

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 03-0288273

ENFORCEMENT ACTION AGAINST LAYTON ENERGY INC. (OPERATOR NO. 491399) FOR VIOLATIONS OF STATEWIDE RULES ON THE MILLER OIL UNIT LEASE (LEASE ID NO. 22756), WELL NO. B1, ALLIGATOR BAYOU (12-D) FIELD; THE MILLER, A. L. ET AL "A" LEASE (LEASE ID NO. 23274), WELL NO. 2, ALLIGATOR BAYOU (E-3) FIELD AND THE MILLER A. L. "A" LEASE (LEASE ID NO. 23770), WELL NO. 1, ALLIGATOR BAYOU (6700) FIELD, CHAMBERS COUNTY, TEXAS

FINAL ORDER

The Railroad Commission of Texas ("Commission") finds that after statutory notice the captioned enforcement proceeding was heard by a Commission Administrative Law Judge on May 12, 2016 and that the respondent, Layton Energy Inc., failed to appear or respond to the Notice of Hearing. Pursuant to § 1.49 of the Commission's General Rules of Practice and Procedure, 16 TEX. ADMIN. CODE § 1.49, and after being duly submitted to the Commission at a conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Layton Energy Inc. ("Respondent"), Operator No. 491399, was sent the Original Complaint and Notice of Hearing by certified and first class mail, addressed to the most recent Commission Form P-5 (Organization Report) ("Form P-5") address. Respondents' officers and agents as identified on the Form P-5—Daniel Layton and John Clarke Legler, II—were each sent the Original Complaint and Notice of Hearing by certified and first class mail, addressed to their last known addresses.
2. The certified mail envelopes containing the Original Complaint and the Notice of Hearing was received by the Respondent, Daniel Layton and Jason Clark Legler, II between April 9 and 11, 2016. The first class mail was not returned. Record of the delivery of certified mail has been on file with the Commission for more than 15 days, exclusive of the day of receipt and day of issuance. Respondent was given more than 30 days' notice of the Original Complaint and Notice of Hearing. Respondent has not entered into an agreed settlement order, filed an answer, or requested a hearing.
3. On February 10, 2012, Respondent, a corporation, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals: Daniel Todd Layton, President; and Jason Clark Legler II, Executive Vice President.

4. Daniel Todd Layton was in a position of ownership or control of Respondent, as defined in section 91.114 of the Texas Natural Resources Code, during the time period of the violations of Commission rules committed by Respondent.
5. Jason Clark Legler, II was in a position of ownership or control of Respondent, as defined in section 91.114 of the Texas Natural Resources Code, during the time period of the violations of Commission rules committed by Respondent.
6. Respondent's Form P-5 is delinquent. Respondent had an \$85,000 cash deposit and a \$25,000 letter of credit as its financial assurance at the time of the last Form P-5 annual renewal submission.
7. The violations of Commission rules committed by Respondent are related to safety and the control of pollution.
8. Respondent designated itself to the Commission as the operator of the Miller Oil Unit Lease (Lease ID No. 22756), Well No. B1, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective August 1, 2004, approved August 30, 2004.
9. Respondent designated itself to the Commission as the operator of the Miller, A. L. Et Al "A" Lease (Lease ID No. 23274), Well No. 2, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective August 1, 2004, approved August 30, 2004.
10. Respondent designated itself to the Commission as the operator of the Miller, A. L. "A" Lease (Lease ID No. 23370), Well No. 1, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective August 1, 2004, approved August 30, 2004.
11. A Commission inspection report made on March 27, 2013, and either reports filed by Respondent with the Commission reflecting zero production, or the absence of production reports filed by Respondent since July 2012, show that the Miller Oil Unit Lease (Lease ID No. 22756), Well No. B1, has been inactive for a period greater than one year. Production from the subject well ceased in June 2012.
12. A Commission inspection report made on March 27, 2013, and either reports filed by Respondent with the Commission reflecting zero production, or the absence of production reports filed by Respondent since November 2004, show that the Miller, A. L. Et Al "A" Lease (Lease ID No. 23274), Well No. 2, has been inactive for a period greater than one year. Production from the subject well ceased in October 2004.
13. A Commission inspection report made on March 27, 2013, and either reports filed by Respondent with the Commission reflecting zero production, or the absence of

production reports filed by Respondent since November 2004, show that the Miller, A. L. "A" Lease (Lease ID No. 23370), Well No. 1, has been inactive for a period greater than one year. Production from the subject well ceased in October 2004.

