THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

Before Commissioners:

Brian J. Moline, Chair Robert E. Krehbiel Michael C. Moffet

In the Matter of the Application of OXY USA Inc., Anadarko Petroleum Corporation, ExxonMobil Oil Corporation, BP America Production Company, and Kansas Natural Gas Operating, Inc. for an Order Amending the Basic Proration Order for the Hugoton Field in Kearny, Finney, Grant, Haskell, Morton, Stevens, Seward, Stanton, Gray, Hamilton, and Wichita Counties, Kansas.)))))))	Docket No. 07-CONS-144-CBPO (C-164) Conservation Division
In the Matter of the Application of OXY USA Inc., Anadarko Petroleum Corporation, ExxonMobil Oil Corporation, BP America Production Company, and Kansas Natural Gas Operating, Inc. for an Order Amending the Basic Proration Order for the Panoma Council Grove Field in Grant, Hamilton, Kearny, Morton, Stanton, and Stevens Counties, Kansas.)))))))	Docket No. 07-CONS-145-CBPO 60,024-C (C-7058) Conservation Division

ORDER GRANTING JOINT APPLICATION TO AMEND THE BASIC PRORATION ORDERS FOR THE HUGOTON FIELD AND THE PANOMA COUNCIL GROVE FIELD

This matter comes before the State Corporation Commission of the State of Kansas (the "Commission") on the Joint Application of OXY USA Inc. ("OXY"), Anadarko Petroleum Corporation ("Anadarko"), ExxonMobil Oil Corporation ("ExxonMobil"), BP America Production Company ("BP"), and Kansas Natural Gas Operating, Inc. ("Kansas Natural Gas") (collectively "Joint Applicants") to consolidate and amend portions of the Basic Proration Order for the Hugoton Gas Field (the "Hugoton BPO") and the Basic Proration Order for the Panoma

Council Grove Field (the "Panoma BPO"). The Commission, after giving due consideration to the record in this matter, makes the following findings and conclusions:

- 1. The Joint Application was filed on February 1, 2007, and seeks the following amendments to the Hugoton BPO and Panoma BPO:
 - a. Integration of the provisions of the Hugoton BPO and the Panoma BPO into a single basic proration order (the "Integrated BPO") regulating the wells in and production from both the Hugoton Gas Field (the "Hugoton Field") and the Panoma Council Grove Gas Field (the "Panoma Field").
 - b. Allowing all wells in both the Hugoton Field and the Panoma Field to produce at their capability unless the well is subject to a curtailed allowable either by the provisions of the Integrated BPO as a result of a non-conforming well location or by an Order issued by the Commission.
 - c. Allowing, at the option of the operator, the drilling of up to three (3) wells on each basic proration unit of 480 acres or more, each of which may penetrate and produce from both the Hugoton Field and the Panoma Field. If an operator is unable to commingle production from both fields due to differing ownership interests, then the operator may drill up to three (3) wells on that proration unit completed in and producing from the Hugoton Field and up to three (3) wells completed in and producing from the Panoma Field.
 - d. Eliminating the 1,000 foot minimum spacing between wells producing from the same common source of supply, but maintaining the 1,250 foot setback requirement from unit boundaries for all wells, subject to the operator's discretion to either seek an order

from the Commission approving an exception location or accepting a reduced allowable for a non-conforming well location.

