

2012.05.07 16:07:59  
Kansas Corporation Commission  
/s/ Patrice Petersen-Klein

**RECEIVED**  
KANSAS CORPORATION COMMISSION

**MAY 07 2012**

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

**LEGAL SECTION**

**Before Commissioners:                    Mark Sievers, Chairman  
    Ward Loyd  
    Thomas E. Wright**

**In the matter of an Order to Show Cause on )    Docket No. 12-CONS-152-CSHO  
the Commission's own Motion issued to    )  
Osborn Energy, L.L.C. and Central States )    CONSERVATION DIVISION  
Energy L.L.C., with regard to responsibility )  
under K.S.A. 55-179 for plugging the Adams )    License No. 32294 (expired)  
Lease in Section 12, Township 15 South,    )                    34570  
Range 24 East, Johnson County, Kansas    )**

**PRE-FILED TESTIMONY**

**OF JEFFRY TAYLOR**

- 1 Q: Please state your name and business address.
- 2 A: Jeffry Taylor, 228 Main, Wellsville, Kansas 66092.
- 3 Q: By whom are you employed and in what capacity?
- 4 A: Currently I am a private contractor.
- 5 Q: Were you previously employed by Osborn Energy, LLC?
- 6 A: Yes, previously I was Director of Operations for Osborn Energy.
- 7 Q: How long were you employed by Osborn Energy?
- 8 A: From 1998 to 2011.
- 9 Q: Have you previously testified before the Kansas Corporation Commission?
- 10 A: No.
- 11 Q: As Director of Operations for Osborn Energy, what were your general duties?
- 12 A: I was responsible for supervising employees, overseeing office operations, managing  
13 field operations, monitoring production, setting wells, and pretty much doing whatever  
14 needed to be done.
- 15 Q: Who did you report to as Director of Operations for Osborn Energy?
- 16 A: Jim Osborn.
- 17 Q: Is Osborn Energy is a Kansas limited liability company?
- 18 A: Yes.
- 19 Q: Is Osborn Energy wholly owned by Jim Osborn?
- 20 A: No.
- 21 Q: Who are the members of Osborn Energy, LLC?
- 22 A: Central States Natural Gas, LLC and OE Management, LLC.
- 23 Q: Is Jim Osborn a member of Central States Natural Gas, LLC?
- 24 A: Yes.
- 25 Q: Is Jim Osborn a member of OE Management, LLC?
- 26 A: No.
- 27 Q: Does Jim Osborn have any interest in OE Management, LLC?
- 28 A: No.
- 29 Q: So Jim Osborn is not the only person who has an interest in Osborn Energy?
- 30 A: That is correct.
- 31 Q: Who owns OE Management, LLC?
- 32 A: I believe that company is owned either directly or indirectly by David Gamperl and Chris  
33 Hodes.

- 1 Q: Is Jim Osborn the sole manager of Osborn Energy, LLC?
- 2 A: No.
- 3 Q: Who are the managers of Osborn Energy, LLC?
- 4 A: Jim Osborn and David Gamperl.
- 5 Q: Is there a division of management responsibility at Osborn Energy?
- 6 A: Yes.
- 7 Q: Who has the authority at Osborn Energy to incur and pay all expenses and obligations  
8 incident to the operation and management of the Company?
- 9 A: David Gamperl.
- 10 Q: Are you familiar with the company Central States Energy, LLC?
- 11 A: Yes.
- 12 Q: What is the business of Central States Energy, LLC?
- 13 A: Oil and gas exploration and production.
- 14 Q: Are you employed by Central States Energy, LLC?
- 15 A: No, but I provide services to Central States Energy on a contract basis.
- 16 Q: Who are the members of Central States Energy, LLC?
- 17 A: Jim Osborn.
- 18 Q: Do Osborn Energy, LLC and Central States Energy, LLC have the same owners?
- 19 A: No.
- 20 Q: Are Osborn Energy, LLC and Central States Energy, LLC located at the same address?
- 21 A: No. Osborn Energy is on the lease for the current rental space, located at 208 W. Main in  
22 Cleveland, Missouri. Osborn Energy was there but not paying its rent. Central States  
23 Energy started paying rent and took over the space, but did not enter into a new lease.
- 24 Q: Are Osborn Energy, LLC and Central States Energy, LLC run by the same people?
- 25 A: No.
- 26 Q: Have you reviewed the Corporation Commission's Order to Show Cause and the Pre-  
27 Filed Testimony of Taylor Herman in this matter?
- 28 A: Yes, I briefly skimmed through it one time.
- 29 Q: Are you familiar with the Adams lease?
- 30 A: Yes.
- 31 Q: How many wells did Osborn Energy operate on the Adams lease?
- 32 A: 14.
- 33 Q: Who owns these wells?

