

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

Before Commissioners: Mark Sievers, Chairman
Thomas E. Wright
Shari Feist Albrecht

In the Matter of the Application of Linn Operating, Inc.) Docket No. 13-CONS-492-CUNI
for an Order Providing for the Unitization and Unit)
Operation of a Part of the Hugoton and Panoma Council) CONSERVATION DIVISION
Grove Gas Fields in the Alternate Tract Unit Described)
as Section 04-27S-32W (SW/4), Section 05-27S-32W) License No. 33999
(SE/4), Section 08-27S-32W (NE/4), Section 09-27S-)
32W (NW/4) in Haskell County, Kansas. (ATU 40))

ORDER

The Commission grants the application of Linn Operating, Inc. ("the Operator"), creating this Alternate Tract Unit ("ATU") for the following reasons:

I. JURISDICTION

1. Commission records indicate the Operator is currently licensed to conduct oil and gas activities in Kansas under K.S.A. 55-155.
2. The Operator filed an application on June 19, 2013, requesting unitization of an ATU pursuant to the Basic Integrated Proration Order for the Hugoton Gas Field and the Panoma Council Grove Gas Field, Dockets C-164 and 60,024-C (C-7,058) (the "BIPO"), and pursuant to the Kansas unitization statutes found in K.S.A. 55-1301 through K.S.A. 55-1317.
3. The Commission thus has jurisdiction over the Operator and this matter.

II. LEGAL STANDARD

4. Paragraph I.1 of the BIPO provides that it shall be lawful for diverse owners of land or minerals, including the Operator or owner of a well, to create production units incorporating the diverse holdings and apportion the production by agreement.

5. The BIPO, Paragraph I.2, authorizes the creation of ATU's, referencing the unitization proceedings under K.S.A. 55-1301 et seq. ATU's shall consist of approximately 640 acres consisting of either: (a) two half-sections in two governmental sections or production units directly adjacent and contiguous, forming a "stand-up" north-south oriented rectangle or a "lay-down" east-west oriented rectangle; or (b) four quarter-sections in four governmental sections or production units directly adjacent and contiguous, forming an approximate square. The non-contiguous unit-exception provisions of Paragraph G of the BIPO shall not apply to ATU's.

6. The BIPO, Paragraph I.2, further provides that ATU wells shall be located as near to the geographic center of the ATU as practicable, but in no case less than 1,250 feet from any ATU boundary. ATU wells shall not be drilled outside of these designated tolerances, and the location-exception provisions of Paragraph H of the BIPO shall not apply to ATU wells.

7. The BIPO, Paragraph I.2, further provides that not more than one ATU well may be drilled on each ATU, and the increased density provisions of Paragraph F of the BIPO shall not apply to ATU's. Acreage attributed to one ATU cannot be included in another ATU.

8. The BIPO, Paragraph I.3, provides that Chase Group and Council Grove Group production may be commingled in an ATU well.

9. The BIPO, Paragraph I.4, provides that all ATU's, in vertical alignment for the drilling and completion of both the Chase Group and the Council Grove Group, shall be comprised of equal acreage situated on the same geographic position. Such vertically aligned units that differ in either acreage size or geographic position, or both, shall be permitted only by an Order of the Commission obtained after notice and hearing.

10. The BIPO, Paragraph I.5, provides that before drilling an ATU well, the unit Operator shall file with the Conservation Division an affidavit describing the acreage comprising the ATU, and a plat showing the acreage comprising the ATU and each Chase and Council Grove well

within the ATU which is producing or has produced. The Commission Staff shall have 30 days to object that the drilling of an ATU well fails to prevent waste, and upon such objection, shall set the matter for hearing and provide notice in accordance with K.A.R. 82-3-135a. If no objection is filed within 30 days, the ATU and the drilling of the well are automatically approved.

11. K.S.A. 55-1301 through K.S.A. 55-1317 provide processes for unitizing acreage in Kansas. K.S.A. 55-1301 provides that the Commission shall exercise such powers to prevent waste and protect correlative rights.

12. K.S.A. 55-1303 provides detailed requirements for a unit application including a statement of the type of operations, the proposed plans for unitization, the proposed operating plan covering supervision and costs, and an allegation of the facts required to be found by the Commission in K.S.A. 55-1304.

13. K.S.A. 55-1304 provides that the Commission must find all three of the following conditions are present before unitizing acreage:

- a. Under K.S.A. 55-1304(a)(1), the primary production from a pool or a part thereof sought to be unitized has reached a low economic level and, without introduction of artificial energy, abandonment of oil or gas wells is imminent; or under K.S.A. 55-1304(a)(2) the unitized management, operation, and further development of the pool or the part thereof sought to be unitized is economically feasible and reasonably necessary to prevent waste within the reservoir and substantially increase the ultimate recovery of oil or gas;
- b. the value of the estimated additional recovery of oil or gas substantially exceeds the estimated additional cost incident to conducting such operations; and
- c. the proposed operation is fair and equitable to all interest owners.

