

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANT: CITIZEN ENERGY II, LLC)
)
 RELIEF SOUGHT: POOLING) CAUSE CD NO. 201602783-T
)
 LEGAL SECTION 8, TOWNSHIP)
 DESCRIPTION: 10 NORTH, RANGE 5)
)
 WEST, GRADY AND)
)
 CANADIAN COUNTIES,)
)
 OKLAHOMA)

FILED
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CORPORATION COMMISSION
OF OKLAHOMA

REPORT OF THE ADMINISTRATIVE LAW JUDGE

This cause came on before Curtis M. Johnson, Deputy Administrative Law Judge (ALJ), in the Oklahoma Corporation Commission's (Commission) courtroom, Kerr Building, Tulsa, Oklahoma, pursuant to notice given as required by law and the rules of the Oklahoma Corporation Commission for the purposes of taking testimony and reporting to the Commissioners.

HEARING DATE: August 16, 2016

APPEARANCES: WILLIAM H. HUFFMAN, Attorney, appeared for the Applicant, Citizen Energy II, LLC (Citizen@) RICHARD A. GRIMES, Attorney, appeared for Monticello Investments, LLC ("Monticello"); BENJAMIN BROWN, Attorney, appeared for Baha Resources, LLC ("Baha") and MATHEW K. FELTY, Attorney, appeared for Mary J. Turk Revocable Trust (ATurk@).

CASE SUMMARY

The protest in this Pooling Application is the right of the Applicant to dismiss Mary J. Turk Revocable Trust.

RECOMMENDATIONS

After hearing the witnesses, considering the documentary evidence, and hearing arguments of counsel, the Administrative Law Judge finds the application should be granted, and that Citizen Energy II, LLC is allowed to dismissed Mary J. Turk Revocable Trust from the application.

EXHIBITS

Exhibit #1 AFE for 8/5 Multi-Unit Woodford well

SUMMARY OF PROCEEDINGS

1. Citizen filed a force pooling for the Woodford common source of supply.

2. Three respondents were named in the pleadings and Mary J. Turk Revocable Trust was a named respondent.

3. There is no dispute as to the terms of the pooling order with the exception of the dismissal of Mary J. Turk Revocable Trust as a respondent.

4. Per Citizen's current AFE (Exhibit 1), the estimated dry hole costs are fixed at \$2,395,000, and estimated completed well costs fixed at \$5,533,000.

5. Fair market value options are set at: (A) \$1,300 per net mineral acre and 3/16 royalty; (B) \$1,000 per net mineral acre and 1/5 royalty; (C) For overburdened interest, \$5 compensation and relinquishing the interest at the net revenue at the time of the filing of the pooling application herein.

6. The election period shall be as follows: 20 days from the date of the order for parties to make their written election to Citizen, 25 days from the date of the order to prepay a party's share of the completed well costs or make financial arrangements satisfactory to the operator for the payment of those costs, 35 days from the date of the order or receipt of a W-9, whichever is later, for Citizen to pay bonuses and operations have been commenced on this well. The order shall contain a standard subsequent well provision, allowing Operator to propose subsequent wells. Such proposals shall be sent out in writing, either certified mail or facsimile, setting forth the approximate location of the well, approximate depth of the well, and shall include an AFE for the well costs. Participating parties will have 20 days from receipt of such proposal to elect in or out of the proposed subsequent well, 25 days from receipt of such proposal to pay well costs, and operator will have 180 days in which to commence operations. If a party does not wish to participate or does not timely elect, or fails to timely pay costs, such party shall be deemed to have elected for its interest the highest cash bonus and lowest royalty for which such party qualifies, exclusive of existing wellbores, however, a party may elect any of the above described fair market value options on subsequent wells. If a subsequent well is not timely commenced, the proposal will lapse, all parties will be in the same position as they would have been had no subsequent well been proposed, and if the proposing party still wants to drill the subsequent well, they must repropose the same.

DISMISSAL DISPUTE

Most of the testimony and evidence herein concerned an Applicant's request to dismiss Mary J. Turk Revocable Trust.

1. The initial controversy dealt with the initial appearance of Richard Grimes for Mary J. Turk Revocable Trust. Matt Felty appeared for the Trust and indicated Mr. Grimes was not representing the Trust and did not have authority to represent the Trust. Mr. Felty stated the trust had no objection to being dismissed. At that point, Mr. Grimes indicated he was then representing Monticello and objected to the dismissal. Both Monticello and Baha claimed to have leased the trust interest. That claim was denied by Mr. Felty.

