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

Before Commissioners: Shari Feist Albrecht, Chair
Jay Scott Emler
Pat Apple

In the Matter of the Complaint of Merit Energy Company against ONEOK Field Services, LLC to establish just and reasonable charges for gas gathering pursuant to K.A.R. 82-3-802	))))	Docket No. 16-CONS-564-CINV License No.: 32446

COMPLAINT

COMES NOW Merit Energy Company ("Merit"), and pursuant to K.A.R. 82-3-802 requests that the Commission initiate an investigation regarding the fees and terms that are being charged by ONEOK Field Services, LLC ("ONEOK") for its natural gas services. In support of its Complaint, Merit submits the following:

1) Merit and ONEOK are parties to eight separate agreements which provide for the gathering and/or purchase of natural gas located in Finney, Stevens, Morton, Haskell, Seward, Kearny and Grant Counties, Kansas as well as Texas County, Oklahoma. A map attached as **Exhibit A** shows the location of the affected wells and the facilities described in this Complaint.

2) These eight agreements can be characterized and summarized in the following manner:

   a. Gas Gathering Agreement 432278 (the "Gathering Agreement")

      i. Provides for the gathering of approximately 27,000 MMBtu per day of Gas owned or controlled by Merit in Finney, Seward, Morton, Haskell, Kearny and Grant Counties, Kansas as well as Texas County, Oklahoma to be received onto ONEOK's low pressure gathering system and redelivered to various points on a WTG Hugoton, L.P.("WTG") transmission line located in Finney, Stevens, Morton, Haskell and Seward Counties, Kansas as well as Texas County, Oklahoma.

      ii. Under a transportation service agreement, Merit transports the Gas on WTG's transmission line to a Northern Natural Gas Company ("NNG") transmission line located in Grant County, Kansas.

iii. Under a throughput service agreement, Merit transports the Gas on NNG's transmission where it is delivered to the Linn Energy Holdings, LLC ("Linn") Jayhawk Processing Plant in Grant County, Kansas for conditioning and processing for downstream sale.

iv. Linn conditions and processes Merit's Gas under a processing agreement and re-delivers the plant products to Merit at the tailgate of the Jayhawk Processing Plant.

v. Merit sells its Natural Gas, Natural Gas Liquids and Helium products from the tailgate of the Jayhawk Processing Plant to various parties.

b) The "Wellhead Purchase Agreements"

Gas Purchase Agreement 432136
Gas Purchase Agreement 432137
Gas Purchase Agreement 432172
Gas Purchase Agreement 432181
Percent of Proceeds Contract 432344
Percent of Proceeds Contract 432378
Gas Purchase Agreement 4311701

i. These Wellhead Purchase Agreements provide for the sale of approximately 4,500 MMBtu per day of Gas owned or controlled by Merit from particular wells to ONEOK in Haskell, Seward, Stevens, Kearny, Finney and Morton Counties, Kansas.

ii. Physically, the Gas flows from the well and onto ONEOK's low pressure gathering system, the same system which gathers Gas under the Gathering Agreement.

iii. ONEOK purchases the Gas as it enters ONEOK's gathering system. ONEOK then delivers this gas to the WTG transmission line and subsequently delivers either to Linn's Jayhawk Plant or Linn's Satanta Plant for conditioning and processing.

3) The economic returns to Merit for gas that it transports pursuant to the Gathering Agreement and markets on its own are significantly higher than the economic returns Merit receives for gas purchased by ONEOK pursuant to the Wellhead Purchase Agreements. Merit calculates that the price for Gas at the wellhead under the Wellhead

Purchase Agreements is approximately $0.65/MCF less than the price that Merit receives for Gas which is subject to the Gathering Agreement.

4) Merit has no alternative provider of gathering services for the wells that are covered by the Wellhead Purchase Agreements. ONEOK owns the gathering system to which those wells are connected, and there is no viable alternative means for Merit to have its gas gathered.

