

BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF OKLAHOMA

APPLICANT: LORI WROTENBERY,  
DIRECTOR OF OIL AND GAS )  
CONSERVATION DIVISION )  
OKLAHOMA CORPORATION )  
COMMISSION )  
RELIEF SOUGHT: DETERMINATION OF ALLOWABLES ) CAUSE  
REGARDING WELLS IN CERTAIN ) CD NO.  
SPECIAL ALLOCATED GAS POOLS ) 200902831  
ORDER NO.  
**571714**

**FINAL ORDER**

At 9:30 a.m. on October 30, 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. This is the Application of Lori Wrotenbery, Director, Oil and Gas Conservation Division, Oklahoma Corporation Commission ("Commission"), requesting a determination by the Commission as to whether the supply of natural gas from the common sources of supply included in and covered by the Red Oak Fanshawe Pool 456, the Red Oak Red Oak Pool 457, the Red Oak Spiro Pool 458, the Guymon Hugoton Pool 182 and the West Cheyenne Upper Morrow Pool 136 is less than the market demand so as to warrant suspension of special field rules calculations for determining allowables for wells in such pools, whether the gas allowables for wells in such pools should be determined as provided in OAC 165:10-17-9 during any such suspension of special field rules calculations, and that an order issue in this cause consistent with such determinations.

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. The Application in this cause was filed pursuant to the authority in OAC 165:10-17-9, OAC 165:10-1-36 and OAC 16510-1-37.

4. The allegations of fact appearing in the Application filed in this cause are as follows:

A. Order No. 82847, as amended, among others, by Order No. 97531, established field rules for the production of natural gas from the Red Oak, Spiro (Basal Atoka) and Fanshawe common sources of supply underlying portions of Haskell, Latimer and LeFlore Counties, Oklahoma, designated the Red Oak Fanshawe Pool 456, the Red Oak Red Oak Pool 457 and the Red Oak Spiro Pool 458. The Commission found in Order No. 82847 that the supply of natural gas from such common sources of supply was in excess of the market demand for such gas. Commission rules also affect the production of natural gas from such pools.

B. Order No. 17867, as amended, among others, by Order No. 99440, established field rules for the production of natural gas from the Guymon Hugoton Pool (Pool 182) in Texas County, Oklahoma, on the grounds that the production of gas from wells in such pool was greatly in excess of the market demand for such gas. Commission rules also affect the production of natural gas from such pool.

C. Order No. 141156 established field rules for the production of gas from the Upper Morrow Sand common source of supply underlying portions of Roger Mills County, Oklahoma, designated the West Cheyenne Upper Morrow Pool 136. Commission rules also affect the production of natural gas from such pool.

D. The Commission has previously issued orders determining the amount of gas to be produced from various special allocated pools, the most recent of which is Order No. 564811 which issued in Cause CD No. 200808626 on January 29, 2009, for the months of February, 2009, through July, 2009, which Order involved the above-referenced pools.

E. Amendments to OAC 165:10-17-9 concerning special allocated gas pools were included in Cause RM No. 200900001 and recently became effective. Such amendments provide that the Commission, upon finding in a market demand hearing that the supply of natural gas from the common sources of supply comprising the above-referenced pools is less than the market demand and that expectations are the supply will continue to be less than the market demand, shall suspend special field rules calculations for determining allowables for wells in such pools. The recent amendments to OAC 165:10-17-9 also

provide that any such suspension of special field rules calculations shall be effective until such time that the supply of natural gas from such pools exceeds the market demand for the natural gas, and during such suspension the gas allowables for wells in such pools shall be determined as stated in OAC 165:10-17-9.

5. Ms. Conrad noted that a public technical conference concerning this cause occurred on October 9, 2009. Ms. Conrad stated that no written comments have been filed with the Commission Court Clerk's Office regarding this matter.

