

RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

HEARINGS SECTION

OIL AND GAS DOCKET NO. 01-0249492

APPLICATION OF CINCO NATURAL RESOURCES CORP. (OPERATOR NO. 153474) PURSUANT TO STATEWIDE RULE 78(G) FOR AN EXCEPTION TO THE FINANCIAL SECURITY REQUIREMENTS FOR ALL APPLICANT OPERATED WELLS WITHIN THE STATE OF TEXAS.

INTERIM ORDER

The Commission finds that, after statutory notice in the above-numbered docket, heard on December 6, 2006 and March 14, 2007, the examiners have made and filed a proposal for decision containing findings of fact and conclusions of law, which was served on all parties of record, and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

Pursuant to the provisions of Commission Rules of Practice and Procedure 1.145, and based on the evidence presented in this docket and the matters officially noticed, the Commission makes the following Findings of Fact and Conclusions of Law:

Findings of Fact

1. At least ten (10) days notice of the hearing in this docket was sent to all parties entitled to notice. Cinco Natural Resources Corp. ("Cinco") appeared at the hearing and presented evidence.
2. By application in this docket, Cinco requests, pursuant to Statewide Rule 78(g)(5), a reduction in the amount of additional financial security for Cinco's inactive bay wells required by Statewide Rule 78(g)(2).
3. Cinco's financial statement for 2005 shows that Cinco has a net worth (assets minus liabilities) of \$27,662,234.
4. As of March 14, 2007,
 - A. Cinco was the designated operator of 34 wells, of which 11 were active bay wells and 23 were inactive bay wells.
 - B. Of Cinco's 23 inactive bay wells, 13 are not compliant with Statewide Rule 14(b)(3) and have delinquent H-15 tests.

- i. Cinco became the Commission-approved operator of 12 wells obtained from Boss Expl. & Prod. Corporation and I.B.C. Petroleum, Inc. on January 27, 2006. Of the 12 wells, seven are not in compliance with Statewide Rule 14(b)(3) due to delinquent H-15 tests. (See attached Exhibit 1, a spreadsheet dated June 11, 2007 with H-15 delinquent leases highlighted in yellow). The H-15 delinquent wells on the seven leases are identified on attached Exhibit 2. Exhibit 1 and Exhibit 2 are adopted and incorporated into this Interim Order by reference.
 - ii. Cinco became the Commission-approved operator of 13 wells obtained from I.B.C. Petroleum, Inc. on October 18, 2006. Of the 13 wells, six are not in compliance with Statewide Rule 14(b)(3) due to delinquent H-15 tests. The H-15 delinquent wells on the six leases are identified on attached Exhibit 3. Exhibit 3 is adopted and incorporated into this Interim Order by reference.
 - C. Cinco has applied to become the Form P-4 operator of two additional wells, being Well No. 2, API# 355 02653, and Well No. 4, API# 355 02655, on State Tract 416. These wells are also H-15 delinquent wells.
5. Based on the number of active and inactive bay wells (34) operated by Cinco as of March 14, 2007, Cinco's total financial security requirement under the provisions of Statewide 78(g) was \$1,430,000, comprised of financial security required by Rule 78(g)(1) in the amount of \$50,000, entry level financial security for operators of bay wells required by Rule 78(g)(2)(A) in the amount of \$60,000, and additional financial security for inactive bay wells (in excess of one) required by Rule 78(g)(2)(B) in the amount of \$1,320,000.
 6. Currently, Cinco has posted financial security in the form of a \$650,000 Bond due to expire on May 1, 2008.

Conclusions of Law

1. Proper notice of this hearing was timely issued to the appropriate persons entitled to notice.
2. All thing necessary to the Commission attaining jurisdiction have occurred.
3. Cinco is currently not in compliance with Statewide Rule 78 nor with Statewide Rule 14.
4. The Railroad Commission has jurisdiction to enter this Interim Order.

Having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the above-referenced Findings of Fact and Conclusions of Law are hereby adopted and made a part hereof.

It is accordingly **ORDERED** that;

1. Cinco Natural Resources Corp. shall maintain at least \$530,000 in financial security in a form authorized by Statewide Rule 78 during the pendency of this order as financial assurance for all wells for which Cinco is currently listed as operator on Commission records, and Cinco's P-5 shall be set to "active" status.
2. Cinco Natural Resources Corp. shall perform successful H-15 tests and shall place in compliance with Statewide Rule 14(b)(3) and Statewide Rule 14(b)(2) the seven H-15 noncompliant wells, identified on attached Exhibit 2. These wells must be successfully tested, H-15 forms accurately reporting the results of the tests must be filed with the District Office, and the wells must be placed in compliance with the aforementioned Statewide Rule on or before November 26, 2007.
3. Cinco Natural Resources Corp. shall perform successful H-15 tests and shall place in compliance with Statewide Rule 14(b)(3) and Statewide Rule 14(b)(2) the six H-15 noncompliant wells, identified on attached Exhibit 3. These wells must be successfully tested, H-15 forms accurately reporting the results of the tests must be filed with the District Office, and the wells must be placed in compliance with the aforementioned Statewide Rule on or before April 28, 2008.
4. Cinco must provide the District Office with notice of its intent to conduct H-15 testing, whether by fluid level test or mechanical integrity test, seven (7) days prior to the testing of each well. All well tests shall be Commission-witnessed.
5. The Commission's Field Operations Department shall report to the examiner on the state of Cinco's compliance with the terms of this Interim Order on or before the 15th day of each month. In the event of noncompliance, this docket will be posted for Conference for further consideration by the Commissioners.
6. This Interim Order shall remain in effect until a Final Order is entered in this docket.

Done this 26th day of June, 2007, in Austin, Texas.

CHAIRMAN ELIZABETH A. JONES

COMMISSIONER MICHAEL L. WILLIAMS

COMMISSIONER VICTOR G. CARRILLO

ATTEST:

SECRETARY