5) Beginning in 2014, Merit communicated (in both oral and written communication) to ONEOK that, for the Gas covered under the Wellhead Purchase Agreements, Merit desires gathering service for these wells rather than the current wellhead purchase service being performed by ONEOK. Merit has requested that the Gas covered under the Wellhead Purchase Agreements be transitioned to the Gathering Agreement but also communicated a willingness to enter into a new gathering agreement for the Wellhead Purchase Agreements' Gas if that would be preferable to ONEOK.

6) Merit desires gathering services, rather than wellhead purchase service, because Merit can more efficiently and cost-effectively perform the services required for the sale of gas downstream of ONEOK's gathering system. These services primarily include the transportation and processing of the Gas and the sale of the plant products.

7) In response to Merit's request for a gathering agreement for the wellhead purchase gas, ONEOK extended an offer with the following essential terms:

    a. $0.84/MCF "Service Fee" – a fee which ONEOK indicates would generate a 12% Return on Assets.
    b. Annual Service Fee Escalation Matching Production Decline – the amount by which the Service Fee would increase each year would equal the decline in volume from the wells covered under the agreement.

8) Based upon Merit's knowledge of the market for gas gathering services in Southwest Kansas, Merit believes that the $0.84/MCF fee is higher than a typical cost-of-service gathering fee, as offered by ONEOK as justification for the fee. The fee is approximately 60% higher than the fees paid by Merit under the current 432278 Gathering Agreement between Merit and ONEOK. In response to this proposal, Merit requested to audit the operating expenses, depreciation, taxes, rate base, throughput and other factors pertaining to a cost-of-service calculation in order to understand and verify the offer which ONEOK put forth. ONEOK has offered to prepare high level financial and operational data for their SW Kansas system but is unwilling to allow for a thorough audit which would indicate if ONEOK's financial data supports the fee it proposes.

9) As part of the cost-of-service calculation justifying the $0.84/MCF Service Fee, ONEOK is providing for itself a 12% Return on Assets. Merit deems this return to be inappropriately high.

10) In their proposal, ONEOK proposes an annual fee escalation, whereby the Service Fee increases each year. A fee escalation is common in the gas gathering services industry and is typically aligned closely with the Consumer Price Index. ONEOK proposes a fee escalation to match the annual decline of the gas on the agreement. The historical decline for gas in the Hugoton Basin is approximately 6% to 7%. A fee escalation of this magnitude is not justifiable and would damage the economics of the subject wells and shorten their economic life.

11) In summary, the essential terms for the gathering agreement to replace the Wellhead Purchase Agreements offered by ONEOK would cause economic harm to Merit, the owners in the wells on whose behalf Merit markets, the Gas produced from those wells, and other stakeholders in the wells' revenue streams. In addition to harming the current stakeholders in the wells, ONEOK's terms would shorten the economic life of the subject wells. ONEOK's terms are not just or reasonable and are unjustly discriminatory, and thus prohibited by K.A.R. 82-3-802 and K.S.A. 55-1,103.

12) Merit rejects the notion that a 12% Return on Assets and a fee escalation to match field decline are just and reasonable. Merit further requests to audit the books of ONEOK to verify the inputs into ONEOK's cost-of-service calculation. Merit respectfully requests that the Commission exercise its authority to order discovery that will result in an evaluation of ONEOK's calculations and to require ONEOK to offer Merit gathering service at a rate that is just and reasonable.

13) In addition to the communications that have occurred in the past, as summarized in paragraphs 5 and 8 of this Complaint, Merit has presented this Complaint to ONEOK and has requested a meeting to discuss the Complaint. Copies of these letters are attached hereto as **Exhibit B**.

14) The meeting between Merit and ONEOK took place on September 17, 2015. At that meeting, and thereafter, ONEOK and Merit have exchanged proposals as outlined above, but no resolution of Merit's complaints about ONEOK's services was reached.

15) K.A.R. 82-3-802(d)(5) requires that Merit, as a producer of natural gas, provide analysis of its Gas. Merit can provide that information at the time this matter is heard, but the fact that ONEOK, under the Gathering Agreement, and the Wellhead Purchase Agreements,

allows Merit's gas to enter its gathering system indicates that there are no quality problems with this Gas.

