

June 5, 2007

OIL AND GAS DOCKET NO. 09-0248079

ENFORCEMENT ACTION AGAINST SANCO OPERATING COMPANY (OPERATOR NO. 747022) FOR VIOLATIONS OF STATEWIDE RULES ON THE CORNELIUS LEASE, WELL NOS. 131 AND 132 AND TANK BATTERY, WILBARGER COUNTY REGULAR FIELD, WILBARGER COUNTY, TEXAS.

APPEARANCES:

FOR THE RRC:

Susan German Attorney, Enforcement Section

FOR RESPONDENT:

Chris C. Sanders Vice-President/Secretary, Sanco Operating Company

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

COMPLAINT FILED:	June 27, 2006
NOTICE OF HEARING:	November 13, 2006
DATE CASE HEARD:	February 8, 2007
HEARING CLOSED:	March 12, 2007
PFD PREPARED BY:	Marshall Enquist, Hearings Examiner
PFD CIRCULATION DATE:	June 5, 2007
CURRENT STATUS:	Contested

STATEMENT OF THE CASE

This is an Enforcement action against Sanco Operating Company ("Sanco") for alleged violations of Statewide Rules 3, 5(a), 5(c), 8(d)(1), 8(d)(2), 13(b)(1)(B), 13(b)(2)(A)(i), and 14(a)(2) on the Cornelius Lease, Well Nos. 131 and 132 and tank battery, Wilbarger County Regular Field, Wilbarger County.

A hearing in this docket was held February 8, 2007. The Original Complaint was sent to the officers listed on Sanco's most recent Form P-5 Organization Report. Signed green cards were returned from all officers listed on the P-5. The certified mail for the First and Second Amended Complaints were all returned "unclaimed", but the regular mail copies were not returned. The Certified Mail for the Notice of Hearing was returned unclaimed, but the regular mail was not returned. A Notice of Intent to Appear at the present hearing was received from Chris Sanders, Vice-President/Secretary of Sanco, who appeared at the hearing representing Sanco. Susan German, Staff Attorney, appeared at the hearing representing the Railroad Commission of Texas, Office of General Counsel, Enforcement Section ("Enforcement").

The hearing was held open to allow Sanco to late-file exhibits, which it did on March 12, 2007. The late-filed exhibits were admitted into the record and the hearing was closed March 16, 2007.

AUTHORITY

Statewide Rule 3 [16 Tex. Admin. Code §3.3] requires the posting of signs and identification in English, which display clearly legible and correct information, with letters and numbers at least one inch in height. Statewide Rule 3(1) [Tex. Admin. Code §3.3(1)] requires the posting of such sign at the principal entrance of the property, which must show the name of the property as carried on the records of the Commission, the name of the operator, and the number of acres in the property. Statewide Rule 3(2) [Tex. Admin. Code §3.3(2)] requires the posting of such a sign at each well site, which must show the name of the property, the name of the operator and the well number.

Statewide Rule 5(a) [16 Tex. Admin. Code §3.5] requires an operator to file an application for a permit to drill, deepen, plug back, or re-enter any oil well, gas well, or geothermal resource well, under the provisions of §§3.37, 3.38, 3.39 and or 3.40 of this title. Statewide Rule 5(c) [16 Tex. Admin. Code §3.5] requires that operations of drilling, deepening, plugging back or re-entering shall not be commenced until the permit has been granted pursuant to subsection (d) of this section.

Statewide Rule 8(d)(1) [16 Tex. Admin. Code §3.8] requires persons disposing of oil and gas wastes by any method to have a permit to do so unless authorized under subsection (d)(3) or (e) of Statewide Rule 8, or under Statewide Rule 9, 46 or 48. Oil and gas wastes are defined in Statewide Rule 8(a)(26) to include materials to be disposed of or reclaimed, which have been generated in connection with activities associated with the exploration, development and production of oil or gas. These materials include but are not limited to "saltwater, other mineralized water, sludge, spent drilling fluids, cuttings, waste oil, spent completion fluids, and other liquid, semi-liquid or solid waste material." "To dispose" is defined in Statewide Rule 8(a)(24) to include "conducting, draining, discharging, emitting, throwing, releasing, depositing, burying, landfarming, or allowing to seep, or to cause or allow any such acts of disposal."

