

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. 7B-0279478

ENFORCEMENT ACTION AGAINST ROYAL TEXAN ENERGY CO. (OPERATOR NO. 732104) FOR VIOLATIONS OF STATEWIDE RULES ON THE SAM CANNON (28174) LEASE, WELL NOS. 1 AND 4, MORAN, E (3700 CONGL) FIELD, SHACKELFORD COUNTY, TEXAS

FINAL ORDER

The Railroad Commission of Texas (“Commission”) finds that after statutory notice the captioned enforcement proceeding was heard by a Commission Administrative Law Judge on October 22, 2015 and that the respondent, Royal Texan Energy Co., 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, 16 TEX. ADMIN. CODE § 1.49, and after being duly submitted to the Commission at a conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Royal Texan Energy Co. (Operator No. 732104), (“Respondent”), was sent the Original Complaint and Notice of Opportunity for Hearing by certified and first class mail, addressed to the most recent Commission Form P-5 (Organization Report) address. Javan Khazali, President and Vice-President of Respondent, was sent the Original Complaint and Notice of Opportunity for Hearing by certified and first class mail, to his last known address. Brook Hatchett, Resident Agent of Respondent, was sent the Original Complaint and Notice of Opportunity for Hearing by certified and first class mail, to her last known address.
2. The certified mail envelope containing the Original Complaint and Notice of Opportunity for Hearing sent to the Resident Agent was received on September 16, 2015. There is no record of delivery of certified mail envelope sent to Javan Khazali or the most recent Commission Form P-5 (Organization Report) address; according to USPS records, the certified mail envelopes were delivered to the post office in Irvine California on September 14, 2015. The first class mail was not returned. Record of the delivery to the Resident Agent of certified mail and records of lack of delivery of certified mail sent to Javan Khazali and the most recent Commission Form P-5 (Organization Report) address has been on record with the Commission for more than 15 days, exclusive of the day of receipt and day of issuance. Respondent was given more than 30 days’ notice of the Original Complaint and Notice of Opportunity for Hearing. Respondent has not entered into an agreed settlement order, filed an answer, or requested a hearing.

3. On December 17, 2014, Respondent, a corporation, filed a Form P-5 (Organization Report) with the Commission reporting that its officers consisted of the following individual: Javan Khazali, President and Vice-President.
4. Javan Khazali was in a position of ownership or control of Respondent, as defined in section 91.114 of the Texas Natural Resources Code, during the time period of the violations of Commission rules committed by Respondent.
5. Respondent's Form P-5 (Organization Report) is currently active. Respondent has a \$25,000 bond as its financial assurance.
6. The violations of Commission rules committed by Respondent are related to safety and the control of pollution.
7. Respondent designated itself as the operator of the Sam Cannon (28174) Lease, Well Nos. 1 and 4, Moran, E (3700 Congl) Field, Shackelford County, Texas by filing a Commission Form P-4 (Certificate of Compliance and Transportation Authority), effective February 1, 2012, approved February 8, 2012.
8. Commission inspection reports made on October 19, 2012, December 6, 2012 and January 17, 2013, for the Sam Cannon (28174) Lease, show that the sign or identification required to be posted at the lease entrance displayed an incorrect operator. Follow up inspections conducted on April 8, 2013 and April 16, 2015, showed the correct sign posted.
9. Commission inspection reports made on October 19, 2012, December 6, 2012 and January 17, 2013, for the Sam Cannon (28174) Lease, show that the signs or identification required to be posted at Well Nos. 1 and 4 were missing. A follow up inspection conducted on April 8, 2013, showed the sign for Well No. 1 to be in place. Well No. 4 was plugged on July 25, 2014 so a sign is no longer required.
10. Commission inspection reports made on October 19, 2012, December 6, 2012, January 17, 2013, and April 16, 2015, for the Sam Cannon (28174) Lease, show that the signs or identification required to be posted at the tank battery displayed an incorrect operator. A follow up inspection on April 16, 2015, showed the sign still missing.
11. The lack of legible signs and identification displaying correct information, as set forth in Statewide Rules 3(1), 3(2) and 3(3), may cause confusion as to the responsible operator to be contacted and the actual location of a violation or emergency, which can result in delays in remedying a violation or emergency.
12. Commission inspection reports made on October 19, 2012, December 6, 2012, January 17, 2013, April 8, 2015 and April 16, 2015; zero production reported from September 2010 through October 2013; no reports filed from November 2013 through May 2014;

and zero production reported from June 2014 through March 2015, with no reports filed thereafter, show the Sam Cannon (28174) Lease, Well Nos. 1 and 4 have been inactive for a period greater than one year. Production from the subject wells ceased in August 2010.

