

October 9, 2002

OIL AND GAS DOCKET NO. 03-0231440

ENFORCEMENT ACTION AGAINST GULFPORT OIL & GAS, INC. (OPERATOR NO. 338635) FOR VIOLATIONS OF STATEWIDE RULES ON THE HAWKINS RANCH LEASE, WELL NO. 2, (RRC PERMIT NO. P491429) AND WELL NO. 3, (RRC PERMIT NO. P496694) WILDCAT FIELD, MATAGORDA COUNTY, TEXAS.

OIL AND GAS DOCKET NO. 03-0231442

ENFORCEMENT ACTION AGAINST GULFPORT OIL & GAS, INC. (OPERATOR NO. 338635) FOR VIOLATIONS OF STATEWIDE RULES ON THE HAWKINS RANCH LEASE, WELL NO. 4, (RRC PERMIT NO. P495089) AND WELL NO. 5, (RRC PERMIT NO. P497396) WILDCAT FIELD, MATAGORDA COUNTY, TEXAS.

Appearances:

For Movant:

Susan German, Staff Attorney

Representing:

Enforcement Section Railroad Commission

For Respondent:

Jonathan Harris, Vice President

Gulfport Oil & Gas, Inc.

PROCEDURAL HISTORY

Complaints Filed:	June 24, 2002
Hearings Noticed:	August 9, 2002
Hearings Held:	August 29, 2002
Record Closed:	September 30, 2002
Heard By:	Mark Helmueller, Hearings Examiner
PFD Circulation Date:	October 9, 2002
Current Status:	Protested

STATEMENT OF THE CASE

These were Commission-called hearings on the recommendation of the District Office to determine the following:

1. Whether Gulfport Oil & Gas, Inc. (“Gulfport”) violated Statewide Rules 14 and 16 on the Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429) and Well No. 3, (RRC Permit No. P496694) Wildcat Field, Matagorda County, Texas;
2. Whether Gulfport violated Statewide Rules 14 and 16 on the Hawkins Ranch Lease, Well No. 4, (RRC Permit No. P495089) and Well No. 5, (RRC Permit No. P497396) Wildcat Field, Matagorda County, Texas;
3. Whether the respondent violated provisions of Title 3, Oil and Gas, Subtitles A, B, and C, Texas Natural Resources Code, Chapter 27 of the Texas Water Code, and Commission rules and laws pertaining to safety or prevention or control of pollution by failing to comply with said statutes and Statewide Rules 14 and 16;
4. Whether the respondent should be assessed administrative penalties of not more than \$10,000 per day for each offense committed regarding such lease and well; and
5. Whether any violations of Statewide Rules 14 and 16 by the respondent should be referred to the Office of the Attorney General for further civil action.

Gulfport appeared at the hearing by telephone through its Vice-President Jonathan Harris and presented evidence. Susan German appeared representing the Railroad Commission of Texas. Enforcement submitted the hearing files for both dockets into the record. With respect to Docket No. 03-0231440, Enforcement recommends that Gulfport be ordered to place the subject wells into compliance and to pay an administrative penalty of \$5,000, consisting of two Rule 14(b)(2) violations at \$2,000 each, and two Rule 16(a) violations at \$500 each. With respect to Docket No. 03-0231442, Enforcement recommends that Gulfport be ordered to place the subject wells into compliance and to pay an administrative penalty of \$5,000, consisting of two Rule 14(b)(2) violations at \$2,000 each, and two Rule 16(a) violations at \$500 each.

The examiner recommends that the Rule 16(a) violation for Hawkins Ranch Well No. 2 in Docket No. 03-0231440 be dismissed. The examiner agrees with the recommended administrative penalty of \$4,500 in this docket for the two violations of Rule 14(b)(2) and the remaining violation of Rule 16(a). The examiner agrees with the recommended administrative penalty of \$5,000 in Docket No. 03-0231442 for the two violations of Rule 14(b)(2) and the two violations of Rule 16(a).

