

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

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

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

**MOTION FOR AN ORDER TO SHOW CAUSE, THE DESIGNATION OF A
PREHEARING OFFICER, AND THE SCHEDULING OF A PREHEARING
CONFERENCE**

For the following reasons, Commission Staff moves for an Order to Show Cause, the designation of a prehearing officer, and the scheduling of a prehearing conference in this matter:

I. JURISDICTION & LEGAL STANDARD

1. The Commission has jurisdiction to regulate oil and gas production in Kansas under Chapter 55 of the Kansas Statutes Annotated and the General Rules and Regulations for the Conservation of Crude Oil and Natural Gas, K.A.R. 82-3-100 *et seq.*
2. K.S.A. 55-162 provides the Commission with jurisdiction to institute proceedings to enforce the laws of Kansas and Commission rules, regulations, and orders. K.S.A. 55-164 provides the Commission with authority to impose a penalty for a violation of such rules, regulations, and orders.
3. K.A.R. 82-3-400 provides that the penalty for unauthorized injection shall be \$1,000 for first-time violators, \$5,000 for second-time violators, and \$10,000 and operator license review for third-time violators.

4. K.A.R. 82-3-409(b) provides that each operator of an injection well shall submit a report to the conservation division, showing for the previous calendar year the following information, by March 1 of the following year: the monthly average wellhead pressure; the maximum wellhead pressure; the amount and kind of fluid injected into each well; and any other performance information required by the conservation division.

II. STAFF'S ALLEGATION OF FACTS

5. On July 23, 2015, Operator was penalized in Docket 16-CONS-082-CPEN for reported 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.

6. In February 2016, Operator reported unauthorized injection during the 2015 calendar year at the same wells.¹ July 28, 2016, and August 2, 2016, Commission Staff inspections did not conclusively indicate whether Operator conducted 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.²

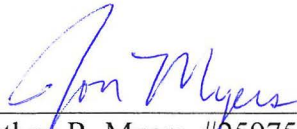
III. CONCLUSION

7. Based on the above, Staff believes that the Commission should 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 for the 2015 calendar year, which constitute second-time violations at the wells at issue.

¹ See Exhibit A. The authorized injection pressures and rates were accurately auto-filled by KOLAR in Section II of the Annual Fluid Report Forms, and Operator reported exceeding either the pressure or rate for each well in Section III.

² See Exhibit B.

Respectfully submitted,

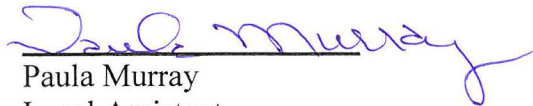


Jonathan R. Myers, #25975
Litigation Counsel, Kansas Corporation Commission
266 N. Main, Suite 220
Wichita, Kansas 67202-1513
Phone: 316-337-6200; Fax: 316-337-6211

CERTIFICATE OF SERVICE

I certify that on 11/17/16, I caused a complete and accurate copy of this Motion to be served via United States mail, postage prepaid and properly addressed to:

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



Paula Murray
Legal Assistant
Kansas Corporation Commission

ANNUAL REPORT OF PRESSURE MONITORING, FLUID INJECTION AND ENHANCED RECOVERY

Complete all blanks - add pages if needed. Copy to be retained for five (5) years after filing date.

OPERATOR: License # 33372
Name: Taos Resources Operating Company LLC
Address 1: 1455 W LOOP S
Address 2: SUITE 600
City: HOUSTON State: TX Zip: 77027 + _____
Contact Person: Becky Rojas
Phone: (713) 993-0774
Lease Name: REUNITZ
Well Number: 21-1

API No.: 15-153-20656-00-01
Permit No: E27992.3
Reporting Year: 2015
(January 1 to December 31)
____ NW NE NE Sec. 21 Twp. 1 S. R. 33 ☐ E ☒ W
(00-00-00) 4943 feet from ☐ N / ☒ S Line of Section
1170 feet from ☒ E / ☐ W Line of Section
County: Rawlins

I. Injection Fluid:

Type (Pick one): ☐ Fresh Water ☐ Treated Brine ☐ Untreated Brine ☒ Water/Brine
Source: ☒ Produced Water ☐ Other (Attach list)
Quality: Total Dissolved Solids: _____ mg/l Specific Gravity: _____ Additives: _____
(Attach water analysis, if available)

II. Well Data:

Maximum Authorized Injection Pressure: 1500 psi Injection Zone: LKC "G"
Maximum Authorized Injection Rate: 1000 barrels per day
Total Number of Enhanced Recovery Injection Wells Covered by this Permit: 6 (Include TA's)

