

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

FILED
MAY 22 2012

APPLICANT:	NEWFIELD EXPLORATION MID-CONTINENT, INC.)	COURT CLERK'S OFFICE - TULSA CORPORATION COMMISSION OF OKLAHOMA
RELIEF SOUGHT:	POOLING)	CAUSE CD NO. 201201238-T
LEGAL DESCRIPTION:	SECTION 1, TOWNSHIP 2 NORTH, RANGE 4 WEST, STEPHENS COUNTY, OKLAHOMA)	

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The cause came on for hearing before **Kathleen M. McKeown**, Administrative Law Judge (ALJ), in the Oklahoma Corporation Commission (Commission) courtroom, Kerr Building, Tulsa, Oklahoma, pursuant to notice given as required by law and the rules of the Commission for the purpose of taking testimony and reporting to the Commissioners.

CASE SUMMARY

Newfield Exploration Mid-Continent, Inc. (Newfield) seeks to pool various zones in the subject unit above and below the targeted Woodford formation in which Newfield plans to drill a horizontal well. The parties agree on all time periods for the initial and subsequent elections, fair market values and total drilling time periods to be included in any order issuing from the cause.

The primary dispute centers on the request of Citation 2002 Investment Limited Partnership (Citation) for dismissal of all zones but the Woodford from the subject application; or, in the alternative, for all respondents to be given a separate election for any subsequent wells drilled to the Hunton (regardless of the parties initial well elections) under the subject pooling order. The question of who should be allowed to propose subsequent wells under the pooling order is also at issue.

RECOMMENDATIONS

- 1) The application should be granted as to all zones listed.
- 2) Any participant in the initial well should be allowed to propose a subsequent well to the other participants once any Commission hearings (i.e. location exception, increased density, etc.) have taken place and final orders have issued.

HEARING DATE(S)

May 16, 2012

APPEARANCES

Ron M. Barnes appeared for Newfield;
Roger A. Grove appeared for Citation;

Ronald M. McKenzie appeared pro se.

SUMMARY OF EVIDENCE

1. CD 201201238-T requests an order pooling the interests of oil and gas owners on a unit basis in the Hoxbar, Deese Sand, Morrow Sand, Springer Sand, Mississippian, Woodford and Hunton common sources of supply underlying Section 1, Township 2 North, Range 4 West, Stephens County, Oklahoma.
2. **Exhibits** were marked and accepted into evidence as follows (exhibit sponsor in parentheses):
 1. Woodford Horizontal Well Authority for Expenditure—AFE (Newfield)
 2. Updated Exhibit A to the Amended Application (Newfield)
 3. 9-Section Production Plat presented as exhibit at hearing in Newfield Location Exception in CD 201201215-T (Citation)
3. On behalf of **Newfield** expert testimony and evidence was presented through **Tarah Angelides**, petroleum landman; and **Jeff Watts**, petroleum geologist.
 - A. In Section 1 Newfield owns 59%; Citation owns 3.125%. Newfield estimates the dryhole costs for the proposed horizontal Woodford well will be \$5,600,000.00 and completed well costs will be \$9,500,568.00; these costs anticipate the well will have a total vertical depth of 12,980'. Newfield has undertaken extensive leasing activity in the general area as well as in the 8 units surrounding Section 1. As alternatives to electing to participate in the proposed well, Newfield is recommending the following: 1) a cash bonus of \$1200 per acre with a 1/8th royalty; 2) a cash bonus of \$1000 per acre with a 3/16ths royalty; 3) a cash bonus of \$800 per acre with a 1/5th royalty; and 4) no cash bonus with a 1/4th royalty. These fair market value terms are based on leasing transactions in the 9-unit area with no depth or formation restrictions; this fair market value has been paid for leases covering all mineral rights from the surface to the center of the earth. There has been no discounting of leases as to the subject zones. If any zones are pooled separately, split elections could occur which would result in additional accounting work, use of an allocation formula to pay owners for gas produced from each zone and/or higher well costs for separate completions in the zones. Newfield has pooling orders in place that cover zones above and below the Woodford formation throughout various nearby counties with at least four of these poolings in Stephens County at this time. Newfield requested that it be named the unit operator and that it be the only party authorized to propose subsequent wells under the pooling order for the purpose of assuring orderly development in the unit.
 - B. While Newfield has not drilled any wells in the 9-section area, it anticipates drilling at least 5 horizontal wells per section in the area. Newfield has drilled 2 Woodford wells within 7 to 8 miles of the subject unit; another Woodford well is being completed within 15 miles of the unit; and there is currently one well drilling within 3 miles of the subject unit. The Mississippian, Woodford and Hunton zones are the

