

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

OIL AND GAS DOCKET NO. 03-0280711

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY K.O.C. CORPORATION (448941), AS TO THE WILKES & SMITH "A" (02795) LEASE, WELL NO. 2, AND THE BAKER, CARRIE (02793) LEASE, WELL NO. 1, LOCHRIDGE FIELD, BRAZORIA COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on May 29, 2014, and that the respondent, K.O.C. Corporation (448941), failed to appear or respond to the First 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. K.O.C. Corporation (448941), ("Respondent") was given First Amended Notice of Hearing by certified mail, addressed to the most recent P-5 address on the Form P-5 Organization Report, which was returned to the Commission marked "not deliverable, unable to forward."
2. The returned certified receipt (green card) attached to First Amended Original Complaint and the First Amended Notice of Hearing mailed to Respondents, most recent P-5 address, was returned to the Commission marked "not deliverable, unable to forward" on May 12, 2014. 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 April 12, 2012, Respondent, a Corporation, filed an Organization Report (Form P-5) with the Commission reporting that its officers consisted of the following individual(s): Kelly Hiser; President.
4. Kelly Hiser, 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.

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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. 2 on the Wilkes & Smith "A" (02795) Lease and Well no. 1 on the Baker, Carrie (02793) Lease ("subject wells"/"subject leases") by filing Form P-4's (Producer's Transportation Authority and Certificate of Compliance) with the Commission that became effective on January 21, 1998 for the Wilkes & Smith "A" (02795) Lease and December 1, 1984 for the Baker, Carrie (02793) Lease.
7. According to Commission records the Respondent's Form P-5 (Organization Report) became delinquent on April 1, 2013. Respondent had a \$50,000.00 Bond as its financial assurance at the time of its last P-5 renewal.
8. Well No. 2 of the Wilkes & Smith "A" (02795) Lease was permitted as a disposal well, Permit No. 09042 and Well No. 1 of the Baker, Carrie (02793) Lease was a permitted as a disposal well, Permit No. 11380. Respondent failed to follow the Special Conditions and Standard Conditions set out in both permits, where in it states, an annual pressure test must be performed and the results submitted in accordance with the instruction of Form H-5 and that it further states the wellhead must be equipped with a pressure observation valve on the tubing and for each annulus, injection pressure must be monitored at least monthly and reported annually on a Form H-10 and that Respondent must follow all required conditions of the permit.
9. Commission District inspections were conducted on December 11, 2012 for the Wilkes & Smith "A" (02795) Lease, Well No. 2. The pressure observation valve for Well No. 2 was plugged below ground level. Commission records indicated the MIT test results were manipulated by this plug, which demonstrates Respondent knowingly falsified Commission Form H-5 and caused the form to be filed with the Commission.
10. The inspection report dated December 11, 2012 for the Baker, Carrie (02793) Lease, Well No. 1, indicates the pressure observation valve for the casing and tubing for Well No. 1 were closed below ground level and when the valves were inspected by the Commission, the valves were found to be inoperable. Commission records indicated the MIT test results were manipulated by these closed valves, which demonstrates Respondent knowingly falsified Commission Form H-5 and caused the form to be filed with the Commission.
11. Respondent failed to adhere to the terms and conditions in Permit Nos. 09042 and 11380. Therefore, the Permits for Well No. 2 (09042) on the Wilkes & Smith "A" (02795) Lease and Well No. 1 (11380) on the Baker, Carrie (02793) Lease shall be cancelled by the Commission.

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12. A Commission District inspection was conducted on December 11, 2012 for the Wilkes & Smith "A" (02795) Lease, Well No. 2. The pressure observation valve for Well No. 2 was plugged below ground level. On the Baker, Carrie (02793) Lease, Well No. 1, the pressure observation valve for the casing and tubing were closed below ground level and when the valves were forced open, the valves were found to be inoperable.
13. Commission records indicate that the Wilkes & Smith "A" (02795) Lease, Well No. 2 was permitted as a saltwater disposal well on June 15, 1998 (Permit No. 09042). Commission records reflect the Respondent filed records with the Commission that stated Respondent performed a mechanical integrity (pressure) test on the Wilkes & Smith "A" (02795) Lease, Well No. 2, on April 2, 2012. The inspection conducted on December 11, 2012 found a plug had been welded inside the plumbing, preventing a true pressure reading for Well No. 2. On December 29, 2012 the well was re-worked and a successful H-5 was filed, however, Respondent's failure to annually test and file the results has caused this violation to remain.
14. Commission records indicate the Baker, Carrie (02793) Lease, Well No. 1, was permitted as a saltwater disposal well on June 7, 2000 (Permit No. 11380). Commission records reflect the Respondent filed records with the Commission that stated Respondent performed a mechanical integrity (Pressure) test on the Baker, Carrie (02793) Lease, Well No. 1, on February 6, 2012. The inspection conducted on December 11, 2012 found the pressure observation valve for casing and tubing for Well No. 1 were closed below the ground level and when the valves were forced open, they were found to be inoperable. Also discovered was a third valve, buried and in the closed position, preventing a true pressure reading for Well No. 1. On January 28, 2013 a successful H-5 was filed; however, Respondents failure to annually test and file the results has caused the violation to remain. The Commission asserts Respondent failed to timely conduct the required tests and report the test results on the Commission Form H-5 as required by Commission rules.
15. The Commission asserts that on February 6, 2012, Respondent filed a Commission Form H-5 (Mechanical Integrity Test) for the Baker, Carrie (02793) Lease, Well No. 1, representing a false passing of the mechanical integrity (pressure) test by reporting results from a buried valve on the closed position on Well No. 2, which prevented a true pressure observation. As of April 1, 2014, the false Commission Form H-5 report has continued for 781 days.
16. By submitting the false passing of the mechanical integrity (pressure) test on Commission Form H-5 for the Wilkes & Smith "A" (02795) Lease, Well No. 2, and the Baker, Carrie (02793) Lease, Well No. 1, Respondent knowingly submitted a form containing information which was false or untrue in a material fact thereby violating TEX. NAT. RES. CODE ANN. §91.143(a)(1).
17. 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 probability of pollution.

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18. The Respondent has not demonstrated good faith since it failed to timely plug or otherwise place the subject leases 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.
19. Respondent has a prior history of Commission rule violations including the following docket(s):

Docket No. 03-0260434; Agreed Order: May 19, 2009.

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 9(6)(A), 9(9)(B), 9(12)(A)&(B) and Tex. Nat. Res. Code Ann. §91.143.
4. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 9(6)(A), which states that a permit for saltwater or other oil and gas wastes disposal may be modified, suspended, or terminated by the Commission for just cause after notice and opportunity for hearing.
5. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 9(9)(B), which states that the wellhead shall be equipped with a pressure observation valve on the tubing and for each annulus of the well.
6. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 9(12)(A)&(B), which states 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 leases 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.
8. 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©.

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9. 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, Kelly Hiser, 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. K.O.C. Corporation (448941), shall place the Wilkes & Smith "A" (02795) Lease, Well No. 2, and the Baker, Carrie (02793) Lease, Well No. 1, Lochridge Field, Brazoria County, Texas in compliance with applicable Commission rules and regulations; and
2. K.O.C. Corporation (448941), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **ONE HUNDRED NINETY FOUR THOUSAND AND NINE HUNDRED DOLLARS (\$194,900.00)**.

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.

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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 17th day of June 2014.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order
dated June 17, 2014)

TJJ/sa