WHEREFORE, Merit Energy Company request that this Complaint be assigned a docket number; that mediation, and if necessary, a hearing be scheduled; that this Commission find that ONEOK Field Services, LLC is providing its wellhead purchasing services on a basis that is not just and reasonable and is discriminatory; and for such other relief as the Commission finds under the circumstances.

Respectfully submitted,
MARTIN, PRINGLE, OLIVER,
WALLACE & BAUER, L.L.P.

By: Jeff Kennedy

Jeff Kennedy, #12099
Stanford J. Smith, Jr. #11353
100 North Broadway, Suite 500
Wichita, KS 67202
Telephone: (316) 265-9311
Facsimile: (316) 265-2955
jkennedy@martinpringle.com
sjsmith@martinpringle.com
Attorneys for Merit Energy Company

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF SEDGWICK)

Jeff Kennedy of lawful age and being first duly sworn, on oath, deposes and states:

That Jeff Kennedy, counsel for Merit Energy Company, has read the above and foregoing *Complaint* and that the statements and averments contained therein are true and correct to the best of his knowledge and belief.

Jeff Kennedy

Jeff Kennedy

SUBSCRIBED and SWORN TO before me this 30th day of September, 2015.

Brenda Prieksat

Notary Public
My appointment expires: 3/16/2019

BRENDA PRIEKSAT
Notary Public - State of Kansas
My Appt. Expires

MERIT ENERGY COMPANY

MERIT WELLS ON ONEOK LOW PRESSURE GATHERING SYSTEM

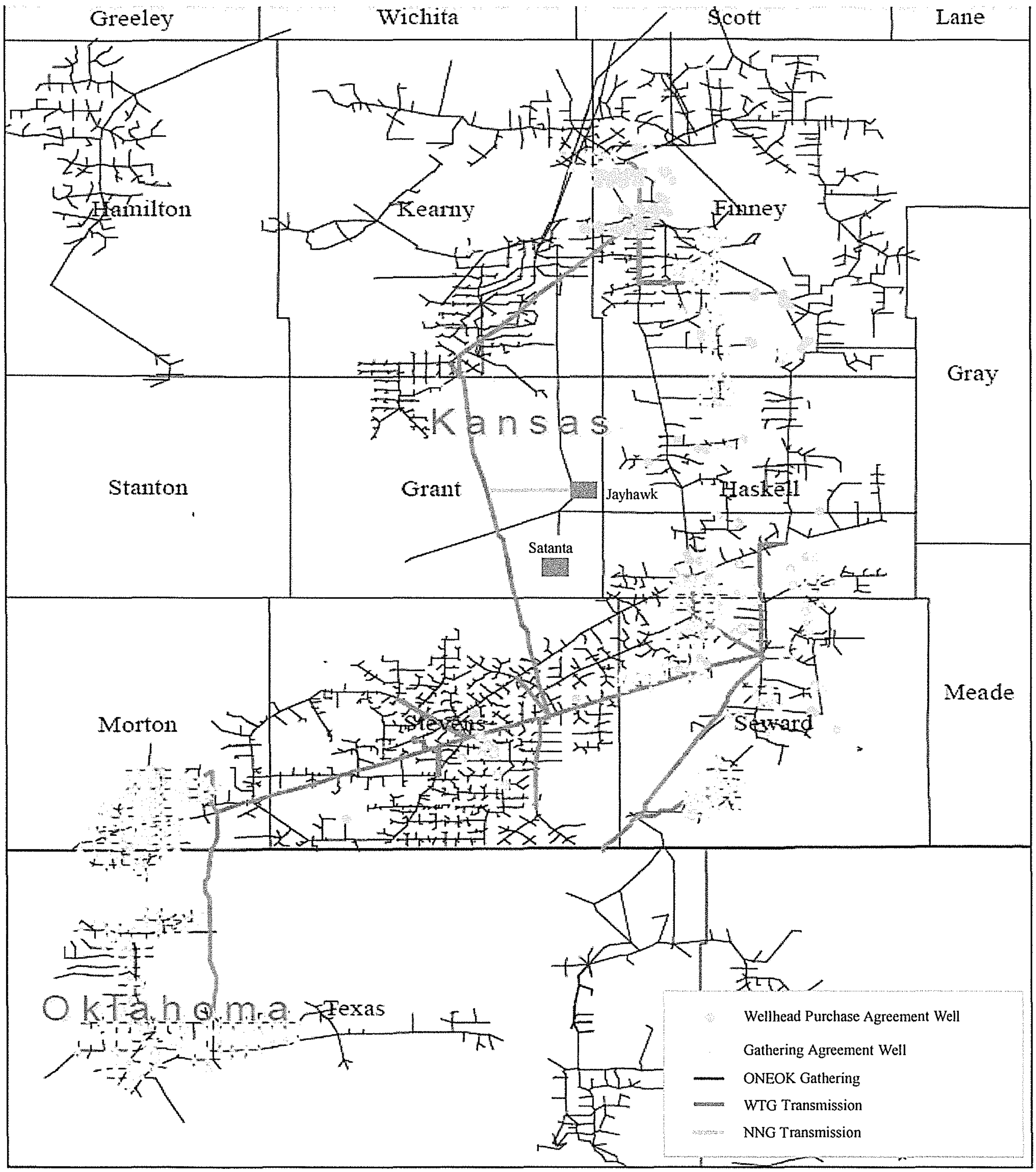

EXHIBIT A

PENGAD-Bayonne, N.J.

MERIT ENERGY COMPANY

13727 Noel Rd, Suite 1200 Dallas, TX 75240
Ph. 972.701.8377 Fax 972.960.1252

Susan Moldenhauer
ONEOK Field Services, LLC
100 W. 5th Street
Tulsa, OK 74103

Re: Merit Energy Company / ONEOK Field Services, LLC

Dear Ms. Moldenhauer:

