

RAILROAD COMMISSION OF TEXAS  
OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 01-0314973

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ENFORCEMENT ACTION AGAINST SCULLY ENERGY CORPORATION  
(OPERATOR NO. 760476) FOR VIOLATIONS OF STATEWIDE RULES ON THE  
HILLMAN LEASE, WELL NO. 2 (DRILLING PERMIT NO. 689830), SALT FLAT, WEST  
FIELD, GONZALES COUNTY; AND HILLMAN LEASE, WELL NO. 3 (DRILLING  
PERMIT NO. 692814), SALT FLAT, WEST FIELD, GONZALES COUNTY, TEXAS

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FINAL ORDER

The Railroad Commission of Texas ("Commission") finds that statutory notice of the captioned enforcement proceeding was provided pursuant to Commission rules, and that the respondent, Scully 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 Texas Administrative 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. Scully Energy Corporation ("Respondent"), Operator No. 760476, 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.
2. The certified mail envelope containing the Original Complaint and Notice of Opportunity for Hearing addressed to the Respondent was returned to the Commission unopened on December 19, 2018. The first-class mail envelope addressed to Respondent was returned to the Commission on December 17, 2018. 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 a 30 day 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 4, 2010, Respondent, a corporation, filed a Form P-5 with the Commission reporting that its officer consists of the following individual: Noel B. Scully, Chairman, President, and Secretary.
4. Respondent's Form P-5 is delinquent. Respondent had a \$50,000.00 letter of credit as its financial assurance at the time of the last Form P-5 annual renewal submission.
5. Respondent designated itself to the Commission as the operator of the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), by filing a Commission Form W-1 (Application for Permit to Drill, Recomplete, or Re-Enter), received January 15, 2010, issued January 19, 2010.

