

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 06-0300894

**ENFORCEMENT ACTION AGAINST RHC ENERGY (USA) LLC (OPERATOR NO. 704798)
FOR VIOLATIONS OF STATEWIDE RULES ON THE HASSLER LEASE, WELL NOS. 1 AND
1R (PERMIT NOS. 811410 AND 814583), WILDCAT FIELD, RUSK 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 December 1, 2016 and that the respondent, RHC Energy (USA) LLC, failed to appear or respond to the Notice of Opportunity for 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. RHC Energy (USA) LLC (“Respondent”), Operator No. 704798, was sent the Original Complaint and Notice of Opportunity for Hearing by certified and first class mail, addressed to the most recent Commission Form P-5 (Organization Report) (“Form P-5”) address. Respondent’s officers and agents as identified on the Form P-5—Zoran Arandjelovic and Robert Karlewicz—were each sent the Original Complaint and Notice of Opportunity for Hearing by first class mail, addressed to their last known addresses.
2. The certified mail envelope containing the Original Complaint and Notice of Opportunity for Hearing addressed to Respondent and Robert Karlewicz were returned to the Commission between July 11, 2016 through September 7, 2016. The first class mail addressed to Zoran Arandjelovic was returned to the Commission. No other first class mail was returned. Record of the return of the 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 Opportunity for Hearing. Respondent has not entered into an agreed settlement order, filed an answer, or requested a hearing.
3. On January 14, 2016, Respondent, a limited liability company, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals: Zoran Arandjelovic, Manager; and Robert Karlewicz, President.
4. Zoran Arandjelovic 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. Robert Karlewicz 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 a \$50,000 cash deposit as its financial assurance at the time of Respondent's 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 Hassler Lease, Well No. 1 and 1R (Permit Nos. 811410 and 814583), by filing a Commission Form W-1 (Drilling Permits) on Well No. 1, submitted October 21, 2015, approved October 28, 2015 and Well No. 1R, submitted March 24, 2016, approved April 7, 2016.
9. Commission inspection reports made on February 17, 2016 through May 6, 2016, and reports filed with the Commission show that the Hassler, Lease, Well No. 1R was drilled before a drilling permit had been obtained. Commission records show the operator spudded the well on January 29, 2016, but did not submit a drilling application until March 24, 2016, and the application was not approved until April 7, 2016.
10. Failing to obtain a drilling permit prior to commencement of drilling operations, in violation of Statewide Rule 5(a) is serious and threatens the public health and safety.
11. Commission inspection reports made on February 17, 2016 through May 6, 2016, and reports filed by Respondent with the Commission show that the Hassler Lease, Well No. 1 has been uncased, unsecured, and unplugged since December 13, 2015 and no production has occurred within the last year.
12. No work-overs, re-entries, or subsequent operations have taken place on the subject well within the last twelve months; the subject well has not been properly plugged in accordance with Statewide Rule 14, 16 TEX. ADMIN. CODE § 3.14; and no plugging extension is in effect for the subject well as allowed by Statewide Rule 14. The subject well is not otherwise in compliance with Statewide Rule 14.
13. Usable quality groundwater in the area can become contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject wells. Unplugged wellbores, in violation of Statewide Rule 14(b)(2), constitute a cognizable threat to the public health and safety because of the potential of pollution.
14. The total estimated cost to the State for plugging the Hassler Lease, Well No. 1 is \$10,098.00.
15. Commission inspection reports made on February 4, 2016 through May 6, 2016 for the Hassler Lease show that Well No. 1 has not been properly cemented. The well continues to flow fresh water from outside the surface casing.
16. Commission inspection reports made on February 4, 2016 through May 6, 2016 for the Hassler Lease showed that Well No. 1 has not been properly centralized at the shoe. The well continues to flow fresh water from outside the surface casing.

