

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 7B-0297226

ENFORCEMENT ACTION AGAINST CRYSTAL RIVER OIL & GAS LLC (OPERATOR NO. 191683) FOR VIOLATIONS OF STATEWIDE RULES ON THE SCOGGINS, FLOSSIE E. (04185) LEASE, WELL NOS. 1, 2, 3, 4, 5, 6, 7, 8, 9 AND 10, ASPERMONT LAKE (CANYON SAND) FIELD, STONEWALL COUNTY; SCOGGINS, FLOSSIE E. -A- (04186) LEASE, WELL NOS. 2, 4 AND 5, ASPERMONT LAKE (CANYON SAND) FIELD, STONEWALL COUNTY; AND SCOGGINS UNIT (14005) LEASE, WELL NOS. 3 AND 4, ASPERMONT LAKE (CANYON SAND) FIELD, STONEWALL 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 November 10, 2016 and that the respondent, Crystal River Oil & Gas LLC, 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. Crystal River Oil & Gas LLC (“Respondent”), Operator No. 191683, 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: Crystal River Oil & Gas LLC, PO Box 6749, Snowmass Vlg. CO 81615 and Klawiter, Reiner W., 220 N. Starwood Dr., Aspen CO 81611. Respondent’s officers and agents as identified on the Form P-5—Reiner W. Klawiter and CT Corporation— were each sent the Original Complaint and Notice of Hearing by certified and first class mail, addressed to their last known address.
2. The certified mail envelope containing the Original Complaint and Notice of Hearing was received by the Respondent on August 3, 2016 and by CT Corporation on August 1, 2016. The certified mail for Reiner W. Klawiter was returned unopened on September 13, 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 Opportunity for Hearing. Respondent has not entered into an agreed settlement order, filed an answer, or requested a hearing.

3. Crystal River Oil & Gas LLC filed its first Form P-5 with the Commission in 1996. On March 10, 2015, Respondent, a Limited Liability Company, filed its most recent Form P-5 with the Commission reporting that its officers consist of the following individual(s): Crystal River Oil & Gas LLC, Respondent; Reiner W. Klawiter, Manager; and CT Corporation, Resident Agent for the Respondent.
4. Reiner W. Klawiter 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. Respondent's Form P-5 is delinquent. Respondent had a \$50,000 letter of credit as its financial assurance at the time of the last Form P-5 annual renewal submission.
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 the Scoggins, Flossie E. (04185) Lease, Well Nos. 1, 2, 3, 4, 5, 7, 8, 9, and 10 by filing Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective April 1, 1998, approved June 13, 2000. Respondent designated itself to the Commission as the operator of the Scoggins, Flossie E. -A- (04186) Lease, Well Nos. 2, 4, and 5 and the Scoggins Unit (14005) Lease, Well Nos. 3 and 4 by filing Commission Form P-4 (Certificate of Compliance and Transportation Authority), both effective July 28, 1999, approved September 23, 1999.
8. Commission inspection reports made on January 20, 2015, January 29, 2015, March 27, 2015, April 20, 2015, and June 3, 2015 for the Scoggins Unit (14005) Lease, show that the sign or identification required to be posted at Well No. 4 displayed incorrect information.
9. The lack of legible signs and identification displaying correct information, as set forth in Statewide Rule 3(2), may cause confusion as to the responsible operator to be contacted and the actual location of the violation or emergency, which can result in delays in remedying a violation or emergency.
10. Commission inspection reports made from January 28, 2015 to July 17, 2015 for the Scoggins, Flossie E. (04185) Lease show hydrocarbon pollution affecting an area approximately 18' x 30' x 6", an area approximately 9' x 12' x 6" and an area approximately 6' x 12' x 6". A Commission inspection report made on May 24, 2016 indicate that these areas of unauthorized disposal have been remediated.
11. Commission inspection reports made from January 26, 2015 to July 17, 2015 for the Scoggins, Flossie E. -A- (04186) Lease show hydrocarbon pollution affecting an area approximately 3' x 3' x 6" and an area approximately 3' x 3' x 3". A Commission

inspection report made on May 23, 2016 indicate that these areas of unauthorized disposal have been remediated.

