20211210164942631З
Filed Date: 12/10/2021
State Corporation Commission
of Kansas

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of Resolving Various Regulatory Violations Associated with Haas Petroleum, LLC (Operator).	) Docket Nos. 21-CONS-3193-CPEN) 21-CONS-3201-CPEN) 21-CONS-3031-CPEN) 21-CONS-3034-CPEN)) CONSERVATION DIVISION) License No.: 33640

PRE-FILED TESTIMONY

OF MARK HAAS

Page

I. BACKGROUND INFORMATION AND QUALIFICATIONS

Q: Please state your name and business address for the record.

A: Mark L. Haas, P.O. Box 8396, Prairie Village, KS 66208-1936.

Q: What is your relationship to Haas Petroleum, L.L.C. ("Haas Petroleum")?

A: I am the sole managing member of Haas Petroleum.

Q: What is the nature of Haas Petroleum's business?

A: Haas Petroleum is an oil and gas operating company that is responsible for the operation, care and control of oil and gas wells in Kansas.

Q: Describe your experience in operating oil and gas wells?

A: I am a 3rd generation oil producer. I began my oil and gas career while still in highschool working for my father John L. Haas and have been active full time in the oil and gas industry since that time working in every facet of the business from pumping and roustabout to drilling wells. I purchased my first oil and gas lease in the late 1970's and obtained an operators license from the Kansas Corporation Commission ("KCC" or "Commission"), i.e. (License No. 5935) on June 30, 1985. I formed Haas Petroleum on September 24, 1998, and obtained an operators license from the KCC, i.e. (License No. 33640) on July 28, 2005 for such entity.

Q: How many wells does Haas Petroleum currently operate?

A: Haas Petroleum currently operates approximately 1,193 oil and gas wells in Kansas.

II. PREVIOUS RECORD OF COMPLIANCE WITH KCC REGULATIONS

Q: Has the Commission ever issued a penalty order against you personally?

A: I do not believe so. I operated oil and gas wells on a personal basis under License No. 5935 from June 30, 1985 until June 30, 2005 and I do not recall ever having personally received a penalty order from the Commission during my entire twenty year tenure as an operator.

Q: Has the Commission ever issued a penalty order against Haas Petroleum prior to those which are the subject of this consolidated docket?

A: Since receiving its operators license from the KCC (License No. 33640) on July 28, 2005, I believe Haas Petroleum has only been the subject of four very minor and isolated penalty dockets. Docket 14-CONS-646-CPEN assessed a $100 penalty for failure to timely a file pit closure form. Docket 15-CONS-135-CPEN resulted in a $1,500 penalty being paid for three erroneous annual inject reports. Docket 18-CONS-3233-CPEN assessed a $100 penalty for failure to timely file a plugging report after Haas Petroleum plugged a well. Docket 20-CONS-3133-CPEN assessed a $100 penalty for failure to timely post an identification sign on a lease Haas Petroleum assumed responsibility for.

In an ideal world an operator would not receive any penalties. However, I believe four penalty orders over the course of 15 years which resulted in $1,800 in cumulative penalties demonstrates a good record of compliance with KCC rules and regulations. This is especially true since Haas Petroleum has been responsible for the operation, care and control of between 1,500 and 2,200 wells during many of said 15 years.

III. HAAS PETROLEUM, LLC'S FORMER BUSINESS PRACTICES

Q: How did Haas Petroleum grow its business so quickly?

A: As a third generation oil producer, I grew up knowing the boom and bust cycles of the oil and gas industry well. The oil and gas prices drive virtually everything about this industry.

Production costs vary to some degree during these cycles as a result of market demand and availability, but they do not fluctuate nearly as wildly as the oil and gas prices themselves. Thus, during times of high oil and gas prices this industry is extremely profitable for operators, service providers and lease owners alike. However, when oil and gas prices fall leases that were worth millions of dollars during high oil and gas prices, can become worth nothing. In fact many of these leases actually operate at a loss during periods of very low oil and gas prices. During these times, operators do their best to hang on and keep their head above water in the hopes of retaining their leases until they once again become a valuable assets when oil and gas prices rebound. When this bust cycle continues long enough many lease owners who cannot afford the continuing operating loses are forced to sell, give away, or even pay buyers to accept responsibility for leases that they might have paid hundreds of thousands of dollars for just a few years earlier.

Most experienced oil and gas producers (especially those that operate their leases in-house) use the bust cycles when oil and gas prices are at their lowest as an opportunity to "buy low" by purchasing leases under favorable terms. The hope is that operating expenses can be minimized and production improved during the remainder of the bust cycle so that the operator can bring the lease to its full production potential and reap the reward during the boom cycle when oil and gas prices rebound. This is exactly what Haas Petroleum did for the majority of its tenure as an oil and gas operator. Specifically Haas Petroleum targeted leases during the bust cycles that needed a substantial amount of work. Because Haas Petroleum conducted most operations in-house it could control the operating costs and perform the necessary work in order to increase lease production enough during the bust cycle to pay for most or all of the leases operating costs. Then, when oil and gas prices rebounded Haas Petroleum would reap the rewards of its efforts by maximizing production potential from such leases and receiving substantial production revenues from the leases.