III.	Month:	Total Fluid Injected BBL	Maximum Fluid Pressure	Total Gas Injected MCF	Maximum Gas Pressure	# Days of Injection
	January	<u>30607</u>	<u>156</u>	<u>0</u>		<u>31</u>
	February	<u>26702</u>	<u>160</u>	<u>0</u>		<u>28</u>
	March	<u>31810</u>	<u>145</u>	<u>0</u>		<u>31</u>
	April	<u>32128</u>	<u>145</u>	<u>0</u>		<u>30</u>
	May	<u>35359</u>	<u>175</u>	<u>0</u>		<u>31</u>
	June	<u>34556</u>	<u>297</u>	<u>0</u>		<u>30</u>
	July	<u>33781</u>	<u>265</u>	<u>0</u>		<u>31</u>
	August	<u>35145</u>	<u>227</u>	<u>0</u>		<u>31</u>
	September	<u>34293</u>	<u>286</u>	<u>0</u>		<u>30</u>
	October	<u>33269</u>	<u>300</u>	<u>0</u>		<u>31</u>
	November	<u>31700</u>	<u>353</u>	<u>0</u>		<u>30</u>
	December	<u>32486</u>	<u>400</u>	<u>0</u>		<u>31</u>
	TOTAL	<u>391836</u>		<u>0</u>		

Submitted Electronically

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Complete all blanks - add pages if needed. Copy to be retained for five (5) years after filing date.

OPERATOR: License # 33372
Name: Taos Resources Operating Company LLC
Address 1: 1455 W LOOP S
Address 2: SUITE 600
City: HOUSTON State: TX Zip: 77027 +
Contact Person: Becky Rojas
Phone: (713) 993-0774
Lease Name: West Maddix Unit
Well Number: 20 SWD

API No.: 15-035-24548-00-00
Permit No.: D31848.0
Reporting Year: 2015
(January 1 to December 31)
NE NE SE Sec. 3 Twp. 33 S. R. 5 ☒ E ☐ W
(00'00') 2310 feet from ☐ N / ☒ S Line of Section
330 feet from ☒ E / ☐ W Line of Section
County: Cowley

I. Injection Fluid:

Type (Pick one): ☐ Fresh Water ☐ Treated Brine ☒ Untreated Brine ☐ Water/Brine
Source: ☒ Produced Water ☐ Other (Attach list)
Quality: Total Dissolved Solids: _____ mg/l Specific Gravity: _____ Additives: _____
(Attach water analysis, if available)

II. Well Data:

Maximum Authorized Injection Pressure: 0 psi Injection Zone: Arbuckle
Maximum Authorized Injection Rate: 10000 barrels per day
Total Number of Enhanced Recovery Injection Wells Covered by this Permit: _____ (Include TA's)

III.	Month:	Total Fluid Injected BBL	Maximum Fluid Pressure	Total Gas Injected MCF	Maximum Gas Pressure	# Days of Injection
	January	<u>88068</u>	<u>195</u>	<u>0</u>		<u>31</u>
	February	<u>59404</u>	<u>174</u>	<u>0</u>		<u>28</u>
	March	<u>63782</u>	<u>170</u>	<u>0</u>		<u>31</u>
	April	<u>54716</u>	<u>176</u>	<u>0</u>		<u>30</u>
	May	<u>50359</u>	<u>183</u>	<u>0</u>		<u>31</u>
	June	<u>46240</u>	<u>182</u>	<u>0</u>		<u>30</u>
	July	<u>53648</u>	<u>195</u>	<u>0</u>		<u>31</u>
	August	<u>47641</u>	<u>192</u>	<u>0</u>		<u>31</u>
	September	<u>44301</u>	<u>190</u>	<u>0</u>		<u>30</u>
	October	<u>55365</u>	<u>186</u>	<u>0</u>		<u>31</u>
	November	<u>53370</u>	<u>81</u>	<u>0</u>		<u>30</u>
	December	<u>48043</u>	<u>175</u>	<u>0</u>		<u>31</u>
	TOTAL	<u>664937</u>		<u>0</u>		

Submitted Electronically

ANNUAL REPORT OF PRESSURE MONITORING, FLUID INJECTION AND ENHANCED RECOVERY

Complete all blanks - add pages if needed. Copy to be retained for five (5) years after filing date.

