

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

FILED
FEB 08 2016

APPLICANT: CONTINENTAL RESOURCES, INC.)
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CORPORATION COMMISSION
OF OKLAHOMA

RELIEF SOUGHT: POOLING)
)

CAUSE CD NO.
201406590

LEGAL DESCRIPTION: SECTION 34, TOWNSHIP 2)
SOUTH, RANGE 4 WEST,)
STEPHENS COUNTY,)
OKLAHOMA)
)

APPLICANT: CONTINENTAL RESOURCES, INC.)
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RELIEF SOUGHT: POOLING)
)

CAUSE CD NO.
201406591

LEGAL DESCRIPTION: SECTION 3, TOWNSHIP 2)
SOUTH, RANGE 4 WEST,)
STEPHENS COUNTY,)
OKLAHOMA)
)

Report of the Administrative Law Judge

A. Case Summary

Continental desires to include some unpenetrated and some penetrated intended prospective zones in its plan of development. Fairfield desires to have these zones dismissed or pooled separately.

B. Recommendations

The Legislative intent and common Commission practice allow unpenetrated zones included in a plan of development. Zones not designated as prospective are dismissed. The poolings are recommended.

C. Hearing Date

October 15, 2015

D. Appearances

David Pepper, Attorney at Law, appeared on behalf of the Applicant, Continental Resources, Inc.

Richard Grimes, Attorney at law, appeared on behalf of the Protestant, Fairfield Minerals Co., LLC.

Eric King, Attorney at Law, appeared on behalf of the Protestant, American Energy Partners NonOp, LLC.

Fred Gist, Attorney at Law, appeared on behalf of Tarpon Jumper.

E. Exhibits

CD 201406590

1. Updated Respondent List

CD 201406591

1. Updated Respondent List

F. Evidence Summary

Mr. Roy Barneche, Landman

1. Continental first presented Mr. Rory Barneche as the land witness and he represented Continental controlled about 470 acres in Section 3 and about 517 acres in Section 34. This is a multi-unit project and the well has been drilled. It was completed from Section 3 to Section 34 in a south to north direction and completed in the Woodford. The allocation was 76.6833% to Section 3 and 23.3167% to Section 34 for allocation of well costs. In the proposal, dated May 5th, 2014, the dryhole cost was estimated at \$7,489,000 and the completed well cost was estimated at \$13,688,100.
2. Mr. Barneche sponsored Exhibit 1 that included several respondent updates. There were a few unknowns in either matter and several sources

were checked including the internet site Accurint. Accurint is a global site that also searches several other relevant internet sites. Mr. Barneche had checked family that was available, county courthouse sites, and Commission records. He testified that Fairfield, owns 2 acres in the heel portion, Section 3, and in Section 34 toe section, they own .8333 acres. There had been a dispute with Tarpon Jumper and AEP Non-Op, but they have both settled. As of July 17, 2015 the actual cost of this project reflected a dryhole cost of \$11,608,965.80, completion costs of \$5,177,707.03, and additional equipment costs of \$362,100.85. These total to a completed well cost of \$17,148,773.68.

3. Mr. Barneche recommended as fair market value \$1,000 and a 1/8th royalty interest and \$850 and 3/16th royalty interest. He also recommended a \$1 per acre payment for overburden interest. He recommended the fairly standard 20 days to elect, 25 days to pay costs, and 35 days to pay bonuses for initial and subsequent wells. The initial well has been completed and he recommended 180 days to drill subsequent wells. Elections are required by a writing and escrow will be kept by Continental, the recommended operator. He recommended the fair market values as the highest and best offered in the area and the same values were used in other poolings, one dated August 11, 2015.
4. On cross examination, he was asked about a separate election for each common source of supply and he responded that depended on the facts. Mr. Barneche represented that in Section 34, the toe portion, the Springer was not penetrated, the Mississippian was not penetrated and the Hunton was not penetrated. Pipe stayed in the Woodford common source of supply. In Section 3, all zones except the Hunton were penetrated and the pipe stayed and was completed in the Woodford. Several zones were dismissed from these pooling applications, leaving only these four. When asked why zones that were not penetrated were left in the pooling application, Mr. Barneche stated they were associated common sources of

supply under the shale development act. He also noted this well was drilled to save expiring leases.

5. When asked about the multi-unit Order 644825 and why the Springer common source of supply was not named, Mr. Barneche did not know. He also did not have revenue information requested by protestant. Mr. Barneche was asked to provide revenue information to the carried interest, the protestant, and that Continental had chosen to drill this well and bore the risk. In sum, Fairfield successfully rode the well down.
6. Mr. Barneche was asked why the Hunton was in the pooling since it was not penetrated in either section for this multi-unit project. His response was that provision was given by the Shale Development Act. When asked why Fairfield should lose rights in the Springer, Mississippian, and Hunton if they do not participate in the Woodford well, he responded the zones were aggregated. He did not have reason why separate elections could not be made by zone and he did not know why other zones not penetrated were left in the pooling applications.
7. On re-direct examination, Continental offered to provide revenue information and will inform Fairfield if the well pays out. He also represented that Continental had a plan of development but he did not know what it was. He noted the fair market values are for all formations. Continental offered to put the accrued revenue and cost information in a final order.

Andy Rihn, Geologist

1. Continental next presented Mr. Andy Rihn as its geologic witness and he stated he was a nine year Continental employee who had mostly worked the Anadarko basin. He has drilled Mississippian and Springer wells. As of the hearing date, Continental had drilled 418 horizontal wells in Oklahoma.

