

**RAILROAD COMMISSION OF TEXAS  
HEARINGS DIVISION**

**OIL AND GAS DOCKET NO. 6E-0298706**

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**ENFORCEMENT ACTION AGAINST GRAYSTONE ENERGY CORPORATION  
(OPERATOR NO. 328347) FOR VIOLATIONS OF STATEWIDE RULES ON THE  
ALFORD (07210) LEASE, WELL NOS. 2 AND 3, EAST TEXAS 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 at 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. The second Certified Mail envelope 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 Alford (07210) Lease, Well Nos. 2 and 3, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective November 1, 2009, approved October 30, 2009.
8. Commission inspection reports made on December 2, 2014, January 22, 2015, March 26, 2015, June 24, 2015, August 31, 2015, September 29, 2015, November 9, 2015, February 24, 2016, May 5, 2016, and July 5, 2016, for the Alford (07210) Lease show that the signs or identification required to be posted at the lease entrance displayed incorrect information. The sign stated the lease name was the E. B. Alford, rather than the Alford.
9. Commission inspection reports made on March 26, 2015, June 24, 2015, August 31, 2015, September 29, 2015, November 9, 2015, February 24, 2016, May 5, 2016, and July 5, 2016, for the Alford (07210) Lease, Well Nos. 2, and 3 show that the signs or identification required to be posted at the well locations were missing.
10. Commission inspection reports made on December 2, 2014, January 22, 2015, March 26, 2015, June 24, 2015, November 9, 2015, February 24, 2016, May 5, 2016, June 28, 2016, and July 5, 2016, or the Alford (07210) Lease show that the signs or identification required to be posted at the tank battery displayed incorrect information. The sign stated the lease name was the E. B. Alford, rather than the Alford.
11. The lack of legible signs and identification displaying correct information, as set forth in Statewide Rules 3(1), 3(2), 3(3), may cause confusion as to the responsible operator to be contacted and the actual location of a violation or emergency, which can result in delays in remedying a violation or emergency.

12. Commission inspection reports made on December 5, 2013, December 2, 2014, January 22, 2015, March 26, 2015, June 24, 2015, August 31, 2015, September 29, 2015, November 9, 2015, February 24, 2016, May 5, 2016, June 28, 2016, July 5, 2016, December 6, 2016, December 20, 2016, February 14, 2017, and April 12, 2017 for the Alford (07210) Lease shows a discharge in the firewall measuring thirty (30) feet by thirty (30) feet.
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. Commission district inspection reports made on March 26, 2015, June 24, 2015, August 31, 2015, September 29, 2015, November 9, 2015, February 24, 2016, May 5, 2016, and July 5, 2016, for the Alford (07210) Lease show that Well No. 2 was open to the atmosphere at the casing nipple and Well No. 3 was open to the atmosphere at the pumping tee.
16. 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.
17. Commission inspection reports made on March 26, 2015, June 24, 2015, September 29, 2015, November 9, 2015, February 24, 2016, May 5, 2016, and July 5, 2016, and the absence of reported production since May 2012, showed that the Alford (07210) Lease, Well Nos. 2, and 3 have been inactive for a period greater than one year. Production from the subject lease ceased on or before June 2012.
18. 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.
19. 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.
20. The total estimated cost to the State for plugging the Alford (07210) Lease Well Nos. 2, and 3 is \$44,603.00.

21. 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 3(1), 3(2), 3(3), 8(d)(1), 13(a)(6)(A), and 14(b)(2). 16 TEX. ADMIN. CODE §§ 3.3(1), 3.3(2), 3.3(3), 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 3(1), which requires that 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.
7. 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.
8. 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.
9. 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.

10. 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.
11. 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.
12. Pursuant to TEX. NAT. RES. CODE § 81.0531, the Commission may assess administrative penalties against Respondent for the subject violations of up to \$10,000.00 per day for each violation, with each day such violations continued constituting a separate violation.
13. An assessed administrative penalty in the amount of **TWENTY-ONE THOUSAND, EIGHT HUNDRED DOLLARS (\$21,800.00)** is justified considering the facts and violations at issue.
14. 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 Alford (07210) Lease, Well Nos. 2, and 3, in compliance with Statewide Rules 3(1), 3(2), 3(3), 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-ONE THOUSAND, EIGHT HUNDRED DOLLARS (\$21,800.00)**.

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