- e. Reducing the frequency and duration of well testing for all wells in both the Hugoton Field and the Panoma Field.
- f. Eliminating market demand hearings unless called by the Commission based upon a determination that total production from both the Hugoton Field and the Panoma Field exceeds market demand.
- g. Cancellation of all currently accrued overage and underage on all wells in both the Hugoton Field and Panoma Field.
- h. Allowing operators the option to file an application seeking approval from the Commission to drill an additional increased density well on any proration unit upon an appropriate showing.
- i. Allowing operators to form voluntary alternate tract units for the drilling of an alternate tract unit well.
- 2. Notice of the filing of the Joint Application was served and published as required by law and the applicable rules, regulations, and orders of the Commission. The hearing was scheduled for April 19, 2007.
- 3. Petitions to intervene in these proceedings were filed by Pioneer Natural Resources USA, Inc. ("Pioneer"), Osborn Heirs Company ("Osborn Heirs"), Southwest Kansas Royalty Owners Association ("SWKROA"), and XTO Energy, Inc. ("XTO").
- 4. A Prehearing Conference was held on February 22, 2007, and was presided over by Susan Cunningham, the Commission's General Counsel. At that time, the Petitions to Intervene were sustained without objection.

- 5. The hearing was held as noticed on April 19, 2007, at the offices of the Commission in Topeka, Kansas. The following parties appeared through their counsel at the hearing: Mr. Jeff Kennedy of Martin, Pringle, Oliver, Wallace & Bauer, L.L.P. on behalf of OXY; Mr. David Nickel of Depew, Gillen, Rathbun & McInteer, L.C. on behalf of Anadarko; Mr. David Bengtson of Stinson Morrison Hecker LLP on behalf of ExxonMobil; Mr. Steve Gough of Withers, Gough, Pike, Pfaff & Peterson, L.L.C. on behalf of BP; Mr. Joe Jeter of the Jeter Law Firm, L.L.P. on behalf of Kansas Natural Gas; Mr. Jim Flaherty of Anderson & Byrd, L.L.P. on behalf of Pioneer; Mr. Tim McKee of Triplett, Woolf & Garretson, L.L.C. on behalf of Osborn Heirs; and Mr. Mike Lennen of Morris, Laing, Evans, Brock & Kennedy, Chtd. on behalf of XTO. Mr. John McCannon, Assistant General Counsel, appeared for the Commission Staff and the public generally. Also appearing at the hearing was Mr. Neal Gillespie, Economic Development Director for Stevens County, Kansas. There were no other appearances.
- 6. There being no objection to notice, the Commission found that notice was proper in all respects and that the Commission had jurisdiction of the subject matter and the parties.
- 7. Written comments on the Joint Application were filed with the Commission by Mr. Neal Gillespie, Economic Development Director for Stevens County, Kansas, and Mr. Gillespie was permitted to make a statement to the Commission at the hearing. Both those written comments and the statements made by Mr. Gillespie were received and duly considered by the Commission.
- 8. Mr. Brent Sonnier, Regulatory Advisor for OXY's Hugoton Asset Team and an expert in the field of geology and oil and gas conservation regulation, testified in support of the Joint Application. First, Mr. Sonnier provided the Commission with a historical background as to the reasons why the Joint Applicants have sought to amend the Hugoton BPO and Panoma

BPO at this time. Second, Mr. Sonnier summarized each of the proposed revisions and proposals that are presented by the Joint Application, and explained how the proposed Integrated BPO is designed to operate and continue to effectively regulate the production from the Hugoton Field and Panoma Field consistent with the Commission's statutory duties to prevent waste and protect correlative rights. Third, based on Mr. Sonnier's analysis of the current status of the Hugoton Field and Panoma Field and his study of alternatives for continued regulation of production from those fields, he testified that the granting of the Joint Application will continue to promote the orderly development of those fields through effective regulation while preventing waste and protecting correlative rights. Mr. Sonnier's prefiled testimony, including OXY Exhibits 1 through 9, was admitted without objection and is incorporated herein by this reference.