Statewide Rule 8(d)(2) [16 Tex. Admin. Code 3.8] requires a person who maintains or uses a pit for storage of oil and gas wastes to obtain a permit, including, but not limited to, the following types of pits: saltwater disposal pits, emergency saltwater storage pits, collecting pits, skimming pits, brine pits, brine mining pits, drilling fluid storage pits (other than mud circulation pits), drilling fluid disposal pits (other than reserve pits or slush pits), washout pits and gas plant evaporation/retention pits.

Statewide Rule 13(b)(1)(B) [16 Tex. Admin. Code §3.13] provides that wellhead assemblies shall be used on wells to maintain surface control of the well. Maintenance of surface control is necessary not only to prevent fluids from being discharged from the wellbore onto the ground surface, but also to prevent any oil and gas wastes present in the wellbore from being displaced to the surface by influxes of surface water into the open wellbore. Statewide Rule 13(b)(2)(A) requires that surface casing be set in each well to a depth sufficient to protect all usable-quality water strata, as defined by the Texas Commission on Environmental Quality.

Statewide Rule 14(a)(2) [16 Tex. Admin. Code §3.14] requires operators to notify the Commission District Office in writing (Form W-3A Notice of Intent to Plug and Abandon) of the intent to plug any wells drilled for oil, gas, or geothermal resources, or for any other purpose over which the Commission has jurisdiction, prior to plugging.

Statewide Rule 14(b)(2) [16 Tex. Admin. Code §3.14] requires that plugging operations on each dry or inactive well be commenced within a period of one year after drilling or operations cease and proceed with due diligence until completed.

ENFORCEMENT'S EVIDENCE

Sanco designated itself an operator by filing a Commission Form P-5 Organization Report on March 30, 2000. In 2005 and part of 2006, Sanco's P-5 Organization Report shows that its President/Treasurer was Charles W. Sanders and Keiko Sanders was its Vice President/Secretary. Pursuant to a Form P-5 submitted to the Commission and approved March 8, 2006, the officers of Sanco were identified as Keiko Sanders, President/Treasurer and Chris C. Sanders, Vice-President/Secretary. Sanco is the operator of 15 wells and has posted financial security with the Commission in the form of a bond for \$50,000. Sanco designated itself as the operator of the Cornelius Lease, by filing a Commission Form W-1 (Application for Permit to Drill, Recomplete, or Re-enter) for Well No. 132 on the lease (Drilling Permit No. 610843) filed December 10, 2005, and approved December 21, 2005. No drilling permit for Well No. 131 was ever issued.

A District Office inspection of the Cornelius Lease made on December 5, 2005, found a water well drilling rig at the site of what was later designated Well No. 132. An area 50' by 50' by 3" deep was covered with drilling returns. There were no pits for collection of the returns. The inspector contacted the contractor (Erwin Water Well Service) drilling the well, and learned it was to be drilled to a depth of approximately 500 feet, with a 6 3/4 inch borehole, to be run with 4 1/2 inch casing and nine centralizers. The contractor could not produce a permit for drilling the well, nor a Water Board letter indicating the lowest depth of usable quality water. The contractor was advised

to cease operations until a permit and Water Board letter were obtained. The inspector also learned that the contractor had drilled a dry hole on December 3 or 4, 2005 (later designated Well No. 131) and had abandoned that location. The inspector obtained the latitude and longitude of the abandoned well.

During a follow-up District Office inspection conducted on December 22, 2005, the inspector found the location of Well No. 131, with the borehole apparently filled and criss-crossed with tiretracks in an attempt to tamp down the fill. The inspector dug out the borehole, removing 3 cubic feet of dirt and nine rocks which had been jammed into the borehole (no casing was present). Under this makeshift plug, the inspector found eleven feet of clear hole to the top of fluid. A gauge line dropped into the borehole would not go past 15 feet, indicating the borehole was filled with soft mud. No permit had been filed to drill this well, no Water Board letter for the well had been obtained, and no Commission Form W-3A or Commission Form W-3 had been filed.

At the time of the December 22, 2005 inspection, the contract driller was running casing at Well No. 132. On December 10, 2005, Sanco late-filed a W-1 (Application to Drill, Recomplete or Re-Enter) for Well No. 132, which was granted Permit No. 610843 on December 21, 2005.