12. Commission inspection reports made from January 20, 2015 to June 3, 2015 for the Scoggins Unit (14005) Lease show freestanding produced water that is heavy in chlorides, with salt crystals located around the perimeter affecting an area approximately 150' x 60' x 1' and hydrocarbon pollution affecting an area approximately 20' x 20' x 6" and an area approximately 5' x 2' x 6". A Commission inspection report made on May 24, 2016 indicate that these areas of unauthorized disposal have been remediated.
13. Respondent did not have a permit for said discharges, nor were they authorized under Statewide Rules 8(d)(3), 8(e), 9, 46 or 98.
14. Unpermitted discharges of oil and gas waste, in violation of Statewide Rule 8(d)(1), can contaminate the land surface, affect the health of humans and animals, and may eventually be discharged to surface or subsurface waters, causing pollution.
15. A Commission inspection report made on June 3, 2015 for the Scoggins, Flossie E. (04185) Lease show that Respondent failed to backfill and compact a workover pit measuring 20' x 10' x 3' located approximately 20' from Well No. 10. Commission records show that Well No. 10 was completed on October 30, 1985. Commission records indicate this issue was resolved May 24, 2016.
16. Reserve pits and mud circulation pits that are not maintained, emptied and backfilled, as set forth in Statewide Rule 8(d)(4)(H)(i)(I), may result in unpermitted discharges of oil and gas waste which can contaminate the land surface, affect the health of humans and animals, and may be discharged to surface or subsurface waters, causing pollution.
17. Commission records for the Scoggins, Flossie E. (04185) Lease and the Scoggins Unit (14005) Lease indicate that Respondent failed to provide documentation at the investigation of off-lease disposal, which would have shown the proper disposal for the oil and gas waste excavated off the Scoggins, Flossie E. (04185) Lease from three areas of unauthorized discharges and the Scoggins Unit (14005) Lease from four areas of unauthorzoid discharges.
18. Failure to provide documentation as required by Statewide Rule 8(g)(3) breaches a control in place to prevent improper disposal or unpermitted disposal of oil and gas waste, which can contaminate the land surface, affect the health of humans and animals, and may eventually be discharged to surface or subsurface waters, causing pollution.
19. Commission inspection reports made on January 27, 2015, January 28, 2015, March 27, 2015, April 20, 2015, April 22, 2015, June 3, 2015, June 4, 2015, and July 17, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the

- absence of production reports filed by Respondent with the Commission since May 2015, show the Scoggins, Flossie E. (04185) Lease, Well Nos. 2, 3, 5, 7, and 8 have been inactive for a period greater than one year. Production from the subject wells ceased on or before April 2015.
20. Commission inspection reports made on January 27, 2015, January 28, 2015, March 27, 2015, April 20, 2015, April 22, 2015, June 3, 2015, June 4, 2015, and July 17, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the absence of production reports filed by Respondent with the Commission since September 2012, show the Scoggins, Flossie E. (04185) Lease, Well Nos. 1, 4, and 6 have been inactive for a period greater than one year. Production from the subject well ceased on or before April 2015. Injection into Well No. 1 ceased in October 1992, Well No. 4 ceased in May 1991, and Well No. 6 ceased in October 2012.
 21. Commission inspection reports made on January 20, 2015, January 26, 2015, March 3, 2015, March 12, 2105, March 27, 2015, April 20, 2015, June 3, 2015, June 4, 2015, and July 17, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the absence of production reports filed by Respondent with the Commission since January 2015, show the Scoggins, Flossie E. -A- (04186) Lease, Well No. 2 has been inactive for a period greater than one year. Production from the subject well ceased on or before February 2015.
 22. Commission inspection reports made on January 27, 2015, January 28, 2015, March 27, 2015, April 20, 2015, April 22, 2015, June 3, 2015, June 4, 2015, and July 17, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the absence of production reports filed by Respondent with the Commission since December 1994, show the Scoggins, Flossie E. -A- (04186) Lease, Well No. 5 has been inactive for a period greater than one year. Injection into the subject well ceased in November 1994.
 23. Commission inspection reports made on January 20, 2015, January 29, 2015, March 27, 2015, April 20, 2015, and June 3, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the absence of production reports filed by Respondent with the Commission since July 2015, show the Scoggins Unit (14005) Lease, Well No. 3 has been inactive for a period greater than one year. Production from the subject well ceased on or before June 2015.
 24. Commission inspection reports made on January 20, 2015, January 29, 2015, March 27, 2015, April 20, 2015, and June 3, 2015 and either reports filed by Respondent with the Commission reflecting zero production or the absence of production reports filed by Respondent with the Commission since April 1994, show the Scoggins Unit (14005) Lease, Well No. 4 has been inactive for a period greater than one year. Injection into the subject well ceased in September 1992.

