

**BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF OKLAHOMA**

<b>APPLICANT:</b>	<b>LORI WROTENBERY,</b>	)	
	<b>DIRECTOR OF OIL AND GAS</b>	)	
	<b>CONSERVATION DIVISION ,</b>	)	
	<b>OKLAHOMA CORPORATION</b>	)	
	<b>COMMISSION</b>	)	
		)	<b>CAUSE</b>
<b>RELIEF SOUGHT:</b>	<b>STATE-WIDE PRORATION</b>	)	<b>C.D. NO.</b>
	<b>FORMULA FOR UNALLOCATED</b>	)	<b>200901553</b>
	<b>GAS WELLS DURING THE</b>	)	
	<b>FOURTH QUARTER OF 2009</b>	)	<b>ORDER NO.</b>
	<b>AND FIRST QUARTER OF 2010</b>	)	
		)	<b><u>569966</u></b>

**ORDER ESTABLISHING PRORATION FORMULA  
FOR THE PERIOD OF OCTOBER 1, 2009,  
THROUGH MARCH 31, 2010**

At 9:30 a.m. on August 18, 2009, the Commission *en banc* heard this cause in the Commission's Courtroom, Third Floor, Jim Thorpe Building, Oklahoma City, Oklahoma. Susan Dennehy Conrad, Assistant General Counsel, Oil and Gas Conservation Division, Oklahoma Corporation Commission, appeared for the Applicant. The attached Exhibit "A" contains the additional appearance list regarding such hearing.

The Corporation Commission, being fully advised in the premises, now finds as follows:

**FINDINGS AND CONCLUSIONS**

1. That this is the Application of Lori Wrotenbery, Director, Oil and Gas Conservation Division, Oklahoma Corporation Commission ("Commission"), to establish the proration formula for unallocated gas wells during the fourth quarter of 2009 and the first quarter of 2010.
2. The Commission has jurisdiction of the subject matter and persons. Notice was given as required by law and the rules of the Commission.
3. Authority for this Application arises under 52 O.S. Section 29 and OAC 165:10-17-11.

4. That pursuant to OAC 165:10-17-11, the Commission assigns maximum permitted rates of production for unallocated gas wells. The Commission computes allowable production on an annual basis, but it conducts semiannual hearings to adjust the proration formula used in calculating allowable production, when necessary, because of changes in market demand and to prevent waste.
5. Certain interested parties and industry groups have asked the Commission to maintain the proration formula for unallocated gas wells in the State at the same level in regard to percentage of calculated absolute open flow ("CAOF") and minimum production rate established for the prior proration period: **The greater of sixty-five percent (65%) of CAOF or 2000 mcf/d.** Written comments filed in this cause by representatives of XTO Energy, Inc., BP America Production Company, Marathon Oil Company, Devon Energy Production Company, L.P. and Mid-Continent Oil and Gas Association of Oklahoma, Inc. requested that the proration formula be maintained at the rate stated previously. A representative of Hiland Partners, LP filed a written comment in this matter suggesting that the proration formula be modified so as to further restrict production. Ms. Conrad noted that a technical conference concerning this cause occurred on June 17, 2009.
6. Mr. Duncan Woodliff, Production/Proration Manager, Oil and Gas Conservation Division of the Commission, testified that the overall demand for natural gas remains greater than the overall ability of wells in the State of Oklahoma to produce. Mr. Woodliff stated there is ample market for natural gas production in the State. Mr. Woodliff indicated the continuation of the present rate for unallocated natural gas wells would be in Oklahoma's best interest, because such regulatory policy would provide and maintain economic incentives for continued exploration and production in existing fields and incentives for new development. Likewise, Mr. Woodliff indicated that the continuation of the present proration factors would be in the State's best interest in terms of its efforts to compete effectively for national market share. Mr. Woodliff estimated that the gas wells which are impacted by the proration formula produce no more than about fifteen to twenty percent of the gas produced in the State. Mr. Woodliff stated that many of such wells are deeper wells which are expensive to drill. Mr. Woodliff said that the majority of comments received by the Commission were in favor of maintaining the current proration formula.
7. John R. Reeves on behalf of BP America Production Company, Gregory L. Mahaffey for Newfield Exploration Mid-Continent, Inc., Robert A. Miller on behalf of Marathon Oil Company and R. Mark Stout for Devon Energy Production Company, L.P. all stated at the hearing they supported Mr. Woodliff's recommendation that the proration formula for unallocated gas wells in the State for the next proration period be maintained at the same level in regard to percentage of CAOF and minimum production rate established for the prior proration period: **The greater of sixty-five percent (65%) of CAOF or 2000 mcf/d.**

