

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 7B-0284926

ENFORCEMENT ACTION FOR ALLEGED VIOLATIONS COMMITTED BY SCULLY EXPLORATION LLC (760540) F/K/A SCULLY ENERGY CORPORATION (760476) FOR VIOLATIONS OF STATEWIDE RULES ON THE TAYLOR (249653) LEASE, WELL NO. 1, WILDCAT FIELD, AND THE GOTCHER (238692) LEASE, WELL NO. 1M, TOGA (CISCO) FIELD, LAMPASAS COUNTY, TEXAS

FINAL ORDER

The Commission finds that after statutory notice the captioned enforcement proceeding was heard by the examiner on April 30, 2015 and that the respondent, Scully Exploration LLC (760540) F/K/A Scully Energy Corporation (760476), 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. Scully Exploration LLC (760540) F/K/A Scully Energy Corporation (760476), ("Respondent"), was given Notice of Opportunity for Hearing by certified mail, addressed to the most recent Form P-5 (Organization Report) address.
2. The certified envelope containing the Original Complaint and the Notice of Opportunity for Hearing, was returned to the Commission marked "unclaimed" on March 14, 2013. The certified receipt is included in the file and has been on file with the Commission for 15 days, exclusive of the day of receipt and day of issuance.
3. On March 12, 2013, Respondent, filed an Organization Report (Form P-5) with the Commission reporting that its manager consisted of the following individual(s): Noel Brian Scully.
4. Noel Brian Scully was a person in a position of ownership or control of respondent, as defined by Texas Natural Resource 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 Scully Energy Corporation designated itself to the Commission as the operator of Well No. 1 on the Taylor (249653) Lease ("subject well"/"subject lease") by filing a Form W-1 (Application to Drill, Recomplete or Re-Enter) submitted on November 7, 2007.
7. Respondent Scully Exploration LLC designated itself to the Commission as the operator of Well No. 1 on the Gotcher (238692) Lease ("subject well"/"subject lease") by filing a Form P-4 (Producers Transportation Authority and Certificate of Compliance) effective on May 1, 2011.
8. Respondent Scully Exploration LLC designated itself to the Commission as the operator of Well No. 1 on the Taylor (249653) Lease ("subject well"/"subject lease") by filing a Form P-4 (Producers Transportation Authority and Certificate of Compliance) effective on May 1, 2011.
9. On February 6, 2014 and February 10, 2014, P-4 Forms were approved by the Commission for Arch Oil & Gas, LLC (029272) to become the operator of record for the Taylor (249653) Lease, Well No. 1 and the Gotcher (238692) Lease, Well No. 1M, with an effective date of January 1, 2014.
10. Respondent's P-5 (Organization Report) became delinquent on March 1, 2014. Respondent had a \$50,000 Bond as its financial assurance at the time of its last P-5 renewal.
11. The subject wells have not been properly plugged in accordance with, and are not otherwise in compliance with, Statewide Rule 14.
12. Commission records show that Respondent filed a Commission Form W-1 (Application to Drill, Recomplete, or Re-Enter) submitted November 7, 2007, issued November 15, 2007 for the Taylor (249653) Lease, Well No. 1. Commission records show that Respondent filed a Commission Form G-1 (Gas Well Pressure Test, Completion or Recompletion Report, and Log) with the Abilene District Office on June 19, 2009 for the Taylor (249653) Lease, Well No. 1. The Form G-1 specified that the filing was for the purpose of "Well Record Only" and stated that the well was completed March 18, 2008. Further, Commission records show that completion reports for the subject well were refiled October 15, 2013 and approved on October 23, 2013.
13. Commission District inspection reports made on May 21, 2013 on the Gotcher (238692) Lease, Well No. 1M, showed that a 500 bbl green fiberglass tank battery had been moved onto the lease. Commission records show that the Abilene District Office mailed a letter to Respondent on May 23, 2013, instructing Respondent that due to the location of the tank battery being within 500 feet of a public road, Big Divide Road, a firewall must be constructed around the tank battery. Commission District inspection reports made on July 3, 2013, July 12, 2013 and August 28, 2013 show that a firewall has not been constructed around the tank battery.