6. Respondent designated itself to the Commission as the operator of the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), by filing a Commission Form W-1 (Application for Permit to Drill, Recomplete, or Re-Enter), received March 12, 2010, issued March 16, 2010.
7. Commission inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), show that the sign or identification required to be posted at the lease entrance was missing.
8. Commission inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), show that the sign or identification required to be posted at the lease entrance was missing.
9. Commission inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), show that the sign or identification required to be posted at Well No. 2 was missing.
10. Commission inspection report made on August 3, 2018 for the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), show that the sign or identification required to be posted at Well No. 3 was missing.
11. Failure to properly identify a well by posting of the sign required by Statewide Rules 3(1) and 3(2) have the potential for causing 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 district inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), shows the ball valve on Well No. 2 was open to the atmosphere, indicating a lack of wellhead control.
13. 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.
14. Commission inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), and a total absence of reported production since the drilling permit was issued in January 2010, show that the well has never produced, and that the well has been inactive for a period greater than one year.
15. Commission inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), and a total absence of reported production since the drilling permit was issued in January 2010, show that the well has never produced, and that the well has been inactive for a period greater than one year.
16. No workovers, re-entries, or subsequent operations have taken place on the subject wells within the last twelve months and the subject wells have not been properly plugged in accordance with Statewide Rule 14, 16 Tex. Admin Code § 3.14. No plugging extensions are in effect for the subject well as allowed by Statewide Rule 14.
17. 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.
18. The total estimated cost to the State for plugging the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), Well No. is \$40,200.00. The total estimated cost to the State for plugging the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), Well No. is \$40,200.00.
  19. Commission district inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), and Commission records, show that Well No. 2 was completed on January 22, 2010. Despite the completion of Well No. 2, Respondent failed to file the required completion report.
  20. Commission district inspection reports made on December 5, 2017 and August 3, 2018 for the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), and Commission records, show that Well No. 3 was completed on March 24, 2010. Despite the completion of Well No. 3, Respondent has not filed the required completion report.
  21. The wellbore documentation provided in completion and plugging reports as set forth in Statewide Rule 16(b) is necessary to safely and efficiently carry out the replugging, recompletion, reworking, or other action should the well be re-entered or plugged and the failure to provide reports constitutes a threat to the public health and safety because of the potential of pollution and other unknown risk.
  22. Commission records for the Hillman Lease, Well No. 2 (Drilling Permit No. 689830), show that Well No. 2 was completed in a hydrogen Sulfide field subject to requirements of Statewide Rule 36. Drilling operations on the subject well commenced on January 22, 2010. Respondent failed to file Commission Form H-9 30 days prior to commencement of drilling operations.
  23. Commission records for the Hillman Lease, Well No. 3 (Drilling Permit No. 692814), show that Well No. 3 was completed in a hydrogen Sulfide field subject to requirements of Statewide Rule 36. Drilling operations on the subject well commenced on March 22, 2010. Respondent failed to file Commission Form H-9 30 days prior to commencement of drilling operations.
  24. Commission rules require that a Commission Form H-9 (Hydrogen Sulfide Certificate of Compliance) be filed 30 days prior to commencement of a drilling or workover operation on a well and violations of Statewide Rule 36 are a hazard to the public health and safety because the release of significant levels of hydrogen sulfide gas can cause death.
  25. The failure to file a Commission Form H-9 constitutes a threat to the public health and safety because of the potential of pollution and other unknown risk, including death.
  26. The 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 Texas Natural Resources Code, Chapters 89 and 91.
4. Respondent is in violation of Statewide Rules 3(1), 3(2), 13(a)(6)(A), 14(b)(2), 16(b), and 36(d)(1)(G). 16 Texas Administrative Code §§ 3.3(1), 3.3(2), 3.13(a)(6)(A), 3.14(b)(2), 3.16(b), and 3.36(d)(1)(G).
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 Texas Natural Resources Code § 81.0531(c).
6. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 3(1), which requires that a sign be posted at the principal entrance of each property that produces oil, gas, or geothermal resources, which shall show the name by which the property is commonly known and 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 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.
8. 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.
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. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 16(b), which requires proper completion and plugging reports to be filed timely.
11. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 36(d)(1)(G), which requires that a certificate of compliance be submitted 30 days prior to commencement of a drilling or workover operation on wells where a certificate of compliance is required for that well by provisions of this section (wells drilled on noncertificated leases or wells with a 100 ppm radius of exposure greater than 3,000 feet).

12. Pursuant to Texas Natural Resources 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 **FORTY-FIVE THOUSAND, EIGHT HUNDRED DOLLARS (\$45,800.00)** is justified considering the facts and violations at issue.
14. Respondent violated Commission rules related to safety and the control of pollution. Any other organization in which an officer of this organization holds a position of ownership or control, is subject to the restriction in Texas Natural Resource 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. Scully Energy Corporation (Operator No. 760476) shall place the Hillman Lease, Well No. 2 (Drilling Permit No. 689830) and Well No. 3 (Drilling Permit No. 692814) in compliance with Statewide Rules 3(1), 3(2), 13(a)(6)(A), 14(b)(2), 16(b), and 36(d)(1)(G), and any other applicable Commission rules and statutes.
2. Scully Energy Corporation (Operator No. 760476) shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FORTY-FIVE THOUSAND, EIGHT HUNDRED DOLLARS (\$45,800.00)**.

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 Texas Government Code § 2001.142, by agreement under Texas Government Code § 2001.147, or by written Commission order issued pursuant to Texas Government Code § 2001.146(e). If a timely motion for rehearing 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 Texas Government 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 100 days from the date the Commission order is signed.

Any other organization in which an officer of this organization holds a position of ownership or control at the time Respondent violated Commission rules related to safety and the control of pollution, **shall be subject to the restriction in Texas Natural Resource 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.

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 26<sup>th</sup> day of February 2019.

**RAILROAD COMMISSION OF TEXAS**

(Signatures affixed by Default Master Order  
dated February 26, 2019)

EMM/bt