With this letter I am enclosing a draft Complaint that has been prepared by our Kansas counsel, Martin, Pringle, Oliver, Wallace & Bauer, L.L.P. These lawyers have filed similar Complaints in the past and we are prepared to file this Complaint in the near future if we are unable to resolve the issues that relate to the wellhead purchase agreements we have with ONEOK, as outlined in the enclosed Complaint.

Although we have talked about these issues in the past without any resolution, the process requires, which we believe to be appropriate, that we provide you the Complaint in writing and that we request a meeting to discuss the issues in this Complaint. As you are of course aware, ONEOK and Merit have already arranged for a meeting on September 17th, 2015 to occur at Merit's office in Dallas which we are hopeful will lead to a resolution of the issues outlined in the Complaint. In the event Merit and ONEOK are unable to come to a resolution during our meeting we will proceed to file the Complaint.

If you have any questions about this letter or the enclosed draft Complaint, please let me know.

Sincerely,

Logan Collins

EXHIBIT
PENGAD-Bayonne, N. J.
B

Collins, Logan

From:	Collins, Logan
Sent:	Wednesday, September 30, 2015 2:46 PM
To:	'Moldenhauer, Susan H.'
Cc:	Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben; Walgren, Ada M.
Subject:	RE: (External) RE: ONEOK Gathering Agreement Offer - sample of data used to support a prior FERC 311 filing for OFS
Attachments:	Merit Energy - Complaint (00994275-2x7FED2) to ONEOK 9-30-15.pdf

Susan,

It appears that despite ONEOK's and Merit's best efforts to come to a resolution on this matter we are at an impasse. We maintain our previous stance that 12% (or 11%) is an unreasonably high return, escalation matching production decline is out-of-market and that an $.84/mcf fee is unsupportable without an audit to verify.

Attached please find the complaint Merit intends to file with the KCC. Let me know if you have any questions or would like to further discuss.

