

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Mark Sievers, Chairman
Ward Loyd
Thomas E. Wright

In the Matter of Establishing Special) Docket No. 12-CONS-117-CEXC
Field Rules Governing Operators of)
Horizontal Wells Drilled in the) CONSERVATION DIVISION
Mississippi Formation in the State of)
Kansas.)

ORDER GRANTING APPLICATION

This matter comes before the State Corporation Commission of the State of Kansas ("Commission") on the application of its Staff to establish rules governing operators of horizontal wells drilled in the Mississippi Formation in Kansas. The Commission, giving due consideration to the record herein, the Kansas Statutes, and its regulations, makes the following findings of fact and conclusions of law:

1. The application was filed on October 14, 2011.
2. The application was heard as noticed on November 17, 2011. Stanford J. Smith, Jr., appeared for Chesapeake Exploration and Production, LLC ("Chesapeake"); David E. Bengtson appeared for SandRidge Exploration and Production, LLC ("SandRidge"); Timothy E. McKee appeared for Reeder Operating, LLC ("Reeder"); and John McCannon, Litigation Counsel, appeared for Commission Staff and the public generally.
3. Staff reported on notice. Hearing no objection to notice, the Commission found that notice was proper and that it had jurisdiction of the parties and the subject matter of this docket.
4. Hearing no objection to the motions of Chesapeake and SandRidge to intervene in this docket, the Commission granted those motions.

I. TESTIMONY

5. Staff presented the testimony of Douglas C. Louis, Conservation Division Director and licensed geologist. Mr. Louis' testimony supported the application and the establishment of field rules to govern operators drilling horizontal wells in the Mississippi Formation in Kansas. Mr. Louis explained the process leading up to the filing of the application by Staff and explained why the special field rules are necessary. He then went through each of the proposed rules and explained why each rule is appropriate to govern operators of horizontal wells in the Mississippi Formation. Mr. Louis testified that adoption of the special field rules will allow the well permitting process to be accelerated, but will still allow Staff to collect pertinent well information, and will not adversely affect correlative rights, cause waste, or jeopardize public safety.

6. Chesapeake presented the testimony of David W. Evans, a petroleum engineer and Senior Asset Manager of Chesapeake's Northern Mid Continent District. Mr. Evans supported the application and testified about several specific provisions. He testified that no longer requiring the filing of an application and notice for each Mississippi horizontal well would speed up the approval process. Horizontal wells should be treated the same as vertical wells, and as long as the well meets statewide setback requirements, the well should be evaluated through the intent to drill process instead of an application. In addition, he testified that both the proposed oil allowable and gas allowable for Mississippi horizontal wells are appropriate. The oil allowable equates to the same allowable for a series of vertical wells spaced 660 feet apart, and the gas allowable would allow production at a rate that would maximize associated oil recovery. The proposed requirement to provide an "as drilled" plat with the well completion report is

appropriate because it will allow Staff and other operators to verify that the well, as drilled, meets all setback requirements.

7. SandRidge presented the testimony of Dustin Elmore, an operations engineer for SandRidge. Mr. Elmore testified that SandRidge supports all of the proposed rules in Staff's application, and he testified in detail about several specific provisions. First, Mr. Elmore testified that it is not possible to test most horizontal Mississippi wells using the current required gas well testing procedure. Those wells generally have a high volume of water and require artificial lift to produce. As a result, those wells will not flow into a pipeline as required by the current gas well testing regulations. In addition, the well test is not needed on horizontal Mississippi wells because it will not be used to assign a gas production allowable to those wells. Second, Mr. Elmore testified that in most, if not all, cases, Mississippi horizontal wells will need to be flared for periods longer than currently allowed for the gas to "clean up" to meet pipeline specifications. The longer flaring period allowed by the proposed rule eliminates the need under the current rules for operators to file an application for an exception for almost every Mississippi horizontal well. Third, Mr. Elmore testified that most, if not all Mississippi horizontal wells are expected to require the movement of more than 2,500 barrels of fluid per day, and that allowing the use of high volume pumps in those wells will prevent the operators from having to file an application to use a high volume pump in connection with nearly every horizontal Mississippi well in the State.

8. At the close of the testimony, Mr. McKee stated that Reeder fully supported the application.

II. FINDINGS AND CONCLUSIONS

9. The Commission finds that it has jurisdiction to issue special field rules covering a particular formation in the State. However, the Commission finds that since the Order adopts special field rules it should be and is directed to the specific group of operators that are affected by the Order in accordance with K.S.A. 77-415(d)(2)(B) and, as a result, the docket caption should be amended accordingly.

10. The Commission finds that granting the Staff's application and establishing special field rules for operators of Mississippi horizontal wells will allow for these wells to be permitted and operated expeditiously, without the need for multiple applications for exceptions to regulations that were adopted for the purpose of regulating vertical wells.