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14. Commission records reflect that on October 19, 2012, the Commission gave Respondent notice by certified mail of the alleged facts or conduct of the Respondent in the operation, or production, of oil or gas from the Taylor (249653) Lease, that appeared to violate the oil and gas conservation laws of this state, or rules or orders of the Commission adopted under those laws, to warrant the cancellation of the certificate of compliance. Said notice gave Respondent an opportunity to show compliance with all requirements of law for retention of the certificate of compliance.
15. Commission records reflect that Respondent did not timely show compliance with all requirements of law for retention of the certificate of compliance and, as a result, the certificate of compliance for the Taylor (249653) Lease, was cancelled, and Respondent given notice of such cancellation, on November 27, 2012. Commission records reflect that the certificate of compliance for the Taylor (249653) Lease was not reissued until October 22, 2013.
16. Commission District inspections for the Taylor (249653) Lease made on February 19, 2013, March 25, 2013, May 10, 2013, August 5, 2013 and August 26, 2013 showed that Respondent was producing the subject well. Additionally, the Commission District inspection made on August 5, 2013 showed that the Commission placed seal had been removed from the well and a combination lock installed on the wellhead valve and although the wellhead valve was closed, the chart on the meter run indicated production. Further, the Commission District inspection made on August 26, 2013 showed the well actively producing. Commission records show that Respondent filed Commission Forms PR (Monthly Production Reports) reports for the subject lease showing production for the months of December 2012 and March 2013. All of said production was unauthorized, as Respondent did not have a certificate of compliance for this well.
17. Commission records reflect that on April 11, 2012, the Commission gave Respondent notice by certified mail of the alleged facts or conduct of the Respondent in the operation, or production, of oil or gas from the Gotcher (238692) Lease, that appeared to violate the oil and gas conservation laws of this state, or rules or orders of the Commission adopted under those laws, to warrant the cancellation of the certificate of compliance. Said notice gave Respondent an opportunity to show compliance with all requirements of law for retention of the certificate of compliance.
18. Commission records reflect that Respondent did not timely show compliance with all requirements of law for retention of the certificate of compliance and, as a result, the certificate of compliance for the Gotcher (238692) Lease, was cancelled, and Respondent given notice of such cancellation, on November 28, 2012. Commission records reflect that the certificate of compliance for the Taylor (249653) Lease was not reissued until February 6, 2014.
19. Commission District inspections for the Gotcher (238692) Lease made on February 19, 2013 and April 4, 2013 showed that Respondent was producing the subject well. Additionally, Commission records show that Respondent filed PR (Monthly Production Reports) reports for the subject well showing production for the months of December 2012, February 2013 and March 2013. All of said production was unauthorized, as Respondent did not have a certificate of compliance for this well.

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20. Respondent, as operator of the Taylor (249653) Lease filed or caused to be filed with the Commission Forms PR (Monthly Production Reports) reporting false information. Respondent's Commission Form PR filed on July 24, 2013 reported zero production for the month of May 2013. A Commission District inspection report made on May 10, 2013 showed the well to be actively producing at the time of the inspection.
21. Respondent, as operator of the Taylor (249653) Lease filed or caused to be filed with the Commission Forms PR (Monthly Production Reports) reporting false information. Respondent's Commission Form PR filed on November 13, 2013 reported zero production for the month of August 2013. A Commission District inspection report made on August 5, 2013 and August 26, 2013 showed the well to be actively producing.
22. Respondent, as operator of the Gotcher (238692) Lease filed or caused to be filed with the Commission Forms PR (Monthly Production Reports) reporting false information. Respondent's Commission Form PR filed on July 24, 2013 reported zero production for the month of April 2013. A Commission District inspection report made on April 4, 2013 showed the well to be actively producing. Respondent filed a corrected Commission Form PR after referral of this enforcement action dated October 16, 2013 showing production for the Month of April 2013.
23. The Respondent has not demonstrated good faith since it failed to 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.
24. Respondent has a prior history of Commission rule violations including the following docket(s):

Docket No. 7B-0280144; Final Order Served: October 1, 2013;
Docket No. 7B-0281033; Final Order Served: October 1, 2013.

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 16(b), 21(j), 73(i), TEX NAT RES CODE ANN §91.706 and TEX. NAT. RES. CODE §91.143.
4. 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.

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5. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 21(j), which requires that fire walls must be erected and kept around all permanent oil tanks, or battery of tanks, that are within the corporate limits of any city, town or village, or where such tanks are closer than 500 feet to any highway.
6. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 73(i), which provides that upon cancellation of the certificate of compliance for a well, the operator of such well shall not produce oil, gas or geothermal resources from that well until a new certificate of compliance with respect to the well has been issued by the Commission.
7. 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.
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.
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, Noel Brian Scully, 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. Scully Exploration LLC (760540) F/K/A Scully Energy Corporation (760476), shall place the Taylor (249653) Lease, Well No. 1, Wildcat Field, and the Gotcher (238692) Lease, Well No. 1M, Toga (Cisco) Field, Lampasas County, Texas in compliance with applicable Commission rules and regulations; and
2. Scully Exploration LLC (760540) F/K/A Scully Energy Corporation (760476), shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **TWENTY SEVEN THOUSAND DOLLARS (\$27,000.00)**.

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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. 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 3rd of November 2015.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order dated November 3, 2015)

MFE/sja