THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Complaint of Merit Energy Company against Anadarko Energy Services Company to establish just and reasonable charges for gas gathering pursuant to K.A.R. 82-3-802	))))	Docket No. ~~15~~ 16-CONS-3867-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 Anadarko Energy Services Company ("Anadarko") for its natural gas services. In support of its Complaint, Merit submits the following:

1) 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 produce about 5,500 MMBTU/d of natural gas. A map attached as **Exhibit A** shows the location of the subject wells and the facilities described in this Complaint.

2) Anadarko has proposed two agreements for the disposition of the gas referenced above. The relevant details and terms of those agreements are described below:

a. Gas Gathering Agreement – contemplates the gathering of the subject gas on Anadarko's gathering system with re-delivery to a Linn transportation line that transports the gas to the Linn (operator) and Anadarko jointly owned Satanta Plant. Anadarko proposes to perform this service for a fee of \$0.899/MMBTU delivered onto the gathering system.

b. Gas Purchase Agreement – contemplates the purchase of the subject gas from Merit's wells onto Anadarko's gathering system. The services provided under this agreement are wellhead gathering on Anadarko's system, delivery to a Linn owned transportation line, subsequent delivery to the Linn (Operator) and Anadarko jointly owned Satanta Plant, processing at Satanta and sale of the residue gas and NGLs at the tailgate of the Plant. Anadarko proposes to perform this service for a fee of \$1.29/MMBTU delivered onto their system plus a fee of \$0.01/gallon of NGLs and 15% of Merit's extracted helium.

3) Due to preferences expressed by both Linn as processor and Anadarko as gatherer, Merit has determined that the Gas Purchase Agreement is preferable for both

downstream parties involved and will move forward selling gas under this agreement. Despite this Agreement being characterized as a "purchase agreement" it is in reality a gathering agreement with a simple accounting adjustment.

4) Based upon the terms of these proposals, the fees for the various services under the Gas Purchase Agreement can be ascertained in the following manner:

a. Gathering - \$0.899/MMBTU;

b. Linn Pipeline Transport, Processing, Residue Gas Marketing - \$0.391/MMBTU and taking 15% of extracted helium (as part of this number, Merit estimates \$0.15/MMBTU for transport fees, \$0.191/MMBTU for processing, taking 15% of the Helium and charging \$0.05/MMBTU for Residue Gas Marketing); and

c. NGL Marketing - \$0.01/Gal NGL

5) Merit communicated to Anadarko that the \$0.899/MMBTU gathering fee to gather gas from the wellhead to Linn's transportation line is excessive. In addition to this fee, Merit then incurs a fee, estimated to be approximately \$0.15/MMBTU, to move gas across Linn's transportation line and into the Satanta Plant. In total, Merit will be paying approximately \$1.05/MMBTU to transport gas from the wellhead to the inlet of the Satanta Plant. Merit states these charges are significantly higher than the fees Merit incurs for similar service in other areas of the Hugoton Basin. Merit has, therefore, requested that Anadarko reduce the \$1.29/MMBTU fee to reflect a reduction in the transportation component of this fee, but Anadarko refused this request.

6) Merit markets a significant amount of residue gas and NGLs in the Hugoton Basin and believes that the approximately \$0.05/MMBTU fee, which Anadarko indicated is included in the \$1.29/MMBTU fee, is not reflective of the true cost of marketing Merit's gas. Merit also does not believe that the \$0.01/gallon fee to market NGLs is reflective of the true cost of marketing Merit's NGLs. Merit requested that Anadarko remove these fees or allow Merit the right to market its own product at the tailgate of the Satanta Plant in order to avoid being charged by Anadarko. Anadarko is unwilling to agree to either of these alternatives.

7) Hugoton Basin gas contains helium, which is typically extracted at the processing plants in the area and sold to refiners or onto a Bureau of Land Management Pipeline as crude helium. The Satanta Plant will perform this crude helium processing service under the subject Anadarko agreement. In order to perform the services contemplated under the agreement, Anadarko insists that Merit indemnify Anadarko with respect to the delivery, extraction and sale of the contained helium. Interestingly and perhaps most egregiously, while Anadarko seeks to acquire 15% of Merit's helium volumes, it is asking Merit to indemnify Anadarko for 100% of

said volumes. Merit has no control over any portion of the transportation, extraction or sale of the helium and believes Anadarko's insistence on this indemnification provision to be unfounded. When Merit inquired as to the nature and need for this indemnity provision, Anadarko refused to discuss the matter.