- 1 A: The wells are owned all or in part by Osborn Energy, Kansas Gas Exploration, LLC, and  
2 OEIG.
- 3 Q: What is the status of the Adams lease?
- 4 A: The lease was declared terminated by Court Order in a lawsuit filed in Johnson County,  
5 Kansas.
- 6 Q: Are you referring to *Adams Management, LP and Western Capital, Inc. v. Osborn*  
7 *Energy, LLC and Osborn Land & Cattle Co., LLC*, Case No. 09 CV 8851?
- 8 A: Yes.
- 9 Q: Are you familiar with that lawsuit?
- 10 A: I am generally familiar with that lawsuit. I gave a deposition in the lawsuit.
- 11 Q: Tell me about your knowledge regarding that lawsuit.
- 12 A: The plaintiffs were trying to terminate the Adams lease and the defendants were trying to  
13 prevent that from happening. Ultimately, the Court ordered the lease terminated and  
14 ordered the defendants to plug the wells on the Adams property. The Court entered a  
15 Journal Entry of Judgment, which was attached to Mr. Herman's pre-filed testimony as  
16 Staff Exhibit 1. The Order states that the defendants were to file plugging applications  
17 with the Kansas Corporation Commission by July 26, 2011, and have the wells plugged  
18 by September 28, 2011. The Order also states that in the event defendants fail to plug the  
19 wells on the Adams property, the plaintiffs may have the wells properly plugged and the  
20 cost to plug the wells shall become an additional judgment against defendants.
- 21 Q: Did Osborn Energy file the plugging applications and plug the wells?
- 22 A: No.
- 23 Q: Why not?
- 24 A: Due to Osborn Energy's instability and grave financial situation at that time, it had no  
25 staff to file plugging applications or plug the wells. Because Osborn Energy could not  
26 plug the wells, it chose to allow the plaintiffs to have the wells plugged at their cost and  
27 have the plaintiffs' costs become an additional judgment against them, as contemplated  
28 by the Court's Journal Entry of Judgment.
- 29 Q: And did the Court award the plaintiffs damages for the cost to have these wells plugged?
- 30 A: Yes. The Court entered a Journal Entry on September 16, 2011, which awarded the  
31 plaintiffs additional damages in the amount of \$56,392.00 as costs to plug the 14 wells on  
32 the Adams property. The Journal Entry is attached as Respondent's Exhibit 1.

1 Q: So before these Corporation Commission proceedings began, the plaintiffs in the Adams  
2 lawsuit had already been awarded \$56,392.00 in damages against Osborn Energy for their  
3 costs to plug the wells?

4 A: Correct.

5 Q: Do you know whether the plaintiffs have had the wells plugged?

6 A: 4 of the wells were plugged last winter. I don't know about the other wells and, at this  
7 point, I would have no way of knowing. The Adams lease has been terminated so Osborn  
8 Energy can no longer go onto the Adams property. None of the current employees of  
9 Central States Energy have been on the Adams property since around the time the 4 wells  
10 were plugged.

