

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

In the matter of a Compliance Agreement)	Docket No.: 17-CONS-3474-CMSC
between Gateway Resources USA, Inc.)	
(Operator) and Commission Staff regarding)	CONSERVATION DIVISION
bringing 42 wells into compliance with)	
<u>K.A.R. 82-3-111.</u>)	License No.: 32353

MOTION TO APPROVE UPDATED COMPLIANCE AGREEMENT

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), moves the Commission to approve the updated compliance agreement in this docket. In support of its motion, Staff states the following:

1. On February 9, 2017, Operator and Commission Staff entered into a compliance agreement in this docket requiring Operator to bring 75 wells into compliance with K.A.R. 82-3-111 by May 31, 2023.

2. On May 19, 2020, Operator requested a 90-day extension of their May 31, 2020 deadline due to the market conditions and the Coronavirus pandemic. The District #3 Supervisor notified Operator that only a 30-day extension may be granted. The District #3 Supervisor believed that Operator demonstrated Coronavirus-related good cause for making its request, and submitted his recommendation for a 30-day extension be granted by the Commission to legal staff.

3. Upon further review of the original compliance agreement, legal staff did not believe an extension could be granted based upon no provision in the agreement allowing for an extension to be granted. The original compliance agreement between operator and Commission Staff used a template that is now outdated which did not provide 30-day extensions compared to the current templates.

4. However, paragraph 8 of the original agreement, stated that once the agreement has been in effect for two years, Staff may reopen negotiation with Operator about the terms of this agreement at any time, upon giving Operator written notice of Staff's intent to do so.

5. Based on that provision, Staff reopened negotiations with Operator regarding the terms of their original agreement as the agreement has been in effect for two years. Commission Staff and Operator have executed an updated compliance agreement, which is attached hereto as **Attachment A**, and incorporated herein by reference (Updated Agreement). The Updated Agreement requires Operator to bring the remaining 42 inactive wells into compliance with K.A.R. 82-3-111 by December 31, 2025.

6. The Updated Agreement is beneficial to Operator and the Commission. First, the Updated Agreement allows Operator the ability to receive an extension of the time to achieve compliance for up to 30 days from an applicable deadline upon Operator timely submitting its request and good cause shown. Second, the Updated Agreement allows Staff to prioritize the order in which the wells are addressed pursuant to the Agreement should a well or wells become known to Staff to be a pollution or public safety threat. Third, the Updated Agreement allows for increased flexibility for Operator to bring additional wells into compliance with K.A.R. 82-3-111. Additionally, Staff would note that Operator's license never suspended for noncompliance with the original agreement.

7. The Updated Agreement provides a fair and efficient resolution of the issues described therein.

WHEREFORE, for the reasons set forth above, Staff requests the Commission approve the updated compliance agreement in this docket.

Respectfully submitted,

/s/ Kelcey A. Marsh
Kelcey A. Marsh #28300
Litigation Counsel
Kansas Corporation Commission
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COMPLIANCE AGREEMENT

This Agreement is between Gateway Resources USA Inc. ("Operator") (License #32353) and the Kansas Corporation Commission Staff ("Staff"). If the Kansas Corporation Commission ("Commission") does not approve this Agreement as evidenced by a signed order of the Commission, this Agreement shall not be binding on either party.

A. Background

1. Operator is responsible for the 42 wells ("the subject wells") on the attached list. All of the subject wells are out of compliance with K.A.R. 82-3-111. Operator has asked for an agreement to avoid penalties while Operator works to plug the subject wells, return them to service, or repair and obtain TA status for such subject wells if eligible. Obtaining TA status shall include application for, and Commission approval of, an exception to the 10-year limit on TA status if applicable. Staff is supportive of an agreement to this effect with the Operator.

B. Terms of Compliance Agreement

2. By December 31, 2020, Operator shall plug, return to service, or repair and obtain temporary abandonment status for 2 of the subject wells. Operator shall plug, return to service, or repair and obtain temporary abandonment status for an additional 2 subject wells within each three calendar months thereafter, resulting in all subject wells being returned to compliance by December 31, 2025. Staff may prioritize the order in which the subject wells are addressed pursuant to this Agreement by indicating priority on the attached list and may adjust the prioritization at any time during this Agreement should a subject well or wells become known to Staff to be a pollution or public safety threat. Operator shall notify Staff in writing of all subject wells returned to service during each three calendar month period throughout the term of this Agreement.