6. Mr. Duncan Woodliff, Production/Proration Manager, Oil and Gas Conservation Division of the Commission, testified that he was familiar with the recent amendments to OAC 165:10-17-9 and that he was familiar with this cause. He stated it was his opinion that the supply of natural gas from the common sources of supply comprising the above-referenced pools is less than the market demand, and that expectations are the supply will continue to be less than the market demand, so as to warrant suspension of the special field rules calculations for determining allowables for wells in such pools. Mr. Woodliff also stated it was his recommendation that the gas allowables for wells in such pools be determined as provided in the recent amendments to OAC 165:10-17-9 during any such suspension of the special field rules calculations. He said that the special field rules were developed decades ago, at times when the supply of natural gas was greater than the demand, that nominations were submitted as to how much gas was to be taken from the reservoirs, and formulas were utilized to determine permitted production rates.

7. Mr. Woodliff identified an exhibit he had prepared reflecting production from the pools, nominations regarding such pools, etc. for the time period of July, 2006, through July, 2009, along with graphs concerning the numerical data. He said that the graphs and numerical data demonstrate that the amount of production from wells in the pools is less than the nominations under the special field rules, and that his analysis is based on these factors, rather than price considerations. Mr. Woodliff stated that technology has changed since the subject pools were authorized decades ago, and that current circumstances have rendered the special field rules obsolete. He said that the special field rules were not designed to accommodate increased density wells, and that such rules were premised on one vertical well being drilled per unit. Mr. Woodliff agreed, in response to a question from one of the Commissioners, that it would be a rare occurrence in Oklahoma for a single vertical well to drain an entire section of six hundred forty acres.

8. Mr. Woodliff stated that he has not received any written or oral comments in opposition to his recommendations. He noted that recent amendments to OAC 165:10-17-9 contain provisions that any suspension of special field rule

calculations shall be effective until such time that the supply of natural gas from the pools exceeds the market demand for such natural gas. Mr. Woodliff said that he does not foresee the supply of natural gas from the pools exceeding the market demand for such gas, but in the event such situation should occur, the special field rule calculations could be reinstated at some point in the future upon a finding in a hearing before the Commissioners that the supply of natural gas from the subject pools exceeds the market demand for such gas. Mr. Woodliff stated that as the most recent special allocated gas order covering the subject pools encompassed the period of February 1, 2009, through July 31, 2009, he requested that any order issuing in this cause be made effective as of August 1, 2009, and that such request for special relief appears both in the Application and Notice of Hearing filed in this cause. Mr. Woodliff requested that an order issue in this cause consistent with his recommendations.

9. John R. Reeves appeared on behalf of both Chesapeake Operating, Inc. ("Chesapeake") and BP America Production Company ("BP"). Mr. Reeves said that Chesapeake supports completely the suspension of the special field rules regarding the Guymon Hugoton pool, and that BP accordingly also very much supports suspension of the special field rules concerning the Red Oak pools. Mr. Reeves stated that BP worked with the Commission staff to promulgate the amendments to OAC 165:10-17-9 regarding suspension of the special field rules. Mr. Reeves said that BP also is equating production from the wells in such pools with supply, consistent with Mr. Woodliff's analysis. He said that BP owns the largest amount of the working interest in the Red Oak field and that it also operates the majority of wells in the field. Mr. Reeves stated that BP has increased the production of wells in the Red Oak field from slightly less than fifty Billion Cubic Feet ("BCF") to more than sixty BCF, and that BP has dramatically escalated the number of increased density wells it has drilled in the field. He said that BP is also planning on drilling an extensive number of horizontal wells in the Red Oak field. He stated that BP has spent approximately twenty million dollars over the past two years in the Red Oak field on compression facilities so that production can be increased. Mr. Reeves said that BP can sell all of the gas that it can produce from the Red Oak field and that BP supports staff's recommendations. Mr. Reeves stated that the special field rules were premised on one well being drilled per section, that he agreed with Mr. Woodliff's belief that the special field rules are obsolete, and that the suspension of the special field rules will simplify reporting requirements for operators.