Since Haas Petroleum was acquiring leases to operate when most other operators were only interested in selling Haas Petroleum grew rather rapidly and operated very profitably for more than a decade.

Q: Why are many lease owners willing to sell their leases during the bust cycles of this industry at such a steep discount, rather than simply waiting for oil and gas prices to rebound before selling?

A: All oil and gas leases cost significant amounts of money to operate and maintain. During the boom cycles it is easy to operate leases profitably, however during the bust cycles operators really have to become efficient for leases to remain profitable, or even break even. Often times during extended bust cycles, lease owners have depleted their cash reserves to such an extent that they cannot afford to make certain repairs in order to keep their leases operating as they should.

As an example lets assume a hypothetical lease must produce 5 bbls of oil per day just to break even during a period of low oil prices and the lease is capable of making 5 bbls of oil per day. While the lease is producing 5 bbls of oil per day, the owner is able to break even. However, eventually wells need to be pulled, lead lines will plug or break, electrical components will need to be replaced, wells will need to be repaired, etc. When these things happen often times lease owners cannot afford these repairs in order to bring the lease back into a break even status. At that time the lease owner must either operate the lease at a loss until oil prices rebound, plug and abandon the lease, or sell/give away the lease to another operator who is willing to accept responsibility for it. Because I knew these leases would generate substantial profits when oil prices rebounded (i.e. a 5 bbl per day lease breaking even at $30 per bbl oil would generate $109,500 in annual net profits at $90 per bbl oil), Haas Petroleum would assume operations for this hypothetical lease during the bust cycle and perform the necessary repairs in order realize the value of the production during the boom cycle.

Q: How did this business strategy affect the overall type of oil and gas wells that Haas Petroleum became responsible for?

A: Because Haas Petroleum targeted leases that needed work and were not very profitable during the bust cycles of the industry, Haas Petroleum became responsible for many very old wells and leases that required substantial repairs, capital improvements and had significant deferred maintenance. It is noteworthy that Haas Petroleum drilled a lot of new wells on these leases during the boom cycles as well so Haas Petroleum is also responsible for a lot of newer wells. However, due to Haas Petroleum's business strategy of acquiring older leases that were in need of repairs, Haas Petroleum is responsible for a large number of older wells that were in need of repairs and capital investments when Haas Petroleum accepted responsibility for them.

Q: What was your overall objective in growing Haas Petroleum so rapidly?

A: I have three grown children who up until the last few years worked alongside me in the oil and gas industry. It was my dream and ultimate objective to have my children oversee different portions of Haas Petroleum's operations and to one day turn Haas Petroleum over to my three children to own and operate.

Q: Could you please provide some information that would describe the size and scale of Haas Petroleum and its operations when it reached its peak?

A: In roughly 2013, Haas Petroleum was in the top ten companies in Kansas in terms of number of feet drilled. At that time Haas Petroleum had between 50 and 60 full time employees and was responsible for between 1,500 and 2,200 wells.

IV. FACTS LEADING TO THE VIOLATIONS AT ISSUE IN THIS DOCKET

Q: Is Haas Petroleum still in the same financial situation today that it was in 2013?

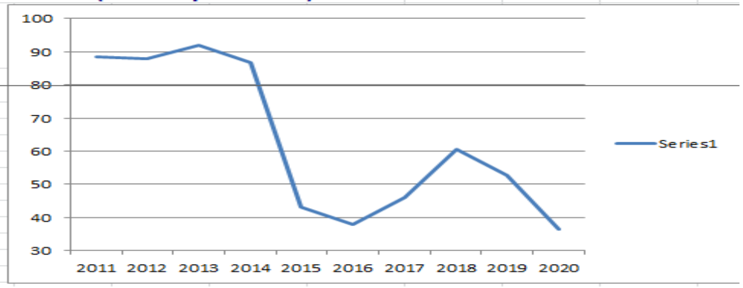
A: Absolutely not. In 2013 Haas Petroleum had between 50 and 60 full time employees. Today Haas Petroleum has 18 full time employees, and in 2020 Haas Petroleum had only 13 full time employees. In roughly 2013 Haas Petroleum was in the top ten companies in Kansas in terms of number of feet drilled, whereas today Haas Petroleum has not drilled even a single well in the last four or five years.

Q: What caused Haas Petroleum's financial condition to change so drastically?

