

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the matter of the application of Ace) Docket No.: 23-CONS-3143-CMSC
Energy, LLC (Operator) for an Operator's)
License Renewal.) CONSERVATION DIVISION
)
)
_____) License No.: 34998

**MOTION FOR THE DESIGNATION OF A PRESIDING OFFICER AND THE
SCHEDULING OF A PREHEARING CONFERENCE**

Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) hereby moves the Commission for the designation of a presiding officer and the scheduling of a prehearing conference in this matter. In support of its motion, Staff states as follows:

1. On November 28, 2022, Operator filed a license renewal application. Staff, however, has concerns about issuing a license to Operator. Staff's concerns are based on Operator's long history of non-compliance with Commission rules and regulations, and a potential relationship between members of Operator and SX54, LLC (SX54), an operator with a suspended and expired license. Staff's concerns are also based on the findings of a jury that Operator committed fraud and breach of contract against another Kansas operator. Staff will go into greater detail about each of these concerns below.

2. Operator received its license on November 8, 2013. Over the last nine years, the Commission has issued twenty-seven penalty orders against Operator.¹ Many of those penalty orders contain multiple violations; consequently, over the last nine years, the Commission has

¹ Those dockets are: 16-CONS-534-CPEN, 16-CONS-3776-CPEN, 16-CONS-3914-CPEN, 18-CONS-3161-CPEN, 18-CONS-3175-CPEN, 18-CONS-3230-CPEN, 18-CONS-3235-CPEN, 18-CONS-3339-CPEN, 19-CONS-3090-CPEN, 19-CONS-3092-CPEN, 19-CONS-3125-CPEN, 19-CONS-3205-CPEN, 19-CONS-3219-CPEN, 19-CONS-3220-CPEN, 19-CONS-3252-CPEN, 19-CONS-3415-CPEN, 20-CONS-3235-CPEN, 22-CONS-3120-CPEN, 22-CONS-3124-CPEN, 22-CONS-3150-CPEN, 22-CONS-3215-CPEN, 22-CONS-3333-CPEN, 22-CONS-3336-CPEN, 22-CONS-3410-CPEN, 23-CONS-3017-CPEN, 23-CONS-3029-CPEN, and 23-CONS-3087-CPEN. Note that Operator has requested hearings in Dockets 23-CONS-3017-CPEN, 23-CONS-3029-CPEN, and 23-CONS-3087-CPEN, so these dockets do not yet have a final order issued by the Commission.

found that Operator committed 113 violations of Commission rules and regulations. The total penalty amount assessed by the Commission in the twenty-seven dockets is \$91,700. Furthermore, in the last nine years, Operator's license has been suspended thirteen times.²

3. Among the more egregious violations committed by Operator are one violation for submitting a falsified well inventory,³ one violation for unlawful production on a suspended license,⁴ eight violations for failure to perform current and successful mechanical integrity tests,⁵ eight violations for failure to notify the District Office of spills,⁶ sixteen violations for unauthorized injection,⁷ and fifty-six violations for wells inactive in excess of the time allowed by regulation without obtaining temporary abandonment status.⁸

4. Members of Operator may also have a substantial relationship with SX54, license #35339. SX54's license is currently suspended in three dockets,⁹ and its license expired on June 30, 2019. As a result of having an expired license, approximately thirty of SX54's wells have been placed on the plugging list, to be plugged with State or Federal funds.

5. The primary owner of Operator is Jonathan Freiden. Mr. Freiden is listed in the Commission's Risk Based Data Management System as the emergency contact for SX54. Further, the wife of Mr. Freiden, Rebecca Dragon-Freiden, is listed by the Kansas Secretary of State as the resident agent for SX54.¹⁰ If the Commission grants this motion for a presiding officer and the scheduling of a prehearing conference, then Staff will have an opportunity to

² Those dockets are: 16-CONS-3847-CMSC, 16-CONS-3914-CPEN (license suspended twice in this docket), 18-CONS-3175-CPEN, 18-CONS-3230-CPEN, 19-CONS-3090-CPEN, 19-CONS-3092-CPEN, 19-CONS-3205-CPEN, 20-CONS-3235-CPEN, 22-CONS-3120-CPEN, 22-CONS-3333-CPEN, 22-CONS-3410-CPEN, and 22-CONS-3124-CPEN.

³ Docket 18-CONS-3339-CPEN.

