

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

In the Matter of the Application of Merit ) Docket No. 25-CONS-3045-CALL  
Energy Company, LLC for an Order granting )  
an Exception to the Oil Production Allowable ) CONSERVATION DIVISION  
assigned to its Napeste lease in Sections 21 )  
and 28, Township 24 South, Range 32 West, ) License No. 32446  
Finney County, Kansas. )

**APPLICATION FOR SPECIAL OIL PRODUCTION ALLOWABLE**

Merit Energy Company, LLC (“Merit”) submits this Application for Special Oil Production Allowable (“Application”) seeking an exception pursuant to K.A.R. 82-3-203(b) and - 100(b) to the oil production allowable from the common source of supply underlying its Napeste lease located in Finney County, Kansas, and in lieu thereof assigning a lease-wide special oil production allowable as requested below. In support of its Application, Merit alleges and states:

**BACKGROUND**

1. Merit is a Delaware limited liability company, duly authorized by and in good standing with the Kansas Secretary of State’s office to do business in Kansas. Merit has a mailing address of 13727 Noel Road, Suite 1200, Dallas, Texas, 75240.
2. The Commission has issued Merit oil and gas operator’s License No. 32446, which license is in full force and effect through May 30, 2025.
3. Merit’s affiliate, Merit Hugoton, L.P., is the owner of an oil and gas lease (“Subject Lease”) covering All of Section 28, and Lots 5, 6, 7, and 8 of Section 21, in Township 24 South, Range 32 West, Finney County, Kansas. Merit operates the Subject Lease on behalf of said affiliate and is authorized to file this Application on its behalf.

4. On March 8, 2023, Merit spudded the Napeste #1-28 oil well, API No. 15-055-22581, at a location approximately 119' FNL<sup>1</sup> and 2,017' FEL of Section 28-T24S-R32W. On March 23, 2023, Merit completed the #1-28 well in the Upper Mississippian formation shown to exist on its drilling logs between the true vertical depths of 4,770' and 4,867' ("Subject Pool"). The #1-28 well proved to be a prolific producer of oil, which prompted Merit to seek and obtain a special oil production allowable of 350 barrels of oil for the #1-28 well.<sup>2</sup>

5. The success of the #1-28 well prompted Merit to drill two development wells on the Subject Lease into the Subject Pool, the #2-28 oil well and #3-28 oil well. The #2-28 oil well<sup>3</sup> was completed on March 11, 2024, at a location approximately 144' FNL<sup>4</sup> and 425' FEL of Section 28-T24S-R32W, and the #3-28 oil well<sup>5</sup> was completed in the Subject Pool on March 15, 2024, at a location approximately 698' FNL and 385' FWL of Section 28-T24S-R32W. The #2-28 and #3-28 wells were completed near where Merit's technical staff believes the productive eastern and western boundaries of the sand channel that comprises the Subject Pool. Thereafter, Merit recompleted the #1-28 well<sup>6</sup> on May 2, 2024, as an injection well (Permit # E-34,461) injecting produced water into the Subject Pool.

6. Merit is now conducting waterflood operations on the Subject Lease for the common development of the Subject Pool. Water injected into the #1-28 injection well serves to maintain reservoir pressure and energy within the Subject Pool, and to sweep oil reserves towards the #2-28 and #3-28 oil wells completed on the productive extent of the Subject Pool, thereby preventing waste. The location of the #2-28 and #3-28 wells near the boundary line of the Subject

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<sup>1</sup> The #1-28 well was drilled 472' from the nearest boundary line of the Subject Lease, which extends into Section 21 to the north.

<sup>2</sup> Docket 23-CONS-3346-CALL, Order Granting Application, Ordering Clause ¶ A.

<sup>3</sup> API No. 15-055-22598.

<sup>4</sup> See n. 1, *supra*, regarding the minimum setback.

<sup>5</sup> API No. 15-055-22600.

<sup>6</sup> API No. 15-055-22581-0001.

Lease and the productive extent of the Subject Pool prevent oil from migrating off the Subject Lease, thereby protecting the correlative rights of the royalty interest owners and working interest owners of the Subject Lease.

7. The waterflood response from commencing injection at the #1-28 well was nearly immediate, and has resulted in even more prolific oil production from the Subject Pool at the #2-28 and #3-28 wells, prompting Merit to file this application.

#### LEGAL AUTHORITY AND REQUESTED RELIEF

8. An oil allowable “shall be that amount of oil which may be produced currently from any pool without causing waste or injury to correlative rights. . .” K.A.R. 82-3-200(c). The Commission is authorized to specify the amount of oil that may be produced from a common source of supply or pool by designating an oil production allowable. *See* K.A.R. 82-3-200(a).

