

**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 COMMISSION</b>	)	
		)	<b>CAUSE</b>
<b>RELIEF SOUGHT:</b>	<b>STATE-WIDE PRORATION</b>	)	<b>CD NO.</b>
	<b>FORMULA FOR UNALLOCATED</b>	)	
	<b>GAS WELLS DURING</b>	)	<b>201200252</b>
	<b>THE SECOND AND THIRD QUARTERS</b>	)	
	<b>OF 2012</b>	)	<b>ORDER NO.</b>
		)	
		)	<b><u>594535</u></b>

**ORDER ESTABLISHING PRORATION FORMULA**  
**FOR THE PERIOD OF APRIL 1, 2012,**  
**THROUGH SEPTEMBER 30, 2012**

At 9:30 a.m. on February 13, 2012, the Commission heard this cause in the Commission's Courtroom, Third Floor, Jim Thorpe Office Building, Oklahoma City, Oklahoma. Keith T. Thomas and Susan Dennehy Conrad, Assistant General Counsels, 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, finds as follows:

**FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. On January 13, 2012, Lori Wrotenbery, Director, Oil and Gas Conservation Division, Oklahoma Corporation Commission ("Commission"), filed an application to establish the proration formula for unallocated gas wells during the second and third calendar quarters of 2012.
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. 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. Attorney John R. Reeves, representing BP America Production Company, and R. Mark Stout, Manager, Regulatory, Central Division, Devon Energy Production Company, L.P., appeared at the hearing to request that the Commission maintain the proration formula for unallocated gas wells in the State at the same level in regard to percentage of wellhead calculated absolute open flow ("CAOF") potential and minimum production rate established for the prior proration period: **The greater of sixty-five percent (65%) of wellhead CAOF potential or 2000 mcf/d.** Written comments filed in this cause by a representative of BP America Production Company also requested that the proration formula be maintained at the rate stated previously.
6. Jaime Lyle McAlpine of Chermac Energy Corporation filed written comments in this cause requesting that the Commission modify the current proration formula for unallocated wells in the State so as to reduce the percentage of wellhead CAOF potential from 65% of wellhead CAOF potential to 35% of wellhead CAOF potential. Attorneys Richard K. Goodwin and Josh Greenhaw appeared at the hearing on behalf of Chermac Energy Corporation, and Jaime Lyle McAlpine of Chermac Energy Corporation presented testimony at the hearing in support of the requested modification of the proration formula.
7. 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 natural gas production in the State. 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. 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. As of the end of calendar year 2010, which is the most recent complete calendar year for which production information is available, there were approximately 285 capable gas wells producing in the State of Oklahoma. Capable wells are those wells which can produce more than 2,000 mcf per day.  
[Testimony of Duncan Woodliff, production/proration manager, Oil and Gas Conservation Division of the Commission]
8. At the hearing of February 13, 2012, the Commission decided to approve the staff's recommendation. A review of the entire record in this proceeding reveals that 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 wellhead CAOF potential or 2000 mcf/d, whichever is greater.** The Commission finds that the proration factors for the second and third calendar quarters of 2012 should be established at the same level set for the prior period by Order No. 588870 (September 6, 2011). 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.

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 April 1, 2012, through September 30, 2012, shall be established at **sixty-five percent (65%) of wellhead calculated absolute open flow potential or 2000 mcf/d, whichever is greater, and IT IS SO ORDERED.**

OKLAHOMA CORPORATION COMMISSION

*Dana L. Murphy*  
DANA L. MURPHY, CHAIR

*Bob Anthony*  
BOB ANTHONY, VICE-CHAIRMAN

*Patrice Douglas*  
PATRICE DOUGLAS, COMMISSIONER

DONE AND PERFORMED THIS THE 24 DAY OF Feb, 2012.  
BY ORDER OF THE COMMISSION:

*Peggy Mitchell*  
PEGGY MITCHELL, SECRETARY

Approved by:

*Susan Dennehy Conrad*  
Susan Dennehy Conrad, OBA No. 12249  
Keith T. Thomas, OBA No. 19953  
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Attorneys for Applicant

**Exhibit "A"**

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Oil and Gas Conservation Division  
Oklahoma Corporation Commission

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Manager, Regulatory  
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