⁴ Docket 23-CONS-3017-CPEN.

⁵ Dockets 16-CONS-534-CPEN, 22-CONS-3120-CPEN, 22-CONS-3333-CPEN, and 23-CONS-3029-CPEN.

⁶ Docket 16-CONS-3776-CPEN.

⁷ Dockets 16-CONS-3914-CPEN and 23-CONS-3087-CPEN.

⁸ Dockets 18-CONS-3175-CPEN, 19-CONS-3205-CPEN, 19-CONS-3415-CPEN, 22-CONS-3124-CPEN, 22-CONS-3150-CPEN, 22-CONS-3215-CPEN, 22-CONS-3336-CPEN, and 22-CONS-3410-CPEN.

⁹ Dockets 18-CONS-3286-CPEN, 19-CONS-3358-CPEN, and 20-CONS-3036-CPEN.

¹⁰ Exhibit A.

conduct discovery to determine whether Mr. Freiden or Ms. Dragon-Freiden have a significant relationship with SX54, as defined in K.S.A. 55-155(c)(4).

6. Finally, Operator appears to have used the fact that it has an operator's license in furtherance of committing fraud and breach of contract against another Kansas operator. In an August 20, 2021, decision, the Kansas Court of Appeals upheld a jury verdict finding that Mr. Freiden and Operator committed fraud and breach of contract against J and B Oil & Gas, LLC (J and B Oil).¹¹ J and B Oil owned the Beachner lease, containing thirty-three oil wells and eighteen injection wells in Crawford County, Kansas. Mr. Freiden was interested in purchasing the lease, and convinced J and B Oil to assign the lease to Operator. Commission Staff approved the Request for Change of Operator on December 18, 2014, as Operator had an active license.¹² After the assignment, however, Mr. Freiden refused to pay for the Beachner lease. More than a year later, after still not paying for the lease, Mr. Freiden called J and B Oil to ask if they wanted the Beachner lease back. J and B Oil refused the offer because "Freiden had run the lease down and the condition was too poor to accept it back."¹³ A Crawford County jury found that Mr. Freiden committed fraud against J and B Oil in obtaining the Beachner lease. The Court of Appeals upheld the District Court's judgment against Mr. Freiden in the amount of \$863,000.

7. If Operator did not have an operator's license, then presumably J and B Oil would have known that Operator could not operate the Beachner lease, and would not have fallen victim to Mr. Freiden's fraud. Additionally, if Operator did not have an operator's license, then Commission Staff would not have transferred the Beachner lease to Operator, and Operator would not have had the opportunity to run the lease down. Thus, but for Operator having an

¹¹ *J and B Oil & Gas, LLC v. Ace Energy, LLC*, 493 P.3d 309 (2021) (Unpublished decision).

¹² Exhibit B.

¹³ *J and B Oil*, at 2.

operator's license, Mr. Freiden likely would not have been able to commit fraud and breach of contract.

8. The fraud case also illustrates the difficulty Commission Staff often have in interacting with Mr. Freiden. J and B Oil was owned by Bruce Shulz and his son Jesse Schulz. After J and B Oil first filed suit against Operator, Mr. Freiden called Jesse Schulz. As summarized by the Court of Appeals, "[d]uring the long phone conversation, which Jesse recorded, Freiden said he knew several bad people who were pissed off at Bruce and could take care of him or shake him up, and that if the lawsuit continued Bruce would end up in a ditch. He also said he knew people who could burn Bruce's house down. Freiden told Jesse he hoped Bruce would die of cancer."¹⁴ Commission Staff have also been the recipients of Mr. Freiden's outbursts.

9. Ultimately, Staff believes it would be inappropriate to issue a license to Operator without Commission input. The number, frequency, variety, and severity of violations committed by Operator is significant. Moreover, members of Operator may be associated with SX54, which has a suspended and expired license and has several wells on the State and Federal plugging lists. Finally, Operator used its license in furtherance of committing fraud and breach of contract against another operator. For these reasons, Staff believes that Operator's license renewal application should be denied.

10. Operator's license is set to expire November 30, 2022. While this matter is before the Commission, Staff believes it is reasonable for Operator's license to remain unexpired. Thus, Staff requests that the Commission hold Operator's license as unexpired until such time as the Commission rules on whether Operator's license should be renewed.

¹⁴ *Id.* at 3.