14. No work-overs, re-entries, or subsequent operations have taken place on any of the subject wells within the last twelve months; none of the subject wells have been properly plugged in accordance with Statewide Rule 14, 16 TEX. ADMIN. CODE § 3.14; and no plugging extensions are in effect for any of the subject wells as allowed by Statewide Rule 14. The subject wells are not otherwise in compliance with Statewide Rule 14.
15. 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, in violation of Statewide Rules 14(b)(2), constitute a cognizable threat to the public health and safety because of the potential of pollution.
16. The total estimated cost to the State for plugging the Miller Oil Unit Lease (Lease ID No. 22756), Well No. B1 is \$418,874.00.
17. The total estimated cost to the State for plugging the Miller, A. L. Et Al "A" Lease (Lease ID No. 23274), Well No. 2 is \$383,506.00.
18. The total estimated cost to the State for plugging the Miller, A. L. "A" Lease (Lease ID No. 23370), Well No. 1 is \$384,029.00.
19. Respondent has no prior history of violations of Commission rules.

CONCLUSIONS OF LAW

1. Proper notice was issued by the Commission to Respondent and all other appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties have been performed or have occurred.
3. Respondent is responsible for maintaining the subject leases in compliance with all applicable Commission rules and chapters 89 and 91 of the Texas Natural Resources Code.
4. Respondent is in violation of Statewide Rules 14(b)(2). 16 TEX. ADMIN. CODE § 3.14(b)(2).
5. The documented violations committed by Respondent constitute acts deemed serious, and a hazard to the public health, and demonstrate a lack of good faith pursuant to TEX. NAT. RES. CODE § 81.0531(c).

6. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 14(b)(2), which requires that plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed, unless the operator is eligible for and obtains an extension of the plugging deadline.
7. Pursuant to TEX. NAT. RES. CODE § 81.0531, the Commission may assess administrative penalties against Respondent for the subject violations of up to \$10,000 per day for each violation, with each day such violations continued constituting a separate violation.
8. An assessed administrative penalty in the amount of THIRTY THOUSAND SIX HUNDRED SEVENTY-SIX DOLLARS (\$30,676.00) is justified considering the facts and violations at issue.
9. As persons in a position of ownership or control of Respondent at the time Respondent violated Commission rules related to safety and the control of pollution, Daniel Todd Layton and John Clark Legler, II, and any other organization in which either or both may hold a position of ownership or control, are subject to the restriction in section 91.114(a)(2) of the Texas Natural Resources Code.

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

1. Layton Energy Inc. shall plug the Miller Oil Unit Lease (Lease ID No. 22756), Well No. B1, the Miller, A. L. Et Al "A" Lease (Lease ID No. 23274), Well No. 2, and the Miller, A. L. "A" Lease (Lease ID No. 23370), Well No. 1 in compliance with Statewide Rule 14(b)(2), and place the leases in compliance with any other applicable Commission rules and statutes.
2. Layton Energy Inc. shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **THIRTY THOUSAND SIX HUNDRED SEVENTY-SIX DOLLARS (\$30,676.00)**.

It is further **ORDERED** that as persons in a position of ownership or control of Respondent at the time Respondent violated Commission rules related to safety and the control of pollution, Daniel Todd Layton and Jason Clarke Legler, II, and any other organization in which either or both may hold a position of ownership or control, shall be subject to the restriction in section 91.114(a)(2) of the Texas Natural Resources Code 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.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 25 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 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 this order in accordance with TEX. GOV'T CODE § 2001.144.

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 24th day of August, 2016.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated August 24, 2016)

JNC/rmf