

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION**

OIL AND GAS DOCKET NO. 7B-0238705

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY PRO-SYSTEMS FAB, INC. (679283), AS TO THE HENRY SAYLES, JR. (10175) LEASE, WELL NOS. 11, 12, 16, 21, 32, 37, 38, 39, 40, 41, 43, 47, 52, 53, 54, 58 AND 67, JONES COUNTY REGULAR FIELD, JONES COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on October 28, 2004, and that the respondent, Pro-Systems Fab, Inc. (679283), failed to appear or respond to the notice. 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. Pro-Systems Fab, Inc. (679283), ("Respondent") was given Notice of Hearing by certified mail, addressed to the most recent P-5 address on the Form P-5 Organization Report, which was signed and returned to the Commission.
2. The returned certified receipt (green card) that was attached to the First Amended Original Complaint and the Notice of Hearing mailed to Respondent's most recent P-5 address was signed and returned to the Commission on August 23, 2004. The certified receipt has been on file with the Commission for 15 days, exclusive of the day of receipt and day of issuance.
3. On August 26, 2004, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): Lynn Shugarman; President, and Trina E. Jackson; Secretary.
4. Lynn Shugarman, President, 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. Trina E. Jackson, Secretary, 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 Nos. 11, 12, 16, 21, 32, 37, 38, 39, 40, 41, 43, 47, 52, 53, 54, 58 and 67 on the Henry Sayles, Jr. (10175) Lease ("subject wells"/"subject lease") by filing a Form P-4 (Producer's Transportation Authority and Certificate of Compliance) with the Commission effective on October 1, 2001.
8. According to Commission records the Respondent's Form P-5 (Organization Report) is active. Respondent has a \$50, 000.00 bond as its financial assurance.
9. The subject wells ceased production on or before July 31, 2002. Well No. 47 is a permitted injection well and ceased injection on or before October 31, 2000.
10. The subject wells have not been properly plugged in accordance with, and are not otherwise in compliance with, Statewide Rule 14.
11. Usable quality groundwater in the area 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 probability of pollution.
12. The total estimated cost to the State of plugging the subject wells is \$71,400.00.
13. Commission district office inspections were conducted on May 26, 2004 and August 3, 2004 for the Henry Sayles, Jr. (10175) Lease. The signs or identification required to be posted at the lease entrance and the well sites displayed incorrect information and the sign or identification at the tank battery was missing.
14. Failure to properly identify a lease and 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.
15. Commission district office inspections were conducted on August 25, 2003, October 16, 2003 and November 25, 2003 for the Henry Sayles, Jr. (10175) Lease. Respondent had caused or allowed an unauthorized discharge of oil, affecting an area measuring approximately 8' x 4' x 6", at the wellhead of Well No. 47. A followup inspection on January 13, 2004 indicated that the unauthorized discharge at Well No. 47 had been remediated.
16. A Commission district inspection was conducted on March 2, 2004 for the Henry Sayles, Jr. (10175) Lease. Respondent had caused or allowed a new unauthorized discharge of oil, affecting an area measuring approximately 35' x 25' x 1", at Well No. 47. A district office inspection conducted on March 15, 2004 indicated that the unauthorized discharge at Well No. 47 had increased to affect an area measuring approximately 40' x 30' x 1".
17. A district inspection report was conducted on May 26, 2004 for the Henry Sayles, Jr.

(10175) Lease. Well No. 47 continues to leak approximately 1/4 gallon of oil and produced water per day, the area affected has again increased to approximately 55' x 30' x 2". Respondent had caused or allowed the unauthorized discharge of approximately 1/4 gallon of oil per day, affecting an area measuring approximately 10' x 6' x 2-3", at Well No. 67, and the unauthorized discharge of approximately one pint of oil and produced water per day, affecting an area measuring approximately 3' x 3' x 1-2" at Well No. 16.

18. A follow up district office inspection was conducted on August 3, 2004 for the Henry Sayles, Jr. (10175) Lease. Well Nos. 47, 67 and 16 continued to leak and Respondent had caused or allowed the additional unauthorized discharge of approximately one quart of oil, produced water and drilling mud, per day, affecting an area measuring approximately 4' x 4', with standing fluid of about 1/2", at Well No. 52.
19. No permit has been issued to the Respondent for the discharge of oil and gas wastes on or from the subject lease.
20. The unpermitted discharges of oil and gas wastes or other substances or materials on the subject lease constitute a hazard to public health and safety because leaks and spills of oil and produced waters onto soils can migrate into surface water bodies causing contamination or can leach into the ground and percolate through soils into groundwater supplies.
21. The Respondent has not demonstrated good faith since it failed to plug or otherwise place the subject lease 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.

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(a), 8(d)(1) and 14(b)(2).
4. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 3(a), 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 8(d)(1), which prohibits the discharge of oil and gas wastes without a permit.
6. Respondent is responsible for maintaining the subject lease 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.
7. 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(c) (Vernon 2001).

8. 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, Lynn Shugarman, and any other organization in which she 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.
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, Trina E. Jackson, and any other organization in which she 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:

1. Pro-Systems Fab, Inc. (679283), shall plug Well No. 47, Henry Sayles, Jr. (10175) Lease, Jones County Regular Field, Jones County, Texas in compliance with applicable Commission rules and regulations; and
2. Pro-Systems Fab, Inc. (679283), shall plug or otherwise place the Henry Sayles, Jr. (10175) Lease, Well Nos. 11, 12, 16, 21, 32, 37, 38, 39, 40, 41, 43, 52, 53, 54, 58 and 67, Jones County Regular Field, Jones County, Texas in compliance with applicable Commission rules and regulations; and
3. Pro-Systems Fab, Inc. (679283), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FORTY THOUSAND TWO HUNDRED FIFTY DOLLARS (\$40,250.00)**.

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 13th day of January 2005.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated January 13, 2005)

MH/sa