A: It was really a perfect storm consisting of multiple events that all happened at the worst possible time. The following table is helpful in understanding the fluctuation in crude oil prices during the relevant time periods:

Data 1: Kansas Crude Oil First Purchase Price (Dollars per Barrel)

Date	Kansas Crude Oil First Purchase Price (Dollars per Barrel)
2011	88.52
2012	87.85
2013	91.85
2014	86.8
2015	43.16
2016	37.87
2017	45.95
2018	60.45
2019	52.58
2020	36.29



**Information Reported by U.S. Energy Information Administration: Kansas Crude Oil First Purchase Price - Annually*

As you can see the price of oil dropped from $91.85 per barrel in 2013 to $43.16 in 2015 and subsequently to $36.29 in 2020. Low oil prices are hard on all producers and operators, however we had weathered low oil prices before and Haas Petroleum was postured well to survive and even grow substantially during this bust cycle. Unfortunately, several unforseen events transpired during this same period of time.

First and foremost, in the middle of June 2013, my wife of 33 years filed for divorce. This was extremely difficult emotionally, and the financial impact of this on myself and Haas Petroleum was devastating. In pertinent part, the divorce proceeding ended with me continuing to own the oil and gas operations and making equalization payments to my now divorced wife. However, because the divorce was filed in 2013 at the peek of crude oil prices, the marital estate was valued many times higher than the total value of these oil and gas operations today. As a result the amount of money that my now ex-wife was awarded for her ½ of the marital estate is nearly six times the total gross value of the actual recoverable oil reserves that Haas Petroleum operates at current oil prices. Because the price of oil fell immediately after the divorce was filed, I was not able to make the required equalization payments ordered in the divorce and my financial condition deteriorated to such an extent that I was forced to file bankruptcy on a personal basin in 2019.

In addition to my wife of 33 years filling for divorce, the financial hardships experienced by myself and Haas Petroleum from 2015-2020 caused my children to become disenfranchised with the boom and bust cycles of the oil and gas industry and all three of my children have left Haas Petroleum as well.

In order for an oil and gas company to thrive in or even successfully weather a bust cycle in the industry it is critical that they go into the cycle with adequate cash reserves and reliable staff. Haas Petroleum was in this position in 2013, however the divorce and resulting equalization payments quickly changed that and consumed all cash reserves as well as its cash flow. Therefore, instead of attempting to grow its business, Haas Petroleum's focus during the period from 2015 through 2020 was simply to survive and wether the storm. Haas Petroleum was forced to cut about 75% of its staff, and was unable to perform needed repairs when wells went down for various reasons, thus causing production volumes and correspondingly revenue to drop which further compounded the problem. In addition, from 2015 to 2020 Haas Petroleum completely maxed out its borrowing capacity and was forced to pledge all of its assets as security for these loans in order to generate sufficient capital to stay afloat. Recently Haas Petroleum has sought an increase in its available credit, however lenders are unwilling to consider loaning any money to Haas Petroleum while its situation with the KCC persists.

In addition, during times of low oil prices lease owners often fall behind on their joint interest billings by the operator. Operators typically perform critically necessary repairs and "carry" these lease owners to some degree through this period of time. Haas Petroleum was not in a financial condition to be able to do this for any of its lease owners during the 2015 through 2020 time frame.

As if things couldn't get any worse, in 2020 the price of oil went negative so Haas Petroleum could not generate any revenue at all, and this together with the stay at home orders issued as a result of the COVID-19 pandemic forced Haas Petroleum to shut many of it's wells down. In addition, since the COVID-19 pandemic began it has become virtually impossible to fill our staffing needs. Haas Petroleum has been unable to resume production from several leases entirely because it cannot find enough pumpers to monitor and maintain them. The workforce shortage is an industry wide problem, and appears to be prevalent in virtually every industry. As a result service providers cannot fill their staffing needs either and lead times for service work are incredibly long and the recent up-tick in oil prices has made competition for these service providers fierce.

Through this most recent bust cycle, Haas Petroleum has not grown its business, but has instead shrunk it drastically and continues to reduce its business to a size which is suitable for its severely reduced workforce.

Q: Has Haas Petroleum been able to perform needed repairs on its wells during recent years?

A: No it has not. Haas Petroleum has done the best it could with what it had to work with, but the last several years have truly been desperate times for Haas Petroleum. Thankfully though 2021 is proving to be a much better year in terms of oil prices and it appears that the most recent bust cycle may be coming to an end.

Q: Is it Haas Petroleum's position that no penalties should be issued against it by the Commission?

A: Absolutely not. I am ashamed that the oil and gas legacy my father and grandfather worked so hard to build and which I worked so hard to continue is now tarnished by these dockets. Haas Petroleum was in a very bad situation and made some even worse choices. There are many choices I wish Haas Petroleum would have made differently. I am simply asking for a chance for Haas Petroleum to redeem itself. Haas Petroleum will need to pay a penance, and it will take time and commitment to rebuild trust with Commission staff, but this opportunity is all I am asking from the Commission. In essence Haas Petroleum is simply arguing against the death penalty in these dockets. Haas Petroleum makes no excuses for its mistakes, but I think it is important for the Commission to understand the context in which they were made.