8) Gas streams across the Hugoton basin typically contain 10% to 20% Nitrogen. Despite the ubiquitous nature of Nitrogen in Hugoton gas, Anadarko is requiring that Merit meet a quality specification of no more than 2% Nitrogen and no more than 4% total inert gasses, which includes Nitrogen. The removal of Nitrogen in the Hugoton Basin in preparation for sale is part of the service of the gas processor because it is not commercially feasible to extract Nitrogen at the wellhead. Neither Merit nor any producer on Anadarko's system can reasonably meet this specification yet Anadarko is unwilling to reconsider this provision.

9) In order to purchase Merit's gas at the wellhead, Anadarko is requiring Merit to indemnify it to the extent that Merit's gas does not meet Anadarko's pipeline specifications or downstream pipeline specifications. It is commercially impossible for Merit or other producers to adhere to the specifications as currently constituted and the indemnity for not meeting gas quality is an unreasonable requirement.

10) Hugoton Basin gas is also generally water saturated, meaning that it has greater than 7 pounds of water per one million cubic feet of gas. The removal of this water is typically performed by the gatherer, processor or combination of the two. Generally, it is not commercially feasible to remove water from Hugoton Basin gas at the wellhead to get it under 7 pounds per million cubic feet. Despite the circumstances regarding water in the area, Anadarko is requiring that Merit meet a 7 pounds standard which is an unreasonable requirement.

11) To the extent that Anadarko reasonably questions Merit's title to or right to sell the Gas sold in the contract, Anadarko is preserving the right to withhold payment for Merit's product. Merit offered the alternative that Merit would indemnify Anadarko for any damage caused by such a title issue but Anadarko is unwilling to agree to this alternative.

12) The unreasonable Transportation and Product Marketing Fees offered by Anadarko 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, Anadarko's terms serve to shorten the economic life of the subject wells. In addition, Anadarko's insistence that Merit indemnify them for the disposition of helium is unjustified and exceeds the reasonable obligations of a seller of natural gas in the Hugoton Basin. Merit further believes that Anadarko's stance on Merit's gas quality is unreasonable and subjects Merit to undue risk and/or burden. Finally, Merit believes that Anadarko's insistence to withhold payment from Merit if it

reasonably suspects a title dispute is unreasonable given the alternative that Merit could indemnify Anadarko for such a matter.

13) For the reasons outlined, Anadarko'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.

14) Merit has presented this Complaint to Anadarko and has met with Anadarko to discuss the Complaint. The meeting between Merit and Anadarko took place on February 18, 2016, at Anadarko's offices in The Woodlands, TX but no progress was made on the settlement of these issues. Copies of these letters are attached hereto as **Exhibit B**.

15) In addition to the meeting, Merit has subsequently corresponded with Anadarko to attempt to arrive at an interim resolution to these gathering issues pending a resolution by the Commission. Merit offered to enter into an agreement on the conditions set forth by Anadarko on a month-to-month basis pending an attempt to work out the terms of a longer-term agreement or resolution by this Commission. Anadarko refused to enter into a month-to-month agreement on those terms and refused to provide any credit for the liquids' value unless Merit would agree to a one (1) year term. Merit has now been forced to enter into a one (1) year term agreement which it feels is unequitable and unfair, and not just and reasonable in order to keep its gas flowing after March 1, 2016. Merit is signing that agreement not because they are in agreement with those terms but because Anadarko has previously indicated that it would shut Merit's wells out of the system if there is not an agreement in place by March 1, 2016. Anadarko clearly indicated that it no longer desires to negotiate the agreement and left Merit no choice but to execute the agreement under duress and to pursue remedies before the Corporation Commission. Merit requests that the Commission make a ruling effective back to February 1, 2016, that the gathering terms imposed by Anadarko are unreasonable, unfair and discriminatory.

16) 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 Anadarko, under our current 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 Anadarko Energy Services Company is providing its gathering services on a basis that is not just and reasonable; 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

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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

