

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 03-0276148

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY QUANTUM ENERGY RESOURCES, INC. (684556), AS TO THE LIBERTY TOWNSITE OIL UNIT NO. 6 (05305) LEASE, WELL NO. 1, AND THE LIBERTY TOWNSITE OIL UNIT NO. 13 (05317) LEASE, WELL NO. 1, SOUTH LIBERTY FIELD, LIBERTY COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on August 22, 2013, and that the respondent, Quantum Energy Resources, Inc. (684556), failed to appear or respond to the First Amended Notice of Opportunity for Hearing. Pursuant to § 1.49 of the Commission's General Rules of Practice and Procedure [Tex. R. R. Comm'n, 16 TEX. ADMIN. CODE § 1.49] and after being duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Quantum Energy Resources, Inc. (684556), ("Respondent"), was given First Amended Notice of Opportunity for Hearing by certified mail, addressed to the most recent Form P-5 (Organization Report) address, which was never returned to Commission.
2. The returned certified receipt envelope containing the First Amended Original Complaint and the First Amended Notice of Opportunity for Hearing, was shipped by the United State Post Office on April 26, 2013, but the delivery status has never been returned to the Commission.
3. On February 9, 2012, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): Spencer D. Jordan, President; and Stephen J. Smith, Vice-President.
4. Spencer D. Jordan, was a person in a position of ownership or control of respondent, as defined by Texas Natural Resources Code Section 91.114, during the time period of the violations of Commission rules committed by respondent.
5. Stephen J. Smith, was a person in a position of ownership or control of respondent, as defined by Texas Natural Resources Code Section 91.114, during the time period of the violations of Commission rules committed by respondent.

6. The violations of Commission rules committed by respondent are related to safety and the control of pollution.
7. Respondent designated itself to the Commission as the operator of Well No. 1 on the Liberty Townsite Oil Unit No. 6 (05305) Lease and Well No. 1 on the Liberty Townsite Oil Unit No. 13 (05371) Lease ("subject wells"/"subject leases") by filing P-4 Forms (Producer's Transportation Authority and Certificate of Compliance) effective on August 1, 2006.
8. Respondent's P-5 (Organization Report) became delinquent on July 1, 2013. Respondent had a \$25,000 bond as its financial assurance at the time of its last P-5 renewal.
9. Production from Well No. 1 on the Liberty Townsite Oil Unit No. 6 (05305) Lease ceased in September 2006.
10. Production from Well No. 1 on the Liberty Townsite Oil Unit No. 13 (05371) Lease ceased in July 2004.
11. The subject wells have not been properly plugged in accordance with, and are not otherwise in compliance with Statewide Rule 14.
12. The 14b2 plugging extension for Well No. 1 on the Liberty Townsite Oil Unit No. 6 (05303) Lease was denied on June 30, 2008 for an inactive P-5.
13. The 14b2 plugging extension for Well No. 1 on the Liberty Townsite Oil Unit No. 13 (05371) Lease was denied on June 29, 2007 for an inactive P-5.
14. Usable quality groundwater is likely to be contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject wells. Unplugged wellbores constitute a cognizable threat to the public health and safety because of the potential for pollution.
15. The estimated cost to the State for plugging Well No. 1 on the Liberty Townsite Oil Unit No. 6 (05305) Lease is \$59,473.86.
16. The estimated cost to the State for plugging Well No.1 on the Liberty Townsite Oil Unit No. 13 (05371) Lease is \$59,280.00.
17. Commission District inspections were conducted on February 21, 2012, March 14, 2012 and April 3, 2012 for the Liberty Townsite Oil Unit No. 6 (05305) Lease. The signs or identification required to be posted at the lease entrance, well and tank battery were missing.
18. Commission District inspections were conducted on February 21, 2012, March 14, 2012 and April 3, 2012 for the Liberty Townsite Oil Unit No. 13 (05371) Lease. The signs or identification required to be posted at the lease entrance, well and tank battery were missing.
19. Failure to properly identify a well by the posting of the sign required by Statewide Rule 3 has the potential for causing confusion and delay in remedying a violation or emergency and poses a threat to the public health and safety.