Logan

Logan Collins
Merit Energy Company
Manager - Oil, Gas & NGL Marketing
972-628-1014

From: Moldenhauer, Susan H. [mailto:Susan.Moldenhauer@oneok.com]
Sent: Tuesday, September 29, 2015 7:42 AM
To: Collins, Logan
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben; Moldenhauer, Susan H.; Walgren, Ada M.
Subject: RE: (External) RE: ONEOK Gathering Agreement Offer - sample of data used to support a prior FERC 311 filing for OFS

Logan,
We feel 12% ROA is very reasonable – simply because of the relentless annual volume decline which reduces the ROA every year. In order to have an average acceptable ROA over the life of a contract, the ROA must start a little higher than some feel is acceptable, but, by the end of the contract term, will be lower than acceptable to ONEOK. However, in order to move forward with Merit, we are willing to use an 11% ROA.

The CPI escalator reflects yearly increases in cost, but does not reflect the fact that cost/mcf increases much faster than CPI (again due to the relentless volume decline). The escalator cannot be set independently of the contract fees and term. If Merit agrees to an $.84/mcf service fee, ONEOK would most likely accept a CPI escalator.

With a CA in place, ONEOK will share the same level of detail as we share with state and federal regulators and rate case participants through rate cases and other filings. There was significant detail in the sample filing that was sent to Merit on Friday. It is this level of detail that would be shown to Merit. I have been told that this will be the first time ONEOK has ever shared this level of detail with an individual company where a rate case was not involved.

Please don't hesitate to contact me if you have questions.

Thanks Logan.

Susan Moldenhauer
Vice President Gas Supply,
ONEOK Field Services
ONEOK Partners
918.246.2944 (o)
918.606.1420 (c)

From: Collins, Logan [mailto:Logan.Collins@meritenergy.com]
Sent: Monday, September 28, 2015 3:37 PM
To: Moldenhauer, Susan H.; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben
Subject: (External) RE: ONEOK Gathering Agreement Offer - sample of data used to support a prior FERC 311 filing for OFS

Susan,

Thanks for sending the example. In response to your proposal below:

> **ROA** – Merit believes an appropriate return should be calculated based upon a risk-free interest rate plus a risk premium. Given that ONEOK's SW Kansas system is supported by mature, low decline and stable production, we propose an appropriate return is 1 Year LIBOR plus a 4% risk premium. This would put the ROA at around 4.5% to 5%.
>
> **Escalator** - Merit proposes fee escalation to be based upon the annual percentage change in CPI – All Urban Consumers, a method that is very common in the industry.
>
> **Audit** – the schedules that you proposed preparing would be a good starting point for us to review the revenues, expenses and rate base for your gathering system. Merit needs to confirm, however, if those numbers are reasonably appropriate, therefore we still insist that ONEOK allow a Merit representative to come to ONEOK's offices to review the details behind those numbers. We are good with signing a Confidentiality Agreement to govern our review.

Please let us know your response as soon as possible.

Logan

Logan Collins
Merit Energy Company
Manager - Oil, Gas & NGL Marketing
972-628-1014

From: Moldenhauer, Susan H. [mailto:Susan.Moldenhauer@oneok.com]
Sent: Friday, September 25, 2015 5:06 PM
To: Collins, Logan; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben; Moldenhauer, Susan H.
Subject: ONEOK Gathering Agreement Offer - sample of data used to support a prior FERC 311 filing for OFS

Logan,
Here's an example of the data used to support a 2013 FERC 311 filing in Oklahoma for ONEOK Field Services. We don't have the details for some of the schedules handy, so we will require some time to produce the same level of detail. As a reminder, there will need to be a CA in place also.

Susan Moldenhauer
Vice President Gas Supply,
ONEOK Field Services
ONEOK Partners
918.246.2944 (o)
918.606.1420 (c)

From: Moldenhauer, Susan H.
Sent: Friday, September 25, 2015 3:59 PM
To: Collins, Logan; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben; Moldenhauer, Susan H.
Subject: RE: (External) RE: ONEOK Gathering Agreement Offer

Logan,
I've asked our regulatory people for an example.

Susan Moldenhauer
Vice President Gas Supply,
ONEOK Field Services
ONEOK Partners
918.246.2944 (o)
918.606.1420 (c)

From: Collins, Logan [mailto:Logan.Collins@meritenergy.com]
Sent: Friday, September 25, 2015 1:12 PM
To: Moldenhauer, Susan H.; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben
Subject: (External) RE: ONEOK Gathering Agreement Offer

Susan,

Would you please send an example of the schedules that you are proposing to prepare for us to give us better clarity on the information they provide? Thanks.