V. Remedial Steps Taken by Haas Petroleum to Correct Underlying Issues Leading to the Violations at Issue in this Docket

Q: What steps has Haas Petroleum taken in order to address the underlying issues that placed Haas Petroleum in such a desperate situation from 2015 through 2020?

A: Though it is not of Haas Petroleum's doing, the increase in oil prices has helped a lot. In addition, Haas Petroleum recognized during 2019-2020 that it was simply responsible for more wells than its reduced workforce could adequately manage. As a result Haas Petroleum began taking steps to resign as operator of certain wells, and to transfer operations of certain wells to other operators. In 2019 Haas Petroleum was responsible for the care and control of 1,859 wells, in 2020 this number was reduced to 1,617, currently Haas Petroleum is responsible for 1,193 wells and an additional 63 wells will be transferred to another operator hopefully before year end. Thus, Haas Petroleum has been taking steps to reduce the number of wells that it is responsible for. These efforts save Haas Petroleum money and cause the workload of its employees to be more manageable.

Second, Haas Petroleum has hired additional staff and restructured the office to better focus on regulatory compliance and record keeping. I grew up in the oil business and have always focused on field operations and producing oil. I personally struggle with the paperwork aspect of the oil and gas industry and always have. For most of my tenure as an operator the KCC has also been focused on preventing environmental issues, ensuring compliance in the field, etc. and filing paperwork was only a secondary concern. However, over the last decade or so this has all changed and now there is an enormous focus on filing paperwork. I am not saying that this is a bad thing, I am just pointing out that the climate of the oil and gas industry has changed during my tenure and that I recognize I am slower in catching up with the times than I should have been. In 2013 when Haas Petroleum had between 50 and 60 employees, only one of those employees was front office staff and was tasked with completing all regulatory filings. Today Haas Petroleum has 18 full time employees and three of those are dedicated to regulatory filings, compliance and record keeping.

Third, Haas Petroleum has recognized that it has not devoted the effort to building and maintaining a cooperative relationship with Commission staff that it should have. Although I wish we had come to this realization much earlier and under different circumstances, we certainly have this message now. The situation that currently exists and Commission staff's present perception of Haas Petroleum has made it difficult for us to make as much headway on this front as we would like. However, I recognize that this situation is of Haas Petroleum's own making and we are committed to building this relationship and trust from the ground up if Haas Petroleum is allowed the opportunity to survive these dockets.

Finally, Haas Petroleum has taken steps to facilitate better and faster communication from the field to the office in order to ensure better regulatory compliance on all issues. Haas Petroleum has made a tremendous amount of headway on this front and is continuing to improve. In addition, because of the manner in which many of Haas Petroleum's wells were acquired, very little if any information concerning such wells was received from the prior operator. Therefore, Haas Petroleum has hired a full time geologist that is currently devoted entirely toward developing complete records for each of Haas Petroleum's wells and auditing regulatory compliance on all wells.

Q: Has Haas Petroleum plugged any of the wells it is responsible for since these dockets began?

A: Yes. Since these dockets began Haas Petroleum has plugged 48 wells at cost of $234,900.00. Plugging wells is one of the ways in which Haas Petroleum is attempting to reduce the number of wells that it is responsible for. In hind sight, Haas Petroleum accepted responsibly for wells it never should have agreed to operate. In addition, Haas Petroleum allowed the lease owners to allocate their capital investments toward efforts to increase production rather than plugging wells. These mistakes have been corrected and Haas Petroleum is now insisting that its lease owners plug wells and in the future Haas Petroleum will be far more selective in the wells which it agrees to become responsible for.

Q: Has Haas Petroleum taken steps to work with Commission Staff to address any issues that they may have with regard to Haas Petroleum's operations?

A: We have tried, and will continue to do so but progress is slow. The Commission staff has lost trust in Haas Petroleum and if allowed to survive these dockets it is Haas Petroleum's responsibility to rebuild that trust.

As indicated earlier, prior to these consolidated dockets Haas Petroleum was the subject of four penalty orders over the course of 15 years which resulted in $1,800 in cumulative penalties and I had personally never received a KCC penalty in my 20 years as an operator. However, since November 2020 Haas Petroleum has received approximately 160 total notice of violations from KCC staff and more seem to be coming on a continual basis. Thus far district staff has denied Haas Petroleum's requests to meet, and has denied Haas Petroleum's request to work together toward a compliance agreement that would satisfy KCC staff and also be possible for Haas Petroleum to perform.

I recognize that Haas Petroleum's situation is of it's own making. However, the point I wish to convey is, the only way for Haas Petroleum to actually have a chance at redemption is for all issues that exist to be placed into a compliance agreement in order to stop the quicksand of penalties and notice of violations that have begun. In addition, I want the Commission to understand that Haas Petroleum has not responded to these issues by putting its head in the sand and disregarding KCC staff. To the contrary Haas Petroleum has devoted countless hours and hundreds of thousands of dollars toward complying with KCC staff's demands, the issues involved in these docket represent only the items that Haas Petroleum hasn't been able to remedy before the deadlines set by KCC staff.