DISCUSSION OF THE EVIDENCE

Gulfport first filed Commission Form P-5 (Organization Report) in April 1999. Gulfport's organization status is currently reported in Commission records as delinquent. The most recent organization report was filed on March 28, 2000 and identifies the following individuals as agents and officers: Steven Holmes, resident agent; Norris R. Harris, President; Jack R. Durland, Jr., Vice-President; and Jonathon G. Harris, Vice-President. Gulfport paid a fee of \$750 as financial assurance at the time of its last renewal.

Enforcement contended that Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429), Wildcat Field, Matagorda County, by filing Commission Form W-1, (Application for Permit to Drill, Deepen, Plug Back or Re-Enter) on January 26, 2000. Commission records show that the permit was approved on the date the application was filed.

Enforcement contended that Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 3, (RRC Permit No. P496694), Wildcat Field, Matagorda County, by filing Commission Form W-1 on June 29, 2000. Commission records show that the permit was approved on the date the application was filed.

Enforcement contended that Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 4, (RRC Permit No. P495089) Wildcat Field, Matagorda County, by filing Commission Form W-1 on May 16, 2000. Commission records show that the permit was approved on the date the application was filed.

Enforcement contended that Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 5, (RRC Permit No. P497396) Wildcat Field, Matagorda County, by filing Commission Form W-1 on July 19, 2000. Commission records show that the permit was approved on the date the application was filed.

Enforcement argued that a search of Commission records showed that Gulfport violated Commission Rule 16(a) for each of the wells by failing to file either the appropriate completion report or a plugging report within 30 days after completion or plugging. Commission inspection reports show that the wells were drilled even though no completion reports were filed.

Enforcement also claimed that Gulfport violated the plugging requirements under Rule 14(b)(2) by failing to either plug or otherwise bring into compliance with Commission rules any of the subject wells. Inspection reports dated March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 2 is inactive and not visible above ground. Additionally, Enforcement argued that Gulfport's failure to file any production reports after the well was completed indicated that Well No. 2 had been inactive for more than one year. The estimated cost to plug Well No. 2 is \$10,949.

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Inspection reports dated January 8, 2002, March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 3 was sealed. Additionally, Enforcement argued that Gulfport's failure to file any production reports after the well was completed indicated that Well No. 2 had been inactive for more than one year. The estimated cost to plug Well No. 3 is \$10,949.

Inspection reports dated November 19, 2001, January 8, 2002, March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 4 was shut in with a state seal attached. Additionally, Enforcement argued that Gulfport's failure to file any production reports after the well was completed indicated that Well No. 4 had been inactive for more than one year. The estimated cost to plug Well No. 4 is \$10,949.

An inspection report dated April 3, 2002 shows that Hawkins Ranch Lease, Well No. 5 is inactive with a state seal attached. Additionally, Enforcement argued that Gulfport's failure to file any production reports after the well was completed indicated that Well No. 5 had been inactive for more than one year. The estimated cost to plug Well No. 2 is \$10,949.

Gulfport admitted that all four wells were drilled and are currently inactive but asserted that another operator, Stratco Operating Co., Inc. has taken a new lease for the property and is seeking to be designated as the operator of all four wells. Gulfport submitted copies of Commission Form P-4's (Producer's Transportation Authority and Certificate of Compliance), and a copy of correspondence from Stratco Operating Co., Inc. offering to take over the wells and release Gulfport from its plugging liability. Gulfport claims that the only reason the wells have not been transferred is because the completion paperwork was not filed for each of the wells.

Gulfport presented documentation that it had filed at least some of the required paperwork for each of the wells, but that due to problems at the company associated with the malfeasance of prior officers, Gulfport was unable to confirm that all of the appropriate filings were made for each of the wells. Records from well files submitted by Gulfport for the four wells show that: Well No. 2 was completed on February 18, 2000; Well No. 3 was completed on August 10, 2000; Well No. 4 was completed on August 4, 2000; and Well No. 5 was completed on August 17, 2000.

