

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 06-0272251

ENFORCEMENT ACTION AGAINST KADS OIL INC. (OPERATOR NO. 450062) FOR VIOLATIONS OF STATEWIDE RULES ON THE RODGERS-HILL UNIT (LEASE NO. 03477), WELL NO. 1, NEW DIANA (WOODBINE) FIELD, UPSHUR 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 March 30, 2017 and that the respondent, KADS Oil, Inc., failed to appear or respond to the First Amended 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. KADS Oil Inc. (“Respondent”), Operator No. 450062, was sent the First Amended Original Complaint and First Amended Notice of 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— Sam J. Sherrard, Nicki P. Sherrard, and Sandra P. Marko —were each sent the First Amended Original Complaint and First Amended Notice of Hearing by certified and first class mail, addressed to their last known address.
2. The certified mail envelope and first class mail containing the First Amended Original Complaint and First Amended Notice of Hearing addressed to Sandra Marko was received on February 11, 2017. First class mail to her was not returned. The remaining two certified mail envelopes were returned on February 21, 2017. The remaining two first class mail envelopes were also 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. On March 16, 2010, Respondent, a corporation, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals: Sam J.

Sherrard, President; Nicki P. Sherrard, Secretary/Treasurer; and Sandra P. Marko, Vice President.

4. Sam J. Sherrard 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. Nicki P. Sherrard 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. Sandra P. Marko 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.
7. Respondent's Form P-5 is delinquent. Respondent had a \$25,000.00 bond as its financial assurance at the time of Respondent's last Form P-5 annual renewal submission.
8. The violations of Commission rules committed by Respondent are related to safety and the control of pollution.
9. Respondent designated itself to the Commission as the operator of the Rodgers-Hill Unit (Lease No. 03477), Well No. 1, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective May 10, 2006, approved June 19, 2006.
10. Commission inspection reports made on January 13, 2011, April 4, 2011 and June 24, 2011 for the Rodgers-Hill Unit show that the sign or identification to be posted at Well No. 1 was missing.
11. 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.
12. Commission inspection reports made on January 28, 2010, March 15, 2010, May 11, 2010, May 28, 2010, June 22, 2010, June 30, 2010, June 22, 2010, September 2, 2010, November 8, 2010, January 13, 2011, April 4, 2011, and June 24, 2011; zero production reported from May 1996 through March 1997; no production reports filed from April 1997 through August 2001; zero production reported from September 2001 through March 2006; no production reports filed in April 2006 and May 2006; zero production reported from June 2006 through April 2008; and no

production reports file thereafter show that the Rodgers-Hill Unit, Well No. 1, has been inactive for a period greater than one year. Production from the subject well ceased in April 1996.

13. 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.
14. Usable quality groundwater in the area can become contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject well. 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.
15. The total estimated cost to the State for plugging the Rodgers-Hill Unit, Well No. 1 is \$30,561.00.
16. A Commission inspection report made on January 28, 2010 for the Rodgers-Hill Unit show that respondent caused or allowed an unauthorized discharge of oil sludge within the firewall. A Commission inspection report made on June 30, 2010 show that some remediation had taken place. However, oil saturated soil remains. Follow up inspections conducted on July 22, 2010, September 2, 2010, November 8, 2010, January 13, 2011, April 4, 2011 and June 24, 2011 show no further remediation. Commission records show this violation was brought into compliance on March 23, 2013.
17. 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.
18. 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.
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 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(2), 14(b)(2), and 8(d)(1). 16 TEX. ADMIN. CODE §§ 3.3(2), 3.14(b)(2), and 3.8(d)(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 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 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 8(d)(1), which prohibits the discharge of oil and gas waste without a permit.
9. 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.
10. An assessed administrative penalty in the amount of TWO THOUSAND SEVEN-HUNDRED FIFTY DOLLARS (\$2,750.00) is justified considering the facts and violations at issue.
11. 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, Sam J. Sherrard, Nicki P. Sherrard, and Sandra P. Marko and any other organization in which any of these individuals 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. KADS Oil Inc. shall place the Rodgers-Hill Unit, Well No. 1 in compliance with Statewide Rules 3(2) and 14(b)(2), and any other applicable Commission rules and statutes.
2. KADS Oil Inc. (Operator No. 450062) shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **TWO THOUSAND SEVEN-HUNDRED FIFTY DOLLARS (\$2,750.00)**.

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, Sam J. Sherrard, Nicki P. Sherrard, and Sandra P. Marko and any other organization in which each or any 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 Commission Order is signed. All pending motions and request for relief not previously granted or granted herein are denied.

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 10th day of May 2017.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master
Order dated May 10, 2017)

JNC/rnf