OPERATOR: License # 33372
Name: Taos Resources Operating Company LLC
Address 1: 1455 W LOOP S
Address 2: SUITE 600
City: HOUSTON State: TX Zip: 77027 +
Contact Person: Becky Rojas
Phone: (713) 993-0774
Lease Name: West Maddix Unit
Well Number: 32 SWD

API No.: 15-035-24587-00-00
Permit No: D31961.0
Reporting Year: 2015
(January 1 to December 31)
SE SE SE SE Sec. 34 Twp. 32 S. R. 5 ☒ E ☐ W
(0-0/0-0)
165 feet from ☐ N / ☒ S Line of Section
165 feet from ☒ E / ☐ W Line of Section
County: Cowley

I. Injection Fluid:

Type (Pick one): ☐ Fresh Water ☐ Treated Brine ☒ Untreated Brine ☐ Water/Brine
Source: ☒ Produced Water ☐ Other (Attach list)
Quality: Total Dissolved Solids: _____ mg/l Specific Gravity: _____ Additives: _____
(Attach water analysis, if available)

II. Well Data:

Maximum Authorized Injection Pressure: 0 psi Injection Zone: Arbuckle
Maximum Authorized Injection Rate: 15000 barrels per day
Total Number of Enhanced Recovery Injection Wells Covered by this Permit: _____ (Include TA's)

III.	Month:	Total Fluid Injected BBL	Maximum Fluid Pressure	Total Gas Injected MCF	Maximum Gas Pressure	# Days of Injection
	January	<u>84641</u>	<u>201</u>	<u>0</u>		<u>31</u>
	February	<u>42789</u>	<u>157</u>	<u>0</u>		<u>28</u>
	March	<u>24353</u>	<u>153</u>	<u>0</u>		<u>31</u>
	April	<u>37187</u>	<u>162</u>	<u>0</u>		<u>30</u>
	May	<u>33849</u>	<u>174</u>	<u>0</u>		<u>31</u>
	June	<u>20383</u>	<u>180</u>	<u>0</u>		<u>30</u>
	July	<u>19013</u>	<u>199</u>	<u>0</u>		<u>31</u>
	August	<u>16241</u>	<u>195</u>	<u>0</u>		<u>31</u>
	September	<u>13585</u>	<u>171</u>	<u>0</u>		<u>30</u>
	October	<u>16199</u>	<u>186</u>	<u>0</u>		<u>31</u>
	November	<u>15934</u>	<u>184</u>	<u>0</u>		<u>30</u>
	December	<u>16558</u>	<u>180</u>	<u>0</u>		<u>31</u>
	TOTAL	<u>340732</u>		<u>0</u>		

Submitted Electronically

INSPECTION REPORT

Case# _____

<input type="checkbox"/>	Complaint
<input type="checkbox"/>	New Situation
<input checked="" type="checkbox"/>	Response to request
<input type="checkbox"/>	Follow-up

Date of

Inspection: July 28, 2016

Operator: Taos Resources Operating Company LLC

License: 33372

Address: 1455 W Loop S Suite 600

Location: NW-NE-NE/4 Sec. 21-1-33W

City/St: Houston Texas 77027

Lease: Drift Unit # 11 (Reunitz # 21-1)

Phone: (713)-993-0774

County: Rawlins

Reason for investigation: Response to request.

Problem: Operator reported injection rate over the authorized maximum volume.

Findings:

- On the above reported date an inspection was conducted on the Drift Unit # 11 (Reunitz # 21-1) EOR well.
- The inspection revealed the following observations:
- The Reunitz # 21-1 was renamed the 'Drift Unit # 11' when the well became part of a unitization. The well is located SW-NW-NE-NE/4 of section 21-1-33W in Rawlins County, Kansas. The Gps location is - 101.02214W & 39.95767N. The API # is 15-153-20,656-00-01. The UIC docket # is E-27,992 0003.
- The pressure reading on the tubing was observed to be 390 #. A flow-meter that is installed on the brine supply line read 692, 165 barrels at the time of inspection. The well was in use as the meter was spinning.
- The injection pump that supplies the well with injectate is located NW-NW-NW/4 of section 22-1-33W, Gps -101.01744W & 39.95745N. The pump is a tri-plex and is inside of the tank battery dike. The pressure gauge on the pump read 510 #. The pump was observed to be in operation.

Photos: Yes

Action /recommendations:

- The operator may be in violation of K.A.R. 82-3-400 in regards to un-authorized injection.