17. Wells left uncontrolled or open to the atmosphere, in violation of Statewide Rules 13(b)(1)(C) and 13(b)(1)(G), may discharge oil and gas waste onto the land surface and affect the health of humans and animals; these discharges may eventually make their way to the surface or subsurface waters, causing pollution.
18. Commission inspection reports made on February 4, 2016 through May 6, 2016 for the Hassler Lease Well No. 1R show that operations were suspended prior to plugging. The hole was not cased nor was the casing cemented in place.
19. Unplugged wellbores, in violation of Statewide Rules 14(a)(3), can cause pollution of usable quality groundwater and surface water by serving as a conduit for the passage of oil, gas, saltwater, and other substances from one stratum or formation to another or to the surface or from the surface downward.
20. Commission inspection reports made on February 4, 2016 through May 6, 2016 on the Hassler Lease show that Well No. 1R has been plugged but no plugging report, and in the case of a dry hole, no electric log status report has been filed.
21. Unverified plugging of wellbores, in violation of Statewide Rule 14(b)(1), may result in the pollution of usable quality ground water and surface water, because if wells are not properly plugged, they may serve as a conduit for passage of oil, gas, saltwater, and other substances from one stratum or formation to another or to the surface or from the surface downward.
22. Commission inspection reports made on February 4, 2016 through May 6, 2016, for the Hassler Lease show that Well No. 1 was completed but Respondent has not filed the required completion report.
23. Should a well need to be re-entered for any reason, the wellbore documentation provided in those reports as set forth in Statewide Rule 16(b) is necessary to safely and efficiently carry out replugging, recompletion, reworking, or other action.
24. Commission inspection reports made on February 4, 2016 through May 6, 2016 on the Hassler Lease Well No. 1, show that Respondent through neglect or intent failed to notify the Kilgore District Office of the uncontrolled water flow out of the open wellbore.
25. Failing to provide the appropriate Commission district office notice, in violation of Statewide Rule 20(a)(1), can lead to contamination the land surface, affect the health of humans and animals, and may eventually lead to discharges to surface or subsurface waters, causing pollution.
26. 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 lease 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 5(a), 14(b)(2), 13(b)(1)(C), 13(b)(1)(G), 14(a)(3), 14(b)(1), 16(b), and 20(a)(1). 16 TEX. ADMIN. CODE §§ 3.5(a), 3.14(b)(2), 3.13(b)(1)(C), 3.13(b)(1)(G), 3.14(a)(3), 3.14(b)(1), 3.16(b) and 3.20(a)(1).
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 lease in compliance with Statewide Rule 5(a), which requires an application for a permit to drill, deepen, plug back, or reenter any oil well, gas well, or geothermal resource well be made under the provisions of §§3.37, 3.38, 3.39 and/or 3.40 of this title.
7. 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.
8. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 13(b)(1)(C), which provides that cementing shall be by the pump and plugging method. Sufficient cement shall be used to fill the annular space outside the casing from the shoe to the ground surface of to the bottom of the cellar. If cement does not circulate to the ground surface or the bottom of the cellar, the operator or the operator's representatives shall obtain the approval of the district director for the procedures to be used to perform additional cementing operations, if needed, to cement surface casing from the top of the cement to the ground surface.
9. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 13(b)(1)(G), which provides that surface casing shall be centralized at the shoe, above and below a stage collar or diverting tool, if run, and through usable-quality water zone. In non-deviated holes, pipe centralization as follows is required: a centralizer shall be placed every fourth joint from the cement shoe to the ground surface or to the bottom of the cellar. All centralizers shall meet specifications in, or equivalent to, API spec 10D Specifications for Bow-String Casing Centralizer; API Spec 10 TR4, Technical Report on Considerations Regarding Selection of Centralizers for Primary Cementing Operations; and API RP 10D-2, Recommended Practice for Centralized Placement and Stop Collar Testing.
10. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 14(a)(3), which requires operations shall not be suspended prior to plugging the well unless the hole is cased and casing is cemented in place in compliance with Commission rules.

11. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 14(b)(1), which requires a plugging report to be completed, duly verified, and filed in duplicate on the appropriate Commission W-3 form in the District Office within 30 days after plugging operations are completed, accompanied by W-15 cementing report made by the party cementing the well. If the well the operator is plugging is a dry hole, an electric log status report shall be filed with the plugging record.
12. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 16(b), which requires proper completion reports to be filed within ninety days after completion of the well or within one hundred fifty days after the date on which the drilling operation is completed, whichever is earliest, or within thirty days of plugging a dry hole.
13. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 20(a)(1), which requires that operators immediately provide notice to the appropriate Commission district office by telephone or telegraph of a fire, leak, spill or break.
14. 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.
15. An assessed administrative penalty in the amount of THIRTY-TWO THOUSAND SEVEN HUNDRED DOLLARS (\$32,700.00) is justified considering the facts and violations at issue.
16. 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, Zoran Arandjelovic and Robert Karlewicz, 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. RHC Energy (USA) LLC shall place the Hassler Lease, Well No. 1 and 1R in compliance with Statewide Rules 5(a), 14(b)(2), 13(b)(1)(C), 13(b)(1)(G), 14(a)(3), 14(b)(1), 16(b), and 20(a)(1), and any other applicable Commission rules and statutes.
2. RHC Energy (USA) LLC shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **THIRTY-TWO THOUSAND SEVEN HUNDRED DOLLARS (\$32,700.00)**.

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, Zoran Arandjelovic and Robert Karlewicz 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 the Commission's order is signed, unless the time for filing a motion for rehearing has been extended under TEX. GOV'T CODE § 2001.142, by agreement under TEX. GOV'T CODE § 2001.147, or by written Commission Order issued pursuant to TEX. GOV'T CODE § 2001.146(e). 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 January, 2017.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order
dated January 24, 2017)

JNC/rnf