

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

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

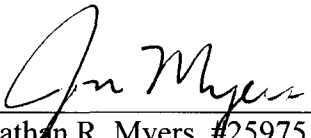
In the matter of the failure of Torchlight	)	Docket No.: 15-CONS-638-CPEN
Energy Operating, LLC ("Operator") to	)	
comply with K.A.R. 82-3-111 at the Hoffman	)	CONSERVATION DIVISION
#1-25 in McPherson County, Kansas.	)	
	)	License No.: 35023

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**MOTION FOR THE COMMISSION TO ADOPT**  
**A SETTLEMENT AGREEMENT**

Commission Staff moves for the Commission to adopt and approve the attached Settlement Agreement, which has been signed by both parties. If the Commission approves the Settlement Agreement, then the evidentiary hearing scheduled for October 15, 2015 will no longer be necessary. Staff believes that the Settlement Agreement represents a fair and efficient manner of resolving the issues described therein.

Respectfully submitted,

  
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Jonathan R. Myers, #25975  
Litigation Counsel  
Kansas Corporation Commission  
266 N. Main, Suite 220  
Wichita, Kansas 67202  
Phone: 316-337-6200; Fax: 316-337-6106

## **SETTLEMENT AGREEMENT**

This Settlement Agreement is between Torchlight Energy Operating, LLC, ("Operator") (License #35023), 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 in Commission Docket Number 15-CONS-638-CPEN.

### **A. Background**

1. On February 2, 2015, the Commission issued a Penalty Order in this docket, requiring Operator to pay \$100 for one violation of K.A.R. 82-3-111. The Penalty Order required Operator to bring the Hoffman #1-25 well into compliance with Commission regulations by plugging the well, returning it to service, or obtaining temporary abandonment status for the well. The Penalty Order directed that Operator's license was to be suspended if Operator was not in compliance within 30 days.

2. On March 19, 2015, Staff suspended Operator's license for non-compliance with the Penalty Order. Operator had paid the \$100 penalty, but had not brought the Hoffman #1-25 into compliance.

3. On June 2, 2015, the Commission issued another Penalty Order in this docket, assessing a \$10,000 penalty for Operator's failure to bring the Hoffman #1-25 into compliance. At the time the Penalty Order was issued, Operator no longer had a valid lease on the well, which is a horizontal well completed into the Maquoketa formation. The Penalty Order stated that if Operator failed to comply with both penalty orders within 30 days, then Staff was directed to plug the five unplugged wells on Operator's license, and to assess the plugging costs to Operator.

4. The June 2, 2015, Penalty Order also directed Staff to shut-in and seal all of Operator's oil and gas operations until such time as compliance was obtained. Staff has sealed the five unplugged wells on Operator's license. The five wells ("the subject wells") are:

- Hoffman #1-25, API #15-113-21349-01-00
- Evans #30-1T, API #15-113-21369-00-00
- Hudson #4-1T, API #15-113-21372-00-00
- Hudson #9-1T, API #15-113-21371-00-00
- Toll #30-1T, API #15-113-21370-00-00

5. On June 26, 2015, Operator appealed the June 2, 2015, Penalty Order. On June 30, 2015, Operator sold the subject wells. Acceptable Transfer of Operator ("T-1") Forms have been submitted to Staff for each of the subject wells, transferring the subject wells to ARDC Inc. (License #32062).

#### B. Terms of Settlement

6. The \$10,000 penalty remaining in this docket is reduced to \$2,500. Operator has already paid the \$2,500. If this Settlement Agreement is not approved by the Commission, then the \$2,500 payment will be returned to Operator pending the disposition of this docket.

7. Effective immediately, Staff shall promptly unseal the subject wells. Upon Commission approval of this Settlement Agreement, Operator's license shall be reinstated.

8. Operator remains responsible for the subject wells being returned to compliance with Commission regulations. If any of the subject wells have not been plugged, returned to production, or approved for temporary abandonment status by October 30, 2015, then Staff is directed to assess an additional \$7,500 penalty against Operator and to suspend Operator's license. If the October 30, 2015, deadline is not met, then at its discretion, Staff may also obtain an Order from the Commission, directing Staff to plug the wells and to assess the costs to

Operator. Operator agrees to waive its right to appeal any Order obtained pursuant to this Paragraph.

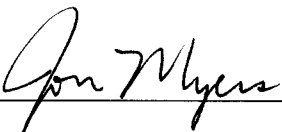
9. Upon request, Staff's Counsel shall promptly provide an update to Operator's Counsel concerning the compliance status of the subject wells, typically on the next business day following the request, until such time as Staff's Counsel notifies Operator's Counsel that full compliance has been obtained at the subject wells.

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: 

Printed Name: JON MYERS

Title: LITIGATION COUNSEL

Date: 8/11/15

Torchlight Energy Operating, LLC

By: 

Printed Name: Willard McAndrew III

Title: COO

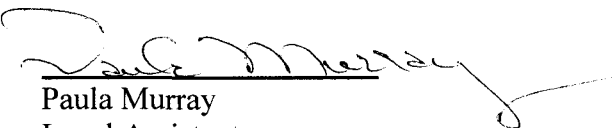
Date: 08/07/2015

**CERTIFICATE OF SERVICE**

I certify that on 8/11/15, I caused a complete and accurate copy of this Motion to be served via United States mail, with the postage prepaid and properly addressed to the following:

Jon Schlatter  
Morris Laing et al.  
300 N. Mead, Suite 200  
Wichita, Kansas 67202  
Attorney for Torchlight Energy Operating, LLC

Jeff Klock  
KCC District #2

  
Paula Murray  
Legal Assistant  
Kansas Corporation Commission