Gulfport submitted copies of Commission Form W-2 (Oil Well Potential Test, Completion, or Recompletion Report and Log) for the Hawkins Ranch Well No. 2 which was signed on November 30, 2000, by Mr. Harris. Enforcement acknowledged that completion papers were filed for Well No. 2, but asserted that those reports were not submitted to the Commission until July 2002.

Gulfport also submitted a copy of Commission Form G-1 (Gas Well Back Pressure Test, Completion, or Recompletion Report and Log) for the Hawkins Ranch Well No. 4, which was signed by Mr. Harris with an apparent date of March 1, 2000, but Commission records do not confirm that the G-1 was ever filed.

EXAMINER'S OPINION

Statewide Rule 14(b)(2) provides that the operator of a well must plug the well when required and in accordance with Commission rules. Texas Natural Resources Code §89.002 defines the operator of the well as the person who assumes responsibility for the physical operation and control of a well as shown by a form the person files with the Commission and the Commission approves.

Statewide Rule 16(a) requires an operator to file either the appropriate completion report or a plugging report within 30 days after completion or plugging.

Gulfport does not contest that it drilled the four wells and that they are inactive. Gulfport also does not contest its designation as the responsible operator of the wells at the time the wells were drilled. However, Gulfport argues that the wells are out of compliance due to problems the company experienced as a result of embezzlement of funds by former officers. Gulfport believes that if the proper paperwork were filed, the wells would be transferred to a new operator.

Gulfport provided evidence of at least attempts to file the appropriate paperwork for Hawkins Ranch Well No. 2 and Well No. 4. Filings for Well No. 2 have been confirmed through Commission records. However, Commission records do not support Gulfport's claim that completion records were filed for Hawkins Ranch Well No. 4. Further, none of the evidence shows that proper completion records were filed for Hawkins Ranch Well No. 3 and Well No. 5.

While resolution of the violations of Rule 16 may lead to compliance for the violations of Rule 14(b)(2) through the transfer to another operator, Gulfport still has not filed the required completion papers for Hawkins Ranch Well Nos. 3, 4, and 5, despite being advised of the deficiency in the paperwork by the Commission's District Office. Accordingly, the examiner cannot recommend that these violations be dismissed. However, dismissal of the Rule 16(a) violation for Hawkins Ranch Well No. 2, where the filing of a completion report is confirmed by Commission records, appears to be appropriate. While there is a discrepancy between the documentation provided by Gulfport concerning the filing date and the actual filing with the Commission, Gulfport did file the documentation required under Rule 16.

While the violation of Rule 16 as to Hawkins Ranch Well No. 2 should be dismissed, there is no evidence that Stratco still wishes to be designated as the operator of the well. Accordingly, the examiner cannot also recommend that the violation of Rule 14(b)(2) be dismissed for the Hawkins Ranch Well No. 2. Additionally, there is no basis for dismissing the Rule 14(b)(2) violations for Hawkins Ranch Well Nos. 3, 4, and 5.

Accordingly, the examiner recommends that Gulfport be ordered to pay an administrative penalty in Oil & Gas Docket 03-0231440 of \$4,500, consisting of two Rule 14(b)(2) violations at \$2,000 each, and one Rule 16(a) violations at \$500. The examiner further recommends that Gulfport be ordered to pay an administrative penalty in Oil & Gas Docket 03-0231442 of \$5,000, consisting

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of two Rule 14(b)(2) violations at \$2,000 each, and two Rule 16(a) violations at \$500 each.