9. All wells drilled in nonprorated pools located within producing intervals between 4001’–6000’ are assigned an oil production allowable of 200 BOPD.<sup>7</sup> The Subject Pool is not prorated. Any interested party may file an application requesting an exception from the production allowable assigned under K.A.R. 82-3-203(a), which application shall include the information described in K.A.R. 82-3-203(b).<sup>8</sup> Further, the Commission may grant an exception to any of its regulations, after considering whether such exception will prevent waste, protect correlative rights, and prevent pollution.<sup>9</sup>

10. Merit’s technical staff is currently evaluating whether additional wells should be drilled on the Subject Lease to further develop the Subject Pool, which could include additional producing or injection wells. Rather than seek a special oil production allowable for each well

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<sup>7</sup> K.A.R. 82-3-203(a).

<sup>8</sup> K.A.R. 82-3-203(b).

<sup>9</sup> K.A.R. 82-3-100(b).

drilled and completed on the Subject Lease within the Subject Pool, Merit requests that the Commission assign a special oil production allowable of 1,500 BOPD for all wells completed, now or in the future, on the Subject Lease into the underlying Subject Pool. The requested special oil production allowable would be cumulative as to the production of oil from all wells completed on the Subject Lease into the Subject Pool, which wells will produce into a common tank battery.

11. Additional support can be found for a lease-wide allowable in the horizontal well regulations, specifically K.A.R. 82-3-1303, which prescribes an oil production allowable of 200 BOPD for each 660' of completion interval. Although Merit has not drilled a horizontal well into the Subject Pool, it is effectively being developed on a horizontal basis via the drilling of multiple oil and injection wells on a linear pattern through the sand channel that comprises the Subject Pool. In this case, the waterflood development pattern is designed to exploit nearly one linear mile of reserves within the Subject Pool, which supports a 1,500 BOPD special oil production allowable.

12. The geological name of the producing formation and its top and bottom depths are described above in paragraph 4. The locations of each well drilled into the Subject Pool are described above in paragraphs 4 and 5. Merit would attribute 160 acres to the lease-wide special allowable,<sup>10</sup> which is the approximate aerial extent of the Subject Pool underlying the Subject Lease.

13. Assigning the requested special oil production allowable on a lease-wide basis is necessary to prevent waste and to protect the correlative rights of the royalty interest owners and working interest owners of the Subject Lease. As noted above, the current waterflood operation is designed to maintain reservoir pressure and energy within the Subject Pool in order to maximize the recovery of oil therefrom. The centrally located #1-28 injection wells is designed to sweep oil

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<sup>10</sup> On 10-acre spacing, this acreage attribution would support a daily oil production allowable of 3,200 BOPD (160ac / 10-acre standard drilling unit x 200 BOPD = 3,200 BOPD).

to the #2-28 and #3-28 producing wells near the productive extent of the Subject Pool and eastern and western boundary line of the Subject Lease. This maximizes recovery of oil from the Subject Pool, preventing waste, while also preventing migration of oil off of the Subject Lease, protecting the correlative rights of the royalty interest owners and working interest owners of the Subject Lease. Moreover, current commodity prices justify increasing production of oil from the Subject Lease in order to maximize returns to the working interest and royalty interest owners. On the other hand, producing the wells at or below the standard production allowable would cause economic waste by negatively impacting the rate of return of capital to develop the Subject Lease.

14. Assigning the Subject Lease the requested special allowable will not cause waste or injury to the correlative rights of any party, and would not harm the Subject Pool or result in an inequitable or unfair taking of oil from the Subject Pool by Merit. The productive extent of the Subject Pool is confined to the boundaries of the Subject Lease, as such no cognizable drainage to offset mineral owners will occur. Moreover, the waterflood design pushes oil from the middle of the Subject Lease towards the boundaries of the Subject Lease where it is recovered by the #2-28 and #3-28 wells. As such, it is unlikely oil will be drained from offset mineral owners, nor, by extension, would the correlative rights of offset mineral owners be violated. Lastly, Merit's technical staff have determined that producing oil from the Subject Lease via waterflood operations at the requested allowable is the most efficient way to drain oil from the Subject Pool and maximize the ultimate recovery of reserves therefrom. As such, no harm to the Subject Pool will result from granting the requested special allowable.

15. As noted above, Merit's technical staff are currently evaluating whether drilling additional producing or injection wells is necessary to the waterflood development of the Subject Pool. It is in the interest of judicial efficiency to assign a lease-wide special oil production

allowable for the Subject Pool, rather than to assign a special allowable on a well-by-well basis, due to the nature of the waterflood development and the fact that all produced fluids will be sent to a common tank battery for separation, marketing and further injection.

