

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

OIL AND GAS DOCKET NO. 04-0264179

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY CHESTNUT OIL AND GAS, INC. (147756), AS TO THE MORRIS, MARILYN (12276) LEASE, WELL NO. 1, MIDWAY (GRETA 5000) FIELD, SAN PATRICIO, COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on March 17, 2011 and that the respondent, Chesnut Oil and Gas, Inc. (147756), failed to appear or respond to the Notice of Hearing. Pursuant to § 1.49 of the Commission's General Rules of Practice and Procedure [Tex. 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. Chestnut Oil and Gas, Inc. (147756), ("Respondent") was given 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 containing the Original Complaint and the Notice of Hearing mailed to Respondent's most recent P-5 address, was signed and returned to the Commission on January 29, 2011. 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 May 20, 2009, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): John K. Chestnut; President.
4. John K. Chestnut, was 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 No. 1 on the Morris, Marilyn (12276) Lease ("subject well"/"subject lease") by filing a P-4 Form (Producers Transportation Authority and Certificate of Compliance) with the Commission effective on June 1, 2000.
7. Commission records indicate that Respondent's Form P-5 (Organization Report) is active. Respondent has a \$50,000.00 Letter of Credit as its financial assurance.
8. Commission district inspections were conducted on July 29, 2008, November 18, 2009 and April 12, 2010 for the Morris, Marilyn (12276) Lease. Inside the firewall and adjacent to the gun barrel there exists oil-affected soil in a 10' diameter area. An inspection report made on March 8, 2011 shows that same area remains impacted by hydrocarbons.
9. No permit has been issued to the Respondent for the discharges of oil and gas wastes on or from the subject lease.
10. The unpermitted discharges of oil and gas wastes or other substances or materials on the subject lease constitute a hazard to public health and safety because leaks and spills of oil and produced waters onto soils can migrate into surface water bodies causing contamination or can leach onto the ground and percolate through soils into groundwater supplies.
11. The Respondent has not demonstrated good faith since it failed to timely plug or otherwise place the subject lease and 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 is in violation of Commission Statewide Rule 8(d)(1).
4. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 8(d)(1), which prohibits the discharge of oil and gas wastes without a permit.

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5. Respondent is 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.
6. 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.
7. 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, John K. Chestnut 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.
8. Respondent is the person responsible for cleaning up the discharges on the subject lease under TEX. NAT. RES. CODE ANN. §91.113(b), and the Commission may recover from Respondent all costs incurred in cleaning up the subject lease pursuant to TEX. NAT. RES. CODE ANN. §91.113(f).

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

1. Chestnut Oil and Gas, Inc. (147756), shall place the Morris, Marilyn (12276) Lease, Well No. 1, Midway (Greta 5000) Field, San Patricio County, Texas in compliance with applicable Commission rules and regulations; and
2. Chestnut Oil and Gas, Inc. (147756), shall pay the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **FIVE HUNDRED DOLLARS (\$500.00) less FIVE HUNDRED DOLLARS (\$500.00) already received.**

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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. GOVT. 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 11th day of July 2011.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master
Order dated July 11, 2011)

JMD/sa