Q: **Why wasn't Haas Petroleum able to address the 32 wells that are the subject of 21-CONS-3193-CPEN; 21-CONS-3201-CPEN and 22-CONS-3031-CPEN prior to the deadlines set by Commission staff?**

A: Haas Petroleum does not have the necessary equipment to perform the needed repairs/plugging on the 32 wells which are the subject of these dockets and must rely upon contractors to perform the necessary work. In my opinion the best companies in the area of these wells to perform the required service work are Cheever Well Service, Inc., and Derek Rhodes, Leon Rhodes Well Service. Haas Petroleum contracted with these two vendors to perform the required work on all 32 of the subject wells, however they have not been able to complete the required work due to their scheduling backlog. Haas Petroleum has been successful in getting these companies to perform repair work on other wells which were the subject of KCC staff notice of violation letters, they simply have not completed these wells. In fact Haas Petroleum was successful in getting Cheever Well Service, Inc., to work exclusively on Haas Petroleum's wells for nearly a month in the spring of 2021, however they had to leave in order to fill commitments to other clients after that time.

We have conveyed these circumstances to Commission staff and they acknowledge being aware that service companies are severely backlogged. However, some of these deadlines, especially those related to failed mechanical integrity tests cannot be unilaterally extended by Commission staff. Thus, it became impossible to meet the requisite deadlines in order to avoid the penalties issued in these dockets.

In an effort to work around this problem, Haas Petroleum began negotiating with other operators who do have the ability to perform the requisite work on these wells to assume responsibility for such wells so that work can be completed and bring the wells into compliance with KCC rules and regulations. These efforts have been more successful and to date Haas Petroleum has transferred 9 of the subject wells to other operators who have the ability to bring said wells into compliance with KCC rules and regulations.

VI. PLANNED FUTURE REMEDIAL ACTIONS THAT WILL BE TAKEN BY HAAS PETROLEUM TO FURTHER ENSURE THE UNDERLYING ISSUES LEADING TO THE VIOLATIONS AT ISSUE IN THIS DOCKET WILL NOT RECUR.

Q: **Has Haas Petroleum completed all of its planned actions to address the issues involved in these dockets?**

A: Absolutely not. Several other planned actions are in the works and this list is likely to continue to grow as we move into the future if Haas Petroleum is permitted to survive these dockets.

First, Haas Petroleum has several wells that need to be plugged. Haas Petroleum plans to begin canceling injection authority for any of these wells and to allocate a monthly budget for plugging these wells in a timely manner. Ideally we could get these wells placed on a well plugging agreement with the Commission in order to ensure that these wells are in a status satisfactory to the Commission and to allow the wells to be plugged in a time frame that is possible for Haas Petroleum to accomplish.

Second, Haas Petroleum plans to continue to reduce the number of wells that it is responsible for and to increase the size of its workforce in an effort to better match the number of wells that it is responsible for, with the number of employees it has to monitor and operate such wells. Negotiations have already begun for Haas Petroleum to subcontract the operation of several wells which it is currently responsible for. In addition, Haas Petroleum is also involved in the negotiation a fairly substantial farm-out agreement that would cause operation of a large number of Haas Petroleum's wells to be transferred to another operator.

The above steps will reduce the overall number of wells Haas Petroleum is responsible for, but just as importantly they will narrow the geographic footprint of Haas Petroleum's operations. This will allow Haas Petroleum's now reduced workforce to better manage the wells it is responsible for. In addition, these transfers include several wells that require a lot of time to operate and manage. The overall goal being to operate fewer wells that are in such locations and of such character that Haas Petroleum's employees can adequately manage the company's operations without stretching its employees so thin.

Finally and perhaps most importantly, Haas Petroleum plans to do whatever it takes to restore its working relationship with KCC staff. Although, Haas Petroleum has experienced minimal success in this effort so far, I am convinced that with enough effort Haas Petroleum's actions will show the KCC staff that a valuable lesson was learned and learned well by Haas Petroleum through this experience.

Q: Has Haas Petroleum changed the way in which it plans to evaluate wells before it accepts responsibility for them in the future?

A: Yes. Most of the wells at issue in these dockets were very old and of limited value when Haas Petroleum first accepted responsibility for them. In the past Haas Petroleum focused too heavily on growth and agreed to become the operator of leases that frankly it should not have agreed to take on. In addition, Haas Petroleum became the operator of leases for other lease owners without first ensuring that these lease owners had the ability to fulfil their financial commitments to Haas Petroleum. In the future, Haas Petroleum intends to scrutinize any additional wells it might accept responsibility for in light of the lessons learned through these dockets.