- 9. Mr. Greg Womack, an independent petroleum engineer, testified on behalf of BP. First, Mr. Womack testified that all of the proposed changes that are contained in the Integrated BPO will help to maximize recovery of the remaining reserves in both the Hugoton Field and Panoma Field in the most economic fashion. Second, Mr. Womack testified that the proposed amendments to the Hugoton BPO and Panoma BPO will prevent waste by allowing for the recovery of greater reserves than would otherwise be recovered under the current BPOs. Third, Mr. Womack testified that the current overage and underage for wells in both fields should not be carried forward under the Integrated BPO, and that the cancellation of such underage and overage will neither cause waste nor result in a violation of correlative rights. Mr. Womack's prefiled testimony, including Exhibits 1 through 5, was admitted without objection and is incorporated herein by this reference.
- 10. Mr. Scott Crump, Staff Petroleum Engineer for Anadarko, testified in support of the Integrated BPO, generally, and specifically in support of the proposed changes to the well

testing provisions contained in the Integrated BPO. First, Mr. Crump explained the current well testing requirements in both fields under the existing BPOs. Second, Mr. Crump explained how those current well testing requirements are no longer necessary to protect correlative rights and how economic waste would occur if those current testing requirements are maintained. Third, Mr. Crump testified that the new well testing rules set forth in the Integrated BPO will work to eliminate economic waste and are adequate to protect correlative rights. Mr. Crump's prefiled testimony, including Anadarko Exhibit 1, was admitted without objection and is incorporated herein by this reference.

- 11. Mr. Alan Hoffman, President of Kansas Natural Gas, testified in support of the Integrated BPO, generally, and specifically in support of the proposal to allow commingling of production from both the Hugoton Field and the Panoma Field. Mr. Hoffman testified that allowing commingling of production from both the Hugoton Field and the Panoma Field will extend the economic life of each of those fields and will reduce the number of wells that are necessary to produce the remaining reserves in both fields. Mr. Hoffman's prefiled testimony was admitted without objection and is incorporated herein by this reference.
- 12. Mr. William Duncan, Senior Staff Engineer for ExxonMobil Production Company, testified in support of the proposed Integrated BPO, generally, and specifically in support of the alternate tract unit concept contained therein. First, Mr. Duncan explained how the alternate tract unit provisions in the Integrated BPO will work, including how such units may be formed, how production from those units will be shared, and where an alternate tract unit well may be located on those units. Second, Mr. Duncan testified that the formation of alternative tract units and the ability to drill an alternate tract unit well, when appropriate, is beneficial to the full development of both fields and that it will provide operators with an opportunity to more fully

develop the existing proration units and will prevent waste. Third, Mr. Duncan testified that the ability to form a voluntary alternate tract unit and the opportunity to drill an alternate tract unit well should not cause a violation of correlative rights. Mr. Duncan's prefiled testimony, including Exhibits 1 and 2, was admitted without objection and is incorporated herein by this reference.

Mr. Jim Hemmen testified on behalf of the Commission Staff and adopted the 13. prefiled testimony of M. L. Korphage as his own without objection. First, Mr. Hemmen testified that representatives of the Commission Staff had met both with operators in those fields and other stakeholders to discuss the changes proposed in the Joint Application, and that the Commission Staff generally supports the Joint Application. Commission Staff finds that the amendments are generally aimed at maximizing the existing infrastructure in both fields while reducing certain regulatory restrictions associated with the current proration system. Commission Staff also concluded that some of the proposed changes in the Joint Application have the potential to enhance the ultimate recovery of gas from those fields. Second, Mr. Hemmen testified that the Commission Staff supports, without qualification, combining the Hugoton BPO and the Panoma BPO into a single integrated proration order, adopting an "open flow" proration model that allows wells in both fields to produce at their capability, allowing commingling of production from the Hugoton Field and the Panoma Field, maintaining current well setback requirements and eliminating internal unit spacing requirements, eliminating regular market demand hearings, and allowing operators to file applications for approval to drill increased density wells. Third, Mr. Hemmen testified that the Commission Staff had some level of concern regarding the proposed changes to the well testing requirements, cancellation of underage and overage, and alternate tract units. With regard to well testing, Commission Staff is

concerned that the proposed amendments eliminate the gathering of too much potentially useful data that is currently being captured from those fields. With regard to the cancellation of all accrued underage and overage, Commission Staff is concerned about the potential for violations of correlative rights in some instances. With regard to alternate tract units, Commission Staff is concerned about its ability to monitor the development of such units. Mr. Korphage's prefiled testimony, including Staff Exhibits 1, as adopted by Mr. Hemmen was admitted without objection and is incorporated herein by this reference.

