

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

OIL AND GAS DOCKET NO. 09-0246008

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY KTC OIL ENTERPRISES, LLC (478412), AS TO THE PRIDEAUX, H.O. -A- (10598) LEASE, WELL NOS. 2A, 3, 4, 5, 6A, 7A, 9A, 9B, 10A, 11A, 12A, 13A, 15A AND 16A, AND THE LOWRENCE "A" (24066) LEASE, WELL NOS. 1, 1A, 1D, 1E, 2A, 2C, 2E AND 3C, YOUNG COUNTY REGULAR FIELD, YOUNG COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on March 8, 2007, and that the respondent, KTC Oil Enterprises, LLC (478412), 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. KTC Oil Enterprises, LLC, (478412), ("Respondent") was given Notice of Opportunity for Hearing by certified mail, addressed to the most recent P-5 address on the Form P-5 Organization Report, which was returned to the Commission marked "unclaimed."
2. The returned certified receipt containing the Original Complaint and the Notice of Opportunity for Hearing mailed to Respondent's most recent P-5 address was returned to the Commission marked "unclaimed" on January 22, 2007. The certified receipt has been on file with the Commission for 15 days, exclusive of the day of receipt and day of issuance.
3. Kenneth E. Weaver, 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.
4. Billy Marcum, 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. The violations of Commission rules committed by respondent are related to safety and the control of pollution.

6. Respondent designated itself to the Commission as the operator of Well Nos. 2A, 3, 4, 5, 6A, 7A, 9A, 9B, 10A, 11A, 12A, 13A, 15A and 16A on the Prideaux, H.O. -A- (10598) Lease and Well Nos. 1, 1A, 1D, 1E, 2A, 2C, 2E and 3C on the Lowrence "A" Lease ("subject wells"/"subject leases") by filing a Form P-4 (Producers Transportation Authority and Certificate of Compliance) with the Commission effective on January 25, 2004 for the Prideaux, H.O. -A- (10598) Lease and March 31, 2004 for the Lowrence "A" (24066) Lease.
7. According to Commission records the Respondent's Form P-5 (Organization Report) became delinquent on January 1, 2007. Respondent had \$250,000.00 Letter of Credit as its financial assurance at the time of its last P-5 renewal.
8. Well Nos. 2A, 3, 4, 5, 6A, 7A, 9A, 9B, 10A, 11A, 13A, 15A and 16A on the Prideaux, H.O. -A- (10598) Lease ceased production on or before January 2004. Injection into Well No. 12A ceased on or before December 2004.
9. The subject wells have not been properly plugged in accordance with, and are not otherwise in compliance with, Statewide Rule 14.
10. 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.
11. The estimated cost to the State of plugging the subject wells on the Prideaux, H.O. -A- (10598) Lease is \$54,600.00.
12. Commission district office inspections were conducted on October 10, 2005, December 6, 2005 and May 23, 2006 for the Prideaux, H.O. -A- (10598) Lease. The signs or identification required to be posted at Well Nos. 2A, 3 and 9B were either missing or displayed incorrect information.
13. Commission district office inspections were conducted on August 8, 2005, August 25, 2005, October 3, 2005 and September 8, 2006 for the Lowrence "A" (24066) Lease. The signs or identification required to be posted at Well Nos. 1, 1A, 1D, 1E, 2A, 2C, 2E and 3C were either missing or displayed incorrect information.
14. Failure to 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.
15. Commission district office inspections were conducted on August 23, 2005, October 10, 2005, December 6, 2005 and May 23, 2006 for the Prideaux, H.O. -A- (10598) Lease. Well Nos. 2A, 5A, 10A, 12A and 15A have tubing or casing open to the atmosphere and are without wellhead control.

16. 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.
17. Commission records indicate that Well Nos. 3, 4, 6A and 9B on the Prideaux, H.O. -A- (10598) Lease are inactive, unplugged and subject to the testing requirements of Statewide Rule 14(b)(3). According to Commission records, on July 7, 2003, Commission Forms H-15 (Test On An Inactive Well More Than 25 Years Old) became delinquent for the subject wells. On September 2, 2004, the Commission determined that the H-15 test Respondent conducted on the wells on July 29, 2004 had failed and, as a result, did not approve the Forms H-15. On December 30, 2004, the Commission granted an extension until January 30, 2005 for Respondent to file approved Form H-15 for Well Nos. 3, 4, 6A and 9B. Respondent has failed to conduct the tests or file the Forms H-15.
18. Commission district office inspections were conducted on August 23, 2005, October 10, 2005, December 6, 2005 and May 23, 2006 on the Prideaux, H.O. -A- (10598) Lease. Well No. 7A has been completed with tubing and casing. Despite completion of the well, Respondent has failed to file the required completion report and the well is not on the proration schedule for the subject lease.
19. Well No. 12A on the Prideaux, H.O. -A- (10598) Lease is a permitted injection well. According to Commission records, a Commission Form H-5 Disposal/Injection Well Pressure Test was due to be filed for Well No. 12A on October 30, 2004. Respondent has failed to conduct the test or file the results with the Commission.
20. Well Nos. 1A and 1D on the Lowrence "A" (24066) Lease are permitted injection wells. According to Commission records, a Commission Form H-15 Disposal/Injection Well Pressure Test was due to be filed for Well Nos. 1A and 1D on July 30, 2004. Respondent has failed to conduct the tests or file the results with the Commission.
21. The Respondent has not demonstrated good faith since it failed to 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.

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), 14(b)(3), 16(a) and 46(j).

4. Respondent is responsible for maintaining the subject leases 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 leases in compliance with Statewide Rule 13(b)(1)(B), which requires that surface control of all wells be maintained with wellhead assemblies.
6. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 14(b)(3), which requires that the operator of any well more than 25 years old that becomes inactive shall plug or test such well to determine whether the well poses a potential threat of harm to natural resources, including surface and subsurface water, oil and gas.
7. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 16(a), which requires that the owner or operator of an oil, gas or geothermal resource well, within thirty (30) days after the completion of such well or the plugging of such well, if the well is a dry hole, shall file with the Commission the appropriate completion or plugging report.
8. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 46(j), which requires that the mechanical integrity of an injection well shall be evaluated by conducting pressure tests to determine whether the well tubing, packer, or casing have sufficient mechanical integrity.
9. 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.
10. 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).
11. 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, Kenneth E. Weaver, 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.

12. 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, Billy Marcum, 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:

1. KTC Oil Enterprises, LLC (478412), shall plug or otherwise place the Prideaux, H.O. -A- (10598) Lease, Well Nos. 2A, 3, 4, 5, 6A, 7A, 9A, 9B, 10A, 11A, 12A, 13A, 15A and 16A, and the Lowrence "A" (24066) Lease, Well Nos. 1, 1A, 1D, 1E, 2A, 2C, 2E and 3C, Young County Regular Field, Young County, Texas in compliance with applicable Commission rules and regulations; and
2. KTC Oil Enterprises, LLC (478412), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FIFTY THOUSAND TWO HUNDRED FIFTY DOLLARS (\$50,250.00)**.

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 29th day of March 2007.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated March 2007)

ME/sa