14. K.S.A. 55-1305 provides that the order creating the unit shall be upon terms and conditions that are just and reasonable, and it lists detailed requirements that must be included in the order. In addition, K.S.A. 55-1305(l) provides that, for unitization pursuant to K.S.A. 55-1304(a)(2), the plan for unit operations must be approved by the persons who will pay at least 63% of the costs of the unit operation and the owners of at least 75% of the royalty interests. If the required percentages are not obtained at the time the order is issued, the required percentages must be obtained within six months after the order is issued.

III. FINDINGS OF FACT

15. The proposed ATU description in the application, including the SW/4 Section 04, SE/4 Section 05, NE/4 Section 08, and NW/4 Section 09, will comprise approximately 640 acres and will form an approximate square, conforming with the ATU size and shape requirements. The proposed location of the well also complies with the BIPO setback requirements.

16. The application states that the ATU and well are needed for the effective management, development, and production in the area covered by the BIPO to substantially increase and maximize ultimate gas recovery.

17. The application states that the value of the estimated additional recovery of the hydrocarbons from these formations substantially exceeds the estimated additional cost incident to conducting such operations. It further states the proposed operations outlined in the unit agreement and unit operating agreement are fair and equitable to all interest owners.

18. The application includes the unit agreement and unit operating agreement.

19. The Operator is applying for unitization under in K.S.A. 55-1304(a)(2); thus the required percentages are 63% of the working interest and 75% of the royalty interest. The application states that 100% of the working interest is owned by the Operator, and Exhibit B-1 to

the Unit Agreement indicates greater than 84% of the royalty interest has consented to the formation of the ATU. This exceeds the statutory requirements for unitization.

20. The Operator has verified that notice was properly served and published at least 15 days before the issuance of this Order. No protests to the grant of the application were filed.

21. The Commission finds that the conditions required by K.S.A. 55-1304 for unitization are present, specifically:

- a. The unitized management, operation, and further development of the pool or the part thereof sought to be unitized is economically feasible and reasonably necessary to prevent waste within the reservoir and substantially increase the ultimate recovery of oil or gas;
- b. the value of the estimated additional recovery of oil or gas substantially exceeds the estimated additional cost incident to conducting such operations; and
- c. the proposed unit operation is fair and equitable to all interest owners.

22. Incorporation of the application and exhibits, including the Unit Agreement and the Unit Operating Agreement, into this Order will satisfy the requirements of K.S.A. 55-1305.

IV. CONCLUSIONS OF LAW

23. The application was filed in accordance with the rules and regulations of the Commission and Kansas statutes.

24. The application should be granted to prevent waste and protect correlative rights.

THEREFORE, THE COMMISSION ORDERS:

- A. The application to form an ATU pursuant to the BIPO and K.S.A. 55-1301 through 55-1317 is granted.
- B. The ATU shall be governed by the terms found in the application and the exhibits, including the Unit Agreement and the Unit Operating Agreement, which are hereby incorporated by reference.
- C. Pursuant to K.S.A. 77-537 and K.S.A. 77-542, any party may request a hearing on the above issues by submitting a written request, setting forth the specific grounds upon which relief is sought, to the Commission's Executive Director, at 130 S. Market, Room 2078, Wichita, Kansas 67202, within 15 days from the date of service of this Order. If service is by mail, three days will be added to the Mailed Date listed at the end of this Order. Hearings will be scheduled only upon written request. Failure to timely request a hearing will result in a waiver of the right to a hearing, and this Order will become a Final Order.
- D. Attorneys for all parties shall enter their appearances in Commission proceedings by giving their names and addresses for the record. A corporation or similar entity shall not be permitted to enter an appearance except by its attorney.
- E. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chmn.; Wright, Com.; Albrecht, Com.

Date: AUG 06 2013



Kim Christiansen
Executive Director

Date Mailed: 8-7-2013

LRP

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

AUG 06 2013



CERTIFICATE OF SERVICE

I hereby certify that on 8-7-2013, I caused a true and correct copy of the foregoing "Order" to be served by placing the same in the United States mail, postage prepaid, to the following parties:

Stanford J. Smith Jr.
Martin, Pringle, Oliver, Wallace, & Bauer, L.L.P.
100 N. Broadway, Ste 500
Wichita, KS 67202
Attorney for Linn Operating, Inc.

and hand delivered to the following:

Richard Lacey, KCC District #1

/s/ Lane R. Palmateer
Lane R. Palmateer
Litigation Counsel
Kansas Corporation Commission