Darrel Dipman ECRS
(agent)

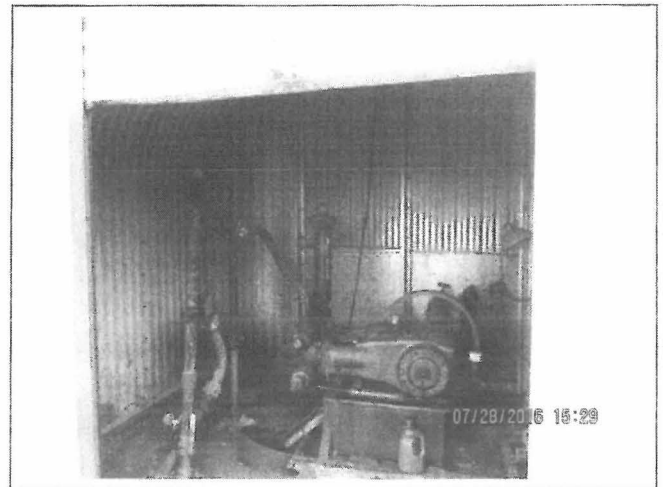
Darrel Dipman
(signature)

cc: file

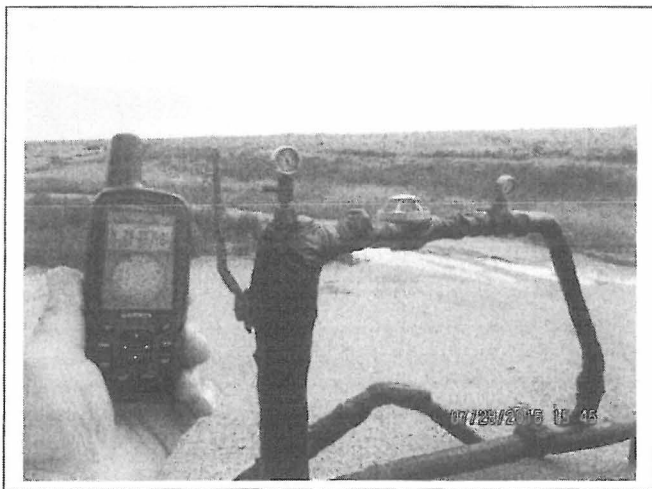
July 28, 2016

Taos Resources Operating Company LLC # 33372
Drift Unit # 11 (Reunitz) # 21-1
SW-NW-NE-NE/4 Section 21-1-33W
Rawlins County, Kansas

< A Lease inspection conducted on July 28, 2016 to check for compliance with State Rules & Regulations regarding the Conservation of Crude Oil & Natural Gas.



Picture shows a view of the Drift Unit injection pump located NW-NW-NW/4 of section 22-1-33W. The pump is inside of the tank battery dike. The Gps location of the pump is - 101.01747W, & 39.95742N. The output gauge reads 510 #.



View of Drift Unit # 11 (Reunitz # 21-1) located SW-NW-NE-NE/4 of section 21-1-33W, Gps - 101.02214W & 39.95768N. The pressure gauge reads 390 #.



View of the meter on the supply line connected to the tubing of the Drift Unit # 11 (Reunitz # 21-1) located SW-NW-NE-NE/4 of section 21-1-33W. Maximum authorized pressure is 1500 # and the maximum authorized rate is 1000 BPD. The meter reading is 692,164.

KCC OIL/GAS REGULATORY OFFICES

Date: 08/02/16

District: 02

Case #: _____

- ☐ New Situation
☐ Response to Request
☐ Follow-Up

- ☒ Lease Inspection
☐ Complaint
☒ Field Report

Operator License No: 33372
 Op Name: TAOS RESOURCES OPERATING COMPANY, LLC
 Address 1: 1455 W LOOP S
 Address 2: SUITE 600
 City: HOUSTON
 State: TX Zip Code: 77027 -
 Operator Phone #: (713) 993-0774

API Well Number: 15-035-24548-00-00
 Spot: NW NE NE SE Sec 3 Twp 33 S Rng 5 ☒ E ☐ W
2369 Feet from ☐ N ☒ S Line of Section
352 Feet from ☒ E ☐ W Line of Section
 GPS: Lat: 37.20704 Long: 96.86215 Date: 8/2/16
 Lease Name: WEST MADDIX UNIT Well #: 20 SWD
 County: Cowley

Reason for Investigation:

LEASE INSPECTION / JON MYERS

D-31,848

Problem:

Persons Contacted:

NONE

Findings:

LOCATED TANK BATTERY @ -096.86115, 37.20747. NE NE NE SE 3-33-5E 2531 FSL 59 FEL. (DIKED, GRAVLED, & READABLE LEASE ID SIGN). 20' X 20' X 5' EMERGENCY PIT INSIDE DIKED AREA. SALT WATER TANKS ARE SET UP W/LEASE SHUTDOWN EQUIPMENT. SIX RISERS ON SALTWATER TANK, WELL TAKING WATER FROM -DIFFERENT AREAS OR LEASES. NO WEED CONTROL.

