

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

OIL AND GAS DOCKET NO. 09-0254085

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY HUGHES, BILL DRILLING, INC. (411697), AS TO THE POWELL (23720) LEASE, WELL NOS. 1, 2, 4, 5 AND 6, YOUNG COUNTY REGULAR FIELD, YOUNG COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on February 14, 2008, and that the respondent, Hughes, Bill Drilling, Inc. (411697), failed to appear or respond to the Notice of Opportunity for 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. Hughes, Bill Drilling, Inc. (411697), ("Respondent") was given Notice of Opportunity for 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 Notice of Opportunity for Hearing mailed to Respondent's most recent P-5 address was signed and returned to the Commission on December 27, 2007. 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 December 11, 2006, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): Pam Hughes Neal, President; and Harrison Lee Hughes, Vice-President.
4. Pam Hughes Neal, 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. Harrison Lee Hughes, 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.
6. The violations of Commission rules committed by respondent are related to safety and the control of pollution.

7. Respondent designated itself to the Commission as the operator of Well Nos. 1, 2, 4, 5 and 6 on the Powell (23720) Lease ("subject wells"/"subject lease") by filing a Form P-4 (Producer's Transportation Authority and Certificate of Compliance) with the Commission effective on April 1, 2000.
8. According to Commission records the Respondent's Form P-5 (Organization Report) is active. Respondent has a \$50,000.00 Letter of Credit as its financial assurance.
9. Commission District inspections were conducted on March 9, 2006, May 12, 2006 and September 24, 2007 for the Powell (23720) Lease. The signs or identification required to be posted at the lease entrance and at Well Nos. 1 and 6 were missing.
10. Failure to properly identify a lease and wells 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.
11. A Commission District inspection conducted on January 10, 2008 indicated that signs were posted at the lease entrance and at Well Nos. 1 and 6.
12. Well No. 1 on the Powell (23720) Lease is permitted saltwater disposal well. Injection into the well ceased on or before October 1994.
13. Well Nos. 2, 4, 5 and 6 ceased production on or before October 1997.
14. The Statewide Rule 14(b)(2) plugging extensions for Well Nos. 2, 4, 5, and 6 were denied on October 1, 2007 due to other well violations.
15. Usable quality groundwater in the area is likely to be contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject wells. Unplugged wellbores constitute a cognizable threat to the public health and safety because of the potential of pollution.
16. The total estimated cost to the State of plugging the subject wells is \$20,100.00.
17. Commission records indicate that the annual injection well monitoring reports (Form H-10) for Well No. 1 are past due. The last report filed was October 1994.
18. Commission records reflect that the Respondent was scheduled to perform the five year mechanical integrity (pressure) test on the Powell (23720) Lease, Well No. 1 by March 30, 1999. Respondent failed to conduct the required test and report the test results on the Commission Form H-5.
19. Disposal wells must pass a pressure test at least once every five years to show that the well is not leaking, that waste is being confined to the permitted injection interval, and that useable quality water zones are properly isolated. Any injection of fluid down a wellbore could be a potential source of pollution. Without testing and supporting documentation, the Commission cannot determine if a well poses a threat to natural resources.
20. Commission District inspections were conducted on March 9, 2006, May 12, 2006 and September 24, 2007 for the Powell (23720) Lease. Well Nos. 4, 5 and 6 have tubing or

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casing open to the atmosphere.

21. Maintenance of surface control by wellhead assemblies is necessary to prevent the discharge of oil and gas wastes on the subject lease constituting a hazard to public health and safety because the discharges of oil and gas wastes onto land surface can migrate into surface or subsurface waters.
22. Commission District inspections were conducted on March 9, 2006, May 12, 2006 and September 24, 2007 for the Powell (23720) Lease. Well No. 1 has been completed with tubing and casing but Respondent has not filed the required completion report.
23. The Respondent has not demonstrated good faith since it failed to timely plug or otherwise place the subject lease and subject wells 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 is in violation of Commission Statewide Rules 3, 9(11), 9(12)(A)&(B) 13(b)(1)(B), 14(b)(2) and 16(b).
4. Respondent is 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 is responsible for maintaining the subject lease in compliance with Statewide Rule 9(11), which requires that the operator shall monitor the injection pressure and injection rate of each disposal well on at least a monthly basis.
6. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 9(12)(A)&(B), which requires 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.
7. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 13(b)(1)(B), which requires that surface control of all wells be maintained with wellhead assemblies.

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8. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 16(b), which requires that the owner or operator of an oil, gas or geothermal resource well, must within thirty days (30) after the completion of such well, or the plugging of such well, if the well is a dry hole, shall file with the Commission the appropriate completion or plugging report.
9. Respondent is responsible for maintaining the subject lease and subject wells 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.
10. 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).
11. 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, Pam Hughes Neal, and any other organization in which she 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.
12. 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, Harrison Lee Hughes, 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:

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1. Hughes, Bill Drilling, Inc. (411697), shall plug Well Nos. 1, 2, 4, 5 and 6, on the Powell (23720) Lease, Young County Regular Field, Young County, Texas in compliance with applicable Commission rules and regulations; and
2. Hughes, Bill Drilling, Inc. (411697), shall place the Powell (23720) Lease, Young County Regular Field, Young County, Texas in compliance with applicable Commission rules and regulations; and
3. Hughes, Bill Drilling, Inc. (411697), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FIFTEEN THOUSAND FIVE HUNDRED DOLLARS (\$15,500.00)**.

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 15th day of July 2008.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated July 15, 2008)

MH/sa