved a reduction subject to a requirement that the Masters companies file financial assurance of \$3,000,000, file additional financial assurance consisting of 15 monthly deposits of \$30,000, and recompleat and restore to active operation, or plug, 2 non-producing wells per month during June 1, 2006, through September 1, 2007. The Masters companies were found not to have complied with the requirement to reactivate or plug non-producing wells, and the application for reduction in financial assurance was denied with prejudice by Final Order served July 18, 2007.

6, 2008, proposal from Masters was approved by the Executive Director on February 12, 2008.<sup>5</sup> The Masters proposal did not mention when the wells would be plugged or any proposed deferral of Commission enforcement action against Masters in the event the wells were not made compliant with Rule 14(b)(2).

By agreement effective December 13, 2006, Masters Resources, LLC and Masters Oil & Gas, LLC agreed to sell most of their wells to Tekoil and Gas Gulf Coast, LLC (“Tekoil”). This agreement was not closed until May 2007. Forms P-4 filed with the Commission to transfer the wells involved in this docket were withdrawn, presumably because the Texas General Land Office took the position that Masters’ oil and gas leases had terminated, and Tekoil could not provide evidence that it had a good faith claim of a continuing right to operate the wells.<sup>6</sup> Later, in February 2008, Masters indicated its intent to plug the wells by its proposal approved by the Commission’s Executive Director on February 12, 2008.

According to Masters, Suard commenced efforts to plug the first of Masters’ wells about six weeks following approval of Masters’ plugging proposal. However, Suard encountered problems when attempting to set plugs in the well, in that cement was disappearing into the hole. After Suard had incurred about \$120,000 in costs, it estimated that completion of plugging this first well would involve “extraordinary” expense and walked off the job, leaving the well unplugged. Since about March or April 2008, Masters has been looking for another plugging contractor to plug the subject wells.

### **EXAMINER’S OPINION**

There is no dispute about the fact that Masters is the operator responsible for compliance with Commission rules with respect to the subject wells. Neither is there any dispute about the fact that the subject wells are in violation of Statewide Rule 14(b)(2) and need to be plugged. The only question presented by Masters’ defense is whether Enforcement acted prematurely in bringing this

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<sup>5</sup> Although the exhibits to the February 6, 2008, proposal were not attached to the copy of the proposal submitted into evidence by Masters, the examiner has officially noticed the exhibits attached to the Commission’s copy of the same proposal. These consisted of a letter from Suard to Masters dated January 28, 2008, which submitted a bid to plug five wells, including the RFR Tract 248, Well No. 3, the RFR Tract 223, Well No. 8, and the RFR Tract No. 204, Well Nos. 1, 125, and 196, and a sample “Turnkey/Daywork Contract” relating to the plugging of the five wells that included a provision that the contractor would use its best effort to commence operations by February 7, 2008.

<sup>6</sup> The examiner has officially noticed that Tekoil withdrew these Forms P-4 by letter to the Commission dated January 3, 2008.

enforcement action against Masters, in view of Masters' stated intent to plug the wells and the purported "agreement" with the Commission regarding plugging.

The timing of the filing of a complaint for violation of Commission rules is a matter within the discretion of the Enforcement Section. In any event, the complaint in this docket is not premature, and the complaint does not violate either the spirit or letter of any "agreement" made by the Commission.

The evidence shows that the subject wells have been inactive for periods ranging from more than 6 years in the case of the RFR Tract 248 (19400) Lease, Well No. 193 to more than 15 years in the case of the RFR Tract 223 Lease, Well No. 8 and the RFR Tract 248 (12314) Lease, Well No. 3. All of the subject wells have been in violation of Statewide Rule 14(b)(2) since at least August 18, 2007, when plugging extensions for the wells were denied based on failure of Masters to establish that it had a good faith claim of a continuing right to operate the wells, and in the case of the RFR Tract 248 (12314) Lease, Well No. 3 since July 10, 2003, when a plugging extension was denied based on a delinquent H-15 test. The District Office has been corresponding with Masters seeking voluntary compliance with Rule 14(b)(2) since at least October 1, 2007. Masters' belief that it had an agreement to transfer the wells to Tekoil is irrelevant. Masters knew, or should have known, that its oil and gas leases covering the wells had terminated and that this would be a problem in obtaining approval for transfer of the wells.<sup>7</sup> Masters had a continuing obligation to place the subject wells into compliance with Rule 14(b)(2).<sup>8</sup>