Statewide Rule 3 Violation:

Commission District Office inspection reports made on December 22, 2005, March 10, 2006, August 2, 2006 and August 17, 2006, showed that the sign for Well No. 131 was missing. An inspection report made on October 18, 2006 did not mention the sign violation, indicating that it had been corrected.

Enforcement requests a penalty of \$250 dollars be assessed against Sanco for the Statewide Rule 3(2) violation for time out of compliance.

Statewide Rule 5(a) and (c) Violations:

A Commission District Office inspection report made on December 5, 2005 for the Cornelius Lease, showed that Respondent drilled two wells, Well Nos. 131 and 132, and no drilling permits were posted at the lease. A recent District Office inspection report made on January 31, 2007 shows that, as of that date, no permit has been issued for Well No. 131.

Enforcement requests a penalty of \$5,000 be assessed against Sanco for the violations of Statewide Rule 5(a) and (c) for each well, for total penalty of \$10,000.

Statewide Rule 8(d)(1) Violations:

A Commission District Office inspection report made on August 2, 2006 for the Cornelius Lease, Well Nos. 131 and 132, found a small discharge of oil at the #2 tank of the tank battery for Well No. 132, affecting an area 12" by 5" by 1" deep. The inspection also found an unauthorized discharge of saltwater at the #1 tank of the tank battery for Well No. 132, affecting an area 20' by 15' by 1" and another area 20' by 10' by 1". A follow-up inspection made on August 17, 2006 found

the oil discharge had been remediated and the saltwater spill areas had been tilled.

Enforcement requests a penalty of \$700 be assessed against Sanco for the violations of Statewide Rule 8(d)(1) relating to the saltwater spill.

Statewide Rule 8(d)(2) Violations:

Commission District Office inspections made on July 25, 2006 and August 2, 2006 on the Cornelius Lease, found Respondent was using and maintaining an unauthorized and unlined earthen pit measuring approximately 10' by 15' by 5'. A follow-up inspection on August 17, 2006 found the pit had been backfilled.

Enforcement requests that Sanco be assessed a penalty of \$500 for its violation of Statewide Rule 8(d)(2).

Statewide Rule 13(b)(1)(B) Violation:

Commission District Office inspection reports made on December 22, 2005 and March 10, 2006 for the Cornelius lease, found Well No. 132 had casing open to atmosphere. A District Office inspection report made on July 5, 2006, found this violation had been corrected.

Enforcement requests that Sanco be assessed a penalty of \$1,000 for its violation of Statewide Rule 13(b)(1)(B).

Statewide Rule 13(b)(2)(A)(i) Violation:

Commission District Office inspection reports made on December 22, 2005 and March 10, 2006 show that Respondent failed to set surface casing for Well No 131, and that Respondent failed to obtain and file with the Commission a TCEQ Form 0051 (Depth of Usable-Quality Ground Water to Be Protected) before drilling Well No. 131. A Commission District Office report dated January 31, 2007 indicates that no Water Board letter is on file yet for Well No. 131.

Respondent's violation of Statewide Rule 13 was serious and a hazard to public health and safety because the failure to set proper casing in the well posed a severe risk of pollution of aquifers containing usable quality subsurface waters. In an uncased well, highly pressured wellbore fluids containing hydrocarbons or high concentrations of chlorides may have direct access to low-pressured aquifers.

Enforcement requests a penalty of \$2,000 be assessed against Sanco for its violation of Statewide Rule 13(b)(2)(A)(i).

Statewide Rule 14(a)(2) Violation:

A Commission District Office inspection Report made on December 5, 2005 indicated the Respondent had drilled a dry hole at the site of Well No. 131. A follow-up inspection made on December 22, 2005 found the wellbore at Well No. 131 was covered with dirt and had been packed by driving a vehicle over the fill dirt. The inspector removed three cubic feet of dirt and nine rocks wedged in the borehole. No casing was found. A Commission District Office inspection made on July 25, 2006 found no wellbore at the site of Well No. 131, but found cement on the top of the ground. A Commission memorandum made on October 18, 2006 indicated the operator had apparently plugged the well without Commission approval. The number of cement plugs and their location was unknown. The memorandum indicates the Respondent needs to file a Form W-3A for approval, re-enter the well to TD, and respot the plugs. A Commission memorandum dated January 31, 2007 indicates that no Form W-3A has been filed, no Form W-3 has been filed, and no Commission witnessed re-entry of Well No. 131 to respot the plugs has been performed.