VII. FACTS LEADING TO THE 77 TEMPORARY ABANDONMENT VIOLATIONS IN DOCKET 22 CONS 3034 CPEN

Q: At the Commission business meeting on August 3, 2021 one of the members of the Commission indicated that he was "puzzled by" Haas Petroleum's failure to coordinate a response to the notice of violations with the district office because the district staff is very open to communication. Could you please speak to those comments?

A: Yes I will. Ordinarily this Commissioner's assessment that district staff is very open to communication is accurate. However, once an operator has earned its way onto district staff's "blacklist" these statements become much less true.

Haas Petroleum did reach out to KCC staff regarding the notice of violations referenced in this docket. Through its attorney, Haas Petroleum discussed all issues that existed with Commission staff very candidly and discussed some possible avenues with KCC staff regarding the resolution of all outstanding issues between Haas Petroleum and KCC district staff. Haas Petroleum believed that it was waiting for KCC staff to process the information and proposals, when the penalty was issued in this docket without any response or warning from KCC staff. These conversations were conducted in large part via telephone, however email communications documenting such conversations are attached hereto as Exhibit MH-1.

Once an operator is blacklisted by district staff, the historical weapon used is a continual barrage of notice of violations and penalties until the operator finally succumbs to the onslaught. Haas Petroleum had been warned that this was coming and once the first penalty order was issued we knew we had to try to resolve all issues and find a way to burry the hatchet so to speak with district staff. We thought the best way to accomplish this was through an agreement covering all issues so that Haas Petroleum could prove itself through the performance of whatever agreement was ultimately reached. However, district staff has been unwilling to entertain any agreement terms or negotiations to resolve its issues.

Q: **Does Haas Petroleum feel that the penalty order issued in Docket 22 CONS 3034 CPEN is appropriate?**

A: No. If KCC staff had simply responded to the communications from our attorney indicating that Haas Petroleum needed to go ahead and comply with the notice of violation as district staff was unwilling to entertain a compliance agreement, Haas Petroleum would have shifted its efforts back to complying with the notice of violation within the time prescribed.

VIII. RELIEF REQUESTED

Q: What exactly is Haas Petroleum requesting from the Commission?

A: Haas Petroleum is simply seeking a way in which it can survive these dockets, pay a penance and be afforded an opportunity for redemption. The cumulative penalties issued in these consolidated dockets is $151,700.00, Haas Petroleum is asking the Commission to allow Haas Petroleum to prove itself and to pay a penitence which will also further the Commission's statutory duties rather than impeding them. I believe Haas Petroleum is open to any possible scenario which may accomplish this objective, but the three options that appear most straight forward are as follows:

Option 1: Order Haas Petroleum spend $144,000.00 over the course of the next year to plug or reinstate production from wells that are on Haas Petroleum's well inventory. This would force Haas Petroleum to incur substantial out of pocket expenses equal to the penalties assessed, but would allow Haas Petroleum to incur these expenses over time, and would also reduce the number of wells that Haas Petroleum is ultimately responsible for. In addition the Commission should direct Commission staff to negotiate in good faith with Haas Petroleum to reach an agreement that would both fulfill the Commission's statutory duties and create an achievable time line for Haas Petroleum to address the wells at issue in these dockets and any further issues that Commission staff has identified through its lease inspections.

Option 2: Order Haas Petroleum to pay penalties in the amount of $32,000.00 (i.e. the penalty prescribed by K.A.R. 82-3-407(g) for each of the 32 mechanical integrity test violations) now and hold the remainder of the penalties in abeyance for one year to ensure Haas Petroleum follows through with its commitment to ongoing compliance with KCC rules and regulations. Haas Petroleum would be required to pay the remaining $112,000.00 only if it is found to have violated a KCC rule or regulation by overt action taken within the one year period following the Commission's order entered in this docket. Such order should further direct Commission staff to negotiate in good faith with Haas Petroleum to reach an agreement that would both fulfill the Commission's statutory duties and create an achievable time line for Haas Petroleum to address the wells at issue in these dockets and any further issues that Commission staff has identified through its lease inspections.

Option 3: Reduce the penalties assessed in this docket to $64,000.00 and order Haas Petroleum to pay such penalty in twelve equal monthly installments beginning on the month following the issuance of the order in this consolidated docket, and direct Commission staff to negotiate in good faith with Haas Petroleum to reach an agreement that would both fulfill the Commission's statutory duties and create an achievable time line for Haas Petroleum to address the wells at issue in these dockets and any further issues that Commission staff has identified through its lease inspections. This penalty amount is exactly double the penalty amount prescribed by K.A.R. 82-3-407(g), thus providing substantial punishment to Haas Petroleum as a result of the nature of the violations described in these consolidated dockets.

Q: Do you believe it is in the Commission's best interest to affirm the penalties originally ordered in these consolidated dockets?

