

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION**

OIL AND GAS DOCKET NO. 09-0248941

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY AMERICAN PETROLEUM CORP. (018909), AS TO THE COWAN-MCKINNEY "C" (18323) LEASE, WELL NOS. 2, 4 AND 8, ARCHER COUNTY REGULAR FIELD, ARCHER COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on July 24, 2008, and that the respondent, American Petroleum Corp. (018909), failed to appear or respond to the Third Amended Notice of Hearing. Pursuant to § 1.49 of the Commission's General Rules of Practice and Procedure [Tex. R. R. Comm'n, 16 TEX. ADMIN. CODE § 1.49] and after being duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. American Petroleum Corp. (018909), ("Respondent") was given a Third Amended Notice of Hearing by certified mail, addressed to the most recent P-5 address on the Form P-5 Organization Report, which was signed and returned to the Commission.
2. The returned certified receipt (green card) that was attached to the Original Complaint and the Third Amended Notice of Hearing mailed to Respondent's most recent P-5 address was signed and returned to the Commission on June 24, 2008. The certified receipt has been on file with the Commission for 15 days, exclusive of the day of receipt and day of issuance.
3. On August 21, 2006, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): Rafael Pinedo, President.
4. Rafael Pinedo, was a person in a position of ownership or control of respondent, as defined by Texas Natural Resources Code Section 91.114, during the time period of the violations of Commission rules committed by respondent.
5. The violations of Commission rules committed by respondent are related to safety and the control of pollution.

6. Respondent designated itself to the Commission as the operator of Well Nos. 2, 4 and 8 on the Cowan-McKinney "C" (18323) Lease ("subject wells"/"subject lease") by filing a Form P-4 (Producer's Transportation Authority and Certificate of Compliance) with the Commission effective on August 1, 2004.
7. Respondent's Form P-5 (Organization Report) is active. Respondent had a \$50,000.00 Bond as its financial assurance.
8. Commission District inspections were conducted on June 14, 2006, July 31, 2006 and February 6, 2008 for the Cowan-McKinney "C" (18323) Lease. The signs or identification required to be posted at Well Nos. 2, 4, and 8 were either missing or displayed incorrect information.
9. Failure to properly identify a well by the posting of the sign required by Statewide Rule 3 has the potential for causing confusion and delay in remedying a violation or emergency and poses a threat to the public health and safety.
10. On May 8, 2008, a Commission inspection on the Cowan-McKinney "C" (18323) Lease indicated that the proper signs were posted at the wells.
11. Well No. 2 of the Cowan-McKinney "C" (18323) Lease is a permitted disposal well. According to Commission records, Respondent was required to conduct a disposal/injection well pressure test on Well No. 2 and to file the results on a Commission Form H-5 by July 30, 2005. Respondent has failed to conduct the pressure test and report the test results on the Commission Form H-5.
12. On May 11, 2007, Commission records indicate that a successful H-5 test was done on Well No. 2 on the Cowan-McKinney "C" (18323) Lease.
13. Usable quality water in the area could have been contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject well. Unplugged wellbores constitute a cognizable threat to the public health and safety because of the potential for pollution.
14. The Respondent did not demonstrate good faith since it failed to timely plug or otherwise place the subject lease and subject well in compliance after being notified of the violations by the District Office and failed to appear at the hearing to explain its inaction.

CONCLUSIONS OF LAW

1. Proper notice was issued by the Railroad Commission to respondent and to all other appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed or have occurred.
3. Respondent was in violation of Commission Statewide Rules 3 and 9(12)(A)&(B).

4. Respondent was responsible for maintaining the subject lease in compliance with Statewide Rule 3, which requires that each property that produces oil, gas or geothermal resources and each oil, gas or geothermal resource well and tank, or other approved crude oil measuring facility shall post signs or identification.
5. Respondent was responsible for maintaining the subject lease in compliance with Statewide Rule 9(12)(A)&(B), that the mechanical integrity of a disposal well shall be evaluated by conducting pressure tests to determine whether the well tubing, packer, or casing have sufficient mechanical integrity.
6. Respondent was responsible for maintaining the subject lease and subject well in compliance with all applicable Commission rules according to Statewide Rules 14, 58, and 79 and Chapters 89 and 91 of the Texas Natural Resources Code.
7. The documented violations committed by the respondent constitute acts deemed serious, a hazard to the public health, and demonstrate a lack of good faith pursuant to TEX. NAT. RES. CODE ANN. §81.0531(c).
8. As a person in a position of ownership or control of respondent at the time respondent violated Commission rules related to safety and the control of pollution, Rafael Pinedo, and any other organization in which he may hold a position of ownership or control, shall be subject to the restrictions of Texas Natural Resource Code Section 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, whichever is earlier.

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

1. American Petroleum Corp. (018909), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **TWO THOUSAND SEVEN HUNDRED FIFTY DOLLARS (\$2,750.00)**.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. 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 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 parties are notified of the order.

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 \$10,000.00 per day per violation.

Done this 12th day of November 2008.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated November 12, 2008)

ME/sa