Enforcement requests a penalty of \$500 be assessed against Sanco for its violation of Statewide Rule 14(a)(2) on the Cornelius Lease at Well No. 131.

Enforcement further requests that Sanco be ordered to bring the Cornelius Lease into compliance with all Commission rules and regulations.

SANCO'S EVIDENCE

Sanco, through its Vice President/Secretary, Chris C. Sanders, in a late-filed letter dated March 5, 2007, states that it does not have a lease on the location at issue and has no interests in the property. Chris C. Sanders entered into a 180 day (primary term) Oil, Gas, and Mineral Lease with the Estate of T.M. Cornelius on June 9, 2005. During that time, Sanco drilled a water well (the well referred to by the Commission as Well No. 131) for "circulation, cattle and crops" and hit oil at twenty feet. According to Sanco, the well was subsequently filled with cement from top to bottom. Another well was drilled, called the Cornelius Well No. 132, but was never brought into production. The 180 day lease expired under its own terms. Mr. Sanders points out that, in the lease, paragraph 13 states that all liabilities were held by the original Lessor and the previous operator. As evidence that the lease has expired, Sanco provided letters sent to it by the law firm of Fudge & Elder of Wichita Falls, dated June 7, July 27 and November 7, 2006, notifying Sanco that its lease had expired and that any personal property and equipment left on the lease after July 19, 2006 would be considered abandoned.

Sanco alleges that the Lessor, the Cornelius Estate, is attempting to establish production from Well No. 132, as evidenced by bills that Sanco continues to receive from OS&S Operating, Inc. for work done in June, July and August of 2006. Sanco denies that it authorized this work and disclaims any responsibility for the work. Sanco suggests that the Commission should instead prosecute whatever party may currently hold the lease to the minerals of the Cornelius Estate and the operating company responsible for those violations. Sanco admits that it has a sign on the subject lease, but only because it was directed by the Commission to place a sign on the lease and wellsites.

Further, Sanco states that it is in no way the operator of the Cornelius Lease and never has been. Chris C. Sanders also states, in a letter dated March 5, 2007 "Sanco Operating Company can not be in violation of a lease we have never had." Sanco considers this Enforcement action to be a fraudulent allegation against Sanco.

EXAMINERS' OPINION

The lease that Sanco took from the Cornelius Estate had a primary term of 180 days, beginning June 9, 2005 which would terminate December 5, 2006. Although Chris C. Sanders alleges that this was a lease that Sanco "never had", the signature of Chris C. Sanders is on the lease on the line reserved for Lessee.

The District Office found Sanco actively drilling the well that was to become Well No. 132 on December 5, 2006 and learned from the drilling contractor that a dry hole (later designated Well No. 131) had been drilled a day or two previously. Under paragraph 5 of its lease, if Sanco drilled a dry hole within the primary term, the lease would not expire if Sanco commenced additional drilling within 90 days after drilling the dry hole. Paragraph 8 of the lease requires that Sanco test formations from the surface to a depth of at least 350 feet. The language of paragraph 8 somewhat contradicts the language of paragraph 5, in that it allows Sanco to commence drilling a new well within 120 days of drilling a dry hole without termination of the lease.

Although Sanco contends that Well No. 131 was merely a water well, it is probably not coincidental that the well was drilled as a dry hole at the end of the primary term of the 180 day lease, enabling Sanco to extend its oil and gas lease for at least another 90 days.

Evidence of Sanco's admission of liability is found in a letter dated August 16, 2006 from Kay Sanders of Sanco to Kim Peterson of the Wichita Falls District Office. In that letter, Kay Sanders states that "Sanco will apply for a W1 (sic) drilling permit with Plot (sic) for Lease 131" and "Sanco will be applying for a water board letter from the TCEQ for Lease 131" and "Sanco will be applying for a W-3A Plugging Permit for Lease 131..." and "Sanco has plugged and filled in the pit next to the tank battery on Lease 132 and the site has been cleaned up as the leak on the tank battery has already been fixed."