WHEREFORE, for the reasons described above, Staff respectfully moves the Commission to issue an order designating a presiding officer, and scheduling a prehearing conference that will allow further development of a procedural schedule in this matter.

Respectfully Submitted,

/s/Tristan Kimbrell
Tristan Kimbrell, #27720
Litigation Counsel
Kansas Corporation Commission
266 N. Main St., Ste. 220
Wichita, KS 67202
t.kimbrell@kcc.ks.gov

Kansas Secretary of State

Resident Agent and/or Registered Office Amendment

- File Date: 2018-06-23
- File Time: 10:45:11

1. Business Entity Name: SX54, LLC
2. Business Entity Number: 8251787
3. Resident Agent: Rebecca Dragon
4. Registered Office: 11704 Aberdeen Road Leawood, KS 66211

"I declare under penalty of perjury pursuant to the laws of the state of Kansas that the foregoing is true and correct."

Executed on the 23 of June , 2018.

Casey Menshew
Authorized Person



I, Kris W. Kobach, Secretary of State of Kansas, do hereby certify that this is the true and correct copy of the original document filed electronically on 23 of June , 2018.

Kris W. Kobach

To validate the authenticity of this electronically certified document please visit, <https://www.kansas.gov/rora-amend/validate.do> and enter the following authentication code: 366166

KCC WICHITA

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KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

111514_Beachner_INJ.Pdf

Form T-1
July 2014

Form must be Typed
Form must be Signed
All blanks must be Filled

REQUEST FOR CHANGE OF OPERATOR
TRANSFER OF INJECTION OR SURFACE PIT PERMIT

Form KSONA-1, Certification of Compliance with the Kansas Surface Owner Notification Act,
MUST be submitted with this form.

Check Applicable Boxes:

- Oil Lease: No. of Oil Wells 35 **
- Gas Lease: No. of Gas Wells _____ **
- Gas Gathering System: _____
- Saltwater Disposal Well - Permit No.: _____
- Spot Location: _____ feet from N / S Line
_____ feet from E / W Line
- Enhanced Recovery Project Permit No.: E19667
- Entire Project: Yes No
- Number of Injection Wells 116 - 1 UnAuthorized

Effective Date of Transfer: 11-15-2014

KS Dept of Revenue Lease No.: 141648

Lease Name: BEACHNER (prior Bennett Lease)

Sec. 33 Twp. 30 R. 22 E W

Legal Description of Lease: SE/4 and the East/2 of the SW/4 of SEC. 33, T30 R22E

County: CRAWFORD

Production Zone(s): BARTLESVILLE SAND

Injection Zone(s): BARTLESVILLE SAND

Field Name: _____
**** Side Two Must Be Completed.**

Surface Pit Permit No.: _____ feet from N / S Line of Section
(API No. if Drill Pit, WO or Haul)

_____ feet from E / W Line of Section

Type of Pit: Emergency Burn Settling Haul-Off Workover OR Drilling

Past Operator's License No. 32756

Past Operator's Name & Address: Double 7 oil and Gas LLC
21003 WALLACE RD PARSONS 67357

Title: _____

Contact Person: Bruce Schutz

Phone: 620-423-0951

Date: 11-15-14

Signature: Bruce Schutz

New Operator's License No. 34998

New Operator's Name & Address: ACE ENERGY LLC
11704 ABERDEEN RD
LEAWOOD, KS 66211

Title: OPERATIONS DIRECTOR

Contact Person: PETER JEFFERIS

Phone: 217-801-2071

Oil / Gas Purchaser: PACER ENERGY MARKETING

Date: 12-3-2014

Signature: Peter Jeffery

Acknowledgment of Transfer: The above request for transfer of injection authorization, surface pit permit # _____ has been noted, approved and duly recorded in the records of the Kansas Corporation Commission. This acknowledgment of transfer pertains to Kansas Corporation Commission records only and does not convey any ownership interest in the above injection well(s) or pit permit.

