

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

In the matter of the failure of Black Tea Oil, ) Docket No.: 15-CONS-580-CSHO  
LLC (“Operator”) to comply with K.A.R. 82- )  
3-600 at the McGuire C #1 in Logan County, ) CONSERVATION DIVISION  
Kansas. )  
 ) License No.: 34639

- A. The attached Settlement Agreement is approved and incorporated into this Order.
- B. Any party affected by this Order may file with the Commission a petition for reconsideration pursuant to K.S.A. 77-529(a). The petition shall be filed within 15 days after service of this Order. If service of this Order is by mail, three days are added to the deadline. The petition shall be addressed to the Commission and sent to 266 N. Main, Ste. 220, Wichita, Kansas 67202. Pursuant to K.S.A. 55-606 and K.S.A. 77-529(a), reconsideration is prerequisite for judicial review of this Order. Any party taking an action permitted by this summary

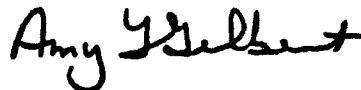
proceeding before the deadline for a petition for reconsideration does so at their own risk of further proceedings.

C. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

**BY THE COMMISSION IT IS SO ORDERED.**

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner

Dated: JUL 21 2015



Amy L. Gilbert  
Secretary

Mailed Date: July 22, 2015

LRP

## SETTLEMENT AGREEMENT

This Settlement Agreement is between Black Tea Oil, LLC ("Operator") and the Staff of the Corporation Commission of the State of Kansas ("Staff"). The effective date of this Settlement Agreement shall be the date it is approved by an Order of the Commission. If the Commission does not approve this Settlement Agreement by a signed Order, then this Settlement Agreement shall not be binding on either party. This Settlement Agreement shall settle the proceedings instituted in Commission Docket Number 15-CONS-580-CSHO.

### A. Background

1. On April 16, 2015, the Commission issued an Order to Show Cause against Operator, based upon Staff's February 13, 2015, Motion, and March 2, 2015, Supplemental Allegation. Specifically, Staff alleged:

- a. That Operator had recently used a large, earthen pit in a drainage are near the Smoky Hill River, despite repeated Staff warnings that the location was impermissible;
- b. That a spill had occurred at the illegal pit, stretching one-third of a mile from the pit down into the Smoky Hill River, where Staff inspected and found multiple pools of residual oil along the spill route and in the dry bed of the river;
- c. That Operator had failed to report the spill to the Commission, failed to timely clean up the spill, and had falsely stated to the National Response Center that one barrel of oil had been spilled, that no waterways had been affected, and that clean-up had been completed;
- d. That Operator had been injecting fluids into the Free B #1 well without authorization from the Commission;

- e. That Operator had filed approximately 80 Well Completion "ACO-1" Reports with the Commission in the last two years that appeared to have been falsified, as the data on the forms did not match the actual job tickets;
- f. That since February 2013, the Commission had already penalized Operator for a total of 30 violations of Commission regulations, across eight penalty dockets, including multiple failures to locate pits in approved locations, failures to timely remove fluids from pits, and a spill from a pit, such dockets including \$17,250 in penalties;
- g. That since May 2014, Operator has twice been suspended for non-compliance with Commission orders; and
- h. That Kansas Geological Survey records indicated that Operator produced 350,761 barrels of oil in the first 9 months of 2014, representing approximately \$28,000,000 in gross revenue from oil production.

2. Operator did not contest the allegations by Staff, as described in paragraph 1(a) through 1(e) above. Since Staff filed its motion to show cause, Operator has remedied all of the violations alleged, and has taken steps to reduce the chances of future violations, including hiring more employees and training their current employees.

#### B. Terms of Settlement

3. The Commission shall find that Operator committed one violation of K.A.R. 82-3-400, one violation of K.A.R. 82-3-600, one violation of K.A.R. 82-3-603(d), and one violation of K.A.R. 82-3-603(e).

4. Operator shall pay \$25,000 for its violations in this docket, of which Operator shall pay \$12,500 by August 1, 2015, and the remaining \$12,500 by September 1, 2015.

5. If Operator fails to comply with any deadline in Paragraph 4, then Staff shall suspend Operator's license until compliance is obtained. Operator agrees to waive any suspension of Operator's license implemented by Commission Staff due to Operator's failure to comply with this Settlement Agreement.

C. Conclusion

Both parties believe that this Settlement Agreement represents a fair and appropriate resolution to the matters in this docket, and that the Settlement Agreement accomplishes the Commission's duty to enforce Kansas laws pertaining to the protection of usable waters and the prevention of pollution caused by oil and gas activities.

This Settlement Agreement has been agreed to by the undersigned:

Commission Staff

By: Jon Myers

Printed Name: JON MYERS

Title: LITIGATION COUNSEL

Date: 6/30/15

Black Tea Oil, LLC

By: [Signature]

Printed Name: Chris Leiker

Title: President, Managing Member

Date: 6/30/2015

**CERTIFICATE OF SERVICE**

I certify that on July 22, 2015, I caused a complete and accurate copy of this Order to be served via United States mail, with the postage prepaid and properly addressed to the following:

David W. Nickel  
Charles C. Steincamp  
Depew Gillen Rathbun & McInteer, LC  
8301 East 21 Street North, Suite 450  
Wichita, Kansas 67206  
*Attorney for Black Tea Oil, LLC*

Christopher C. Leiker  
Black Tea Oil, LLC  
1014 E. 29th Street  
Hays, Kansas 67601

Case Morris  
KCC District #4  
2301 E. 13th Street  
Hays, Kansas 67601

And delivered by hand to:

Jon Myers and Jonelle Rains  
Conservation Division Central Office

/s/ Lane R. Palmateer  
Lane R. Palmateer  
Prehearing Officer and Assistant General Counsel  
Kansas Corporation Commission