As further corroboration, Sanco's attorney, Michael Eagan, admitted Sanco's responsibility for Well Nos. 131 and 132 on the Cornelius Lease in his Original Answer dated September 1, 2006 to the Commission's Second Amended Complaint (issued August 24, 2006), and received by the Commission on September 5, 2006. Sanco's answer stated "Sanco does assume responsibility for the Cornelius Lease, Well Nos. 131 and 132, whether or not it actually operates Well No. 131." Further, Sanco stated that "As to the complaints raised about the tank battery in Wilbarger County, Respondent would show the RRC that it had already made contact with contractors to clean up the problems at the site as soon as it became aware of the problems and the contractors hadn't cleaned up the site prior to this complaint being filed. The Respondent has or is making concerted efforts to address any other all (sic) problems alleged in the Second Amended Complaint." This Answer is contained in the Certified File of this docket, which was reviewed by Mr. Sanders, and admitted

without objection.

The statements in the letter from Kay Sanders and the Original Answer filed by Sanco's attorney strongly contradict the statements of Chris Sanders that Sanco never had the Cornelius Lease, that it was not the operator of the Cornelius Lease, and that it was not responsible for work done on the lease in June, July and August of 2006.

Sanco is clearly the operator of both Well No. 131 and Well No. 132 on the Cornelius Lease. The Form W-1 filed for Well No. 132 on December 10, 2005, in Box Number 2 requesting the operator's name clearly states "Sanco Operating Company." The W-1 is signed by Chris Sanders, Landman. The Commission issued Drilling Permit No. 610843 to Sanco on December 21, 2005 for its Well No. 132, on the Cornelius Lease in Wilbarger County for a well to be drilled to a depth of 260 feet in the Wilbarger County Regular Field.

Sanco agrees that its lease is terminated, therefore Sanco cannot demonstrate a "good faith claim" to operate the wells on the Cornelius Lease under Statewide Rule 14(a)(2)(A)(iii). As Enforcement indicated, Sanco failed to file a Commission Form W-3A for approval to plug Well No. 131 and must now properly file a Form W-3A, perform a Commission-witnessed re-entry of Well No. 131 and re-spot the plugs. Sanco is in violation of Statewide Rule 14(b)(2) and must properly plug Well Nos. 131 and 132 on the Cornelius Lease.

The examiner agrees with Enforcement's recommended penalty amounts and recommends that Sanco be assessed a penalty of \$14,950 for its violations of Statewide Rules, and be required to place the Cornelius Lease, Well Nos 131 and 132, Wilbarger County Regular Field, Wilbarger County, Texas, in compliance with Commission rules and regulations.

The examiner further recommends, pursuant to Texas Natural Resources Code §91.114, that Charles W. Sanders, Keiko Sanders and Chris C. Sanders be identified as individuals in a position of ownership or control during the time Sanco Operating Company violated Commission rules related to safety and the control of pollution. Accordingly, they would be subject to the restrictions of Texas Natural Resources Code §91.114(a)(2) for a period of no more than seven years from the date the order entered in this matter becomes final, or sooner, if the terms of the order are satisfied.

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

FINDINGS OF FACT

1. Respondent Sanco Operating Company ("Sanco") (Operator No. 747022) was given at least 10 days notice of this proceeding by certified mail, addressed to its most recent Form P-5 (Organization Report) address. Sanco appeared through its Vice President/Secretary, Chris Sanders, and presented evidence at the hearing.