16. The following is a list of all operators or lessees and unleased mineral owners within one-half mile of the Subject Well, whose names and addresses Merit has been able to determine after reasonable search and inquiry:

Scout Energy Management, LLC  
13800 Montfort Drive, Suite 100  
Dallas, TX 75240

Notice of this Application is being provided to all persons identified above, and will be published in the *Wichita Eagle* and the *Garden City Telegram*, the official newspaper for Finney County, Kansas. A true and correct copy of the Notice of Application to be published is enclosed herewith. Each publisher's affidavit will be provided to the Commission upon Merit's receipt from the publisher. As such, notice of this Application will be compliant with K.A.R. 82-3-135a and K.A.R. 82-3-203(b)(5) and (c), and be lawful and proper in all respects.

WHEREFORE, Merit prays that the Commission docket this Application and, if no written protest is received within 15 days after Notice of the Application is published and has been duly provided to all interested parties, administratively grant this Application and issue an order excepting the wells drilled on the Subject Lease from the standard oil production allowable and assigning the special oil production allowable for the Subject Lease as requested herein. In the event a timely and proper protest is filed, Merit requests that the Commission set this Application for hearing, and upon such hearing grant the requested order and make such other provisions as it deems necessary and proper.

Respectfully submitted,

MORRIS LAING LAW FIRM

By: 


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*Attorneys for Merit Energy Company, LLC*

**VERIFICATION**

STATE OF KANSAS )  
 ) ss:  
COUNTY OF SEDGWICK )


Jonathan A. Schlatter, being of lawful age and being first duly sworn upon his oath, deposes and says:

That he is the attorney for Merit Energy Company, LLC; he has read the above and forgoing Application and is familiar with its contents, and that the statements made therein are true and correct to the best of his knowledge and belief.

  
Jonathan A. Schlatter

SIGNED AND SWORN to before me this 30<sup>th</sup> day of July, 2024.

My Appointment expires: 11/05/2024

  
Notary Public:



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

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|--|---|------------------------------|
| In the Matter of the Application of Merit    | ) | Docket No. 25-CONS-3045-CALL |
| Energy Company, LLC for an Order granting    | ) |                              |
| an Exception to the Oil Production Allowable | ) | CONSERVATION DIVISION        |
| assigned to its Napeste lease in Sections 21 | ) |                              |
| and 28, Township 24 South, Range 32 West,    | ) | License No. 32446            |
| <u>Finney County, Kansas.</u>                | ) |                              |

**NOTICE OF APPLICATION**

TO ALL: OIL AND GAS OPERATORS, PRODUCERS AND LESSEES, OIL AND GAS LESSORS AND ROYALTY OWNERS, UNLEASED AND OFFSETTING MINERAL INTEREST OWNERS, LANDOWNERS, AND ALL OTHER PERSONS CONCERNED:

You are hereby notified that Merit Energy Company, LLC has filed an application with the Kansas Corporation Commission (“Commission”) requesting an exception from the oil production allowable from the common source of supply underlying its Napeste lease, and in lieu thereof assigning a lease-wide special oil production allowable in excess of the production allowable prescribed by K.A.R. 82-3-203 for wells with producing intervals between the depths of 4,001’ and 6,000’. The Napeste lease covers All of Section 28, and Lots 5, 6, 7 and 8 in Section 21, all in T24S-R32W, Finney County, Kansas, and the wells thereon are completed in the Upper Mississippi formation.

The application is pending with the Commission. Any persons who object or protest to such application shall be required to file their objections or protests in writing with the Commission within 15 days from the date of this publication. If a written protest is not timely filed, the application may be determined administratively by the Commission and may thereby be granted without hearing or further notice to any interested party. All objections and protests shall clearly state the reasons why granting the application will violate correlative rights, cause waste or pollution. Objections or protests shall be mailed to the Kansas Corporation Commission, Conservation Division, 266 N. Main St., Ste. 220, Wichita, KS 67202, with a copy to applicant’s attorneys listed below.

All parties in any way interested or concerned shall take notice of the foregoing and govern themselves accordingly.

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*Attorneys for Merit Energy Company, LLC*



**CERTIFICATE OF SERVICE**

I, Jonathan A. Schlatter, hereby certify that on this 30<sup>th</sup> day of July, 2024, I caused the original of the foregoing **Application for Special Oil Production Allowable** and the **Notice of Application** to be electronically filed with the Conservation Division of the State Corporation Commission of the State of Kansas, and caused true and correct copies of the same to be deposited in the United States Mail, first class, postage prepaid, and properly addressed to the parties listed in Paragraph 16 of said Application.

  
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Jonathan A. Schlatter