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20. Commission District inspections were conducted on February 21, 2012, March 14, 2012 and April 3, 2012 for the Liberty Townsite Oil Unit No. 6 (05305) Lease. Well No. 1 was leaking a small amount of gas from the ring gasket on the wellhead flange.
21. Maintenance of surface control by wellhead assemblies is necessary to prevent the discharge of oil and gas wastes on the subject lease constituting a hazard to public health and safety because the discharges of oil and gas wastes onto land surface can migrate into surface or subsurface waters.
22. Commission District inspections were conducted on February 21, 2012, March 14, 2012 and April 3, 2012 on the Liberty Townsite Oil Unit No. 13 (05371) Lease. The inside of the firewall around the tank battery was overgrown with brush.
23. The Respondent has not demonstrated good faith since it failed to timely plug or otherwise place the subject leases and subject wells in compliance after being notified of the violations by the District Office and failed to appear at the hearing to explain its inaction.
24. Respondent is the person responsible for cleaning up the discharges on the subject lease under TEX. NAT. RES. CODE ANN. §91.113(b), and the Commission may recover from Respondent all costs incurred in cleaning up the subject lease pursuant to TEX. NAT. RES. CODE ANN. §91.113(f).

CONCLUSIONS OF LAW

1. Proper notice was issued by the Railroad Commission to respondent and to all other appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed or have occurred.
3. Respondent is in violation of Commission Statewide Rules 3, 13(b)(1)(B), 14(b)(2) and 21(i).
4. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 3, which requires that each property that produces oil, gas or geothermal resources and each oil, gas or geothermal resource well and tank, or other approved crude oil measuring facility shall post signs or identification.
5. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 13(b)(1)(B), which requires that surface control of all wells be maintained with

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wellhead assemblies.

6. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 21(i), which requires that any rubbish or debris that might constitute a fire hazard shall be removed to a distance of at least 150 feet from the vicinity of any well, tank, or pump station.
7. Respondent is responsible for maintaining the subject leases and subject wells in compliance with all applicable Commission rules according to Statewide Rules 14, 58, and 79 and Chapters 89 and 91 of the Texas Natural Resources Code.
8. The documented violations committed by the respondent constitute acts deemed serious, a hazard to the public health, and demonstrate a lack of good faith pursuant to TEX. NAT. RES. CODE ANN. §81.0531.
9. As a person in a position of ownership or control of respondent at the time respondent violated Commission rules related to safety and the control of pollution, Spencer D. Jordan, and any other organization in which he may hold a position of ownership or control, shall be subject to the restrictions of Texas Natural Resource Code Section 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 until 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, whichever is earlier.
10. As a person in a position of ownership or control of respondent at the time respondent violated Commission rules related to safety and the control of pollution, Stephen J. Smith, and any other organization in which he may hold a position of ownership or control, shall be subject to the restrictions of Texas Natural Resource Code Section 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 until 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, whichever is earlier.

IT IS ORDERED THAT within 30 days from the day immediately following the date this order becomes final:

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1. Quantum Energy Resources, Inc. (684556), shall plug the Liberty Townsite Oil Unit No. 6 (05305) Lease, Well No. 1, and the Liberty Townsite Oil Unit No. 13 (05371) Lease, Well No. 1, South Liberty Field, Liberty County, Texas; and
2. Quantum Energy Resources, Inc. (684556), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **NINE THOUSAND DOLLARS (\$9,000.00) and REIMBURSE State Funds in the amount of EIGHTEEN THOUSAND NINE HUNDRED THIRTY FOUR DOLLARS AND THIRTY TWO CENTS (\$18,934.32).**

It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE § 2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the parties are notified of the order.

All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

Noncompliance with the provisions of this order is subject to enforcement by the Attorney General and subject to civil penalties of up to \$10,000.00 per day per violation.

Done this 25th day of March 2014.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated March 25, 2014)

MRC/sa