11 Q: You are aware of the fact that in June of 2011, Osborn Energy transferred operation of a  
12 number of wells to Central States Energy, correct?

13 A: Yes.

14 Q: And you are also aware of the fact that Osborn Energy did not transfer operation of any  
15 of the wells that are part of the Adams lease, correct?

16 A: Yes.

17 Q: Tell me why the operation of certain wells was transferred from Osborn Energy to  
18 Central States Energy.

19 A: Osborn Energy was not able to pay its taxes and its license expired on March 30, 2011.  
20 Central States Energy applied for and received a license to operate, just days before the  
21 entire field would have been shut down. Osborn Energy transferred operation of certain  
22 wells to Central States Energy on an emergency because it could not get its license and to  
23 prevent the field from being shut down.

24 Q: Why didn't Osborn Energy transfer operation of the wells that were part of the Adams  
25 lease?

26 A: Operation for the wells that were part of the Adams lease was not transferred because  
27 those leases were part of the ongoing litigation between Adams Management and Osborn  
28 Energy. Osborn Energy did not feel it was appropriate to transfer operation of wells that  
29 were involved in pending litigation.

30 Q: In June 2011, did Osborn Energy send Adams Management a letter regarding a change in  
31 operator status?

32 A: Yes, Osborn Energy sent Adams Management a letter and T-1 form stating there had  
33 been a "change of operator of the Hydrocarbon Lease and/or the Riverdale Pipeline that

1 is on or traverses your acreage.” The letter and T-1 form are attached as Respondent’s  
2 Exhibit 2. As you can see, the T-1 form only applied to operation of the “gas gathering  
3 system” or pipeline, not the wells. In actuality, there was no change in operator status for  
4 the pipeline or the wells. Riverdale Pipeline was and remains operator of the pipeline.  
5 Riverdale previously subcontracted operation of the pipeline to Osborn Energy.  
6 Riverdale now subcontracts operation of the pipeline to Central States Energy. The T-1  
7 form was sent as the result of a clerical error.

8 Q: What do you mean by a clerical error?

9 A: The person who normally files these types of forms was on maternity leave and this letter  
10 and form should never have been sent.

11 Q: As for the wells for which the operator status was actually changed, I understand that  
12 Osborn Energy transferred the operation only, not ownership, of these wells to Central  
13 States Energy, is that correct?

14 A: Yes.

15 Q: Did Central States Energy derive any economic benefit from taking over the operation of  
16 wells that were previously operated by Osborn Energy?

17 A: No. Although Central States Energy received income from operations and maintenance  
18 from the well owners, it has lost money each month since taking over as operator of these  
19 wells. The income from operations and maintenance does not cover the cost of operating  
20 these wells. Central States Energy does not derive any economic benefit from the sale of  
21 oil or gas that was produced by these wells.

22 Q: There was no transfer of proceeds from the sale of oil and gas that was produced from  
23 these wells from Osborn Energy to Central States Energy?

24 A: Correct.

25 Q: To the extent that any profit was realized from the sale of oil and gas that was produced  
26 from these wells, which company would that have gone to?

27 A: To the company that owns the well.

28 Q: Was there any assignment of leases from Osborn Energy to Central States Energy?

29 A: No.

30 Q: Was the transfer of operator status from Osborn Energy to Central States Energy done for  
31 any purpose other than preventing the field from being shut down?