Ace Energy LLC is acknowledged as the new operator and may continue to inject fluids as authorized by Permit No.: E-19667. Recommended action: Need U3C's for last 5 yrs - 1 UnAuthorized - Need Application

Date: 12-16-14 Cheryl Beyer
Authorized Signature

_____ is acknowledged as the new operator of the above named lease containing the surface pit permitted by No.: _____

Date: _____
Authorized Signature

DISTRICT	<u>EPR 12-15-14</u>	PRODUCTION	<u>DEC 18 2014</u>	UIC	<u>12-16-14</u>
Mail to: Past Operator	<u>12-16-14</u>	New Operator	<u>12-16-14</u>	District	<u>3 12-16-14</u>

Must Be Filed For All Wells

DEC 08 2014

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KDOR Lease No.: 141648

* Lease Name: BEACHNER 'A' page 1

* Location: T30S, R22E, SEC. 33

Well No.	API No. (YR DRLD/PRE '67)	Footage from Section Line (i.e. FSL = Feet from South Line)		Type of Well (Oil/Gas/INJ/WSW)	Well Status (PROD/TA'D/Abandoned)
		Circle FSL/FNL	Circle FEL/FWL		
1	15-037-01626 ✓	2545	3790	OIL	PROD
10	15-037-01635 ✓	2110	3021	OIL	PROD
11	15-037-01636 ✓	1692	3790	OIL	PROD
12	15-037-01637 ✓	1719	3560	OIL	PROD
13	15-037-01638 ✓	400	1848	OIL	PROD
14	15-037-01639 ✓	354	2130	OIL	PROD
15	15-037-01640 ✓	385	2350	OIL	PROD
16	15-037-01641 ✓	485	2590	OIL	PROD
17	15-037-01642 ✓	550	2830	OIL	PROD
18	15-037-01643 ✓	600	3115	OIL	PROD
19	15-037-01644 ✓	753	3330	OIL	PROD
2	15-037-01627 ✓	2545	3570	OIL	PROD
20	15-037-01645 ✓	755	3560	OIL	PROD
21	15-037-01646 ✓	817	3790	OIL	PROD
22	15-037-01647 ✓	1174	3330	OIL	PROD
24	15-037-01649 ✓	878	2830	OIL	PROD
25	15-037-01650 ✓	830	2590	OIL	PROD
26	15-037-01651 ✓	792	2248	OIL	PROD
27	15-037-01652 ✓	799	2076	OIL	PROD
28	15-037-01653 ✓	750	1852	OIL	PROD
3	15-037-01628 ✓	2545	3295	OIL	PROD
4	15-037-01629 ✓	2538	3025	OIL	PROD
5	15-037-01630 ✓	2522	2773	OIL	PROD

A separate sheet may be attached if necessary

* When transferring a unit which consists of more than one lease please file a separate side two for each lease. If a lease covers more than one section please indicate which section each well is located.

Must Be Filed For All Wells

KCC WICHITA

DEC 08 2014

RECEIVED

KDOR Lease No.: 141648

* Lease Name: BENNETT

* Location: T30S, R22E, SEC. 33

Well No.	API No. (YR DRLD/PRE '67)	Footage from Section Line (i.e. FSL = Feet from South Line)	Type of Well (Oil/Gas/INJ/WSW)	Well Status (PROD/TA'D/Abandoned)
		<u>Circle</u> FSL/FNL	<u>Circle</u> FEL/FWL	
7	15-037-01618-0001 /	2270	3350	INJ INACTIVE
8	15-037-01619-0001 /	2270	3080	INJ INACTIVE
9	15-037-01620-0001 /	2270	2860	INJ INACTIVE
12	15-037-01602-0001 /	1479	3790	INJ INACTIVE
14	15-037-01603-0001 /	1899	3790	INJ INACTIVE
16	15-037-01604-0001 /	2270	3570	INJ INACTIVE
26	15-037-01606-0001 /	1899	3560	INJ INACTIVE
29	15-037-01607-0001 /	1059	3790	INJ <i>Cancelled 10-20-09 - Not Found during inspection 2012</i>
31	15-037-01609-0001 /	979	3330	INJ INACTIVE
33	15-037-01610-0001 /	1019	3560	INJ INACTIVE
38	15-037-01612-0001 /	600	2590	INJ INACTIVE
39	15-037-01613-0001 /	585	2350	INJ INACTIVE
45	15-037-01616-0001 /	640	2830	INJ INACTIVE
47	15-037-01617-0001 /	585	2130	INJ INACTIVE
61	15-037-21416-0001 /	365	1330	INJ INACTIVE
63	15-037-21440 /	365	730	INJ INACTIVE
23A	15-037-01648-0001 /	852	3098	OIL INACTIVE
		FSL/FNL	FEL/FWL	
		FSL/FNL	FEL/FWL	
		FSL/FNL	FEL/FWL	
		FSL/FNL	FEL/FWL	
		FSL/FNL	FEL/FWL	
		FSL/FNL	FEL/FWL	

A separate sheet may be attached if necessary

* When transferring a unit which consists of more than one lease please file a separate side two for each lease. If a lease covers more than one section please indicate which section each well is located.

