

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 10-0297804

ENFORCEMENT ACTION AGAINST WO OPERATING COMPANY (OPERATOR NO. 935428) FOR VIOLATIONS OF THE TEXAS NATURAL RESOURCES CODE ON THE LONG (00125) LEASE, WELL NOS. 2, 3, 5, 9, 10, 11, 13, 16, 19, 20, 22, 26 AND 29 AND THE JORDAN (00120) LEASE, WELL NOS. 2, 19, 25, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 38, 40 AND 41, PANHANDLE CARSON COUNTY FIELD, CARSON 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 August 17, 2017, and that the respondent, WO Operating Company, failed to appear or respond to the Notice of Hearing. Pursuant to § 1.45 of the Commission's General Rules of Practice and Procedure, 16 TEX. ADMIN. CODE § 1.45, 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. WO Operating Company ("Respondent"), Operator No. 935428, was sent the Original Complaint and 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 agent and officers as identified on the Form P-5—Elaine McDowell, WO Energy Inc. and Orville B. Nichols—were sent the Original Complaint and Notice of Hearing by certified and first-class mail, addressed to their last known address.
2. The certified mail envelopes containing the Original Complaint and Notice of Hearing addressed to Respondent, WO Energy, Inc., Elaine McDowell and Orville B. Nichols were received on June 26, 2017. No first-class mail was 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 Hearing. Respondent has not entered into an agreed settlement order, filed an answer or requested a hearing.
3. On November 16, 2016, Respondent, a limited partnership, filed a Form P-5 with the Commission reporting that its officers consist of the following individuals/entities: WO Energy Inc., General Partner; and Orville B. Nichols, Vice President and COO.

4. Orville B. Nichols 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. WO Energy Inc 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 active. Respondent had a \$250,000 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 Long (00125) Lease, Well Nos. 2, 3, 5, 9, 10, 11, 13, 16, 19, 20, 22, 26 and 29, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective January 1, 2005.
8. Respondent designated itself to the Commission as the operator of the Jordan (00120) Lease, Well Nos. 2, 19, 25, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 38, 40 and 41, by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective December 1, 1993.

The Long Lease

9. On May 29, 2015, Respondent filed production reports on Commission form PR reflecting production for April 2015 for the Long (00125) Lease showing 49 barrels of oil on hand at the beginning of the month, 51 barrels on hand at the end of the month, but zero production. Commission records show that on October 30, 2015, Respondent filed a corrected production report for April 2015 by changing the barrels on hand at the end of the month to 49, so that now the form states 49 barrels at the beginning and end of the month, and matches the zero production reported for April 2015.
10. According to Commission records, Respondent filed Commission Forms W-10 (Oil Well Status Report) for annual oil well status tests allegedly performed April 22 and 23, 2015 for the Long (00125) Lease, Well Nos. 2, 3, 5, 10-13, 15-20, 22, 25, 26, 29 and 30, showing a small amount of oil and gas production from each well during that period.
11. Based on the above reports filed by Respondent, the April W-10 tests were falsely filed and/or the April production reports were falsely filed. This conclusion is reached because, if the W-10 tests were performed in April 2015 as reported and indeed showed production as reflected in the tests filed by Respondent for April 2015, then the production report is false because it would have to reflect at a minimum, the amount of production reported on the W-10 tests for April 2015. Conversely, if the production report is correct, and no W-10 tests were ever run in April 2015, the W-10 tests were falsely filed.
12. On May 14, 2015, a letter from the applicable Commission district office was sent to Respondent requesting to witness new W-10 tests for all Respondent's wells on

the Long Lease (Lease No. 00125), thus giving Respondent an opportunity to clear up the discrepancy in production reported for April 2015 and W-10's filed. Respondent replied on May 22, 2015 and scheduled the must witness W-10 tests for May 28, 2015 with the district office. A Commission inspection report dated May 28, 2015 states that while the Commission inspector was on the lease, Bruce Little, Respondent's employee, stated that no gas was being produced and Well Nos. 12, 15, 17, 18, 25 and 30 were the only wells producing at the time. The Commission inspection report states that Well Nos. 2, 3, 5, 9-12, 15-19, 22, 25, 26, 29 and 30 were equipped to pump. The Commission inspection report states that Well Nos. 13, 20, 27 and 28 were not equipped to pump and Well No. 6 is an injection well. The Commission inspection report on May 28, 2015 states that the tank was gauged at 8:00 am at 2 feet 9 inches, equating to 12.76 barrels of crude oil in the east tank. The Commission inspection report dated May 29, 2015 states that the tank was gauged at 8:00 am at 2 feet 10 inches for a total of 13.92 barrels of crude oil in the east tank. This showed production in the 24-hour test period. The Commission inspection report dated May 29, 2015 states that only Well Nos. 12, 15, 17, 18, 25 and 30 were tested during this witnessed 24-hour test period, as according to Respondent's employee, they were the only wells producing.