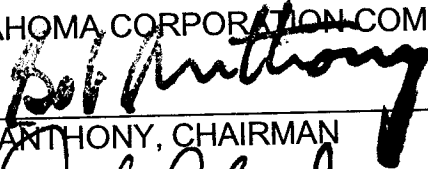
10. After considering the evidence and testimony presented, the Commissioners voted to authorize the issuance of an order in this cause consistent with Mr. Woodliff's recommendations.

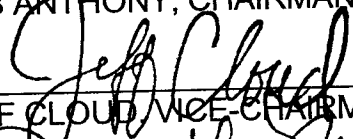
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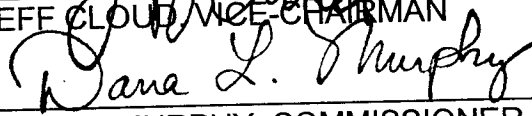
**THEREFORE, IT IS ORDERED BY THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA AS FOLLOWS:**

1. The supply of natural gas from the common sources of supply included in and covered by the Red Oak Fanshawe Pool 456, the Red Oak Red Oak Pool 457, the Red Oak Spiro Pool 458, the Guymon Hugoton Pool 182 and the West Cheyenne Upper Morrow Pool 136 is less than the market demand, and expectations are the supply will continue to be less than the market demand, so pursuant to OAC 165:10-17-9, the special field rules calculations for determining allowables for wells in such pools are hereby suspended.
2. The suspension of special field rules calculations shall be effective until such time, if ever, that the supply of natural gas from such pools exceeds the market demand for the natural gas, with the occurrence of any such event to be addressed by an Order of the Commission, and during such suspension the gas allowables for wells in such pools shall be determined as stated in OAC 165:10-17-9.
3. This Order is hereby made effective as of August 1, 2009.

OKLAHOMA CORPORATION COMMISSION

  
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BOB ANTHONY, CHAIRMAN

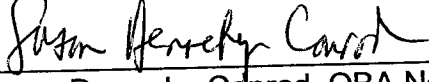
  
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JEFF CLOUD, VICE-CHAIRMAN

  
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DANA L. MURPHY, COMMISSIONER

DONE AND PERFORMED THIS THE 23 DAY OF Nov, 2009  
BY ORDER OF THE COMMISSION:

  
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PEGGY MITCHELL, SECRETARY

Approved by:



Susan Dennehy Conrad, OBA No. 12249  
Assistant General Counsel  
Oil and Gas Conservation Division  
Oklahoma Corporation Commission  
2101 North Lincoln Boulevard  
Oklahoma City, Oklahoma 73105  
Telephone Number (405) 521-3939  
Attorney for Applicant Lori Wrotenbery, Director,  
Oil and Gas Conservation Division,  
Oklahoma Corporation Commission

**Exhibit "A"**

Mr. Duncan Woodliff  
Production/Proration Manager, Technical Services Dept.  
Oil and Gas Conservation Division  
Oklahoma Corporation Commission  
2101 North Lincoln Boulevard  
Oklahoma City, Oklahoma 73105

Mr. Ron Dunkin  
Manager, Technical Services Dept.  
Oil and Gas Conservation Division  
Oklahoma Corporation Commission  
2101 North Lincoln Boulevard  
Oklahoma City, Oklahoma 73105

Ms. Sally A. Shipley  
Deputy General Counsel  
Oil and Gas Conservation Division  
Oklahoma Corporation Commission  
2101 North Lincoln Boulevard  
Oklahoma City, Oklahoma 73105

Mr. Brad Williams  
Office of Oklahoma Secretary of Energy  
100 North Broadway, Suite 2430  
Oklahoma City, OK 73102

Mr. John R. Reeves  
Mock, Schwabe, Waldo, Elder, Reeves & Bryant, L.L.C.  
Two Leadership Square, Fourteenth Floor  
211 North Robinson  
Oklahoma City, OK 73102

Mr. James S. Drennan  
Monnet, Hayes, Bullis, Thompson & Edwards  
120 North Robinson, Suite 1719  
Oklahoma City, OK 73102