LOCATED WELL @ -096.86215, 37.20704, NW NE NE SE 3-33-5E, 2369 FSL, 352 FEL. WELL IN OPERATION OR USE, CAN HEAR FLUIDS GOING DOWN WELL HEAD. IN USE WELL HAD 9 VACUME ON TUBING, NO GUAGE ON ANNULUS. DRILL PITS HAVE BEEN CLOSED.

Action/Recommendations:

Follow Up Required ☐ Yes ☒ No ☐

Date: _____

Verification Sources:

Photos Taken: YES

- | | | |
|---|---|-------------------------------------|
| <input type="checkbox"/> RBDMS | <input type="checkbox"/> KGS | <input type="checkbox"/> TA Program |
| <input type="checkbox"/> T-I Database | <input type="checkbox"/> District Files | <input type="checkbox"/> Courthouse |
| <input checked="" type="checkbox"/> Other: LEASE INSPECTION | | |

By: DUANE KRUEGER

Duane Krueger

Retain 1 Copy District Office
 Send 1 Copy to Conservation Division

Form: 08/02/2016

JK

8-2-2016

TAOS RESOURCES OPERATING COMPANY, LLC
SE 3-33-5E 4.
W.M.U. # 20 SWD

Picture Shows:

1. Saltwater Taint Battery



8-2-2016

Tros Resources Operating Company LLC
WPU # 205WD
SE 3-33-5E Q.

Picture Shows:
1. Well site



KCC OIL/GAS REGULATORY OFFICES

Date: 08/02/16

District: 02 ☒

Case #: _____

- ☐ New Situation
☐ Response to Request
☐ Follow-Up

- ☒ Lease Inspection
☐ Complaint
☒ Field Report

Operator License No: 33372

API Well Number: 15-035-24587-00-00

Op Name: TAOS RESOURCES OPERATING COMPANY, LLC

Spot: SE SE SE SE Sec 34 Twp 32 S Rng 5 ☒ E ☐ W

Address 1: 1455 W LOOP S

218 Feet from ☐ N ☒ S Line of Section

Address 2: SUITE 600

166 Feet from ☒ E ☐ W Line of Section

City: HOUSTON

GPS: Lat: 37.21584 Long: 96.86163 Date: 8/2/16

State: TX Zip Code: 77027 -

Lease Name: WEST MADDIX UNIT Well #: 32 SWD

Operator Phone #: (713) 993-0774

County: Cowley

Reason for Investigation:

LEASE INSPECTION / JON MYERS

2-31,961

Problem:

Persons Contacted:

NONE

Findings:

LOCATED TANK BATTERY @ -096.86125,37.21592. SE SE SE SE 34-32-5E 248 FSL 56 FEL. (DIKED, GRAVLED, & READABLE LEASE ID SIGN). 20' X 20' X 4' EMERGENCY PIT INSIDE DIKED AREA. SALT WATER TANKS ARE SET UP W/LEASE SHUTDOWN EQUIPMENT. FOUR RISERS ON SALTWATER TANK, WELL TAKING WATER FROM 4-DIFFERENT AREAS OR LEASES. NO WEED CONTROL.

LOCATED WELL @ -096.86163, 37.21584, SE SE SE SE 34-32-5E, 218 FSL, 166 FEL. WELL IN OPERATION OR USE, CAN HEAR FLUIDS GOING DOWN WELL HEAD. IN USE WELL HAD 0 VACUME ON TUBING, 240# ON BACKSIDE. DRILL PITS HAVE BEEN CLOSED.

Action/Recommendations:

Follow Up Required ☐ Yes ☒ No ☐

Date: _____

Verification Sources:

Photos Taken: YES

- ☐ RBDMS ☐ KGS ☐ TA Program
☐ T-I Database ☐ District Files ☐ Courthouse
☒ Other: LEASE INSPECTION

By: DUANE KRUEGER

DUANE KRUEGER

Retain 1 Copy District Office
 Send 1 Copy to Conservation Division

Form: 08/02/2016

✓

8-2-2016

Tras Resources Operating Company, LLC
WMU # 32-500
SE 34-32-5E Q1

Picture Shows:
1. Salt Water Tank Pallets



8-2-2016

Taos Resources Operating Company, LLC
WMC # 32 Sued
SE 34-32-5E Q.

Picture Shows:

1. well site

