

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

APPLICANT:	LORI WROTENBERY,)	
	DIRECTOR OF OIL AND GAS)	
	CONSERVATION DIVISION)	
	OKLAHOMA CORPORATION COMMISSION)	
)	CAUSE
RELIEF SOUGHT:	STATE-WIDE PRORATION)	CD NO.
	FORMULA FOR UNALLOCATED)	
	GAS WELLS DURING)	201204034
	THE FOURTH QUARTER OF 2012 AND)	
	FIRST QUARTER OF 2013)	ORDER NO.
)	
)	<u>601459</u>

**ORDER ESTABLISHING PRORATION FORMULA
FOR THE PERIOD OF OCTOBER 1, 2012,
THROUGH MARCH 31, 2013**

At 9:30 a.m. on August 20, 2012, the Commission heard this cause in the Commission's Courtroom, Third Floor, Jim Thorpe Office Building, Oklahoma City, Oklahoma. Susan Dennehy Conrad, Deputy 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, finds as follows:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. On June 28, 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 fourth calendar quarter of 2012 and the first calendar quarter of 2013.
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 Robert A. Miller, representing Marathon Oil Company, and Brian Woodard, Vice President-Regulatory Affairs, Oklahoma Independent Petroleum Association, 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.**

6. 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 2011, which is the most recent complete calendar year for which production information is available, there were approximately 258 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]

7. At the hearing of August 20, 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 fourth calendar quarter of 2012 and the first calendar quarter of 2013 should be established at the same level set for the prior period by Order No. 594535 (February 24, 2012). 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 October 1, 2012, through March 31, 2013, 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

Patrice Douglas

PATRICE DOUGLAS, CHAIRMAN

Bob Anthony

BOB ANTHONY, VICE-CHAIRMAN

Dana L. Murphy

DANA L. MURPHY, COMMISSIONER

DONE AND PERFORMED THIS THE 29 DAY OF Aug, 2012.
BY ORDER OF THE COMMISSION:

Joyce Conner

~~PEGGY MITCHELL, SECRETARY~~

Approved by: **JOYCE CONNER, Assistant Secretary**

Susan Dennehy Conrad

Susan Dennehy Conrad, OBA No. 12249

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Exhibit "A"

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