

# ARKANSAS OIL AND GAS COMMISSION

Director's Office:  
301 Natural Resources Drive  
Suite 102  
Little Rock, AR 72205  
Phone: (501) 683-5814  
Fax: (501) 683-5818  
<http://www.aogc.state.ar.us>

Mike Beebe  
Governor



Lawrence Bengal  
Director

El Dorado Regional Office:  
2215 West Hillsboro  
El Dorado, AR 71730  
Phone: (870) 862-4965  
FAX: (870) 862-8823

Fort Smith Regional Office:  
3309 Phoenix Avenue  
Fort Smith, AR 72903  
Phone: (479) 646-6611  
FAX: (479) 649-7656

September 12, 2011

Arkansas Oil and Gas Commission  
301 Natural Resources Drive Ste. 102  
Little Rock, AR 72205

**Re: Docket No. 262A-2011-09**  
**Determination of Lease Operating Practices**  
**Request for Adjustment to Royalties**  
**Request for Civil Penalty**

**Common Production Facility**  
**Kyle, Shirey, Doss, and Solmson Leases**  
**Sec. 29 - 15S - 16W**  
**Smackover Field**  
**Ouachita County, AR**

Dear Commissioners,

The Commission Staff ("Staff") requests an Order clarifying appropriate lease operating practices on certain leases operated by Dan Reynolds Company ("Reynolds"). Reynolds operates the Kyle, Shirey, Doss, and Solmson leases in the Smackover Field located in Ouachita County, AR. Staff has determined through its inspections that production, separation, storage and disposition practices may not be proper and that correlative rights are not being protected.

AOGC Staff issued a Notice to require Reynolds to provide an audit of the production and royalty payments from the wells in question. Staff does not have clear regulations to make an administrative determination and therefore requests that this matter be set for hearing and for the Commission to determine whether the issues staff found in its inspections and audit are appropriate for lease operating practices.

Through information submitted by Reynolds as part of the audit process, Staff believes that oil was stored in, and sold, from lease tanks other than the assigned lease tanks. Staff further believes that the resulting royalty paid to the mineral owners is incorrect. Reynolds has made some self-described "payback" payments for the misallocated production, but according to Staff calculations, substantial inconsistencies remain.

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In accordance with Ark. Code Ann §§ 15-74-601 Staff requests that Reynolds remit payment for all delinquent royalties, including interest for such delinquent royalties at twelve percent (12%) per annum. According to Staff calculations, the total amount of royalty and interest currently owed is \$6890.68.

Under Ark. Code Ann §§ 15-74-709, this Commission may levy civil penalties for default or delinquent royalties. In the present circumstances, Ark. Code Ann §§ 15-74-709 limits the total amount of penalty to twenty-five thousand dollars (\$25,000.00). Staff requests a civil penalty amount equal to the amount of delinquent royalty and interest (\$6890.68).

Staff requests an order compelling compliance in accordance with the Commission's findings regarding the lease operating practices of Reynolds, royalty adjustments and interest for the misallocated production, and the assessment of civil penalties as detailed above.

Sincerely,

Lawrence E. Bengal  
Director

LEB/sh