If the February 6, 2008, Masters plugging proposal, and the approval of the proposal by the Executive Director on February 12, 2008, evidence any "agreement" at all, the agreement consists only of an understanding about periodic release to Masters of funds held by the Commission, as result of the collection of Masters Bank Letter of Credit, as Masters completed the proper plugging of wells and Forms W-3 were approved. The Executive Director's approval of Masters' proposal appears to have been an accommodation to Masters, so that Masters would have funds to pay its plugging contractor upon the completion of plugging of each well. This approval did not provide

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<sup>7</sup> Since 1999, the Commission has followed a policy of placing a hold on transfer of bay and offshore wells identified by the Oil and Gas Division as noncompliant and requiring any proposed new operator to provide verification that a valid lease exists for the wells. The examiner has officially noticed correspondence from Masters to the Commission dated September 6, 2007, indicating that as of at least that date, Masters had notice of this policy.

<sup>8</sup> Pursuant to Texas Natural Resources Code §89.002(a)(2), in the event of a sale or conveyance of an unplugged well or the right to operate an unplugged well, a person ceases being the operator with the duty to plug the well only if the well was in compliance with Commission rules relating to safety or the prevention or control of pollution at the time of sale or conveyance and the person who acquires the well or right to operate the well, among other things, specifically identifies the well as a well for which the person assumes plugging responsibility on forms (Forms P-4) required and approved by the Commission and has a Commission approved bond, letter of credit, or cash deposit under §§91.103-91.107 covering the well. Under Statewide Rule 58, an approved Form P-4 binds an operator to comply with Commission rules with respect to a particular lease or well until another operator files a subsequent Form P-4 that is approved by the Commission, and the lease or well has been transferred on Commission records to the subsequent operator.

any special dispensation from the requirements of Rule 14(b)(2) or general immunity from prosecution of enforcement complaints for time out of compliance with this rule. As of the date of the hearing, Masters had yet to accomplish plugging of any of its wells.

The fact that the Commission has transferred to the Oil Field Clean Up Fund, \$1,750,000 collected on Masters' letter of credit has no special significance to disposition of this enforcement docket. Texas Natural Resources Code §91.1091 provides that the Commission shall refund this money if (1) the conditions that caused the proceeds to be collected are corrected; (2) all administrative, civil, and criminal penalties relating to those conditions are paid; and (3) the Commission has been reimbursed for all costs and expenses incurred by the Commission in relation to those conditions.<sup>9</sup>

In determining the amount of the penalty to be imposed against Masters, 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, Masters 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 presented by inactive and unplugged wellbores. Masters cannot be said to have acted in good faith because as of the date of the hearing the subject wells had been non-compliant with Rule 14(b)(2) for more than nine months, and Masters did not timely or satisfactorily respond to multiple requests of the District Office for voluntary compliance.

The penalties requested by Enforcement are the standard penalties provided by the penalty schedule for bay well violations of Rule 14(b)(2). Accordingly, the examiner recommends that Masters be assessed a total administrative penalty in the amount of \$30,000, calculated on the basis of three violations of Rule 14(b)(2) at \$10,000 each. The examiner further recommends that Masters be ordered to plug the subject wells. An order requiring plugging of the wells is appropriate because the wells have been inactive for at least 6 to 15 years, and Masters no longer has a good faith claim of right to operate the wells. When Tekoil acquired most of Masters' wells, it withdrew Forms P-4 relating to the subject wells, presumably because it could not provide evidence of a good faith claim of right to operate them. Since Masters' Form P-5 organization report was set to delinquent status on August 17, 2007, no other operator has filed Forms P-4 to take a transfer of the wells. Masters has stated its intent to plug the wells in any event.

Based on the record in this case, the examiner recommends adoption of the following Findings of Fact and Conclusions of Law.

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<sup>9</sup> Whether the \$1,750,000 collected on Masters' Bank Letter of Credit is an amount sufficient to plug all of Masters' remaining bay wells is questionable. The cost to plug 11 of the 12 wellbores still operated by Masters estimated by the Commission at the time of its September 26, 2007, demand on the letter of credit was \$1,736,775. This did not include an estimate of the cost to plug API # 071 02978 which Masters still operates. The Commission's estimate was based on "problem free wells," and did not take into account plugging problems such as were apparently experienced by Suard Workover, Inc., when it attempted to plug the first of Masters' wells.