14. Mr. Sonnier also testified at the hearing that representatives of the Joint Applicants, Intervenors, and Commission Staff met on April 9, 2007, to discuss the prefiled testimony and determine whether a compromise could be reached with respect to any disputed issues that were raised in that testimony. As a result of that meeting, Mr. Sonnier testified that the Joint Applicants and the Commission Staff agreed to modify the Joint Applicants' proposed Integrated BPO in three respects.

First, prior to drilling an alternate tract unit well, the operator shall file an affidavit with the Conservation Division that provides certain details regarding the alternate tract unit and alternate tract unit well. Unless Staff objects on specific grounds within thirty (30) days, the operator shall be allowed to drill the alternate tract unit well. If an objection is timely made by Staff, the matter will be set for hearing before the Commission.

Second, all overage in both the Hugoton Field and the Panoma Field that accrued prior to July 1, 2007, shall be permanently cancelled as of that date unless on or before December 31, 2007, any interested party files with the Commission an application for a hearing to contest that cancellation. Any such objections must be filed on a well-by-well basis and will be set for hearing before the Commission. As a result of that hearing, the Commission may impose such

restrictions on future production for the well or wells in issue as necessary to protect correlative rights and prevent waste.

Third, well testing shall continue to be conducted based upon the biannual schedule that is currently in effect in both the Hugoton Field and the Panoma Field. However, each operator shall only be required to conduct a 48-hour shut-in pressure test on one well in each proration unit that is due for testing in that year.

Mr. Sonnier introduced Amended OXY Exhibit 9 that contained the proposed Integrated BPO and which reflects the three modifications that were agreed upon by the Joint Applicants and the Commission Staff as a result of that meeting. Amended OXY Exhibit 9 was admitted without objection.

- 15. Mr. Hemmen further testified that the Commission Staff is in agreement with the modifications to the Joint Application described by Mr. Sonnier and that with those modifications the Commission Staff fully supports the amendments and changes to the Hugoton BPO and Panoma BPO as set forth in Amended OXY Exhibit 9.
- 16. At the conclusion of the evidence, counsel for Pioneer, counsel for Osborn Heirs, and counsel for XTO each stated that their respective clients support the changes to the Hugoton BPO and Panoma BPO as set forth in Amended OXY Exhibit 9.
- 17. The Commission finds that the Hugoton BPO and Panoma BPO should be combined and amended as set forth in Amended OXY Exhibit 9. Based on the overwhelming weight of the testimony received by the Commission in these dockets, those amendments will further the Commission's statutory duty to prevent waste and do not violate correlative rights. Moreover, the evidence demonstrated that the proposed amendments are not likely to reduce the

anticipated economic life of those fields, but, in fact, are designed to and are likely to extend the economic life of both fields.

18. The Integrated BPO attached to this Order should be adopted as the Order of this

Commission governing the drilling and production of gas from the Hugoton Field and Panoma

Field from and after July 1, 2007.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT: The

amendments to the Hugoton BPO and Panoma BPO that are contained in the Integrated BPO

attached to this Order shall be and hereby are adopted and shall govern operations in the

Hugoton Field and Panoma Field from and after July 1, 2007.

Any party affected by this Order may file with the Commission a petition for reconsideration pursuant to K.S.A. 77-529(a). Such petition shall be filed within fifteen (15)

days after service of this Order and must state the specific grounds upon which relief is

requested. That petition for reconsideration shall be filed with the Executive Director of the

Conservation Division, Finney State Office Building, 130 South Market, Room 2078, Wichita,

Kansas 67202.