13. On June 30, 2015, Respondent filed May 2015 production reports on Commission Form PR for the Long (00125) Lease stating 49 barrels were on hand at the end of the previous month, 51 on hand end of the month, but reported zero production. Respondent then filed a corrected production report for the May production on the Long (00125) Lease on October 20, 2015 correcting the barrels on hand at the end of the month from 51, down to 49, and still showing zero production. This production report filing is false because, as stated above, the May 28-29, 2015 Commission inspection reports regarding the 24-hour tests show that production did in fact occur on the lease in May 2015.
14. Additionally, the May 28-29, 2015 Commission inspection is further evidence that the W-10 tests filed in April 2015 for the Long (00125) Lease were falsely filed because according to Respondent's employee on site during the May tests and Commission inspections, only Well Nos. 12, 15, 17, 18, 25 and 30 were producing. This confirms that the 13 W-10 tests filed in April for Well Nos. 2, 3, 5, 9, 10, 11, 13, 16, 19, 20, 22, 26 and 29 showing production were falsely filed. Respondent should have filed the results from the May 2015 witnessed W-10 tests to correct the April W-10's that were filed and it did not.

The Jordan Lease

15. On May 29, 2015, Respondent filed production reports on Commission Form PR for April 2015 for the Jordan (00120) Lease showing zero production.
16. According to Commission records on June 26, 2015 Respondent filed Form W-10 (Oil Well Status Report) for tests allegedly performed on April 22, 2015 for the Jordan (00120) Lease showing a small amount of oil and gas production for Well Nos. 2, 19, 25, 27-36, 38, 40 and 41 and for tests performed on May 20, 2015 for Well Nos. 23 and 24 showing oil and gas production.

17. Based on the above reports filed by Respondent, the April W-10 tests were falsely filed and/or the April production reports were falsely filed. This conclusion is reached because, if the W-10 tests were performed in April for the Jordan (00120) Lease and indeed showed production as reflected in the tests filed by Respondent for April 2015, then the production report is false because it would have to reflect at a minimum, the amount of production reported on the W-10 tests for April 2015. Conversely, if the production report is correct for the Jordan (00120) Lease, and no W-10 tests were ever run in April 2015, the W-10 tests were falsely filed.
18. On May 14, 2015, a letter from the appropriate Commission district office was sent to Respondent requesting to witness new W-10 tests for all Respondent's wells on the Jordan Lease (Lease No. 00120). Respondent responded on May 22, 2015 and scheduled the must witness W-10 tests for May 28, 2015 with the district office. A Commission inspection report dated May 28, 2015 states that while the Commission Inspector was on the lease, Bruce Little, Respondent's employee, stated that no gas was being produced and Well Nos. 23 and 24 were the only wells producing at the time. The Commission inspection report states that Well Nos. 42 and 43 were not equipped to pump. The Commission inspection report on May 28, 2105 states that the tank was gauged at 8:30 at 7 feet 1.75 inches, equating to 80.91 barrels of crude oil in the east tank. The Commission inspection report dated May 29, 2015 states that the tank was gauged at 8:30 at 7 feet 6.25 inches for a total of 86.13 barrels of crude oil in the east tank. This showed some production in the 24-hour test period from only Well Nos. 23 and 24.
19. On June 30, 2015, Respondent filed production reports on Commission Form PR for May 2015 for the Jordan (00120) Lease showing zero production. This production report filing is false because the May 28-29, 2015 Commission inspection reports show that production did in fact occur on the Jordan (00120) Lease. Additionally, the May 28-29, 2015 Commission inspection reports show the W-10 tests run in April 2015 and filed in June 2015 for the Jordan (00120) Lease were falsely filed because they show production for Well Nos. 2, 19, 25, 27-36, 38, 40 and 41, when according to Respondent's employee on site during the May tests and Commission inspections, only Well Nos. 23 and 24 were producing.
20. Based on the above information, the production reports for April and May 2015 showing zero production were falsely filed because some wells were producing based on the May 2015 Commission inspections. Additionally, the Commission inspections show that the W-10 tests filed for the Jordan (00120) Lease in June 2015 for alleged tests in April 2015 were falsely filed for 16 wells because those wells were specifically described as not producing during the Commission inspection. Finally, Respondent should have filed the results from the May 2015 witnessed W-10 tests to correct the April W-10's that were filed, and it only did so with a retest in November 2015 after receiving notice of the violations, and showing all wells shut-in, confirming the May Commission inspection reports.

21. Respondent is responsible for prior violations of Commission statutes and rules as documented in the enforcement final orders for Oil & Gas Docket Nos. 10-0291140 and 10-0294703.

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 leases in compliance with all applicable Commission rules and TEX. NAT. RES. CODE, chapters 89 and 91.
4. Respondent is in violation of TEX. NAT. RES. CODE § 91.143(a)(1).
5. Respondent knowingly submitted forms to the Commission containing information which was false or untrue in material fact, thereby violating TEX. NAT. RES. CODE § 91.143(a)(1).
6. 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).
7. 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.
8. An assessed administrative penalty in the amount of **THIRTY-FIVE THOUSAND DOLLARS (\$35,000.00)** is justified considering the facts and violations at issue.
9. 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, WO Energy Inc. and Orville B. Nichols, 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. WO Operating Company (Operator No. 935428) shall place the Jordan (00120) Lease and Long (00125) Lease in compliance with TEX. NAT. RES. CODE § 91.143(a)(1).
2. WO Operating Company (Operator No. 935428) shall pay to the Commission, for disposition as provided by law, an administrative penalty in the amount of **THIRTY-FIVE THOUSAND DOLLARS (\$35,000.00)**.

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, WO Energy Inc. and Orville B. Nichols, 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 19th day of September 2017.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master
Order dated September 19, 2017)