**FINDINGS OF FACT**

1. Masters Oil & Gas, LLC (“Masters”) was given at least ten (10) days notice of this hearing by certified mail. Masters appeared at the hearing and presented evidence.
2. Masters is a limited liability company, and its most recently approved Form P-5 organization report on file as of the date of the hearing listed its Co-Managers as Rickard Henry Lee and John William Barton.
3. As Co-Managers, Rickard Henry Lee and John William Barton were persons in a position of ownership or control of Masters at the time the violations in this docket were committed.
4. The violations involved in this docket are violations of a Commission rule related to safety and the prevention or control of pollution.
5. As of the date of the hearing in this docket, the Form P-5 organization report of Masters was delinquent.
6. By letter dated September 26, 2007, the Commission made a demand on, and later collected, Masters’ Bank of Nova Scotia Bank Letter of Credit in the amount of \$1,735,000 because Masters’ organization report had become delinquent, Masters was then the operator of 22 wells with an estimated cost to plug of \$3,475,620, and, at the time, 20 of these wells were not being maintained in compliance with Commission rules.
7. As of the date of the hearing in this docket, Masters was still the designated operator of 12 wellbores, including the subject wells, all classified as bay wells, having total wellbore depth of 128,573 feet. Eleven of these wells were subject to Rule 14(b)(2) and 8 had been shut in for 36 months or more. None of the wells had a Rule 14(b)(2) plugging extension as of the date of the hearing.
8. Masters designated itself the operator of the RFR Tract 223 Lease, Well No. 8 (RRC No. 041621) and the RFR Tract 248 (12314) Lease, Well No. 3 by filing Forms P-4 (Certificate of Compliance and Transportation Authority) which were approved on July 10, 2003, effective January 1, 2003. Masters designated itself the operator of the RFR Tract 248 (19400) Lease, Well No. 193 by filing a Form P-4 which was approved on March 4, 2003, effective January 1, 2003.
9. As of the date of the hearing in this docket, the subject wells had been inactive for more than one year, did not have Statewide Rule 14(b)(2) plugging extensions, and had not been plugged.
  - a. On the occasion of District Office inspections of the subject wells on October 12, 2007,, each of the wells was inactive. The wells had no identification signs and were equipped with wellhead trees with no flowlines.
  - b. No production has been reported to the Commission for the RFR Tract 223 Lease,



- Well No. 8 and the RFR Tract 248 (12314) Lease, Well No. 3 since prior to January 1, 1993.
- c. No production has been reported to the Commission for the RFR Tract 248 (19400) Lease, Well No. 193 since December 31, 2001.
  - d. Statewide Rule 14(b)(2) plugging extensions for the RFR Tract 223 Lease, Well No. 8 and the RFR Tract 248 (19400) Lease, Well No. 193 were denied on August 18, 2007, based on failure of the operator to provide evidence of a good faith claim of a continuing right to operate the wells. A plugging extension for the RFR Tract 248 (12314) Lease Well No. 3 was denied on July 10, 2003, based on delinquency of a Form H-15 test (Test on an Inactive Well More than 25 Years Old) and on August 18, 2007, based on the failure of the operator to provide evidence of a good faith claim of a continuing right to operate the well.
  - e. No plugging record (Form W-3) or Cementing Affidavit (Form W-15) has been filed or approved for the subject wells.
10. At the time of the Commission's September 26, 2007, demand on Masters' Bank Letter of Credit, the Commission estimated that the cost to plug the subject wells would be \$129,345 for the RFR Tract 223 Lease, Well No. 8, \$156,285 for the RFR Tract 248 (12314) Lease, Well No. 3, \$144,630 for the RFR Tract 248 (19400) Lease, Well No. 193. These estimates were based on plugging cost of \$15 per foot for single completions.
  11. On October 1, October 22, and November 13, 2007, the District Office sent Masters correspondence or copies of notices or memoranda requesting Masters voluntarily to place the subject wells into compliance with Rule 14(b)(2), but the wells were still non-compliant as of the date of the hearing in this docket.
  12. By letter to the Executive Director of the Commission dated February 6, 2008, Masters proposed that it would enter into plugging contracts with Suard Workover, Inc. ("Suard") to plug and abandon the 12 wells for which Masters is still the designated operator. Masters proposed that once the Commission had been provided with copies of such contracts for all 12 wells, and as plugging of each well was completed and Forms W-3 (Plugging Record) were filed and approved, the Commission would release to Masters the sum of \$100,000, so that Masters could pay Suard for the plugging job, with the balance of the funds held by the Commission to be released to Masters when proper plugging of all 12 wells had been completed. The February 6, 2008, proposal from Masters was approved by the Executive Director on February 12, 2008.
  13. Suard commenced efforts to plug the first of Masters' wells about six weeks following approval of Masters' plugging proposal. However, Suard encountered problems when attempting to set plugs in the well. After Suard had incurred about \$120,000 in costs, it estimated that completion of plugging this first well would involve "extraordinary" expense and walked off the job, leaving the well unplugged.