formations of primary concern in the subject unit because it is not unusual to encounter all 3 of these zones while drilling a Woodford lateral. Newfield has 2D seismic data for the area but, given the limited well information in Section 1 for the Woodford, Newfield is concerned that the proposed horizontal Woodford well may "come out of zone" due to encountering unexpected structural difficulties (i.e. faulting). While dual completions in horizontal wells are possible, such completions would require a bigger wellbore at the very least which would increase the well costs; commingling production from the Woodford with the Hunton and/or any of the other named zones would not change the costs anticipated by the Newfield AFE. The Hoxbar, Deese, Morrow and Springer formations should be found in the vertical portion of the well which is anticipated to be found underlying Section 12 where the surface location is planned; the Mississippian, Woodford and Hunton should be encountered in Section 1, however, this will depend on what the formation depths and thicknesses are as encountered by the well.

4. On behalf of **Citation** expert testimony and evidence was presented through **Michael Davis**, petroleum engineer; and **Jennifer Webb**, petroleum landman.
 - A. Citation has developed the Hunton outside of the 9-section area drilling 15 to 20 vertical wells in the zone which ranges in thickness from 400' to 500'. Newfield's inclusion of the Hunton in the subject application would preclude any planned Hunton development in the unit. In addition, any "accidental" drilling into the Hunton (or perforation of the Hunton) in the proposed well would not help future development of the zone underlying Section 1 as there would be no geological knowledge gained without a more extensive evaluation of the Hunton (i.e. logging, seismic, etc.). In the 4-county area (Carter, Stephens, Jefferson and Johnson) there have been no horizontal Woodford wells completed in zones other than the Woodford. Given the thickness of the Mississippian, Woodford and Hunton underlying the subject unit, Citation believes there is no reason to include the Hunton in the subject application because the chances of "coming out of zone" are remote; conversely, in the Arkoma Basin, Woodford wells often include the zones above and below because the Woodford is only 75' to 85' thick making the chance of penetrating the zones on either side of the Woodford more likely. Citation urges a separate pooling of the Hunton in Section 1 thereby allowing owners to select whether or not to participate in the Hunton apart from the Woodford and the other named zones. If the Hunton were then completed and commingled with the Woodford in the proposed well (instead of using a dual completion technique) the production could be allocated in a fashion similar to that used in multi-unit horizontal wells which allocate production based on lateral length underlying each unit.
 - B. Citation owns tens of thousands of acres in Garvin, Carter and Stephens counties and plans to drill 12 more wells this year; in the 9-section area Citation owns a minimal interest. Citation had no recommendations as to the fair market value in the unit for Hunton rights only. Citation's primary objection is the inclusion of the Hunton in the subject application. Parties should not be "forced" to participate in the proposed Woodford well to preserve rights in the Hunton or any of the other named zones. This is particularly true for the Hoxbar, Deese Sand, Morrow Sand and Springer

