

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

Before Commissioners: Mark Sievers, Chairman
 Ward Loyd
 Thomas E. Wright

In the Matter of an Order to Show Cause on) Docket No. 12-CONS-152-CSHO
the Commission's own Motion issued to)
Osborn Energy, L.L.C. and Central States) CONSERVATION DIVISION
Energy LLC., with regard to responsibility)
under K.S.A. 55-179 for plugging the Adams)
Lease in Section 12, Township 15 South,) License No. 32294 (expired)
Range 24 East, Johnson County, Kansas.) 34570

ORDER TO SHOW CAUSE

Now, the above captioned matter comes on for consideration and determination before the State Corporation Commission of Kansas ("Commission" or "KCC") on its own motion. Being duly advised in the premises and familiar with its files and records, the Commission finds and concludes as follows:

I. JURISDICTION

1. The Commission has jurisdiction to regulate the production of oil and gas in the State of Kansas under the provision of Chapter 55 of the Kansas Statutes Annotated and the General Rules and Regulations for the Conservation of Crude Oil and Natural Gas, K.A.R. 82-3-100 *et seq.* Pursuant to K.S.A. 55-162 the Commission has jurisdiction to institute proceedings to enforce the laws of Kansas and Commission rules, regulations and Orders. Under K.S.A. 55-179 the Commission has jurisdiction to determine the person or persons legally responsible for the proper care and control of oil and gas wells, including plugging responsibility for such wells.

2. Under K.S.A. 55-179(c), upon the finding that a particular person is responsible for the proper care and control of a well and that such well is abandoned, in fact, and is causing or

likely to cause pollution or loss of any usable water, the Commission has the authority to make any order or orders prescribed by K.S.A. 55-162 to take any appropriate action necessary to prevent pollution and protect water quality. Such action may include, but is not limited to:

- a. Ordering the person to take action to remedy the violation;
- b. Ordering the well or the lease to be shut down until the violation is corrected;
- c. Ordering the person to pay any costs and reasonable attorney fees incurred by the Commission in any action pursuant to this section or enforcement of a Commission order, and to pay interest on any portion which remains unpaid more than 30 days;
- d. Ordering any combination of such orders listed in the subsections above; or
- e. If the Commission finds that a person has not complied with an order issued under one of the subsections above, the Commission may order the suspension or revocation of any license issued pursuant to this act to such person.

3. Under K.S.A. 55-162(b), if it appears to the Commission that damage may result if immediate action is not taken, the Commission, on the basis of emergency adjudicative proceedings, shall make such order as authorized in K.S.A. 55-162(a), or may authorize its agents to enter the land upon which an abandoned well is located and take such remedial action necessary, pending the giving of notice and hearing in accordance with the Kansas administrative procedure act.

II. OTHER APPLICABLE STATUTES AND REGULATIONS

4. K.S.A. 55-179(b) provides that a person who is legally responsible for the proper care and control of an abandoned well shall include, but is not limited to, one or more of the following: any operator of a waterflood or other pressure maintenance program deemed to be causing pollution or loss of usable water; the current or last operator of the lease upon which

such well is located, irrespective of whether such operator plugged or abandoned such well; the original operator who plugged or abandoned such well; and any person who without authorization tampers with or removes surface equipment or downhole equipment from an abandoned well.

5. K.S.A. 55-150(e) defines "Operator" as a person who is responsible for the physical operation and control of a well, gas gathering system, or underground natural gas storage facility.

II. STAFF ASSERTIONS

6. Osborn Energy, L.L.C. (Osborn) is a Kansas Limited Liability Company and Central States Energy, LLC (Central States) is a Foreign Limited Liability Company that is authorized to do business in Kansas. Both companies can be served at 24850 Farley, Bucyrus, Kansas 66013.

7. Pursuant to K.S.A. 55-155, Osborn held KCC oil and gas operator's license number 32294, which expired on March 30, 2011 and Central States holds KCC oil and gas operator's license number 34570 which expires on June 30, 2012.

8. At issue in this proceeding is the determination of the party or parties legally responsible for plugging the abandoned wells on the Adams lease located in Section 12, Township 15 South, Range 24 East, Johnson County, Kansas (Adams lease).