32 A: No.

1 Q: Was the transfer of operator status from Osborn Energy to Central States Energy done for  
2 any improper purpose?

3 A: No.

4 Q: Are Osborn Energy and Central States Energy the same company?

5 A: No.

6 Q: Do Osborn Energy and Central States Energy have the same principals?

7 A: No.

8 Q: Do Osborn Energy and Central States Energy have the same owners?

9 A: No.

10 Q: Does this conclude your testimony?

11 A: Yes.

IN THE DISTRICT COURT OF JOHNSON COUNTY, KANSAS  
CIVIL COURT DEPARTMENT

ADAMS MANAGEMENT, LP; and )  
 WESTERN CAPITAL, INC., )  
 Trustee of the Aubry Trust )  
 )  
 Plaintiffs, )  
 )  
 vs. )  
 )  
 OSBORN ENERGY, LLC; and )  
 OSBORN LAND & CATTLE CO., LLC, )  
 )  
 Defendants. )

Case No. 09 CV 8851  
Division 14

**JOURNAL ENTRY**

Now on this 16<sup>th</sup> day of September, 2011, comes on Plaintiffs' Motion to Show Cause Why Defendants Should Not Be Held In Contempt. Plaintiffs appear through their attorneys Charles C. Steincampm of Depew Gillen Rathbun and McInteer, LC and Teresa A. Woody of The Woody Law Firm PC. Defendants appear through their attorneys Nick Hillyard of Franke Schultz and Mullen, P.C.

**Findings of Fact and Conclusions of Law**

1. The Court entered summary judgment in Plaintiffs' favor on July 12, 2011. In that Order, the Court directed that Defendants plug all wells on the property, and that Defendants file applications with the Kansas Corporation Commission no later than July 26, 2011 at 5:00 pm.
2. Defendants have failed to comply with the Court's Order in that they did not file with the KCC, and have taken no steps to plug the wells as ordered by the Court.
3. Pursuant to reports of the KCC, admitted into evidence herein and presented to the

Respondent's  
Exhibit 1

CLERK OF DISTRICT COURT  
JOHNSON COUNTY, KS.

2011 SEP 19 PM 4:22

SCAN DATE 2011/09/20 16:21



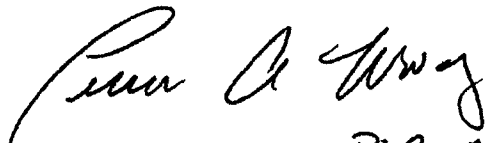
Court, there are 14 unplugged wells on the property.

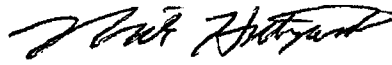
- 4. Pursuant to reports of the KCC, entered into evidence and presented to the Court, the average costs of plugging a well on the Plaintiffs' property at current rates is \$4,028.00.
- 5. Plaintiffs' have incurred additional attorneys fees and expenses in the amount of <sup>1,600</sup>~~\$2,900~~ in conjunction with this motion, which the Court finds reasonable and appropriate.

Wherefore, the Court finds that Defendants are in contempt of the Court's Order of July 12, 2011. Accordingly, the Court awards Plaintiffs damages of \$56,392.00 as costs to plug the 14 wells on Plaintiffs' property. The Court further awards Plaintiffs' their reasonable costs and attorneys' fees in the amount of <sup>FOR JC</sup> ~~\$2,900.00~~, for a total judgment against Defendants and each of them jointly and severally in the amount of <sup>56,392.00</sup> ~~\$59,292.00~~

IT IS SO ORDERED.

  
 HONORABLE KEVIN P. MORIARTY

  
 ATTORNEY FOR PLAINTIFFS

  
 attorney for defendants

08/15/2011 17:54 FAX

002

# CentralStatesEnergy, LLC

24850 Farley  
Bucyrus, KS 66013

Phone: 813-238-3156  
centralstatesenergy@gmail.com

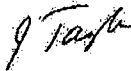
June 15, 2011

Adams Management, LP

In compliance with the Kansas Surface Owner Notification Act we are informing you of a change in operator of the Hydrocarbon Lease and/or the Riverdale Pipeline that is on or transverses your acreage. The included forms have been filed with the Kansas Corporation Commission.

Riverdale Pipeline, LLC will continue to buy and transport the produced natural gas, and oil will continue being sold to High Sierra Crude Marketing, Inc.