Sand as the formations should only be encountered in Section 12 where the vertical portion of the well will be drilled. If the Commission decides to include all of the zones named in the application, Citation believes the order should provide one of the following alternatives: 1) if the Hunton is not encountered in the proposed well, the order will expire as to the Hunton formation; 2) the initial election should be for all zones but the Hunton and, if the Hunton is encountered and Newfield decides to complete in that zone as well as the Woodford, a second election will be afforded all parties (regardless of their election in the uphole zones) as to the Hunton only and, if no dual completion is used, allocation of production should occur based on the length of the lateral in each completed zone; or 3) if the Hunton is penetrated but Newfield elects not to complete in the Hunton, Newfield should have one year from the date of the order to propose a Hunton well and, all parties would be given an election under the subsequent well provisions to participate or take no cash bonus with a 1/4th royalty regardless of the parties initial elections. While Citation is aware that an application could be filed once the well has been completed to request that the uncompleted zones no longer be subject to the pooling, Citation believes the Hunton should not be pooled at this time. Additionally, Citation feels it is inequitable to preclude any participating parties from proposing subsequent wells in the named common sources of supply. Citation requested that any participants in the initial well be allowed to propose subsequent wells.

RECOMMENDATIONS

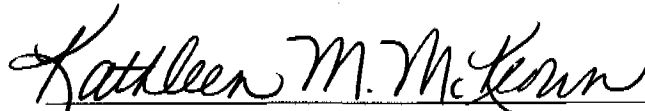
1. Newfield presented uncontroverted testimony as to well costs, fair market value and options to participation for any order issuing from this cause. It supported its request for being the only party allowed to propose subsequent wells as a method of maintaining orderly development in the unit. In a contested case such as this, the ALJ does not find simply the request to maintain "orderly development" a compelling enough reason to preclude other participating parties from proposing subsequent wells. Thus, the ALJ recommends that any participating party in the initial well be allowed to propose subsequent wells provided any Commission hearings necessary for the drilling of such wells should have final orders issued prior to such well proposals being circulated among the participating parties. Newfield, however, will maintain operations of all unit wells to the named zones in the order.
2. Citation has requested that all zones, other than the Woodford, be dismissed from the application; the Citation interest is primarily the Hunton underlying the unit and, in relation to retaining the Hunton interest, several alternatives to dismissal of the Hunton from the application were presented. However, Citation has a minimal interest in this unit and the surrounding 8 sections; it has neither proposed nor operated a Hunton well or any well in any part of the 9-section area. No evidence or testimony was presented by Citation as to fair market value of the Hunton alone or as to any other named zone in the area; additionally nothing was presented to show that the fair market value recommended by Newfield for all rights was in error. While the ALJ understands Citation's concerns regarding the "dilution of (its) asset base", the reference given at the hearing clarifying

the Citation "asset base" as being identifiable resources with value that could be acquired and developed is much too broad for the ALJ to be persuaded that dismissing the Hunton or treating it as a separate pooling would be the best way to prevent waste and protect correlative rights in this case. Rather, Citation as well as other unit owners will be benefited by the proposed well and any other formation data, no matter how limited, that may be discovered by the drilling of the vertical portion as well as the horizontal lateral of the well; at the very least the actual depths and locations of each zone, any unexpected faulting or deviations in the formations should be determined.

3. The evidence presented by Newfield showed that the 9-unit area is a new development as to the Woodford and that there is very limited data as to the Woodford formation particularly when using horizontal drilling. Leases taken by Newfield in the 9-section area were for all rights and no leases were found that had depth or formation restrictions. Newfield plans to drill 5 to 8 horizontal Woodford wells in each section and has operations within 3 miles of Section 1. Given Newfield's experience drilling horizontal Woodford wells, the lack of specific Woodford information in Section 1 particularly and the leasing of all rights in the area that does not isolate any prospect or value any zone differently than another, the ALJ recommends that the pooling include all of the zones named; Citation or any other party is reminded that a vacation of formations may be sought once the well is completed by filing the appropriate application with the Commission.

Thus, in light of the aforementioned conclusions, it is the recommendation of the ALJ that the application in CD 201201238-T be granted. Any order issuing out of this cause should contain the recommendations provided herein.

Respectfully submitted this 22nd day of May 2012,



KATHLEEN M. MCKEOWN
Administrative Law Judge