11. The Commission finds that granting Staff's application will not conflict with and is consistent with the Commission's statutory duties to prevent waste, protect correlative rights, and protect water resources.

12. The Commission finds that Staff's application in this docket should be granted.

13. The following should be adopted as the special rules governing operators of horizontal Mississippi wells in Kansas:

Notice of Intent to Drill

14. Provided that a horizontal well drilled in the Mississippi Formation meets all statewide or special field rule setback requirements, the Notice of Intent to Drill for such wells may be approved by Staff without the operator filing an application pursuant to K.A.R. 82-3-103a.

15. The Notice of Intent to Drill for a horizontal well in the Mississippi Formation shall be submitted on a form prescribed by the Commission, and each operator filing the form shall comply with all accompanying instructions.

16. Operators are not prohibited from filing an application for a well location exception, when necessary, pursuant to K.A.R. 82-3-108.

Oil & Gas Allowables

17. Mississippi Formation horizontal wells classified as oil wells, pursuant to K.A.R. 82-3-101(a)(81)(I), shall be assigned a production allowable of 200 barrels of oil per day for each 660 feet of that well's horizontal completion interval. The remaining length of the completion interval, if any, that is less than 660 feet will result in a corresponding proportionate addition to the calculated allowable.

18. Mississippi Formation horizontal wells classified as gas wells, pursuant to K.A.R. 82-3-101(a)(81)(E), shall be assigned a production allowable of three (3) million cubic feet per day. Such gas allowable shall be subject to the provisions of K.A.R. 82-3-133a.

19. Operators are not prohibited from filing an application for a special allowable for Mississippi formation horizontal wells classified as gas wells or oil wells, when appropriate, pursuant to K.A.R. 82-3-203 or K.A.R. 82-3-312.

Testing Gas Wells

20. Mississippi Formation horizontal gas wells shall be exempt from the gas well testing requirements contained in K.A.R. 82-3-303 and K.A.R. 82-3-304.

Gas Flaring

21. Flaring of gas from a horizontal well drilled into the Mississippi Formation is authorized under the following conditions:

- a. An affidavit on a form prescribed by the Commission shall be filed within five (5) days after commencement of flaring.
- b. Prior to flaring, the operator shall ensure that the site is inspected and approved by the appropriate district office.
- c. Gas may be flared for a period not to exceed 30 producing days following the initial horizontal completion or recompletion.
- d. Flaring may be authorized by Staff upon written request of the operator for an additional 30 producing day period.
- e. If flaring is necessary beyond 60 producing days, the operator shall request authorization for any additional flaring pursuant to K.A.R. 82-3-208 or K.A.R. 82-3-314.
- f. All flared gas shall be continuously metered, measured, or monitored, and the chart or record thereof shall be retained by the operator for two years and furnished to Commission staff within five business days of any request from Commission Staff for such records.

High Volume Pumps

22. The use of high volume pumps on horizontal wells drilled in the Mississippi Formation is authorized and is exempt from the application filing requirements of K.A.R. 82-3-131.

Well Completion Report

23. A well completion report, including compliance with all instructions, must be filed within the time frame specified in K.A.R. 82-3-106(e) for each horizontal well drilled in the Mississippi formation on a form prescribed by the Commission.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

- A. The application in this docket be and the same is hereby granted.
- B. The rules set out in Paragraphs 13 through 23 are adopted as the special rules governing operators of horizontal wells in the Mississippi Formation in Kansas.
- C. The docket caption is amended to show that this Order is directed to and governs operators of horizontal wells in the Mississippi Formation.
- D. The Commission designates this Order as precedent under 2011 House Bill No. 2027, (b)(2)(A), amending K.S.A. 2010 Supp. 77-415, that may be relied upon in any subsequent adjudication.
- E. 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. This petition for reconsideration shall be filed with the Executive Director of the Conservation Division, Finney State Office Building, 130 S. Market, Room 2078, Wichita, Kansas 67202-3802.
- F. The Commission retains jurisdiction of the subject matter and the parties for the purpose of entering such further Order or Orders as from time-to-time it may deem proper.

BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chmn.; Loyd, Com.; Wright, Com.

Date: DEC 16 2011



Patrice Petersen-Klein
Executive Director

Date Mailed: 12-16-2011

JM

I CERTIFY THE ORIGINAL
COPY IS ON FILE WITH
The State Corporation Commission

DEC 16 2011



CERTIFICATE OF SERVICE

I hereby certify that on 12-16-2011, I caused a true and correct copy of the foregoing "Order Granting Application" to be served by placing the same in the United States mail, postage prepaid, to the following parties:

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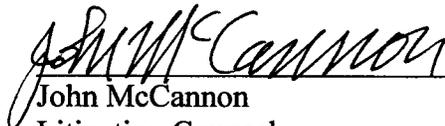
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