KCC WICHITA
DEC 08 2014
RECEIVED

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

Form KSONA-1
July 2014
Form Must Be Typed
Form must be Signed
All blanks must be Filled

**CERTIFICATION OF COMPLIANCE WITH THE
KANSAS SURFACE OWNER NOTIFICATION ACT**

This form must be submitted with all Forms C-1 (Notice of Intent to Drill); CB-1 (Cathodic Protection Borehole Intent); T-1 (Request for Change of Operator Transfer of Injection or Surface Pit Permit); and CP-1 (Well Plugging Application). Any such form submitted without an accompanying Form KSONA-1 will be returned.

Select the corresponding form being filed: C-1 (Intent) CB-1 (Cathodic Protection Borehole Intent) T-1 (Transfer) CP-1 (Plugging Application)

OPERATOR: License # 34998
Name: ACE ENERGY LLC
Address 1: 11704 ABERDEEN RD
Address 2: _____
City: LEAWOOD State: KS Zip: 66211 + _____
Contact Person: PETER JEFFERIS
Phone: (217) 801-2071 Fax: (816) 886 - 9862
Email Address: PETERJEFFERIS@GMAIL.COM

Well Location:
_____ Sec. 33 Twp. 30 S. R. 22 East West
County: CRAWFORD
Lease Name: BEACHNER Well #: _____

If filing a Form T-1 for multiple wells on a lease, enter the legal description of the lease below:

**SE/4 and the East/2 of the SW/4 located in
SEC. 33, T30 R22E**

Surface Owner Information:

Name: BEACHNER BROTHERS INC
Address 1: P.O. BOX 125
Address 2: _____
City: ST. PAUL State: KS Zip: 66771 + _____

When filing a Form T-1 involving multiple surface owners, attach an additional sheet listing all of the information to the left for each surface owner. Surface owner information can be found in the records of the register of deeds for the county, and in the real estate property tax records of the county treasurer.

If this form is being submitted with a Form C-1 (Intent) or CB-1 (Cathodic Protection Borehole Intent), you must supply the surface owners and the KCC with a plat showing the predicted locations of lease roads, tank batteries, pipelines, and electrical lines. The locations shown on the plat are preliminary non-binding estimates. The locations may be entered on the Form C-1 plat, Form CB-1 plat, or a separate plat may be submitted.

Select one of the following:

- I certify that, pursuant to the Kansas Surface Owner Notice Act (House Bill 2032), I have provided the following to the surface owner(s) of the land upon which the subject well is or will be located: 1) a copy of the Form C-1, Form CB-1, Form T-1, or Form CP-1 that I am filing in connection with this form; 2) if the form being filed is a Form C-1 or Form CB-1, the plat(s) required by this form; and 3) my operator name, address, phone number, fax, and email address.
- I have not provided this information to the surface owner(s). I acknowledge that, because I have not provided this information, the KCC will be required to send this information to the surface owner(s). To mitigate the additional cost of the KCC performing this task, I acknowledge that I must provide the name and address of the surface owner by filling out the top section of this form and that I am being charged a \$30.00 handling fee, payable to the KCC, which is enclosed with this form.

If choosing the second option, submit payment of the \$30.00 handling fee with this form. If the fee is not received with this form, the KSONA-1 form and the associated Form C-1, Form CB-1, Form T-1, or Form CP-1 will be returned.

I hereby certify that the statements made herein are true and correct to the best of my knowledge and belief.

Date: 12-3-2014 Signature of Operator or Agent:  Title: OPERATIONS DIRECTOR

CERTIFICATE OF SERVICE

23-CONS-3143-CMSC

I, the undersigned, certify that a true and correct copy of the attached Motion for the Designation of a Presiding Officer and the Scheduling of a Prehearing Conference has been served to the following by means of first class mail and electronic service on November 30, 2022.

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/s/ Paula J. Murray

Paula J. Murray