2. Mr. Grimes, Mr. Felty and Mr. Brown all agreed the mineral interest claimed by the Trust is the subject of District Court litigation. Apparently, the mineral interest was conveyed to a third party as the result of a mistake in a deed. Several persons claim ownership of the minerals and until the District Court litigation is concluded, the rightful owner cannot be determined.

3. Mr. Huffman announced the dismissal of Mary J. Turk Revocable Trust. Mr. Huffman cited *Marathon v. OCC*, 1982 OK 19, 651 P.2d 1051 as authority to support the dismissal.

4. Mr. Grimes acknowledged that case law indicates an operator does not have to pool all owners. He objects to the dismissal because Monticello desires to participate in the proposed well and Mr. Brown objects because Baha wishes to participate in the proposed well, would rather have the protections afforded under a pooling order than to be carried in the well. Mr. Grimes indicated that if the Trust is dismissed, he will simply file a reverse pooling.

5. Mr. Huffman responded that the law is clear that the operator does not have to pool all owners and they can be carried as indicated in *Earp v. Mid-Continent Petroleum Corp.*, 1933 OK 412, 167 Okla. 86, 27 P.2d 855. In this case there is agreement that Monticello and Baha may not own an interest and neither may the Trust. Citizen has reached an agreement with the Trust in the event the Trust prevails in the litigation and is determined to be the owner of the mineral interest. There are two other respondents that do not have title issues and Citizen desires to get that interest pooled and let those owners make a decision on the disposition of their interest.

6. At this point, Citizen was allowed to dismiss Mary J. Turk Revocable Trust and Mr. Grimes, Brown and Felty excused themselves.

7. **CURTIS JOHNSON**, Landman for Citizen, who has previously been qualified to testify as an expert on land matters before the Commission. Mr. Johnson testified Citizen owns the right to drill in the unit and proposed this well, along with an AFE to owners that had not reached an agreement with Citizen prior to the filing of the application. This proposal letter was the culmination of efforts to reach an agreement with these owners.

Exhibit 1 is an AFE setting forth the well costs for a dry hole of \$2,395,000.00 and completed costs of \$5,533,000.00.

The witness opined the value of the right to drill is \$1,300 per net mineral acre and a 3/16 total royalty, requiring an electing party to deliver a 13/16 net revenue interest or \$1,000 per net mineral acre and a 1/5 total royalty, requiring an electing party to deliver a 4/5 net revenue interest. For a party that cannot deliver a 4/5 net revenue interest, that party would have the option, in lieu of participation, to relinquish their interest for a nominal \$5 and deliver the existing net revenue at the time of the filing of the Application.

All owners would have the option to participate by paying their proportionate share of the completed for production costs or making financial arrangements for the payment of those costs satisfactory with the Operator.

The order to issue will be a unit pooling and an Operator will be authorized to propose subsequent operations. The order will contain the standard subsequent proposal requirements and timing. The owners will be afforded the same election in lieu of participation as in the initial well.

The timing of elections, payment of well costs and payment of bonus will be the standard 20 days to elect, 25 days to pay well costs and 35 days to pay bonuses. If a party fails to make a timely election or timely pay the well costs or make financial arrangements to pay the same, the party will be deemed to have elected the highest cash bonus option their interest qualifies for under the order. A party electing to participate will have the option to participate in the force pooled interest.

Mr. Johnson testified Citizen has proposed a multi-unit well covering Sections 5 & 8, that will initially allocate the costs and production of 1/3 to Section 8 and 2/3 to Section 5.

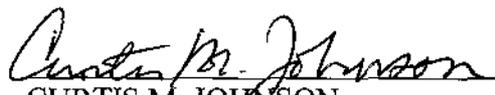
CONCLUSIONS OF LAW

The ALJ finds the application of Citizen Energy II, LLC should be recommended, Citizen Energy II, LLC should be named as operator, and an order issued upon the terms set forth above.

The dismissal of Mary J. Turk Revocable Trust is permitted under *Marathon v. OCC*, 1982 OK 19, 651 P.2d 1051 and *White v. Amoco*, 1985 OK 470, 704 P.2d 470. There is no requirement that an operator has to pool all owners. In this case, there is a question as to whether the Trust, Monticello or Baha own an interest that can be pooled. In addition, Citizen has an agreement with the Trust in the event it prevails in the litigation.

Monticello and Baha are co-tenants, assuming they prevail in the litigation, that are being carried in the proposed well as set forth in *Earp v. Mid-Continent Petroleum Corp.*, 1933 OK 412, 167 Okla. 86, 27 P.2d 855.

Respectfully submitted this 2nd day of December, 2016


CURTIS M. JOHNSON,
Deputy Administrative Law Judge