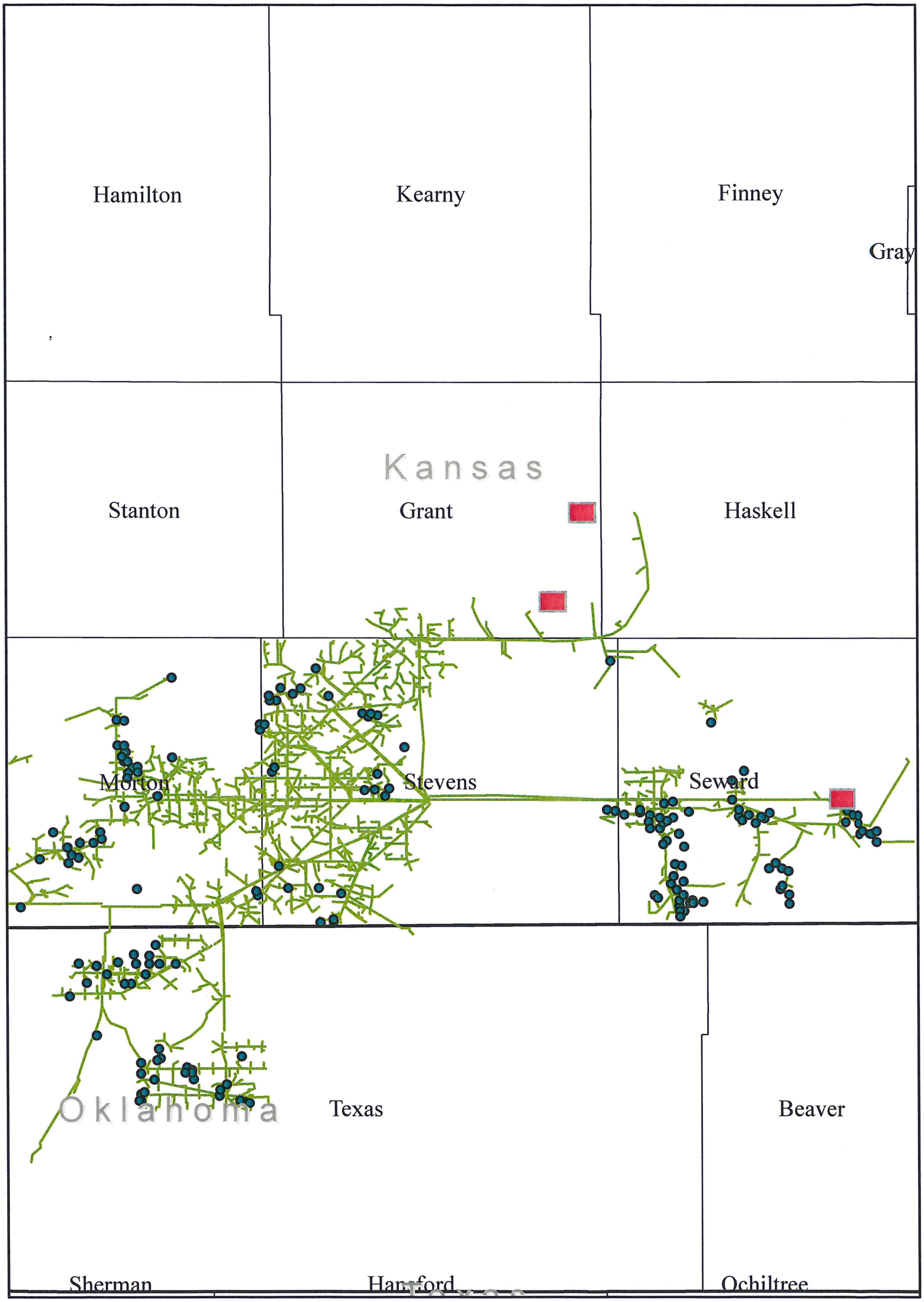
SUBSCRIBED and SWORN TO before me this 29th day of February, 2016

DEBRA J. JACKSON
Notary Public - State of Kansas
My Appt. Expires 10/19/2016

Debra J. Jackson

Notary Public
My Appointment Expires: 10/19/2016

Anadarko Gathered Merit Wells



Legend

EXHIBIT A

MERIT ENERGY COMPANY

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

Angela Love
Anadarko Gathering Company LLC
1201 Lake Robbins Drive
The Woodlands, TX 77380

Re: Merit Energy Company / Anadarko Gathering Company LLC

Dear Ms. Love:

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 gathering agreement we are negotiating, 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. Merit would like to formally request a meeting with Anadarko, either in Houston or Dallas, in the hopes of resolving these issues. In the event Merit and Anadarko are unable to come to a resolution during our meeting or Anadarko does not see it necessary to meet, 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 B

Collins, Logan

From: Collins, Logan
Sent: Monday, February 29, 2016 4:20 PM
To: Love, Angela
Cc: 'Bowersock, Bruce'; Byers, Jacob
Subject: Merit Complaint to the KCC against Anadarko
Attachments: Anadarko Complaint final (01030707x7FED2).docx

Angela,

Despite both parties' efforts in coming to agreeable terms for the gathering, transportation, processing and sale of Merit's gas which is delivered onto Anadarko's gathering system, we have been unable to come to a mutual agreement. As such, attached is a copy of the complaint letter which we will be filing with the KCC either this afternoon or tomorrow.

Please let me know if you would like to discuss or if you have any questions.

Logan

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