

**RAILROAD COMMISSION OF TEXAS  
HEARINGS DIVISION**

**OIL AND GAS DOCKET NO. 06-0298128**

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**ENFORCEMENT ACTION AGAINST GRAYSTONE ENERGY CORPORATION  
(OPERATOR NO. 328347) FOR VIOLATIONS OF STATEWIDE RULES ON THE  
ALLEN, JEANNIE (14573) LEASE, WELL NO. 1, MINDEN (TRAVIS PEAK CONS.)  
FIELD, RUSK COUNTY, TEXAS**

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**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 2, 2017, and that the respondent, Graystone Energy Corporation, failed to appear or respond to the **Notice of Opportunity for Hearing**. Pursuant to § 1.25 of the Commission's General Rules of Practice and Procedure, 16 TEX. ADMIN. CODE § 1.25, 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. Graystone Energy Corporation ("Respondent"), Operator No. 328347, 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") addresses, to two different addresses. Respondent's officers as identified on the Form P-5—Beverley E. Hitt and John Leonard Hitt—were sent the Original Complaint and Notice of Opportunity for Hearing by certified and first-class mail, addressed to the last known addresses.
2. The certified mail envelopes containing the Original Complaint and Notice of Opportunity for Hearing addressed to the Respondent, Beverley E. Hitt, and John Leonard Hitt were received on September 13, 2017. One of the Certified Mail envelopes addressed to Graystone Energy Corporation was returned to the Commission unopened on September 19, 2017. One of the first-class mail envelopes addressed to Graystone Energy Corporation was returned to the Commission on September 21, 2017. The first-class mail envelopes addressed to Respondent, Beverley E. Hitt, and John Leonard Hitt were 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. On June 13, 2014, Respondent, a corporation, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals: Beverley E. Hitt, Secretary and John Leonard Hitt, President.
4. Beverley E. Hitt was in a position of ownership or control of Respondent, as defined in TEX. NAT. RES. CODE § 91.114, during the time period of the violations of Commission rules committed by Respondent.
5. John Leonard Hitt was in a position of ownership or control of Respondent, as defined in TEX. NAT. RES. CODE § 91.114, 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 bond 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 Allen, Jeannie (14573) Lease, Well No. 1, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective November 20, 2006, approved April 1, 2006.
8. Commission inspection reports made on December 16, 2014, January 20, 2015, February 24, 2015, March 20, 2015, May 21, 2015, June 24, 2015, July 7, 2015, July 20, 2017, August 6, 2015, September 15, 2015, September 29, 2015, October 28, 2015, November 3, 2015, November 19, 2015, and December 2, 2015 for the Allen, Jeannie (14573) Lease show that Well No. 1 was leaking from the stuffing box. The June 24, 2015, showed that impacted area to measure approximately fifteen (15) yards by twenty-five (25) yards of standing saltwater and dead vegetation around the wellhead. The September 29, 2015, inspection found the stuffing box to be blowing saltwater approximately twenty (20) feet in the air, resulting in the wellhead being saturated and saltwater standing all over the location. On November 30, 2015, the Commission expended fund to stop the leak, restore the wellhead control, and remediate the impacted soil.
9. 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.
10. 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.
11. Commission district inspection reports made on December 16, 2014, January 20, 2015, February 24, 2015, March 20, 2015, May 21, 2015, June 24, 2015, July 7, 2015, July 20, 2017, August 6, 2015, September 15, 2015, September 29, 2015, October 28, 2015, November 3, 2015, November 19, 2015, and December 2, 2015 for the Allen, Jeannie (14573) Lease show that Well No. 1 was not equipped with an operable stuffing box to ensure well control, as the well was leaking from the stuffing box. Specifically, the September 29, 2015, inspection found the stuffing box to be blowing saltwater approximately twenty (20) feet in the air, resulting in the wellhead being saturated and saltwater standing all over the location. On

November 30, 2015, the Commission expended funds to stop the leak, restore the wellhead control, and remediate the impacted soil.