25. No work-overs, re-entries, or subsequent operations have taken place on either of the subject wells within the last twelve months; neither 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 either of the subject wells as allowed by Statewide Rule 14. The subject wells are not otherwise in compliance with Statewide Rule 14.
26. Commission inspection reports made on January 20, 2015, January 29, 2015, March 27, 2015, April 20, 2015, and June 3, 2015, for the Scoggins Unit (14005) Lease, show that Well No. 4 is not equipped with an operational bradenhead.
27. Wells that have pressure on the bradenhead, in violation of Statewide Rule 17(a), may result in a discharge of oil and gas waste into ground water and contamination of surface or subsurface waters, thereby resulting in pollution.
28. 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 3(2), 8(d)(1), 8(d)(4)(H)(i)(III), 8(g)(3), 14(b)(2), and 17(a). 16 TEX. ADMIN. CODE §§ 3.3(2), 3.8(d)(1), 3.8(d)(4)(H)(i)(III), 3.8(g)(3), 3.14(b)(2), and 3.17(a).
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 3(2), which requires that each well site that produces oil, gas, or geothermal resources shall post signs or identification showing the name of the property, name of the operator and the well number.
7. Respondent is responsible for maintaining the Scoggins, Flossie E. (04185) Lease, the Scoggins, Flossie E. -A- (04186) Lease, and the Scoggins Unit (14005) Lease in

- compliance with Statewide Rule 8(d)(1), which prohibits the discharge of oil and gas waste without a permit.
8. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 8(d)(4)(H)(i)(I), which requires that reserve pits and mud circulation pits be maintained, emptied and backfilled within one year of cessation of drilling operations.
 9. Respondent is responsible for maintaining the Scoggins, Flossie E. (04185) Lease and the Scoggins Unit (14005) Lease in compliance with Statewide Rule 8(g)(3), which requires persons keeping required records to make the records available for examination and copying by members and employees of the Commission during reasonable working hours.
 10. 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.
 11. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 17(a), which requires that all wells be equipped with a bradenhead.
 12. 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.
 13. An assessed administrative penalty in the amount of NINETY-SIX THOUSAND NINE HUNDRED TWENTY-THREE DOLLARS (\$96,923.00) is justified considering the facts and violations at issue, consisting of one Statewide Rule 3(2) VIOLATION OF \$500.00, for time out of compliance on six Statewide Rule 8(d)(1) violations totaling \$8,771.00, for time out of compliance on one Statewide Rule 8(d)(4)(H)(i)(III) violation at \$2,500.00, for twelve Statewide Rule 14(b)(2) violations totaling \$84,152.00 (Scoggins, Flossie E. (04185), Well No. 1 for \$7,025.00, Well No. 2 for \$6,922.00, Well No. 3 for \$6,980.00, Well No. 4 for \$7,012.00, Well No. 5 for \$7,018.00, Well No. 6 for \$7,064.00, Well No. 7 for \$7,050.00, and Well No. 8 for \$7,007.00; Scoggins, Flossie E. -A- (04186) Lease, Well No. 2 for \$6,954.00 and Well No. 5 for \$7,025.00; and Scoggins Unit (14005) Lease, Well No. 3 for \$7,100.00 and Well No. 4 for \$6,995.00), and one Statewide Rule 17(a) violation at \$1,000.00 and seeking compliance only on seven Statewide Rule 8(g)(3) violations.
 14. 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, Reiner W. Klawiter, and any other organization in which he may hold a position of ownership or control, is 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. Crystal River Oil & Gas LLC (Operator No. 191683) shall plug the Scoggins, Flossie E. (04185) Lease, Well Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10; the Scoggins, Flossie E. -A- (04186), Well Nos. 2, 4, and 5; and the Scoggins Unit (14005) Lease, Well Nos. 3 and 4 in compliance with Statewide Rule 14(b)(2) and place the leases in compliance with Statewide Rules 3(2), 8(d)(4)(H)(i)(III), 8(g)(3), and 17(a) any other applicable Commission rules and statutes.
2. Crystal River Oil & Gas LLC (Operator No. 191683) is assessed by the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **NINETY-SIX THOUSAND NINE HUNDRED TWENTY-THREE DOLLARS (\$96,923.00)**.

It is further **ORDERED** that 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, Reiner W. Klawiter, and any other organization in which he 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 of an application 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 Commission Order is signed.

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)

MFE/dac