

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

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

In the matter of the application of Merit)	Docket No.: 17-CONS-3650-CUNI
Energy Company, LLC, for an order)	
authorizing the unitization and unit operation)	CONSERVATION DIVISION
of the Hylbom Morrow Unit in Finney and)	
<u>Kearny Counties, Kansas.</u>)	License No.: 32446

ORDER GRANTING APPLICATION

The Commission grants the application of Merit Energy Company, LLC ("Operator") for the unit operation of the Hylbom Morrow Unit, for following reasons.

I. LEGAL STANDARD

1. K.S.A. 55-1301 through K.S.A. 55-1317 provides processes for unitizing acreage. K.S.A. 55-1301 provides that the Commission shall exercise its powers under such statutes to prevent waste and protect correlative rights.

2. K.S.A. 55-1303 provides detailed requirements for a unit application including a statement of the type of operations, the proposed plans for unitization, the proposed operating plan covering supervision and costs, and an allegation of the facts required to be found by the Commission under K.S.A. 55-1304.

3. K.S.A. 55-1304 provides that the Commission must find all three of the following conditions are present before unitizing acreage:

- a. Under K.S.A. 55-1304(a)(1), the primary production from a pool or a part thereof sought to be unitized has reached a low economic level and, without introduction of artificial energy, abandonment of oil or gas wells is imminent; or under K.S.A. 55-1304(a)(2) the unitized management, operation, and

further development of the pool or the part thereof sought to be unitized is economically feasible and reasonably necessary to prevent waste within the reservoir and substantially increase the ultimate recovery of oil or gas;

b. the value of the estimated additional recovery of oil or gas substantially exceeds the estimated additional cost incident to conducting such operations; and

c. the proposed operation is fair and equitable to all interest owners.

4. K.S.A. 55-1305 provides that the order providing for unitization and unit operation shall be upon terms and conditions that are just and reasonable and shall prescribe a plan for unit operations which includes various details listed in K.S.A. 55-1305(a) through K.S.A. 55-1305(l).

5. K.S.A. 55-1305(l) provides that no order of the Commission providing for unitization pursuant to K.S.A. 55-1304(a)(2) shall become effective unless and until the plan for unit operations prescribed by the Commission has been approved in writing by those persons who, under the Commission's order, will be required to pay at least 63% of the costs of the unit operation, and also by the owners of at least 75% of the production or proceeds thereof that will be credited to royalties, and the Commission has made a finding, either in the Order providing for unit operations or in a supplemental order, that the plan for unit operations has been so approved.

II. FINDINGS OF FACT

6. On May 5, 2017, Operator filed an application for unitization under K.S.A. 55-1301 *et seq.*, specifically under K.S.A. 55-1304(a)(2).¹

7. The proposed unit contains the Morrow Formation, as shown on the well log of the Hylbom #A-2 (API #15-055-22187),² and all the stratigraphic equivalent of said Morrow Formation in the following areas in Kansas:

- a. the east half of Sec. 25, Township 23 South, Range 35 West, Kearny County;
- b. the west half of Sec. 30, Township 23 South, Range 34 West, Finney County;
- c. the N/2 NE/4 of Sec. 30, Township 23 South, Range 34 West, Finney County;
- and
- d. the S/2 NE/4 of Sec. 30, Township 23 South, Range 34 West, Finney County.

8. Operator's application, including the Unit Agreement and Unit Operating Agreement, complies with K.S.A. 55-1303 by listing what a unitization application must contain.

9. Operator is applying for unitization under in K.S.A. 55-1304(a)(2). Operator's application lists all of the conditions necessary to grant the application under K.S.A. 55-1304 and states that such conditions are present.

10. Operator itself is responsible for 100% of the costs of unit operations,³ and at least 80.76% of the royalty interests have approved the plan for unit operations.⁴ This exceeds the statutory requirements.

¹ In the alternative, Operator requests approval under K.S.A. 55-1304(a)(1). As Operator meets the requirements under K.S.A. 55-1304(a)(2), and approval under either (a)(1) or (a)(2) results in the same outcome, the alternative pleading is moot.

² While Operator's application does not provide the API number, it has been identified in this Order by consulting Commission records.

³ See Application, ¶12.

⁴ *Id.*

11. Operator has verified that notice was properly served and published at least 15 days before the issuance of this Order. No protests have been filed.

12. The Commission finds that the conditions required by K.S.A. 55-1304 for unitization are present, specifically:

- a. The unitized management, operation, and further development of the pool or the part thereof sought to be unitized is economically feasible and reasonably necessary to prevent waste within the reservoir and substantially increase the ultimate recovery of oil or gas;
- b. the value of the estimated additional recovery of oil or gas substantially exceeds the estimated additional cost incident to conducting such operations; and
- c. the proposed unit operation is fair and equitable to all interest owners.

13. The Commission finds that incorporation of Operator's application and all exhibits, including the revised Unit Agreement and revised Unit Operating Agreement, into this Order will satisfy the requirements of K.S.A. 55-1305.

IV. CONCLUSIONS OF LAW

14. Operator's application was filed in accordance with the rules and regulations of the Commission and Kansas statutes, and should be granted to prevent waste and protect correlative rights.

THEREFORE, THE COMMISSION ORDERS:

A. Operator's application to create the Hylbom Unit pursuant to K.S.A. 55-1301 through 55-1317 is granted.

B. The Unit shall be governed by the terms found in the application and the exhibits, including the Unit Agreement and Unit Operating Agreement, which are hereby incorporated by reference.

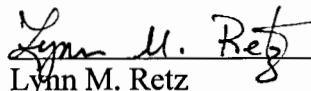
C. Any party affected by this Order may file a petition for reconsideration pursuant to K.S.A. 77-529(a). The petition shall be filed within 15 days after service of this Order. If service of this Order is by mail, three days are added to the deadline. The petition shall be addressed to the Commission and sent to 266 N. Main, Suite 220, Wichita, Kansas 67202. Pursuant to K.S.A. 77-529(a), reconsideration is prerequisite for judicial review of this Order.

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

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: JUL 11 2017


Lynn M. Retz
Secretary to the Commission

Mailed Date: July 11, 2017

JRM

CERTIFICATE OF SERVICE

I certify that on July 11, 2017, I caused a complete and accurate copy of this Order to be served electronically and via United States mail, with the postage prepaid and properly addressed to the following:

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