13. No work-overs, re-entries, or subsequent operations have taken place on any of the subject wells within the last twelve months; none of the subject wells have been properly plugged in accordance with Statewide Rule 14, 16 TEX. ADMIN. CODE § 3.14; and no plugging extensions are in effect for any of the subject wells as allowed by Statewide Rule 14. The subject wells are not otherwise in compliance with Statewide Rule 14.
14. Usable quality groundwater in the area are likely to become contaminated by migrations or discharges of saltwater and other oil and gas wastes from the subject wells. Unplugged wellbores, in violation of Statewide Rules 14(b)(2), constitute a cognizable threat to the public health and safety because of the potential of pollution.
15. The total estimated cost to the State for plugging the Sam Cannon (28174) Lease, Well No. 1 is \$27,081.00.
16. Commission inspection reports made on October 19, 2012, December 6, 2012, January 17, 2013 and April 8, 2013, for the Sam Cannon (28174) Lease show that Respondent failed to backfill and compact an open reserve pit measuring 60' x 40' x 3' located 40' to the west of Well No. 1. On or about October 19, 2012, the pit contained approximately 55 bbls of fluid which field-tested chlorides at 100 mg/l. At a follow up investigation on April 8, 2013, the pit was partially backfilled, but not compacted. Commission records show that Well No. 1 was completed on March 20, 1997.
17. Commission inspection reports made on December 6, 2012, January 17, 2013 and April 8, 2013, for the Sam Cannon (28174) Lease show that Respondent failed to backfill and compact an open workover pit measuring 80' x 8' with an unknown depth located 20' to the west of Well No. 1. On or about December 16, 2012, the pit contained an unknown amount of fluid which field-tested chlorides at 85,300 mg/l.
18. Pits that are not maintained, emptied and backfilled as set forth in Statewide Rules 8(d)(4)(H)(i)(I) and 8(d)(4)(H)(i)(III) may result in unpermitted discharges of oil and gas waste which can contaminate the land surface, affect the health of humans and animals, and may eventually be discharged to surface or subsurface waters, causing pollution.
19. Respondent has no prior history of violations of Commission rules.

CONCLUSIONS OF LAW

1. Proper notice was issued by the Commission to Respondent and all other appropriate persons legally entitled to notice.

2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties have been performed or have occurred.
3. Respondent is responsible for maintaining the subject lease in compliance with all applicable Commission rules and chapters 89 and 91 of the Texas Natural Resources Code.
4. Respondent is in violation of Statewide Rules 3(1), 3(2), 3(3), 14(b)(2), 8(d)(4)(H)(i)(I) and 8(d)(4)(H)(i)(III). 16 TEX. ADMIN. CODE §§ 3.3(1), 3.3(2), 3.3(3), 3.14(b)(2), 3.8(d)(4)(H)(i)(I) and 3.8(d)(4)(H)(i)(III).
5. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 3(1), which requires that each property that produces oil, gas, or geothermal resources shall post signs or identification.
6. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 3(2), which requires that each well site that produces oil, gas, or geothermal resources shall post signs or identification.
7. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rule 3(3), which requires that each tank battery that produces oil, gas, or geothermal resources shall post signs or identification.
8. Respondent is responsible for maintaining the subject leases in compliance with Statewide Rule 14(b)(2), which requires that plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed.
9. Respondent is responsible for maintaining the subject lease in compliance with Statewide Rules 8(d)(4)(H)(i)(I) and 8(d)(4)(H)(i)(III), which contain applicable backfill requirements.
10. The documented violations committed by Respondent constitute acts deemed serious, and a hazard to the public health, and demonstrate a lack of good faith pursuant to TEX. NAT. RES. CODE § 81.0531(c).
11. Pursuant to TEX. NAT. RES. CODE § 81.0531, the Commission may assess administrative penalties against Respondent for the subject violations of up to \$10,000 per day for each violation, with each day such violations continued constituting a separate violation.
12. An assessed administrative penalty in the amount of TWENTY THOUSAND SEVEN HUNDRED THIRTY-FIVE DOLLARS (\$20,735.00) is justified considering the facts and violations at issue.

13. 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, Javan Khazali, and any other organization in which he may hold a position of ownership or control, is subject to the restriction in section 91.114(a)(2) of the Texas Natural Resources Code.

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

1. Royal Texan Energy Co. (Operator No. 732104) shall place the Sam Cannon (28174) Lease, Well Nos. 1 and 4, Moran, E (3700 Congl) Field, Shackelford County, Texas in compliance with Statewide Rules 3(1), 3(2), 3(3), 14(b)(2), 8(d)(4)(H)(i)(I) and 8(d)(4)(H)(i)(III), and any other applicable Commission rules and statutes.
2. Royal Texan Energy Co. (Operator No. 732104) shall pay to the Railroad Commission of Texas, for disposition as provided by law, an administrative penalty in the amount of **TWENTY THOUSAND SEVEN HUNDRED THIRTY-FIVE DOLLARS (\$20,735.00)**.

It is further **ORDERED** that 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, Javan Khazali, and any other organization in which he may hold a position of ownership or control, shall be subject to the restriction in section 91.114(a)(2) of the Texas Natural Resources Code 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.

It is further **ORDERED** by the Commission that this order shall not be final and effective until 25 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 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 this order in accordance with TEX. GOV'T CODE § 2001.144.

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 21st day of June, 2016.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Default Master Order
dated June 21, 2016)

JNC / rnf