12. Wells left uncontrolled or open to the atmosphere, in violation of Statewide Rule 13(a)(6)(A), 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 surface or subsurface waters, causing pollution.
13. Commission inspection reports made on December 16, 2014, January 20, 2015, February 24, 2015, March 20, 2015, May 21, 2015, June 24, 2015, July 7, 2015, July 20, 2017, August 6, 2015, September 15, 2015, September 29, 2015, October 28, 2015, November 3, 2015, November 9, 2015, November 19, 2015, and December 2, 2015, and the absence of reported production since August 2015, showed that the Allen, Jeannie (14573) Lease, Well No. 1 has been inactive for a period greater than one year. Production from the subject lease ceased on or before September 2015.
14. No workovers, 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 extensions are in effect for the subject well as allowed by Statewide Rule 14.
15. Usable quality groundwater in the area can become contaminated by migrations or discharges of saltwater and other oil and gas waste 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.
16. The total estimated cost to the State for plugging the Allen, Jeannie (14573) Lease Well No. 1 is \$67,993.60.
17. The Respondent charged with the violation herein recited has a history of violations of Commission rules. Respondent has an outstanding final order against it in Oil & Gas Docket No. 03-0281878, Order signed August 26, 2016.

### **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 TEX. NAT. RES. CODE, chs. 89 and 91.

4. Respondent is in violation of Statewide Rules 8(d)(1), 13(a)(6)(A), and 14(b)(2). 16 TEX. ADMIN. CODE §§ 3.8(d)(1), 3.13(a)(6)(A), and 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 lease in compliance with Statewide Rule 8(d)(1), which prohibits the discharge of oil and gas waste without a permit.
7. Respondent is responsible for maintaining surface control of a well by using wellhead assemblies in compliance with Statewide Rule 13(a)(6)(A). Maintenance of surface control is necessary not only to prevent fluids from being discharged from the wellbore onto the ground surface, but also to prevent any oil and gas wastes present in the wellbore from being displaced to surface by influxes of surface water into the open wellbore.
8. 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.
9. Pursuant to TEX. NAT. RES. CODE § 81.0531, the Commission may assess administrative penalties against Respondent for the subject violations of up to \$10,000.00 per day for each violation, with each day such violations continued constituting a separate violation.
10. An assessed administrative penalty in the amount of **TWENTY EIGHT THOUSAND, THREE HUNDRED EIGHTY DOLLARS (\$28,380.00)** is justified considering the facts and violations at issue and reimbursement of State-managed funds expended for cleanup activities at the lease in the amount of **EIGHT HUNDRED SIXTEEN DOLLARS FIFTY-SEVEN CENTS (\$816.57)** is also required.
11. As persons in positions of ownership or control of Respondent at the time Respondent violated Commission rules related to safety and the control of pollution, Beverley E. Hitt and John Leonard Hitt, and any other organization in which these individuals may hold a position of ownership or control, is subject to the restriction in TEX. NAT. RES. CODE § 91.114(a)(2).

## ORDERING PROVISIONS

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

1. Graystone Energy Corporation (Operator No. 328347) shall place the Allen, Jeannie (14573) Lease, Well No. 1, in compliance with Statewide Rules 8(d)(1), 13(a)(6)(A), and 14(b)(2), and any other applicable Commission rules and statutes.
2. Graystone Energy Corporation (Operator No. 328347) shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **TWENTY EIGHT THOUSAND, THREE HUNDRED EIGHTY DOLLARS (\$28,380.00)**.
3. Graystone Energy Corporation (Operator No. 328347) shall reimburse the Railroad Commission of Texas, for State-managed funds expended for cleanup activities at the lease in the amount of **EIGHT HUNDRED SIXTEEN DOLLARS FIFTY-SEVEN CENTS (\$816.57)**.

It is further **ORDERED** that as persons in positions of ownership or control of Respondent at the time Respondent violated Commission rules related to safety and the control of pollution, Beverley E. Hitt and John Leonard Hitt, and any other organization in which these individuals may hold a position of ownership or control, **shall be subject to the restriction in TEX. NAT. RES. CODE § 91.114(a)(2) 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 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 per day per violation.

Done this 5<sup>th</sup> day of December 2017.

**RAILROAD COMMISSION OF TEXAS**

(Signatures affixed by Default Master  
Order dated December 5, 2017)

CJH/dac