2. The initial Form P-5 Organization Report for Sanco was filed on March 30, 2000. In 2005 and part of 2006 (until March 8, 2006), Charles W. Sanders was identified as the President/Treasurer of Sanco. Currently, Keiko E. Sanders is identified as the President/Treasurer of Sanco and Chris C. Sanders is identified as Sanco's Vice-President/Secretary. Sanco has an active P-5.
3. Sanco entered into a 180 day lease with the Estate of T.M. Cornelius on June 9, 2005. The lease has expired. Sanco does not have a current, valid lease covering the mineral estate on which the Cornelius Well Nos. 131 and 132 are located.
4. In a letter dated August 16, 2006 from Kay Sanders of Sanco to Kim Peterson of the Wichita Falls District Office, Kay Sanders states that "Sanco will apply for a W1 (sic) drilling permit with Plot (sic) for Lease 131" and "Sanco will be applying for a water board letter from the TCEQ for Lease 131" and "Sanco will be applying for a W-3A Plugging Permit for Lease 131..." and "Sanco has plugged and filled in the pit next to the tank battery on Lease 132 and the site has been cleaned up as the leak on the tank battery has already been fixed."
5. In its Original Answer to the Commission's Second Amended Complaint, dated September 1, 2006, and received by the Commission on September 5, 2006, Sanco stated, "Sanco does assume responsibility for the Cornelius Lease, Well Nos. 131 and 132, whether or not it actually operates Well No. 131."
6. A Commission District Office inspection report made on December 5, 2005 for the Cornelius lease shows that although Respondent drilled two wells, Well Nos. 131 and 132, no drilling permits were posted at the site. No drilling permit has been issued for Well No. 131 on the Cornelius Lease.
7. Sanco designated itself operator of the Cornelius Lease, Well No. 132 (Drilling Permit No. 610843) by filing a Commission Form W-1 (Application to Drill, Recomplete or Re-enter) on December 10, 2005, issued December 21, 2005.
8. Commission District Office inspections reports made on December 22, 2005; March 10, 2006; August 2, 2006 and August 17, 2006 showed that the sign required to be posted by Well No. 131 on the Cornelius Lease by Statewide Rule 3(2) was missing.
9. A Commission District Office inspection report made on August 2, 2006 for the Cornelius Lease, Well Nos. 131 and 132, found a discharge of oil at the #2 tank of the tank battery for Well No. 132 affecting an area 12 inches by 5 inches by 1 inch deep. The inspection also found an unauthorized discharge of saltwater at the #1 tank of the tank battery for Well #132 affecting an area 20 feet by 15 feet by one inch deep and another area 20 feet by 10 feet by 1 inch deep.
10. Commission District Office inspection reports made on July 25, 2006 and August 2, 2006 on the Cornelius lease found Respondent was using and maintaining an unauthorized and unlined earthen pit measuring approximately 10 feet by 15 feet by 5 feet deep.

11. Commission District Office inspection reports made on December 22, 2005 and March 10, 2006 on the Cornelius lease found Well No. 132 had casing open to atmosphere.
12. Commission District Office inspection reports made on December 22, 2005 and March 10, 2006 show that Respondent failed to set surface casing for Well No. 131, and failed to obtain and file with the Commission a TCEQ Form 0051 (Depth of Usable Quality Ground Water to be Protected). A Commission District Office inspection report dated January 31, 2007 shows that no Water Board letter is on file for Well No. 131 on the Cornelius Lease.
13. A Commission District Office inspection report made on December 5, 2005 showed that Respondent drilled a dry hole at the site of Well No. 131. A follow-up District office inspection report made on December 22, 2005 found the wellbore at Well No. 131 was covered with dirt and had been packed down by driving a vehicle over the fill dirt. The inspector removed three cubic feet of dirt and nine rocks wedged in the wellbore. No casing was found. A Commission District Office inspection made on October 18, 2006 found no wellbore at the site of Well No. 131, but found cement on the top of the ground. [A Commission memorandum dated October 18, 2006 indicates the Respondent apparently plugged the well without Commission approval.] The number of cement plugs and their location is unknown. A Commission memorandum dated January 27, 2007 indicates that Respondent has not filed a Form W-3A, a Form W-3, nor has there been a Commission-witnessed re-entry of Well No. 131 to respot the plugs.
14. Charles W. Sanders, as former President/Treasurer of Sanco in 2005 and through March 8, 2006, and Keiko Sanders, as current President/Treasurer of Sanco and Chris C. Sanders, as current Vice-President/Secretary of Sanco, were in positions of ownership and control of Sanco at the time of Sanco's violations of Statewide Rules 3, 5, 8, 13 and 14.
15. Sanco's violations of Statewide Rules 3, 5, 8, 13 and 14 were serious and threatened the public health and safety: a.) in the event of a pollution or safety violation, the lack of legible signs and identification required by Statewide Rule 3 could cause confusion as to the responsible operator to be contacted and the actual location of the violation or emergency. Such confusion could cause delays in containing and remediating the violation or emergency; b.) the failure to permit a well pursuant to Statewide Rule 5 can create a conduit, unknown to the Commission, between hydrocarbon or saltwater bearing strata and usable quality water; c.) the use of an unpermitted, unlined pit in violation of Statewide Rule 8 can result in pollution of surface water or ground water; d.) the failure to properly case and control a well, as required by Statewide Rule 13 poses a severe risk of pollution of aquifers containing usable quality subsurface waters. In an uncased well, highly pressured wellbore fluids containing hydrocarbons or high concentrations of chlorides may have direct access to low-pressured aquifers; and e.) the failure to properly plug a well pursuant to Statewide Rule 14 can result in communication between hydrocarbon or saltwater bearing strata and usable quality water.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Sanco Operating Company (“Sanco”) (Operator No. 747022) was the operator of the Cornelius Lease, Well Nos. 131 and 132 (Drilling Permit No. 610843 for Well No. 132), Wilbarger County Regular Field, Wilbarger County, Texas and had the primary responsibility for complying with Commission rules.
4. Sanco Operating Company (“Sanco”) (Operator No. 747022) violated Commission Statewide Rule 3(2) on the Cornelius Lease, Well No. 131, Brookshire Wilbarger County Regular Field, Wilbarger County, Texas.
5. Sanco Operating Company (“Sanco”) (Operator No. 747022) violated Commission Statewide Rule 5(a) and (c) on the Cornelius Lease, Well Nos. 131 and 132, Wilbarger County Regular Field, Wilbarger County, Texas.
6. Sanco Operating Company (Operator No. 747022) violated Commission Statewide Rule 8(d)(1) on the Cornelius Lease, Well No. 132, Wilbarger County Regular Field, Wilbarger County, Texas.
7. Sanco Operating Company (Operator No. 747022) violated Commission Statewide Rule 13(b)(1)(B) and 13(b)(2)(A)(i) on the Cornelius Lease, Well Nos. 131 and 132, Wilbarger County Regular Field, Wilbarger County, Texas.
8. Sanco Operating Company (Operator No, 747022) violated Commission Statewide Rule 14(a)(2) on the Cornelius Lease, Well No. 131, Wilbarger County Regular Field, Wilbarger County, Texas.
9. Sanco Operating Company (Operator No. 747022) violated Commission Statewide Rule 14(b)(2) on the Cornelius Lease, Well Nos. 131 and 132, Wilbarger County Regular Field, Wilbarger County, Texas.
10. The violations of Commission Statewide Rules 3, 5, 8, 13 and 14 by Sanco Operating Company (Operator No. 747022) on the Cornelius Lease, Well Nos. 131 and 132 (Drilling Permit No. 610843 for Well No. 132), Wilbarger County Regular Field, Wilbarger County, Texas were related to safety and the control of pollution.
11. As officers at the time of the violations of Commission rules related to safety and the control of pollution, Charles W. Sanders, Keiko Sanders and Chris C. Sanders, and any organization in which one or any of them may hold a position of ownership or control shall be subject to the restrictions of Texas Natural Resources Code §91.114(a)(2) for a period of no more than seven years from the date the order entered in this matter becomes final, or sooner, if the