Logan

Logan Collins
Merit Energy Company
Manager - Oil, Gas & NGL Marketing
972-628-1014

From: Moldenhauer, Susan H. [mailto:Susan.Moldenhauer@oneok.com]
Sent: Friday, September 25, 2015 12:10 PM
To: Collins, Logan; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben; Moldenhauer, Susan H.
Subject: ONEOK Gathering Agreement Offer

Logan,
ONEOK Field Services (OFS) will accept Merit's proposal as outlined below as long as the following provisions are included:

1. The parties reach a mutually agreeable ROA and escalator
2. Merit enters into a Confidentiality Agreement in which Merit agrees to protect, keep confidential, limit access, etc., the material provided to Merit related to a ROA calculation.

3. In lieu of an audit and upon execution of a confidentiality agreement, OFS is willing to prepare and provide you a series of schedules that are similar to those filed by OFS at FERC to establish the rates for OFS' FERC Section 311 transportation service on portions of its gathering system in Oklahoma. We believe these schedules will support the rate we are proposing and should provide you the level of detail you need to evaluate the rate.

If the above terms are agreeable to Merit, we'll send a CA as well as a draft form gathering agreement for your review. Thanks Logan

Susan Moldenhauer
Vice President Gas Supply,
ONEOK Field Services
ONEOK Partners
918.246.2944 (o)
918.606.1420 (c)

From: Collins, Logan [mailto:Logan.Collins@meritenergy.com]
Sent: Tuesday, September 22, 2015 3:20 PM
To: Moldenhauer, Susan H.; Walgren, Ada M.
Cc: Prudhomme, Jay; Nadrash, Neil; Byers, Jacob; Moffitt, Ben
Subject: (External) ONEOK Gathering Agreement Offer

Susan and Ada,

We appreciate you coming to Dallas to discuss terms of a new gathering agreement for the wellhead purchase wells. It is Merit's desire to pursue a gathering agreement for the wellhead purchase wells separate from our current 432278 Gathering Agreement, as presented in "Option 1" in our meeting. Merit, however, requests to verify or modify the following Option 1 terms:

- **$0.84/MCF "Service Fee"** – ONEOK's justification for this fee is that it is the fee necessary to generate a 12% ROA across your SW Kansas system. Merit requests that ONEOK allow a Merit representative to audit the financials of the SW Kansas system to understand the revenues, cost of service, depreciation, book value and other items that go into the calculation of a "cost-of-service" rate, as ONEOK has proposed.

- **12% ROA** – Merit agrees that ONEOK should generate an acceptable return but believes 12% to be an excessive base return.

- **Fee escalation matching field decline** – natural field decline in the Hugoton Basin is 5-7%. Market gathering agreements adjust fees by a low single digit percent or CPI. ONEOK's current escalation proposal is unwarranted and out-of-market.

Merit requests that ONEOK inform Merit by the end of this week (end of day Friday, September 25th) if it will or will not allow a Merit representative to audit the financial details behind ONEOK's "cost-of-service" calculation. Merit will consider a lack of response to indicate ONEOK's unwillingness to allow Merit to audit. In the event ONEOK will not permit an audit, Merit plans to immediately file a complaint with the KCC.

Until a final rate settlement is reached, either through negotiation or through order of the Commission, Merit desires to enter into a gathering agreement at the $0.84/MCF fee offered in Option 1. Upon settlement, Merit desires that ONEOK and Merit amend the agreement to make effective the new settled fee. In addition, Merit suggests a true-up calculation to account for the amount by which the $.84/MCF fee paid by Merit would be over or under the settlement fee during the interim negotiation period.

Please email or call if you have any questions regarding this email or would like to otherwise further discuss.

Thanks.

Logan

H. Logan Collins, CFA
Merit Energy Company
Manager - Oil, Gas & NGL Marketing
Office: 972-628-1014
Fax: 972-628-1314