

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

In the Matter of the Complaint of Merit Energy) Docket No. 16-CONS-3867-CINV
Company against Anadarko Energy Services)
Company to establish just and reasonable charges) License No.: 32446
For gas gathering pursuant to K.A.R. 82-3-802)

ANSWER

Anadarko Energy Services Company (“Anadarko”) hereby submits its Answer to the Complaint of Merit Energy Company (“Merit”) in the above captioned proceeding.

1. In response to paragraph 1 of the Complaint, Anadarko admits that Merit operates approximately 250 wells located in Stevens, Morton, and Seward Counties, Kansas, and Texas County, Oklahoma, which are connected into Anadarko’s low pressure gathering system, and agrees that Merit’s “Exhibit A” shows the general location of such subject wells and facilities. Anadarko admits that the subject 250 wells produce approximately 5,000 to 6,000 MMBTU/d of natural gas, but that amount is subject to a natural decline in volume. Anadarko is without sufficient knowledge to form a belief as to the truth of the remaining allegations set forth in this paragraph with regard to exact well locations, and, therefore, denies the same.

2. In response to paragraph 2 of the Complaint, Anadarko admits that it has proposed at least 2 agreements for the disposition of the gas referenced in paragraph 1 of the Complaint. Those agreements speak for themselves; accordingly, Anadarko objects to Merit’s summarization of those agreements’ “relevant details.” However, Anadarko admits that the service fee for the Gas Gathering Agreement is \$0.899/MMBTU. Anadarko further admits that the applicable fee included in the Gas Purchase Agreement is \$1.24/MMBTU for all gas

measured, plus a marketing fee of \$0.05/MMBTU, plus a \$0.01/gallon “initial cap monthly plant products marketing fee” and a retained 15% of net proceeds received for extracted helium.

3. Anadarko is without sufficient knowledge to form a belief as to the truth of why Merit determined that the Gas Purchase Agreement is preferable, and accordingly denies the allegations set forth in the first sentence of paragraph 3 of the Complaint. The second sentence of paragraph 3 calls for a legal conclusion to which no responsive pleading is required; however, to the extent that a response is necessary, Anadarko denies the same. Anadarko further states that the Gas Purchase Agreement is not a Gas Gathering Agreement; no gas has flowed under the Gas Gathering Agreement described by Merit in paragraph 2 of the Complaint. Anadarko offered Merit a Gas Gathering Agreement, but Merit declined. Upon information and belief, Merit declined the offer of the Gas Gathering Agreement because it was unable to timely negotiate a gas processing agreement, helium extraction agreement, and gas transportation agreement, from third parties other than Anadarko, on terms and conditions acceptable to Merit.

4. In response to paragraph 4 of the Complaint, Anadarko states that the Gas Purchase Agreement speaks for itself. Anadarko admits that the Gathering fee is \$0.899/MMBTU as stated in paragraph 4(a) of the Complaint. Anadarko lacks sufficient knowledge to form a belief as to the truth of Merit’s estimates, and accordingly denies the allegations set forth in paragraph 4(b). Anadarko admits the allegations set forth in paragraph 4(c) of the Complaint.

5. Anadarko admits that Merit communicated to Anadarko that Merit believes that the \$0.899/MMBTU gathering fee is excessive. Anadarko lacks sufficient knowledge to form a belief as to the truth of Merit’s allegations regarding fees charged by Linn, and accordingly denies the allegations set forth in sentences 2 through 4 of paragraph 5 of the Complaint.

Anadarko admits that Merit requested that Anadarko reduce its fee to reflect a reduction in the transportation component, and admits that it declined to do so.

6. Anadarko believes that the rates charged under its Gas Purchase Agreement are fair, just, reasonable, and reflective of the costs of marketing Merit's gas. Anadarko believes that Kansas law does not require a marketing price that is "reflective of the true cost of marketing" Merit's gas. Anadarko further believes that Kansas law does not require a marketing price that is "reflective of the true cost of marketing" NGLs. Accordingly, Anadarko admits that Merit requested that Anadarko remove certain marketing fees from its rates, but denies all of the remaining allegations set forth in paragraph 6 of the Complaint.

7. Anadarko agrees that Hugoton basin gas often times contains helium and admits the allegations set forth in the first two sentences of paragraph 7 of the Complaint. The Gas Purchase Agreement contains indemnity provisions, and the document speaks for itself with regard to such provisions. Anadarko denies that it is acting "egregiously," and denies all of the remaining allegations set forth in paragraph 7 of the Complaint.

8. Anadarko admits that Nitrogen is often times a component of gas streams across the Hugoton basin. The Gas Purchase Agreement speaks for itself as to Anadarko's gas quality specifications, which include Nitrogen. Anadarko denies the remaining allegations set forth in paragraph 8 of the Complaint.

9. The Gas Purchase Agreement speaks for itself as to indemnification and pipeline specifications. The second sentence of paragraph 9 calls for a legal conclusion to which no responsive pleading is necessary; to the extent that a response is necessary, Anadarko denies the same.

10. Anadarko agrees that Hugoton basin gas often times contains some water, but denies the allegations set forth in the first two sentences of paragraph 10 of the Complaint. The third sentence of paragraph 10 calls for a legal conclusion to which no responsive pleading is necessary; to the extent that a response is necessary, Anadarko denies the same. The Gas Purchase Agreement speaks for itself, and contains provisions regarding “Gas Quality Specification and Measurement,” which includes water specifications. Anadarko denies that any such requirements are unreasonable.