14. A well that is in violation of Rule 14, by having been inactive for one year, must be plugged in accordance with the technical requirements of Rule 14 to prevent pollution of usable quality surface or 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 water zones or to flow to the surface. Uncased wells allow direct communication between zones and provide unimpeded access to the surface.
15. No prior final enforcement orders have been entered against Masters for violations of Commission rules.
16. An order requiring that the subject wells be plugged is necessary and appropriate to achieve compliance of such wells with Statewide Rule 14(b)(2).
  - a. The wells have been inactive for at least 6 to 15 years.
  - b. Masters no longer has a good faith claim of right to operate the wells and cannot obtain plugging extensions for the wells.
  - c. When Masters sold most of its wells to Tekoil and Gas Gulf Coast, LLC, Tekoil withdrew Forms P-4 proposing to transfer the subject wells from Masters to Tekoil.
  - d. Since Masters Form P-5 organization report was set to delinquent status on August 17, 2007, no other operator has filed a Form P-4 seeking to take a transfer of these wells.
  - e. Masters has stated its intent to plug the wells.

#### **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. Masters Oil & Gas, LLC is the operator of the RFR Tract 223 Lease, Well No. 8 (RRC No. 041621), Red Fish Reef (FB A-1, Frio) Field, RFR Tract 248 (12314) Lease, Well No. 3, Red Fish Reef (FB A-2 N, Frio 1) Field, and RFR Tract 248 (19400) Lease, Well No. 193, Red Fish Reef (FB A-3, Frio 6) Field, Chambers County, Texas (“subject leases/subject wells”), 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, Masters Oil & Gas, LLC has the primary responsibility for complying with Statewide Rule 14(b)(2) [Tex. R.R. Comm’n, 16 TEX. ADMIN. CODE §§3.14(b)(2)], Chapters 89 and 91 of the Texas Natural Resources Code, and other applicable statutes and Commission rules respecting the subject leases and wells.

5. Masters Oil & Gas, LLC violated Statewide Rule 14(b)(2) by failing timely to plug, or otherwise place into compliance with Rule 14(b)(2), the RFR Tract 223 Lease, Well No. 8 (RRC No. 041621), Red Fish Reef (FB A-1, Frio) Field, RFR Tract 248 (12314) Lease, Well No. 3, Red Fish Reef (FB A-2 N, Frio 1) Field, and RFR Tract 248 (19400) Lease, Well No. 193, Red Fish Reef (FB A-3, Frio 6) Field, Chambers County, Texas. These wells have been out of compliance with Statewide Rule 14(b)(2) since at least August 18, 2007.
6. The documented violations committed by Masters Oil & Gas, LLC constitute acts deemed serious and a hazard to the public health and safety within the meaning of Texas Natural Resources Code §81.0531.
7. Masters Oil & Gas, LLC has not demonstrated good faith within the meaning of Texas Natural Resources Code §81.0531.
8. As managers of Masters Oil & Gas, LLC at the time Masters violated Commission rules related to safety and the prevention or control of pollution, Rickard Henry Lee and John William Barton, and any organization subject to the Commission's jurisdiction in which they, or either of them, 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 the attached recommended final order be adopted requiring Masters Oil & Gas, LLC to plug the RFR Tract 223 Lease, Well No. 8 (RRC No. 041621), Red Fish Reef (FB A-1, Frio) Field, RFR Tract 248 (12314) Lease, Well No. 3, Red Fish Reef (FB A-2 N, Frio 1) Field, and RFR Tract 248 (19400) Lease, Well No. 193, Red Fish Reef (FB A-3, Frio 6) Field, Chambers County, Texas, and pay an administrative penalty in the amount of \$30,000.

Respectfully submitted,

James M. Doherty  
Hearings Examiner