Based on the record in this docket, the examiner recommends adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. Gulfport Oil & Gas, Inc. (“respondent” or “Gulfport”) was given at least 10 days notice of this proceeding by certified, first-class mail, addressed to its most recent Form P-5 (Organization Report) address. Respondent appeared at the scheduled time and place for the hearing and participated by telephone.
2. Gulfport first filed Commission Form P-5 (Organization Report) in April 1999. Gulfport’s organization status is currently reported in Commission records as delinquent. The most recent organization report was filed on March 28, 2000 and identifies the following individuals as agents and officers: Steven Holmes, resident agent; Norris R. Harris, President; Jack R. Durland, Jr., Vice-President; and Jonathon G. Harris, Vice-President. Gulfport paid a fee of \$750 as financial assurance at the time of its last renewal.
3. Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429), Wildcat Field, Matagorda County, by filing Commission Form W-1, (Application for Permit to Drill, Deepen, Plug Back or Re-Enter) on January 26, 2000. Commission records show that the permit was approved on the date the application was filed. Records from well files submitted by Gulfport show that Well No. 2 was completed on February 18, 2000.
4. Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 3, (RRC Permit No. P496694), Wildcat Field, Matagorda County, by filing Commission Form W-1 on June 29, 2000. Commission records show that the permit was approved on the date the application was filed.
5. Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 4, (RRC Permit No. P495089) Wildcat Field, Matagorda County, by filing Commission Form W-1 on May 16, 2000. Commission records show that the permit was approved on the date the application was filed.
6. Gulfport designated itself as operator of the Hawkins Ranch Lease, Well No. 5, (RRC Permit No. P497396) Wildcat Field, Matagorda County, by filing Commission Form W-1 on July 19, 2000. Commission records show that the permit was approved on the date the application was filed.

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7. Hawkins Ranch Lease Well Nos. 2, 3, 4 and 5, (“subject wells”) are currently inactive and have been inactive for more than 12 months.
 - a. Inspection reports dated March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 2 is inactive and not visible above ground.
 - b. Inspection reports dated January 8, 2002, March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 3 was sealed.
 - c. Inspection reports dated November 19, 2001, January 8, 2002, March 4, 2002 and April 3, 2002 show that Hawkins Ranch Lease, Well No. 4 was shut in with a state seal attached.
 - d. An inspection report dated April 3, 2002 shows that Hawkins Ranch Lease, Well No. 5 is inactive with a state seal attached.
 - e. Commission records reflect that no production has been reported from any of the subject wells.
8. Respondent has failed to file required completion reports or plugging reports for Hawkins Ranch Lease Well Nos. 3, 4, and 5.
 - a. Records from well files submitted by Gulfport show that Well No. 3 was completed on August 10, 2000.
 - b. Records from well files submitted by Gulfport show that Well No. 4 was completed on August 4, 2000.
 - c. Records from well files submitted by Gulfport show that Well No. 5 was completed on August 17, 2000.
 - d. No completion reports or plugging reports were filed with the Commission for the three wells.
9. Respondent filed Commission Form W-2 (Oil Well Potential Test, Completion, or Recompletion Report and Log) for the Hawkins Ranch Well No. 2.
10. Usable quality groundwater in the area may be contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject well. Unplugged wellbores constitute

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a cognizable threat to the public health and safety because of the probability of pollution.

11. Without a completion report or plugging report filed for a well, the Commission is unable to determine whether a wellbore has been properly cased and cemented to protect usable quality groundwater.
12. Respondent has not demonstrated good faith since it failed to plug and otherwise place the subject wells in compliance after being notified of the violations by the District Office.
13. The estimated cost to plug the subject wells is \$41,976.00.
14. The record does not reflect any previous violations by the respondent of Commission rules at the time the complaint was filed.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Gulfport is the operator of the Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429), Wildcat Field, Matagorda County, as defined by §89.002 of the Texas Natural Resources Code.
4. Gulfport is the operator of the Hawkins Ranch Lease, Well No. 3, (RRC Permit No. P496694), Wildcat Field, Matagorda County, as defined by §89.002 of the Texas Natural Resources Code.
5. Gulfport is the operator of the Hawkins Ranch Lease, Well No. 4, (RRC Permit No. P495089), Wildcat Field, Matagorda County, as defined by §89.002 of the Texas Natural Resources Code.
6. Gulfport is the operator of the Hawkins Ranch Lease, Well No. 5, (RRC Permit No. P497396), Wildcat Field, Matagorda County, as defined by §89.002 of the Texas Natural Resources Code.
7. The respondent has the primary responsibility for complying with Rules 14 and 16, and Chapter 89 of the Texas Natural Resources Code as well as other applicable statutes and rules relating to the subject wells.
8. The subject wells are not properly plugged or otherwise in compliance with Rule 14 or

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Chapters 85, 89 and 91 of the Texas Natural Resources Code.