3. Upon good cause shown, the Operator may receive an extension of the time to achieve compliance for up to 30 days from an applicable deadline pursuant to this Agreement so that the Operator may plug, return to service, or repair and TA the well or wells that was or were the subject of the applicable deadline. If the Operator seeks a time extension for any deadline under this Agreement, the Operator shall request such an extension at least seven days prior to the applicable deadline. Staff will file a status update in the docket created for this matter containing the District Supervisor's recommendation to approve or deny the extension and place an order requesting Commission approval of the terms of the status update on the next available Consent Agenda for Commission consideration and possible approval. If Operator is denied a requested

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extension by the Commission or otherwise remains out of compliance with this Agreement for any other reason, Staff shall immediately send a Notice of Non-Compliance and License Suspension to Operator, which shall suspend the Operator's license and become effective 10 days from the date of the Notice of Non-Compliance and License Suspension. The Operator's license shall remain suspended until well plugging or repair is resumed in accordance with the compliance schedule contained in the Status Update. If Staff finds that the Operator is conducting oil and gas operations after 10 days from the date of a Notice of Non-Compliance and License Suspension, and Operator's license remains suspended, Staff is authorized to seal all of Operator's oil and gas operations.

4. This Agreement, in its entirety, may be transferable between operators only by an Order of the Commission approving the transfer. Staff will file a status update in the docket created for this matter containing a recommendation regarding any proposed transfer between operators and will place an order regarding the transfer on the next available Consent Agenda for Commission consideration and possible approval. If the Operator intends to transfer any of the subject wells to another Operator, but does not intend to transfer this Agreement in its entirety, such subject wells must be returned to compliance pursuant to Commission, rules, regulations, or orders before Staff will process the transfer.

5. Except as provided by and under this Agreement, Staff will not pursue Operator for any violation of K.A.R. 82-3-111 for the subject wells that occurred or occurs prior to December 31, 2025, except for wells brought into compliance after Commission approval of this Agreement that subsequently fall out of compliance and remain the Operator's responsibility under the Operator's license.

6. This Agreement may be amended to add additional wells with the written consent of the District Supervisor. If this Agreement is amended, then Staff shall file a status update in the Commission docket created for this matter, also indicating that Operator is not opposed to the addition of the wells. The addition of wells may not change the number of wells to be brought into compliance each calendar quarter, but may extend the final compliance deadline. Any changes to a previously approved timeline will be included in the status update. Staff will place an order approving the addition of wells and extending the final compliance deadline on the next available Consent Agenda for Commission consideration and possible approval.

7. Operator may bring more than 2 wells into compliance during any three calendar month term. The excess number of wells brought into compliance will be attributed to a future three-month compliance period.

8. None of the subject wells to be brought into compliance hereunder are currently authorized for injection. Upon Commission approval of this Agreement, Staff shall revoke the Operator's injection authorization for such subject wells that are to be plugged. These subject wells are highlighted in yellow on the attached list, and have an "x" marked in the far right column.

9. After this Agreement has been in effect for two years, Staff may reopen negotiation with Operator about the terms of this Agreement at any time, upon giving Operator written notice of Staff's intent to do so. If Staff and Operator are unable to agree to new terms, and to submit those terms to the Commission for its consideration and possible approval within 90 days of Staff's written notice, then this Agreement shall be terminated upon Staff's filing a statement to that effect in the Commission docket for this matter.

Commission Staff

Gateway Resources USA Inc. #32353

By: 

By: 

Printed Name: Troy A. Russell

Printed Name: A. Blaine Hanks

Title: District 3 Supervisor, P.G.

Title: President

Date: 7/23/2020

Date: 7-15-2020

Gateway_KCC_17-CONS-3474-CMSC Query

Count	Well Name	API#	Spot	Sec	Twp	Rng	Type	DATE OF COMPLIANCE	COMPLIANCE	Wells Due Per Quarter
MONTGOMERY										
ASCARATE 1-1		15-125-30914-00-00	NENWNE	1	34	15	GAS			2
BEAN 1		15-125-29295-00-00	NESWSE	17	35	15	CM			2
BILLER 1-28		15-125-30915-00-00	NWNWNW	28	34	15	GAS			2
BOULANGER 16-1		15-125-30626-00-00	NENENE	16	34	14	CM			2
BOULANGER 2-16		15-125-31162-00-00	SENESE	16	34	14	GAS			2
BUFORD MILLER 4		15-125-26656-00-00	SESENE	11	35	15	OIL			2
COLLINS-TRAVIS 2-CT		15-125-21753-00-00	NENWSE	4	35	15	OIL			2
COLLINS-TRAVIS 3-CT		15-125-21928-00-00	SENESE	4	35	15	OIL			2
DAMEWOOD 1		15-125-29613-00-00	SENESE	31	33	16	CM			2
DENTON 1-28		15-125-30800-00-00	SENESE	28	33	16	CM			2
HARDING 1		15-125-01120-00-00	N2SENESE	4	35	15	OIL			2
MOONSHINE 10		15-125-27354-00-00	SENESE	10	35	15	GAS			2
MOONSHINE 2		15-125-27059-00-00	SENESE	10	35	15	GAS			2
MOONSHINE 3		15-125-27060-00-00	NWSWNE	10	35	15	GAS			2
MOONSHINE 4		15-125-27061-00-00	NWSWNE	10	35	15	GAS			2
MOONSHINE 5		15-125-27183-00-00	NWNENE	10	35	15	GAS			2