2. Mr. Rihn represents Continental had a plan of development for this entire area. They first drilled a pilot hole and then commissioned 101 square miles of 3D seismic. They reviewed logs and core data on all wells and have endeavored to map the area for the Springer, Mississippian, and Woodford common sources of supply. Continental has drilled 15 horizontal wells in the area. They are attempting to define the general area to identify prospective common sources of supply and the hydrocarbons to be developed therein. In many of these projects they have developed the Woodford first, evaluated, then moved on to the Springer and Mississippian. This well, the Ritter well, is the most northwestern well in the entire play. This entire play has slowed progress due to economics and, as of the date of the hearing, Continental was only using 15 rigs in all of western Oklahoma. Mr. Rihn testified that zones not penetrated are still part of development plans. He thought Continental would possibly develop the Hunton common source of supply, but it was too early in the evaluation process to decide.
3. On cross examination he noted that most of the Springer and Mississippian had been mapped and assessed. The Ritter well had been completed in the fourth quarter of 2014 but a completion report had not been filed at the OCC and he did not know why. He also did not know why the Springer was not in the Ritter location exception matter. He offered no time frame for a plan of development. He admitted that separate elections were not a problem for the development plan. When asked why separate elections were a problem, he noted that finding new information as they drilled, defining boundaries, and Continental's business and project development were all predicated on a common development plan.
4. On re-direct, he stated the Ritter was the initial well in the Woodford common source of supply, and Continental intends to move to other zones

as allowed under the pooling. On Re-cross examination, he admitted separate elections would not impede the development plan.

5. Fairfield presented no witnesses.

G. Findings of Fact

1. The Woodford was drilled and completed in both sections (§34 and §3). Continental did not deviate or frac outside of the Woodford.
2. The Section 34 (toe portion) drilling did not penetrate the Springer, Mississippian, or Hunton prospective common sources of supply. All other prospective zones were dismissed at the hearing.
3. The Section 3 (heel section) drilling penetrated the Springer and Mississippian in the vertical component. The Hunton was not penetrated. All other prospective zones were dismissed at the hearing.
4. Continental presented a well considered area plan of development. They are actively implementing this plan.
5. Notice of this proceeding is governed by OAC 165:5-7-9(a)
6. Proper Notice of this proceeding was given pursuant to law and rules of the Commission.

H. Conclusions of Law

1. This cause is about producing oil and gas with the recent horizontal drilling techniques. The legislature addresses this by stating their purpose as,

Laws 2011, c. 54, § 1, provides:

“The Legislature finds that advances in horizontal drilling techniques for wells drilled and completed in shale formations in Oklahoma have advanced beyond the historical statutory spacing scheme found in Section 87.1 and Sections 287.1 through 287.15 of Title 52 of the Oklahoma Statutes, in particular with the use of extended length laterals. The Corporation Commission, as the agency charged with

protection of the correlative rights of those owning oil and gas interests in this state, the prevention of waste and the promotion of development of these Oklahoma resources, is constrained in its ability to adequately accomplish these goals by the limitations placed upon it by the existing statutory scheme. In order to prevent waste, better protect the correlative rights of the owners of oil and gas mineral interests and harmonize the historical regulatory scheme of our state with the expanding technology of drilling and completing horizontal wells in shale reservoirs in this state, the Legislature finds it necessary to modify the oil and gas regulatory scheme in Oklahoma as set forth in this act.”

The entire tenor of the legislative intent is for the increased production of oil and gas with the advances in multi-unit production by horizontal drilling and completion techniques.

2. To justify the great costs of these multi-unit horizontal projects it is clearly necessary to have a development plan best suited to developing all of the relevant productive reservoirs in a spaced unit in the most economic and efficient way possible. Drilling pilot wells, gathering 3D seismic, well log information, and additional data to evaluate the targeted common source of supply in addition to other prospective formations is the most efficient way to recover the maximum amount of oil and gas.
3. To develop each formation, or a few formations, at a time would involve duplication of costs, effort, and waste of resources, time and technology. It is clearly within the statutory intent to develop prospective zones as a unit. Continental has asked for four zones identified as of interest to its plan of development. In the heel portion, Section 3, the Woodford has been completed, the Springer was penetrated, the Mississippian was penetrated, and the Hunton was not penetrated. In the toe section, Section 34, the Woodford is completed. The Springer, the Mississippian, and the Hunton

common sources of supply were not penetrated. Continental requests all these zones be included in its plan of development as prospective economic production zones. More zones than these were spaced in each 640-acre unit but Continental has determined that those zones are not promising for development by their plans.

4. The Woodford common source of supply, in both sections, was drilled and completed with no intrusion into any other common source of supply. Although this completion does not impact the Springer, Mississippian, or Hunton common sources of supply, Continental's allegation that they fall within their plan of development conforms to Legislative intent and Commission practice. Continental has spent considerable resources developing this plan of development and it is what the legislature considered desirable as shown by its statutory language.
5. Since the only disputed portion of these applications is whether some or all zones should be included, all other terms testified above are recommended. Common Commission practice is to consider a plan of development in its entirety. This makes best use of expensive exploration, drilling, and completion technologies, exactly achieving the Legislature's desired result to prevent waste and protect correlative rights. I recommend all requested zones in both sections be pooled per Continental's request. For the above reasons, I recommend the relief requested by Continental.

Respectfully submitted this 8th day of February, 2015.


Paul E. Porter
Administrative Law Judge

PEP: tt

Cc: Michael Decker
Oil-Law Records
Commission File
Office of General Counsel