

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

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

In the matter of an Order to Show Cause issued to)	Docket No.: 17-CONS-3376-CSHO
Taos Resources Operation Company LLC)	
("Operator") for its failure to comply with either)	CONSERVATION DIVISION
K.A.R. 82-3-400 or K.A.R. 82-3-409 regarding)	
injection that took place during the 2015 calendar)	License No.: 33372
year.)	

ORDER GRANTING MOTION TO APPROVE SETTLEMENT AGREEMENT

The above-captioned matter comes before the State Corporation Commission of the State of Kansas. Having examined the files and records, and being duly advised in the premises, the Commission finds and concludes as follows:

1. On November 17, 2016, Commission Staff (Staff) filed a Motion for an Order to Show Cause, the Designation of a Prehearing Officer, and the Scheduling of a Prehearing Conference. Staff stated that on July 23, 2015, "Operator was penalized in Docket 16-CONS-082-CPEN for reporting unauthorized injection during the 2014 calendar year at the following wells:

- a. Reunitz #21-1, API #15-153-20656;
- b. West Maddix Unit #20 SWD, API #15-035-24548; and
- c. West Maddix Unit #32 SWD, API #15-035-24587."¹

2. Staff stated that in February 2016, Operator reported unauthorized injection during the 2015 calendar year at the same wells.² Staff indicated that inspection of the wells on July 28, 2016 and August 2, 2016 did not conclusively indicate whether Operator conducted

¹ Motion for an Order to Show Cause, The Designation of a Prehearing Officer, and the Scheduling of a Prehearing Conference at 2 (Nov. 17, 2016).

² *Id.*

unauthorized injection in violation of K.A.R. 82-3-400, or instead misreported its injection in violation of K.A.R. 82-3-409, for the 2015 calendar year.³

3. On December 20, 2016, the Prehearing Officer convened a prehearing conference at which time the Parties agreed to set the matter for hearing on February 20, 2017.⁴

4. On February 2, 2016, Staff filed a Motion to Approve Settlement Agreement. Pursuant to the Settlement Agreement (SA) (attached and incorporated herein), the Operator shall pay \$3,000 for three violations of K.A.R. 82-3-400 or K.A.R. 82-3-409.⁵

5. Kansas law favors compromising and settling disputes when the agreement is entered intelligently, and in good faith.⁶ The Commission finds that the SA provides a fair and efficient resolution of the matter.

6. Pursuant to the SA, The Operator is hereby on notice that failure to comply with the SA may result in Operator's license being suspended without further notice.

THEREFORE, THE COMMISSION ORDERS:

A. The Motion to Approve Settlement Agreement is granted and the Settlement Agreement is approved.

B. Any party affected by this Order may file with the Commission a petition for reconsideration pursuant to K.S.A. 77-529(a). The petition shall be filed within 15 days after service of this Order and must state the specific grounds upon which relief is requested.⁷ The petition shall be addressed to the Commission and sent to 266 N. Main, Ste. 220, Wichita, Kansas 67202.

³ *Id.*

⁴ Prehearing Officer Order Setting Procedural Schedule at 1 (Jan. 5, 2017).

⁵ Settlement Agreement at 1 (attached).

⁶ *Bright v. LSI Corp.*, 254 Kan. 853, 858 (1994).

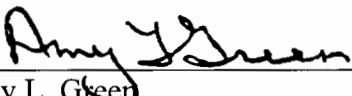
⁷ K.S.A. 66-118b; K.S.A. 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it deems necessary.

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: FEB 14 2017



Amy L. Green
Secretary to the Commission

Mailed Date: February 14, 2017

DLK/sc

SETTLEMENT AGREEMENT

This Agreement is between Taos Resources Operating Company LLC ("Operator") (License #33372) and Commission Staff ("Staff"). If the Commission does not approve this Agreement by a signed Order, then this Agreement shall not be binding on either party. This Agreement shall settle the proceedings in Commission Docket Number 17-CONS-3376-CSHO.

A. Background

1. On November 17, 2016, Commission Staff filed a motion to show cause against Operator, requesting the Commission to cause Operator to come before it at a hearing, to show cause why a penalty constituting an actual and substantial economic deterrent should not be assessed against Operator for its violations of either K.A.R. 82-3-400 or K.A.R. 82-3-409 regarding three wells for the 2015 calendar year, which would constitute second-time violations regarding the specific wells. Operator subsequently reported that it submitted erroneous data regarding two of the wells, and submitted updated Annual Fluid Injection Reports for those two wells. Regarding the other well, in communication with Staff, Operator has described the circumstances that led to the issue at hand, which have now been resolved to Staff's satisfaction.

B. Terms of Settlement

2. Operator shall pay \$3,000 in this docket. Of the \$3,000 owed, Operator shall pay \$1,000 by February 28, 2017; \$1,000 by March 31, 2017; and the remaining \$1,000 by April 30, 2017. For purposes of Operator's license renewal under K.S.A. 55-155 and K.A.R. 82-3-120, resolution of this matter will count as three violations of K.A.R. 82-3-400 or K.A.R. 82-3-409.

3. Staff shall not pursue Operator for any violation of K.A.R. 82-3-400 that may have occurred during the 2016 calendar year at the Reunitz #21-1, API #15-153-20656.

4. If Operator fails to comply with any deadline in Paragraph 2, then Staff shall suspend Operator's license until compliance is obtained. If Staff suspends Operator's license, then Staff shall send its standard notice of license suspension letter to Operator. If Staff finds

Operator conducting oil and gas operations after 10 days from the date of the notice of license suspension letter, and Operator's license is still suspended, then Staff is authorized to seal all of Operator's oil and gas operations and to assess an additional \$5,000.

5. Operator agrees to waive its right to appeal the Commission's Order approving this Agreement, any penalties assessed under this Agreement, and any suspension of Operator's license implemented by Staff due to Operator's failure to comply with this Agreement.

Commission Staff

By: Jon Myers

Printed Name: JON MYERS

Title: LITIGATION COUNSEL

Date: 2/2/17

Taos Resources Operating Company LLC

By: Keith Fite

Printed Name: Keith Fite

Title: President

Date: 2/2/17

CERTIFICATE OF SERVICE

I certify that on 2/14/17, I caused a complete and accurate copy of this Order to be served via United States mail, with the postage prepaid and properly addressed to the following:

John G. Pike
Withers, Gough, Pike & Pfaff, LLC
200 W. Douglas, Suite 1010
Wichita, KS 67202
Attorneys for Taos Resources Operations Company, LLC

Logan Magruder
Taos Resources Operating Company LLC
1455 West Loop S, Suite 600
Houston, Texas 77027

and delivered by e-mail to:

Jon Myers
KCC Central Office

Dustin L. Kirk, Prehearing Office
KCC Topeka Office

/s/ Paula J. Murray
Paula J. Murray
Legal Assistant
Kansas Corporation Commission