9. Kansas Geological Survey (KGS) records show production from the lease from 1998 to March 2011. Osborn Energy, L.L.C. is listed as the operator in the KGS records.

10. Conservation division well records show Osborn Energy, LLC as the operator of the wells on the Adams lease.

11. In Johnson County District Court case number 09 CV 08851, the Court canceled the Adam lease and ordered Osborn to plug all wells on the Adams lease. Osborn was to have

plugging applications filed with the Commission by July 26, 2011 and have the wells plugged by September 28, 2011. No plugging applications have been filed and the wells remain unplugged.

12. On September 14, 2011 district 3 Staff inspected the lease and found 13 gas wells that were not equipped for production and one salt water disposal well that appeared abandoned.

13. Osborn and Central States have the same address and appear to have the same principals. Osborn's license expired on March 30, 2011 and Central States acquired its license on June 10, 2011. Osborn transferred a large number of leases it operated to Central States but the Adams lease was not transferred.

14. Staff alleges that the actions set out in paragraph 13 demonstrate an attempt by Osborn to avoid plugging responsibility for the abandoned wells on the Adams lease. Because of these actions Central States should be considered to have "stepped into the shoes" of Osborn and should be considered to be a responsible party to plug the abandoned wells on the Adams lease.

IV. CONCLUSIONS

15. The Commission finds and concludes that pursuant to K.S.A. 55-179, a hearing in regard to the issues as stated above, is necessary and appropriate to determine the party responsible for plugging the abandoned wells on the Adams lease.

16. Osborn and Central States, should appear before the Commission to show cause, if any exists, as to why one or both is not the party responsible for plugging the abandoned wells on the Adams lease under K.S.A. 55-179. Furthermore, both companies should appear before the Commission to show cause, if any exists, as to why the Commission's costs in investigating and hearing this matter should not be assessed against them under K.S.A. 55-162 and 55-164, if found to be the responsible party for the proper care and control of the abandoned wells on the Adams lease.

IT IS, THEREFORE, BY THE COMMISSION ORDERED:

A. Osborn Energy L.L.C. and Central States Energy LLC, are hereby directed to appear before this Commission at 10:00 A.M. on January 19, 2012, in the Commission Hearing Room, Kansas Corporation Commission, 130 S. Market, Room 2078, Wichita, Kansas 67202, to show cause, if any exists, why one or both should not be determined to be the party responsible for plugging the abandoned wells on the Adams lease, and why the costs incurred by the Commission in investigating and hearing this proceeding should not be assessed against them.

B. Any party affected by this Order may file with the Commission a petition for reconsideration pursuant to K.S.A. 77-529(a). Such a petition must be filed within fifteen (15) days after service of this Order and must state the specific grounds upon which relief is requested. The petition for reconsideration shall be filed with the Executive Director of the Kansas Corporation Commission, 130 S. Market, Room 2078, Wichita, Kansas 67202.

C. The Commission retains jurisdiction of the subject matter and the parties for the purpose of entering such further Order or Orders as from time-to-time it may deem proper.

BY THE COMMISSION IT IS SO ORDERED.

Wright, Chr.; Loyd, Com.

Dated: NOV 30 2011



Patrice Petersen-Klein
Executive Director

Date Mailed: 12-01-2011

JM

CERTIFY THE ORIGINAL
COPY IS ON FILE WITH
The State Corporation Commission

NOV 30 2011



CERTIFICATE OF SERVICE

I hereby certify that on 12-01-2011, I caused a true and correct copy of the foregoing "Order to Show Cause" to be served by placing the same in the United States mail, postage prepaid, and properly addressed to the following:


Jim Osborn
Osborn Energy L.L.C.
24850 Farley
Bucyrus, Kansas 66013

James Osborn
Central States Energy LLC
24850 Farley
Bucyrus, Kansas 66013

John Almond
KCC District 3
1500 W. 7th Street
Chanute, Kansas 66720

And by hand delivery to the following:

Robert Jenkins
Well Plugging Coordinator
Kansas Corporation Commission
130 S. Market, Suite 2078
Wichita, Kansas 67202-3802


John McCannon
Litigation Counsel
Kansas Corporation Commission