Sincerely,



Jeff Taylor/ Director of Operations

Respondent 5  
Exhibit 2

RECEIVED TIME JUN. 18. 5:43PM

PRINT TIME JUN. 18. 5:44PM

06/18/2011 17:54 FAX

003

KANSAS CORPORATION COMMISSION  
OIL & GAS CONSERVATION DIVISION

Form 1  
March 2010  
Form must be typed  
Form must be signed  
All blanks must be filled

REQUEST FOR CHANGE OF OPERATOR  
TRANSFER OF INJECTION OR SURFACE PIT PERMIT

Form KSDNA-1, Certification of Compliance with the Kansas Surface Owner Notification Act,  
MUST be submitted with this form.

Check Applicable Boxes:

- Oil Lease: No. of Oil Wells \_\_\_\_\_
- Gas Lease: No. of Gas Wells \_\_\_\_\_
- Gas Gathering System: \_\_\_\_\_ see attached plat
- Saltwater Disposal Well: Permit No.: \_\_\_\_\_
- Spot Location: \_\_\_\_\_ feet from  N /  S Line  
\_\_\_\_\_ feet from  E /  W Line
- Enhanced Recovery Project: Permit No.: \_\_\_\_\_
- Entire Project:  Yes  No
- Number of Injection Wells \_\_\_\_\_

Effective Date of Transfer: 06/13/2011

KS Dept of Revenue Lease No.: \_\_\_\_\_

Lease Name: \_\_\_\_\_

Sec. \_\_\_\_\_ Twp. \_\_\_\_\_ R. \_\_\_\_\_  E  W

Legal Description of Lease: \_\_\_\_\_

County: JOHNSON AND MIAMI

Production Zone(s): CHEROKEE

Injection Zone(s): \_\_\_\_\_

Field Name: \_\_\_\_\_

**\*\*Side Two Must Be Completed.**

Surface Pit Permit No.: \_\_\_\_\_

(API No. if Drill Pit, WO or Haul) \_\_\_\_\_

\_\_\_\_\_ feet from  N /  S Line of Section

\_\_\_\_\_ feet from  E /  W Line of Section

Type of Pit:  Emergency  Burn  Sealing  Haul-Off  Workover  Drilling

Past Operator's License No. 32294

Past Operator's Name & Address: Osborn Energy, LLC  
24850 Farley, Bucyrus KS 66013

Title: Director of Operations

Contact Person: Jeff Taylor

Phone: 913-533-9900

Date: 06/13/2011

Signature: \_\_\_\_\_

New Operator's License No. 34570

New Operator's Name & Address: Central States Energy  
24850 Farley, Bucyrus, KS 66013

Title: Director of Operations

Contact Person: Jeff Taylor

Phone: 913-238-3156

Oil / Gas Purchaser: Riverdale

Date: 06/13/2011

Signature: \_\_\_\_\_

**Acknowledgment of Transfer:** The above request for transfer of injection authorization, surface pit permit # \_\_\_\_\_ has been noted, approved and duly recorded in the records of the Kansas Corporation Commission. This acknowledgment of transfer pertains to Kansas Corporation Commission records only and does not convey any ownership interest in the above injection well(s) or pit permit.

\_\_\_\_\_ is acknowledged as  
the new operator and may continue to inject fluids as authorized by  
Permit No. \_\_\_\_\_ Recommended action: \_\_\_\_\_

Date: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_ is acknowledged as  
the new operator of the above named lease containing the surface pit  
permitted by No. \_\_\_\_\_

Date: \_\_\_\_\_  
Authorized Signature

DISTRICT _____	EPR _____	PRODUCTION _____	UIC _____
Mail to: Past Operator _____	New Operator _____	District _____	

Mail to: KCC - Conservation Division, 130 S. Market - Room 2078, Wichita, Kansas 67202