Count	Well Name	API#	Spot	Sec	Twp	Rng	Type	DATE OF COMPLIANCE	COMPLIANCE	Wells Due Per Quarter
MOONSHINE 6	15-125-27184-00-00	SESWSWNE	10	35	15	GAS			2	
MOONSHINE 7	15-125-27185-00-00	W2SESWNE	10	35	15	GAS			2	
MOONSHINE 8	15-125-27186-00-00	NWNESWNE	10	35	15	GAS			2	
MOONSHINE 9	15-125-27301-00-00	SWNE	10	35	15	GAS			2	
MOONSHINE W-1	15-125-27057-00-00	NWNWSWN	10	35	15	GAS			2	
MOONSHINE W-2	15-125-27058-00-00	SWNWSWN	10	35	15	GAS			2	
MOONSHINE W-3	15-125-27187-00-00	SWSWSWNE	10	35	15	GAS			2	
MOONSHINE W-4	15-125-27188-00-00	W2NWNWS	10	35	15	GAS			2	
OBRIEN SEWELL 1-27	15-125-30713-00-00	SWNENWS	27	33	16	GAS			2	
OLDFIELD 1-33	15-125-30710-00-01	NWNESW	33	33	16	CM			2	
PATTESON 1	15-125-26653-00-00	NW	11	35	15	GAS			2	
PATTESON 2	15-125-26654-00-00	NW	11	35	15	GAS			2	
PATTESON 3	15-125-26655-00-00	NW	11	35	15	GAS			2	
PATTON 1	15-125-29850-00-00	NESESE	8	35	15	GAS			2	
PERKINS 1	15-049-21827-00-00	NENESESE	11	35	15	GAS			2	
PERKINS 2	15-049-21579-00-00	NENWSESE	11	35	15	GAS			2	
SLATON 1-36	15-125-31130-00-00	NENWSW	36	33	15	GAS			2	
STROPE 7-14	15-125-30706-00-01	NESWSWNE	14	33	16	CM			2	

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Count	Well Name	API#	Spot	Sec	Twp	Rng	Type	DATE OF COMPLIANCE	COMPLIANCE	Wells Due Per Quarter
THOMPSON 2-6		15-125-30803-00-00	SENE	6	34	16	CM			2
VAN WINKLE 1		15-125-21578-00-00	SWSWSW	5	35	15	OIL			2
WALLS 1		15-001-29082-01-00	SWSWNW	5	35	15	GAS			2
WHEELER-HADDAN OW 2		15-125-02971-00-00	SWESE	32	33	15	OIL			2
WHEELER-HADDAN OW 3		15-125-02972-00-00	SWESE	32	33	15	OIL			2
WILLIAMS 1-30		15-125-31161-00-00	NWNESW	30	34	16	GAS			2
WILMOTH 2		15-125-24404-00-00	NWNESE	8	35	15	GAS			2
WILMOTH 3		15-125-01525-00-00	NENWSE	8	35	15	GAS			2

Total Wells

42

Current Quarter End Date

12/31/2020

Compliance Agreement Schedule for Gateway Resources USA Inc. #32353

Wells to be brought into compliance per Quarter, per year ending December 31, 2025.

Q1 Jan	2020	2021	2022	2023	2024	2025
Feb						
Mar	0	2	2	2	2	2
Q2 Apr						
May						
Jun	0	2	2	2	2	2
Q3 Jul						
Aug						
Sep	0	2	2	2	2	2
Q4 Oct						
Nov						
Dec	2	2	2	2	2	2
Total	2	8	8	8	8	8

Totals Wells Brought into Compliance ending December 31, 2025: 42

Handwritten signature

CERTIFICATE OF SERVICE

17-CONS-3474-CMSC

I, the undersigned, certify that a true copy of the attached Motion to Approve Updated Compliance Agreement has been served to the following by means of first class mail and electronic service on October 29, 2020.

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/S/ Paula J. Murray

Paula J. Murray