A: No I do not. Though it may initially seem appealing to put a blacklisted operator out of business, this would cause more wells to be needlessly added to the state well plugging list. When an operator is forced out of business it affords other operators the opportunity to cherry pick through the now abandoned wells. All wells that are considered assets are eventually assumed by other operators, but the wells that are determined to have no value end up on the state's well plugging list. This does not aid Haas Petroleum, the Commission or the state of Kansas. Similarly, assessing very large penalties simply removes resources from the industry that could otherwise be used to prevent waste, protect fresh and usable water and protect correlative rights, and places those moneys into the state general fund. By relying on penalties alone the Commission is missing the opportunity to achieve two objectives at once. Why not exact its pound of flesh while at the same time fulfilling rather than contravening the Commission's statutory duties? This is the thought process behind Option 1 above. Staff will likely respond that this option requires Haas Petroleum to do something it is already obligated to. However, being obligated to do something and being able to do it are two very different things. The issue boils down to two simple questions, 1) is an operator "punished" by being forced to spend an exceptionally large amount of money to plug wells on an expedited basis, and 2) does the Commission and State receive an additional benefit by getting wells plugged on an expedited basis? The answer to both of these questions is obviously a resounding yes, the fact that it would also benefit Haas Petroleum doesn't detract at all from the benefits this option affords the Commission.

Q: Is an agreement between Haas Petroleum and the Commission an integral part of all three Options above?

A: Yes it is. As indicated earlier this situation can only be resolved by an agreement which addresses all issues that are outstanding. In order to truly resolve the situation we need to be proactive and address any other issues that Commission staff has identified through its inspection of all of Haas Petroleum's wells and also provide an achievable time line for Haas Petroleum to address such issues as well as the issues involved in these dockets.

Q: Does this complete your testimony to the Commission?

A: Yes.

VERIFICATION OF MARK HAAS

STATE OF MISSOURI)
) ss:
COUNTY OF JACKSON)

Mark Haas, being duly sworn, upon his oath states that he has read the document title "Pre-filed Testimony of Mark Haas" to which this Verification is attached, that he is aware of its contents, and declares that the statements contained in said document are true and correct.

Mark Haas

SUBSCRIBED AND SWORN to before me on this 10th day of December, 2021.

NOTARY PUBLIC

My Commission expires: 11/18/24

RHONDA L. EPPS
MY COMMISSION EXPIRES 11-18-2024
NOTARY SEAL
JACKSON COUNTY
COMMISSION NO. 20908792
NOTARY PUBLIC - STATE OF MISSOURI

<u>CERTIFICATE OF SERVICE</u>

I hereby certify that a copy of the above and foregoing was mailed, postage prepaid, this 10th day of December, 2021, addressed to:

Kelcey Marsh, k.marsh@kcc.ks.gov
John Almond, j.almond@kcc.ks.gov
Tristan Kimbrell, t.kimbrell@kcc.ks.gov
Jonathan R. Myers, j.myers@kcc.ks.gov
Rene Stucky, r.stucky@kcc.ks.gov
Troy Russell, t.russell@kcc.ks.gov

/s/ *Keith A. Brock*
Keith A. Brock

Keith Brock

From: Kelcey Marsh <k.marsh@kcc.ks.gov>
Sent: Thursday, July 15, 2021 10:52 AM
To: Keith Brock
Subject: RE: 21 CONS 168 CPEN

Good Morning Keith,

I appreciate you bringing this to my attention. I believe that my May 28, 2021, email states that I would visit with my client regarding potential violations recommended by Staff to see how my client wanted to handle those potential violations and if they were amendable to them being included in any agreement. After the additional penalty recommendations came in from District Staff, my client decided to pursue the assessment of those additional penalties.

Sincerely,

Kelcey Marsh
Litigation Counsel

Kansas
Corporation Commission

Conservation Division
Kansas Corporation Commission
266 N. Main, Suite 220 | Wichita, KS | 67202-1513
Phone (316) 337-6200 | Fax (316) 337-6211 | http://kcc.ks.gov/

This transmission, email and any files transmitted with it, may be: (1) subject to the Attorney-Client Privilege, (2) an attorney work product, or (3) strictly confidential under federal or state law. If you are not the intended recipient of this message, you may not use, disclose, print, copy or disseminate this information. If you have received this transmission in error, notify the sender (only) and delete the message. This message may also be subject to disclosure under the KORA, K.S.A. 45-215 et seq.

From: Keith Brock <KBrock@andersonbyrd.com>
Sent: Wednesday, July 14, 2021 10:31 AM
To: Kelcey Marsh <k.marsh@kcc.ks.gov>
Subject: RE: 21 CONS 168 CPEN

This is an EXTERNAL EMAIL. Think before clicking a link or opening attachments.

Kelcey,

I just wanted to forward the email string below where we were discussing including additional wells in the compliance agreement. I don't feel that assessment of additional penalties is in the spirit of these discussions.