conditions that constituted the violations herein are corrected or are being corrected in accordance with a schedule to which the Commission and the organization have agreed; and all administrative, civil and criminal penalties and all cleanup and plugging costs incurred by the State relating to those conditions are paid or are being paid in accordance with a schedule to which the Commission and the organization have agreed.

12. The documented violations committed by Respondent were a hazard to the public health and demonstrated a lack of good faith pursuant to Texas Natural Resources Code §81.0531(c).

RECOMMENDATION

The examiner recommends that the above findings of fact and conclusions of law be adopted and that Sanco Operating Company be assessed an administrative penalty of \$250 for one violation of Statewide Rule 3(2); \$10,000 for two violations of Statewide Rule 5(a) and (c); \$700 for a violation of Statewide Rule 8(d)(1); \$500 for a violation of Statewide Rule 8(d)(2); \$1,000 for one violation of Statewide Rule 13(b)(1)(B); \$2,000 for a violation of Statewide Rule 13(b)(2)(A)(i); and \$500 for a violation of Statewide Rule 14(a)(2), for a total of \$14,950.

The examiner also recommends that Sanco Operating Company (Operator No. 747022) be required to plug Well Nos. 131 and 132 on the Cornelius Lease, Wilbarger County Regular Field, Wilbarger County, and place the Cornelius Lease in compliance with all Commission Statewide Rules, and particularly in compliance with Statewide Rule 14(a)(2) and 14(b)(2) regarding the proper plugging of Well Nos. 131 and 132 on the Cornelius lease.

The examiner further recommends that Charles W. Sanders, Keiko Sanders and Chris C. Sanders be made subject to the requirements of Texas Natural Resources Code §91.114.

Respectfully submitted,

Marshall Enquist
Hearings Examiner