

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

APPLICANT:	LORI WROTENBERY, DIRECTOR OF OIL AND GAS CONSERVATION DIVISION OKLAHOMA CORPORATION COMMISSION))))))))))
RELIEF SOUGHT:	STATE-WIDE PRORATION FACTORS FOR UNALLOCATED GAS WELLS DURING THE FOURTH QUARTER OF 2007 AND FIRST QUARTER OF 2008))))))))))
		CAUSE C.D. NO. 200704012 ORDER NO. <u>542354</u>

ORDER ESTABLISHING PRORATION FACTORS
FOR THE PERIOD OF OCTOBER 1, 2007,
THROUGH MARCH 31, 2008

On the 27th day of July, 2007, the Oklahoma Corporation Commission heard the 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.

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

FINDINGS

1. That this is the Application of Lori Wrotenbery, Director, Oil and Gas Conservation Division, Oklahoma Corporation Commission ("Commission"), to establish the proration factors for unallocated gas wells during the fourth quarter of 2007 and the first quarter of 2008.
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. 2001 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 semi-annual hearings to adjust the proration factors used in calculating allowable production, when necessary, because of changes in market demand and to prevent waste.
5. Interested parties and industry groups have asked the Commission to maintain the proration factors 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.** The testimony and written comments presented in the record of this cause demonstrate an agreement between the Conservation Division staff and industry representatives to maintain the proration factors at the rate stated previously.
6. Mr. Duncan Woodliff, Proration Manager, Oil and Gas Conservation Division, testified that the overall demand for natural gas remains greater than the overall ability of wells in the state of Oklahoma to produce. There is ample market for all 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.

7. By letter dated July 17, 2007, which letter was filed in this cause on July 23, 2007, Ms. Angela Burckhalter, Vice-President, Regulatory Affairs, Oklahoma Independent Petroleum Association (OIPA), stated that the proration factors for unallocated natural gas wells should remain at the same level established for the current proration period.
8. In summary, the Conservation Division staff received a written comment requesting the maintenance of unallocated gas well allowable proration factors into the next proration period at the level of 65% of CAOF or 2000 mcf/d, whichever is greater. The Commissioners voted to approve the staff's recommendation.
9. The Commission finds that after review of testimony of staff and the comments from interested parties, the market situation at this time supports the maintenance of the proration factor 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 2007 and the first quarter of 2008 should be established at the same level set for the prior period. Justification is found in the record of this cause to maintain the proration factors for unallocated gas wells during the fourth quarter of 2007 and the first quarter of 2008 at the rate established for the prior proration period.
10. The Oil and Gas Conservation Division staff reports 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 factors 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 factors would support the state's efforts to compete effectively for national market share. These facts support the maintenance of the proration factors at the greater of sixty-five percent (65%) of CAOF or 2000 mcf/d. This rate will be in the best interests of the citizens of the state. It 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 proration laws; however, the present market conditions support the Commission's decision to craft a proration 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.
11. Based upon the foregoing considerations, the Commission concludes that the proration factors established for the prior proration period should continue in effect during the fourth quarter of 2007 and the first quarter of 2008. The proration factors 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, 2007, through March 31, 2008, 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.

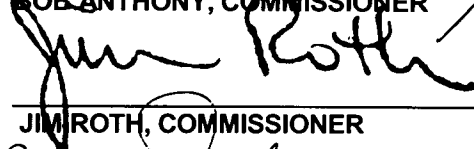
OKLAHOMA CORPORATION COMMISSION



JEFF CLOUD, CHAIRMAN



BOB ANTHONY, COMMISSIONER

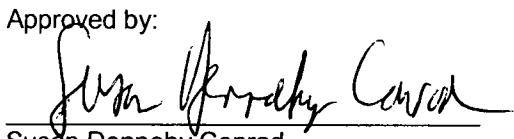


JIM ROTH, COMMISSIONER

DONE AND PERFORMED THIS THE 27 DAY OF July, 2007,
BY ORDER OF THE COMMISSION:



PEGGY MITCHELL, SECRETARY
JOYCE CONNER, Acting Secretary

Approved by:


Susan Dennehy Conrad

Susan Dennehy Conrad
OBA #12249
Assistant General Counsel
Oil and Gas Conservation Division
Oklahoma Corporation Commission
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Attorney for Applicant

Exhibit "A"

Mr. Duncan Woodliff
Proration Manager, Technical Services Dept.
Oil and Gas Conservation Div.
Oklahoma Corporation Commission

Ms. Angela Burckhalter
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