Keith Brock
Anderson & Byrd, LLP
216 S. Hickory, P.O. Box 17
Ottawa, KS 66067
Phone: (785) 242-1234
Fax : (785) 242-1279

From: Kelcey Marsh [mailto:k.marsh@kcc.ks.gov]
Sent: Friday, May 28, 2021 2:48 PM
To: Keith Brock
Subject: RE: 21 CONS 168 CPEN

Keith,

To answer your first question, I believe Haas can fill out a Notice Of Injection Commencement or Termination (Form U-5) and mail it in to our office. Here is a link to the form on our website: u5.pdf (ks.gov).

As far as the second question goes, I don't believe that there have been any penalty recommendations sent to us yet for and violations of K.A.R. 82-3-111. I will visit with my clients and see how they want to handle those potential violations, and if they are amendable to them also being included in an agreement.

Sincerely,

Kelcey Marsh
Litigation Counsel

Kansas
Corporation Commission

Conservation Division
Kansas Corporation Commission
266 N. Main, Suite 220 | Wichita, KS | 67202-1513
Phone (316) 337-6200 | Fax (316) 337-6211 | http://kcc.ks.gov/

This transmission, email and any files transmitted with it, may be: (1) subject to the Attorney-Client Privilege, (2) an attorney work product, or (3) strictly confidential under federal or state law.. If you are not the intended recipient of this message, you may not use, disclose, print, copy or disseminate this information. If you have received this transmission in error, notify the sender (only) and delete the message. This message may also be subject to disclosure under the KORA, K.S.A. 45-215 et seq.

From: Keith Brock <KBrock@andersonbyrd.com>
Sent: Friday, May 28, 2021 2:32 PM
To: Kelcey Marsh <k.marsh@kcc.ks.gov>
Subject: RE: 21 CONS 168 CPEN

This is an EXTERNAL EMAIL. Think before clicking a link or opening attachments.

Kelcey,

I just wanted to touch base with you on this matter. I am having my client go through their entire well inventory to identify: 1) injection wells for which they can cancel their injection authority, and 2) wells that are currently shut in that need to be TA'd and subentry returned to service or plugged.

With that I am hoping I can put some meat on our discussion regarding the terms of the compliance agreement. Essentially my fear is that if we do not address all wells, this operator will find itself in a situation of being non-compliant again six months from now due to the number of wells they have and their inability to find employees to fill their open positions.

There are a few pressing issues though that need to be addressed in order to avoid another penalty and I am not certain what forms to tell them to file. They have MIT's due on 5/30/21 for the following wells, which my client would like to have the injection authority canceled, as they plan to plug these wells.

Riser B 1H-2inj
Bob Edwards #8
Burke A7
Harder #3

To avoid confusion I would note that my client has other wells which have MIT's due on 5/30/21 as well and those wells either have been or will be tested on time, it is only the above referenced 4 wells that we are needing to cancel injection authority on right now. Could you please let me know how to go about canceling the injection authority on these wells so that they do not require MIT's? It is my intention to have these four wells included in the plugging portion of the compliance agreement you and I are working on.

Also, my clients have received several other notices re: TA applications from district Staff. My client is working on those, but I would like to have deadlines for my client to get all inactive wells TA'd in their compliance agreement. Thus is there a way we can ensure that additional penalties are not assessed while you and I are working through this?

Keith Brock
Anderson & Byrd, LLP
216 S. Hickory, P.O. Box 17
Ottawa, KS 66067
Phone: (785) 242-1234
Fax : (785) 242-1279

From: Kelcey Marsh [mailto:k.marsh@kcc.ks.gov]
Sent: Wednesday, April 28, 2021 1:46 PM
To: Keith Brock
Subject: RE: 21 CONS 168 CPEN

Certainly. My calendar is pretty well open throughout the afternoon, so feel free to give me a call when you are available. My direct line is 316-337-6219.

Sincerely,

Kelcey Marsh
Litigation Counsel

Kansas
Corporation Commission

Conservation Division
Kansas Corporation Commission
266 N. Main, Suite 220 | Wichita, KS | 67202-1513
Phone (316) 337-6200 | Fax (316) 337-6211 | http://kcc.ks.gov/

This transmission, email and any files transmitted with it, may be: (1) subject to the Attorney-Client Privilege, (2) an attorney work product, or (3) strictly confidential under federal or state law. If you are not the intended recipient of this message, you may not use, disclose, print, copy or disseminate this information. If you have received this transmission in error, notify the sender (only) and delete the message. This message may also be subject to disclosure under the KORA, K.S.A. 45-215 et seq.

From: Keith Brock <KBrock@andersonbyrd.com>
Sent: Wednesday, April 28, 2021 12:14 PM
To: Kelcey Marsh <k.marsh@kcc.ks.gov>
Subject: 21 CONS 168 CPEN

This is an EXTERNAL EMAIL. Think before clicking a link or opening attachments.

Kelcey,

Do you have some time for a quick phone call this afternoon regarding the above referenced docket?

Keith Brock
Anderson & Byrd, LLP
216 S. Hickory, P.O. Box 17
Ottawa, KS 66067
Phone: (785) 242-1234
Fax : (785) 242-1279