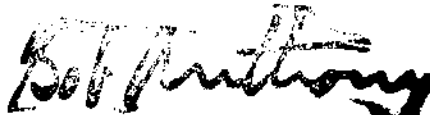
8. The Commission finds that based upon the testimony of staff and having reviewed the comments from interested persons, the market situation at this time supports the maintenance of the proration formula at the same level established for the prior proration period: **65% of CAOF or 2000 mcf/d, whichever is greater.** The Commission finds that the proration factors for the fourth quarter of 2009 and the first quarter of 2010 should be established at the same level set for the prior period by Order No. 564810 (January 29, 2009). Ms. Conrad noted that OAC 165:10-17-11 provides that proration hearings are to be held at least semiannually for the proration periods of April through September and October through March, but that the Commission may hold additional proration hearings at shorter intervals if necessary.
9. The Commission finds that the overall demand for natural gas remains greater than the ability of wells in the State of Oklahoma to produce. There is ample market demand for all natural gas production in the State. Continuation of the proration formula at the present rate would provide and maintain economic incentives for continued exploration and production in existing fields and incentives for new development. Further, continuation of the present proration formula would support the State's efforts to compete effectively for national market share. These facts support the maintenance of the proration formula at the greater of sixty-five percent (65%) of CAOF or 2000 mcf/d. This rate will preserve a stable regulatory environment, maintain important incentives to the domestic petroleum industry, and encourage production to meet the nation's demand for natural gas. The Commission recognizes the importance of Oklahoma's natural gas prorationing laws; however, the present market conditions support the Commission's decision to craft a prorationing policy that will encourage production. The Commission continues to recognize the policy that the State of Oklahoma should take all reasonable steps, within its traditional regulatory structure, to ensure that the supply of natural gas from the state's common sources of supply is maximized in a fair manner, while preventing waste or production in excess of reasonable market demand.
10. Based upon the foregoing considerations, the Commission concludes that the proration formula established for the prior proration period should continue in effect through the fourth quarter of 2009 and the first quarter of 2010. The proration formula approved by this order will ensure that the State will maintain reasonable incentives to encourage the drilling and exploration of natural gas in Oklahoma so that the demands of the nation's economy for natural gas can be met.

ORDER

**THEREFORE, IT IS ORDERED BY THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA AS FOLLOWS:**

The proration formula for unallocated gas wells for the period of October 1, 2009, through March 31, 2010, shall be established at **sixty-five percent (65%) of wellhead absolute open flow potential or 2000 mcf/d, whichever is greater, and IT IS SO ORDERED.**

**OKLAHOMA CORPORATION COMMISSION**



**BOB ANTHONY, CHAIRMAN**




**JEFF CLOUD, VICE-CHAIRMAN**



**DANA L. MURPHY, COMMISSIONER**

DONE AND PERFORMED THIS THE 1 DAY OF Sept, 2009  
BY ORDER OF THE COMMISSION:

  
PEGGY MITCHELL, SECRETARY

Approved by:


  
Susan Dennehy Conrad, OBA No. 12249  
Assistant General Counsel  
Oil and Gas Conservation Division  
Oklahoma Corporation Commission  
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Attorney for Applicant

Exhibit "A"

Mr. Duncan Woodliff  
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Oil and Gas Conservation Division  
Oklahoma Corporation Commission

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