

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 7B-0301725

ENFORCEMENT ACTION AGAINST UNITED OPERATING, LLC (OPERATOR NO. 877448) FOR VIOLATIONS OF STATEWIDE RULES ON THE CARTER, COY LEASE, WELL NO. 3 (RRC NO. 227566), MOBY DICK (MARBLE FALLS) FIELD, PALO PINTO 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 January 12, 2017 and that the respondent, United Operating, 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. United Operating, LLC (“Respondent”), Operator No. 877448, 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: United Operating, LLC, 9600 Great Hills Trail, Suite 150W, Austin, Texas 78757. Respondent’s officers as identified on the Form – Ryan Charles Hudson, CEO/Manager and Michael Douglas Carey, CEO/Manager – were each sent the Original Complaint and Notice of Opportunity for Hearing by certified and first class mail, addressed to their last known address: Ryan Charles Hudson, CEO/Manager, United Operating, LLC, 3637 Aquamarine Drive, Round Rock, Texas 78681-2447 and Michael Douglas Carey, CEO/Manager, United Operating, LLC, 13275 Kerrville Folkway, Austin, Texas 78729.
2. The certified mail envelope containing the Original Complaint and Notice of Opportunity for Hearing was received by the Respondent and Ryan Charles Hudson, CEO/Manager on October 28, 2016 and October 29, 2016, respectively. The certified mail envelope containing the Original Complaint and Notice of Opportunity for Hearing addressed to Michael Douglas Carey, CEO/Manager was returned to the Commission unopened on November 29, 2016. The first-class mail was not returned. Record of the delivery and return 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. Respondent filed its first Form P-5 with the Commission in 2011. On December 1, 2015, Respondent, a Limited Liability Company, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals: Ryan Charles Hudson, CEO/Manager and Michael Douglas Carey, CEO/Manager.
4. Ryan Charles Hudson 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. Michael Douglas Carey 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 \$50,000.00 cash deposit as its financial assurance at the time of the last Form P-5 annual renewal submission.
7. Respondent designated itself to the Commission as the operator of the Carter, Coy Lease, Well No. 3 (RRC No. 227566), by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective February 1, 2011, approved February 25, 2011.
8. Commission inspection reports made on August 4, 2016 and October 27, 2016, for the Carter, Coy Lease, Well No. 3 (RRC No. 227566) show that the sign or identification required to be posted at the lease entrance was illegible.
9. Commission inspection reports made on August 4, 2016 and October 27, 2016, for the Carter, Coy Lease, Well No. 3 (RRC No. 227566), show that the sign or identification required to be posted at the well was illegible.
10. Commission inspection reports made on February 24, 2016, August 4, 2016, and October 27, 2016, for the Carter, Coy Lease, Well No. 3 (RRC No. 227566), show that the sign or identification required to be posted at the tank displayed incorrect information.
11. The lack of legible signs and identification displaying correct information, as set forth in Statewide Rules 3(1), 3(2), and 3(3) 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.
12. The violations of Commission rules committed by Respondent are related to safety and the control of pollution. According to an Affidavit signed by Petar Buva, Field Operations, on Statewide Rule 3, "In the event of a pollution or safety violation or other emergency, the lack of legible signs and identification displaying correct information may cause confusion

as to the responsible operator to be contacted and the actual location of the violation or emergency. Such confusion will cause delays in containing and remediating the violation or emergency, which is serious and may threaten the public health and safety.”

13. Commission inspection reports completed on February 24, 2016, August 4, 2016 and October 27, 2016, and reports filed by Respondent with the Commission reflecting zero production since December 2014, show the Carter, Coy Lease, Well No. 3 (RRC No. 227566) have been inactive for a period greater than one year. Production from the subject wells ceased on or before November 2014.
14. 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 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 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.
16. The total estimated cost to the State for plugging the Carter, Coy Lease, Well No. 3 (RRC No. 227566) is \$19,700.
17. The violations of Commission rules committed by Respondent are related to safety and the control of pollution. According to an Affidavit signed by Petar Buva, Field Operations, “Any wellbore, cased or otherwise, is a potential conduit for flow from oil or saltwater zones to zones of usable quality water or to the surface. Holes or leaks may develop in cased wells, allowing oil or saltwater to communicate with usable quality zones or to flow to the surface. Uncased wells allow direct communication between zones and provide unimpeded access to the surface.”
18. Commission inspection reports made on August 4, 2016 and October 27, 2016 for the Carter, Coy Lease, Well No. 3 (227566) show hydrocarbon soaked soil at the well affecting an area 12’ x 18’.
19. 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.
20. 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.

21. The violations of Commission rules committed by Respondent are related to safety and the control of pollution. According to an Affidavit signed by Petar Buva, Field Operations, on Statewide Rule 8(d)1), "Any unauthorized discharge of disposal of oil, saltwater, basic sediment or other oil and gas waste is a potential source of pollution to surface and subsurface waters if not remediated to prevent seepage and run-off."
22. The Respondent has a prior order, documented under Docket No. 7B-0270626 for violations of Statewide Rules 3(1), 3(2), 3(3), and 8(d)(1), in which an Agreed Order was entered October 11, 2011.

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 3(1), 3(2), 3(3), 8(d)(1), and 14(b)(2). 16 TEX. ADMIN. CODE §§ 3.3(1), 3.3(2), 3.3(3), 3.8(d)(1), and 3.14(b)(2).
5. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 3(1) which requires that for 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, a sign shall be posted at the principal entrance which shall show the name by which the property is carried on the records of the Commission, the name of the operator, and the number of acres in the property.
6. Respondent is responsible for maintaining the subject lease 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 subject lease in compliance with Statewide Rule 3(3), which requires that each tank battery that produces oil, gas, or geothermal resources shall post signs or identification showing the name of the property, commission lease number, name of the operator, number of acres in the property and if commingled, include the commingling permit number.

8. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 8(d)(1), which prohibits the discharge of oil and gas waste without a permit.
9. 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.
10. 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.
11. An assessed administrative penalty in the amount of TEN THOUSAND FIVE HUNDRED TWELVE DOLLARS (\$10,512.00) is justified considering the facts and violations at issue, consisting of one violation of Statewide Rule 3(1) at \$1,000.00, one violation of Statewide Rule 3(2) at \$500.00, one violation of Statewide Rule 3(3) at \$1,000.00, one violation of Statewide Rule 8(d)(1) at \$564.00, and one violation of Statewide Rule 14(b)(2) at \$6,448.00, plus an enhancement of \$1,000.00 for one prior Order.
12. As persons in a position of ownership or control of Respondent at the time Respondent violated a Commission rule related to safety and the control of pollution, Ryan Charles Hudson and Michael Douglas Carey, and any other organization in which they 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. United Operating, LLC (Operator No. 877448) shall place the Carter, Coy Lease, Well No. 3 (RRC No. 227566) in compliance with Statewide Rules 3(1), 3(2), 3(3), 8(d)(1), and 14(b)(2), and any other applicable Commission rules and statutes.
2. United Operating, LLC (Operator No. 877448) shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of TEN THOUSAND FIVE HUNDRED TWELVE DOLLARS (\$10,512.00).

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, Ryan Charles Hudson and Michael Douglas Carey, and any other organization in which they 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