- a. Hawkins Ranch Lease, Well No. 2 has been inactive since February 18, 2000 and out of compliance with Statewide Rule 14(b)(2) since February 18, 2001.
 - b. Hawkins Ranch Lease, Well No. 3 has been inactive since August 10, 2000 and out of compliance with Statewide Rule 14(b)(2) since February 10, 2001.
 - c. Hawkins Ranch Lease, Well No. 4 has been inactive since August 4, 2000 and out of compliance with Statewide Rule 14(b)(2) since August 4, 2001.
 - d. Hawkins Ranch Lease, Well No. 5 has been inactive since August 17, 2000 and out of compliance with Statewide Rule 14(b)(2) since August 17, 2001.
9. Hawkins Ranch Lease Well Nos. 3, 4, and 5 are not in compliance with Statewide Rule 16(a).
- a. Hawkins Ranch Lease, Well No. 3 was completed on August 10, 2000 and out of compliance with Statewide Rule 16 beginning on September 10, 2000.
 - b. Hawkins Ranch Lease, Well No. 4 was completed on August 4, 2000 and out of compliance with Statewide Rule 16 beginning on September 4, 2000.
 - c. Hawkins Ranch Lease, Well No. 5 was completed on August 17, 2000 and out of compliance with Statewide Rule 16 beginning on September 17, 2000.
10. The violation of Statewide Rule 16(a) for the Hawkins Ranch Lease Well No. 2 should be dismissed.
11. The documented violations committed by Gulfport are a hazard to the public health and demonstrate a lack of good faith pursuant to TEX. NAT. RES. CODE ANN. §81.0531(c).

RECOMMENDATION

The examiner recommends that the above findings and conclusions be adopted and the attached order be approved dismissing the violation of Statewide Rule 16 for the Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429), and further requiring the operator, Gulfport Oil & Gas, Inc., within 30 days from the date this order becomes final:

- 1) To bring the Hawkins Ranch Lease, Well No. 3 (RRC Permit No. P496694), into compliance with the requirements of Statewide Rule 16 by filing the required documentation with the Commission;

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- 2) To bring the Hawkins Ranch Lease, Well No. 4 (RRC Permit No. P495089), into compliance with the requirements of Statewide Rule 16 by filing the required documentation with the Commission;
- 3) To bring the Hawkins Ranch Lease, Well No. 5 (RRC Permit No. P497396), into compliance with the requirements of Statewide Rule 16 by filing the required documentation with the Commission;
- 4) To either plug or otherwise bring into compliance with Statewide Rule 14, Hawkins Ranch Lease, Well No. 2, (RRC Permit No. P491429);
- 5) To either plug or otherwise bring into compliance with Statewide Rule 14, Hawkins Ranch Lease, Well No. 3, (RRC Permit No. P496694);
- 6) To either plug or otherwise bring into compliance with Statewide Rule 14, Hawkins Ranch Lease, Well No. 4, (RRC Permit No. P495089);
- 7) To either plug or otherwise bring into compliance with Statewide Rule 14, Hawkins Ranch Lease, Well No. 5, (RRC Permit No. P497396);
- 8) To pay an administrative penalty of FOUR THOUSAND FIVE HUNDRED DOLLARS (\$4,500.00) in Oil and Gas Docket No. 02-0231440;
- 9) To pay an administrative penalty of FIVE THOUSAND DOLLARS (\$5,000.00) in Oil and Gas Docket No. 02-0231442.

Respectfully submitted,

Mark Helmueller
Hearings Examiner