

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

OIL AND GAS DOCKET NO. 10-0243533

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY WALLACE OIL & GAS, INC. (893765), AS TO THE DORTCH, M. LEASE, WELL NO. 9 (129813), JUDD (KANSAS CITY) FIELD, AND DORTCH, M. (01965) LEASE, WELL NO. 2, JUDD (VIRGIL) FIELD, SHERMAN COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on June 29, 2006, and that the respondent, Wallace Oil & Gas, Inc. (893765), 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. Wallace Oil & Gas, Inc. (893765), ("Respondent") was given a First Amended 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 Original Complaint and the First Amended Notice of Hearing mailed to Respondent's most recent P-5 address was signed and returned to the Commission on March 6, 2006. 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 February 15, 2005, Respondent, a Corporation, filed a Form P-5 (Organization Report) with the Commission reporting that its officers consisted of the following individual(s): Jack C. Wallace, Jr.; President.
4. Jack C. Wallace, Jr., 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 No. 9 (129813) on the Dortch, M. Lease and Well No. 2 on the Dortch, M. (01965) Lease ("subject wells"/"subject leases") by filing a Form P-4 (Producers Transportation of Authority and Certificate of Compliance) with the Commission effective on August 1, 1998, for both of the subject wells and subject leases.
7. According to Commission records the Respondent's Form P-5 (Organization Report) is active. Respondent has a \$25,000 Letter of Credit as its financial assurance.
8. Requested plugging extensions for the subject wells were denied on February 15, 2005, based on Respondent's failure to perform a required H-15 test for the Dortch, M. Lease, Well No. 9 (129813) and failure to perform a successful MIT test for the Dortch, M. (01965) Lease, Well No. 2.
9. Well No.2 on the Dortch, M. (01965) Lease is a permitted injection well.
10. Well No. 9 (129813) on the Dortch, M. Lease ceased production on or before June 2002. Well No. 2 on the Dortch, M. (01965) Lease ceased injection on or before October 1999.
11. The subject wells have not been properly plugged in accordance with, and are not otherwise in compliance with, Statewide Rule 14.
12. 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.
13. The estimated cost to the State of plugging Well No. 9 (129813) on the Dortch, M. Lease is \$8,800.00 and the estimated cost to the State of plugging Well No. 2 on the Dortch, M. (01965) Lease is \$8,800.00.
14. The Respondent has not demonstrated good faith since it failed to 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 Rule 14(b)(2).
4. Respondent is responsible for maintaining the subject leases and 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.

5. 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).
6. 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, Jack C. Wallace, Jr., 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. Wallace Oil & Gas, Inc. (893765), shall plug the Dortch, M. Lease, Well No. 9 (129813), Judd (Kansas City) Field, and the Dortch, M. (01965) Lease, Well No. 2, Judd (Virgil) Field, Sherman County, Texas in compliance with Commission rules and regulations;
2. Wallace Oil & Gas, Inc. (893765), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FOUR THOUSAND DOLLARS (\$4,000.00)**.

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 30th day of October 2006.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated October 30, 2006)

JD/sa