11. The Gas Purchase Agreement speaks for itself, however, Anadarko admits the allegations set forth in the first sentence of paragraph 11 of the Complaint. Anadarko admits the allegations set forth in the second sentence of paragraph 11 of the Complaint.

12. The allegations set forth in paragraph 12 of the Complaint call for legal conclusions to which no responsive pleading is necessary. To the extent that a response is necessary, Anadarko denies the same.

13. The allegations set forth in paragraph 13 of the Complaint call for legal conclusions to which no responsive pleading is necessary; to the extent that a response is necessary, Anadarko denies the same.

14. Anadarko admits the allegations set forth in the first sentence of paragraph 14 of the Complaint, and agrees that the described meeting took place on February 18, 2016, at Anadarko’s offices in The Woodlands, Texas. Anadarko agrees that a resolution was not reached. Anadarko agrees that Merit’s “Exhibit B” are letters from representatives of Merit, to representatives of Anadarko, that reference the meetings, and admit that Anadarko received said letters.

15. Anadarko admits that it declined to enter into a month-to-month agreement. The remainder of the allegations set forth in paragraph 15 of the Complaint call for legal conclusions to which no responsive pleading is necessary; to the extent that a response is necessary, Anadarko denies the same.

16. K.A.R. 82-3-802(d)(5) speaks for itself. Merit's allegation set forth in paragraph 16 of the Complaint that, because Anadarko allows Merit's gas to enter its gathering systems, "there are no quality problems with this Gas" calls for a legal conclusion to which no responsive pleading is necessary; to the extent that a response is necessary, Anadarko denies the same.

Affirmative Defenses

17. Anadarko raises the following affirmative defenses to Merit's Complaint:

- a) all allegations set forth in Merit's Complaint not specifically admitted or agreed to herein are hereby denied;
- b) the Merit Complaint fails to state a claim upon which the Commission may grant relief; gas purchase agreements, including the Gas Purchase Agreement described in paragraph 2 of Merit's Complaint, are not jurisdictional at the KCC under applicable Kansas law (K.S.A. 55-1,103 and K.S.A. 55-1,104); K.S.A. 55-1,103 and K.S.A. 55-1,104 do not govern gas purchase agreements, accordingly, the Commission has no jurisdiction to hear Merit's Complaint; further, Merit has no standing under Kansas law to file a Complaint regarding the Gas Gathering Agreement because it has not requested service under such agreement and no gas has been transported under the Gas Gathering Agreement (Complaint at ¶ 3); pursuant to the Gas Purchase

Agreement, title to natural gas sold by Merit to Anadarko is transferred at the receipt point of the Merit wells; at no time does Merit use the gas gathering facilities of Anadarko, nor does it have any ownership interest, whatsoever, in the natural gas as it is gathered and transported by Anadarko;

- c) the Merit Complaint fails to comply with the statutory requirements of K.S.A. 55-1,104 (5) in that it fails to include a statement of the precise remedy requested that will make the complained of fees consistent with the provisions of K.S.A. 55-1,103; additionally, Merit failed to include a copy of the analysis of its natural gas, including the nitrogen, carbon dioxide, hydrogen sulfide, water and other contaminant content; the amount of volume; and the amount of pressure at the wellhead, in compliance with K.S.A. 55-1,104 (6).
- d) all prices, terms, and conditions of Anadarko's Gas Gathering Agreement and Gas Purchase Agreement are just, reasonable, not unjustly discriminatory, and not unduly preferential;
- e) natural gas from Merit wells, as designated on Merit's "Exhibit B," is being delivered by Merit, to Anadarko, during the time that this Complaint is pending at the Commission, and such natural gas is being purchased pursuant to the Gas Purchase Agreement described in paragraph 2 of the Complaint, in accordance with the terms and conditions of the Agreement;

- f) gas gathering systems are private property and not designated as public utility assets under Kansas law; Kansas law entitles the owner and operator of gathering systems to negotiate agreements for the provision of gathering services that are acceptable to the owner of such gathering system; no Kansas law limits such prices, terms, and conditions, which may only be changed upon a finding that they are not just, not reasonable, unjustly discriminatory or unduly preferential;
- g) agreements for gas gathering service are not subject to the limitations of Chapter 66 of Kansas law; prices, terms, and conditions contained in such agreements are not required to be approved by the Commission;
- h) the Merit Complaint was not served on Anadarko by the Kansas Corporation Commission in accordance with K.A.R. 82-1-220;
- i) Anadarko hereby gives notice that it intends to rely upon affirmative defenses, if they come available or apparent during the course of this proceeding, and thus reserves its right to amend its Answer to the Complaint to assert such defenses.

WHEREFORE, having fully answered the Complaint, Anadarko respectfully requests that the Commission reject and rule against Merit with regards to the allegations contained in the Complaint, and provide such other relief pursuant to applicable Kansas statutes and regulations that the Commission deems lawful and appropriate.

Respectfully submitted,

SMITHYMAN & ZAKOURA, CHARTERED

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VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

I, James P. Zakoura, counsel for Anadarko Energy Services Company, being first duly sworn, state that the above and foregoing Answer is true and accurate to the best of my knowledge, information, and belief.


James P. Zakoura

SUBSCRIBED and SWORN TO before me this 6th day of July, 2016.


Notary Public

My Appointment Expires:



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail the 6th day of July, 2016, to the following:

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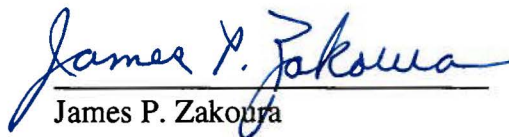
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