The Commission shall retain continuing jurisdiction over the subject matter herein and of

the parties hereto for the purpose of issuing from time to time such other and further orders,

amendments, rules, and regulations as may be necessary and proper under the circumstances.

BY THE COMMISSION, IT IS SO ORDERED.

3/15/07

Moline, Chr.; Krehbiel, Com.; Moffet, Com.

Date:

MAY 1 1 2007

Susan K. Duffy

Executive Director

Julen Thuffy

COPY IS ON FILE WITH
The State Compration Commission

MAY 1 1 2007

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CERTIFICATE OF SERVICE

I hereby certify that on	5/15/07	, I caused a true and correct copy of
the foregoing "Order Granting	Joint Application to Ame	nd the Basic Proration Orders for the
Hugoton Field and the Panoma	a Council Grove Field" to	be served by placing the same in the
United States mail, postage prep	paid, to the attached service	e list.

John McCannon

Assistant General Counsel

Kansas Corporation Commission

SERVICE LIST

Stanford J. Smith
Martin Pringle Oliver Wallace & Bauer, LLP
100 N. Broadway, Suite 500
Wichita, Kansas 67202
Attorneys for OXY USA Inc.

David W. Nickel
Depew Gillen Rathbun & McInteer, LC
8301 E. 21st St North, Suite 450
Wichita, Kansas 67206-2936
Attorneys for Anadarko Petroleum Corporation

David E. Bengtson Stinson Morrison Hecker, LLP 1625 N. Waterfront Parkway, Suite 300 Wichita, Kansas 67206 Attorneys for ExxonMobil Oil Corporation

Joseph W. Jeter Jeter Law Firm, LLP PO Box 128 Hays, Kansas 67601-0128 Attorneys for Kansas Natural Gas Operating, Inc.

James Flaherty
Anderson & Byrd
PO Box 17
Ottawa, Kansas 66067
Attorneys for Pioneer Natural Resources
USA, Inc.

Charles M. Sizemore, P.E.

Manager, Operations Engineering –
MidContinent

Pioneer Natural Resources USA, Inc.
5205 N. O'Connor Blvd., Suite 200

Irving, Texas 75039-3746

Brent G. Sonnier OXY USA Inc. PO Box 27757 Houston, Texas 77227-7757

Thomas W. Kendall, Senior Counsel Anadarko Petroleum Corporation PO Box 1330 Houston, Texas 77251-1330

Steven D. Gough Withers Gough Pike Pfaff & Peterson LLC 200 W. Douglas, Suite 1010 Wichita, Kansas 67202 Attorneys for BP America Production Co.

Timothy McKee
Triplett Woolf & Garretson
2959 N Rock Road, Ste 300
Wichita, Kansas 67226
Attorneys for Osborn Heirs Company

William H. Knight Regional Operations Manager Pioneer Natural Resources USA, Inc. 5205 N. O'Connor Blvd., Suite 200 Irving, Texas 75039-3746

Greg Stucky
Fleeson Gooing Coulson & Kitch
125 N. Market, Ste 1600
Wichita, Kansas 67202
Attorneys for Southwest Kansas Royalty
Owners Association

Erick E. Nordling Kramer Nordling & Nordling LLC PO Box 250 Hugoton, Kansas 67951 Attorneys for Southwest Kansas Royalty Owners Association Tom Fuhrmann 108 S. Glenn Ulysses, Kansas 67880

Michael Lennen Ralph R. Brock Morris Laing Evans Brock & Kennedy, Chtd. 300 N Mead, Ste 200 Wichita, Kansas 67202-2722 Attorneys for XTO Energy Inc. Erich Palko XTO Energy, Inc. 810 Houston Street Fort Worth, Texas 76102

Susan B. Cunningham, General Counsel Kansas Corporation Commission 1500 SW Arrowhead Road Topeka, Kansas 66604-4027