RECEIVED TIME JUN. 18. 5:43PM

PRINT TIME JUN. 18. 5:44PM

06/18/2012 17:54 FAX

0004

KANSAS CORPORATION COMMISSION  
OIL & GAS CONSERVATION DIVISION

CERTIFICATION OF COMPLIANCE WITH THE  
KANSAS SURFACE OWNER NOTIFICATION ACT

Form KSONA-1  
July 2010  
Form Must Be Typed  
Form Must Be Signed  
All blanks must be filled

This form must be submitted with all Forms C-1 (Notice of Intent to Drill), CB-1 (Cathodic Protection Borehole Intent), T-1 (Request for Change of Operator Transfer of Injection or Surface Pit Permit), and CP-1 (Well Plugging Application). Any such form submitted without an accompanying Form KSONA-1 will be returned.

Select the corresponding form being filed:  C-1 (Intent)  CB-1 (Cathodic Protection Borehole Intent)  T-1 (Transfer)  CP-1 (Plugging Application)

OPERATOR: License # 34570  
Name: Cental States Energy  
Address 1: 24950 Farley  
Address 2:  
City: Bucyrus State: KS Zip: 66013  
Contact Person: Jeff Taylor  
Phone: (913) 238-3156 Fax: (816) 618-8152  
Email Address:

Well Location:  
Sec. Twp. S. R.  East  West  
County:  
Lease Name: Well #:

If filing a Form T-1 for multiple wells on a lease, enter the legal description of the lease below.

Surface Owner Information:

Name: SEE ATTACHED LIST  
Address 1:  
Address 2:  
City: State: Zip:

When filing a Form T-1 involving multiple surface owners, attach an additional sheet listing all of the information to the left for each surface owner. Surface owner information can be found in the records of the register of deeds for the county and in the real estate property tax records of the county treasurer.

If this form is being submitted with a Form C-1 (Intent) or CB-1 (Cathodic Protection Borehole Intent), you must supply the surface owners and the KCC with a plat showing the predicted locations of lease roads, tank batteries, pipelines, and electrical lines. The locations shown on the plat are preliminary and are binding estimates. The locations may be entered on the Form C-1 plat, Form CB-1 plat, or a separate plat may be submitted.

Select one of the following:

- I certify that, pursuant to the Kansas Surface Owner Notice Act (House Bill 2032), I have provided the following to the surface owner(s) of the land upon which the subject well is or will be located: 1) a copy of the Form C-1, Form CB-1, Form T-1, or Form CP-1 that I am filing in connection with this form; 2) if the form being filed is a Form C-1 or Form CB-1, the plat(s) required by this form; 3) my operator name, address, phone number, fax, and email address.
- I have not provided this information to the surface owner(s). I acknowledge that, because I have not provided this information, the KCC will be required to send this information to the surface owner(s). To mitigate the additional cost of the KCC performing this task, which is the amount that I am being charged a \$30.00 handling fee, payable to the KCC, which is enclosed with this form.

If choosing the second option, submit payment of the \$30.00 handling fee with this form. If the fee is not received with this form, the KSONA-1 form and the Form C-1, Form CB-1, Form T-1, or Form CP-1 will be returned.

I hereby certify that the statements made herein are true and correct to the best of my knowledge and belief.

Date: 06/18/12 Signature of Operator or Agent: \_\_\_\_\_ Title: Director of Operations

VERIFICATION OF JEFFRY TAYLOR

STATE OF KANSAS )  
COUNTY OF Franklin )

Jeffry Taylor, being first duly sworn, deposes and says that he is the Jeffry Taylor referred to in the foregoing documents entitled "Pre-Filed Testimony of Jeffry Taylor" in Docket No. 12-CONS-152-CSHO before the State Corporation Commission of the State of Kansas and the statements and attached exhibits therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Jeff Taylor  
Jeffry Taylor

SUBSCRIBED AND SWORN to before me on this 7 day of May, 2012.

Michelle Reed  
Notary Public

My Commission expires:

