

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

Before Commissioners: Jay Scott Emler, Chairman
 Shari Feist Albrecht
 Pat Apple

In the Matter of the Application of Hugoton)	Docket No.: 16-CONS-4130-CBSO
Energy Corporation for an order deleting certain)	(194,758-C), (C-28,007)
acreage from the Eubank Morrow Oil and Gas)	
Pool, and establishment of a Basic Spacing Order)	CONSERVATION DIVISION
for their Eubank South Mississippian-Chester)	
<u>Sand Oil and Gas Pool, Haskell County, Kansas.</u>)	License No.: N/A

PRE-FILED TESTIMONY

OF

JIM HEMMEN

1 Q. What is your name and business address?

2 A. Jim Hemmen, 266 North Main Suite 220, Wichita, Kansas 67202.

3 Q. By whom are you employed and in what capacity?

4 A. I'm employed by the Conservation Division of the Kansas Corporation Commission as a
5 Research Analyst within the Division's Production Department.

6 Q. How long have you been employed by the KCC?

7 A. Just over 34 years. I went to work for the KCC in July of 1982.

8 Q. Have you previously testified before this Commission?

9 A. Yes. I have testified as an expert witness on numerous occasions, including regarding
10 proposed changes to the Hugoton/Panoma and Greenwood proration rules, the proposed
11 dissolution of older basic proration orders and spacing orders, and as a spokesman for
12 Staff's position regarding proposed changes to the Commission's regulations.

13 Q. What does your position with the Conservation Division involve?

14 A. I provide technical input concerning various applications, including those involving
15 unitizations, horizontal wells, well-location exceptions, alternate tract units, and flaring. I
16 enforce the Commission's gas gathering regulations, review gas well test reports for
17 accuracy, monitor monthly production from Hugoton/Panoma gas wells, and generally
18 present Staff recommendations before the Commission where appropriate.

19 Q. Are you familiar with this docket, 16-CONS-4130-CBSO?

20 A. Yes.

21 Q. How are you familiar with this docket?

22 A. I monitor all special proration and spacing orders that govern productive fields in Kansas.
23 Staff believes the spacing order in this docket is an appropriate candidate for
24 cancellation. It no longer appears useful or necessary.

25 Q. Would you please provide the Commission with some background information regarding
26 special proration and spacing orders?

27 A. Yes. Special proration and/or spacing orders are exceptions to the Commission's general
28 rules and regulations, and provide different rules for production and/or spacing in a given
29 field. There used to be hundreds of these special orders, but now there are only a handful.
30 The others have all been cancelled or have expired on their own terms.

1 Q. What is the difference between the spacing order in this docket and the spacing order in
2 docket 16-CONS-4129-CBSO?

3 A. Very little. They were both orders sought by the same applicant at the same time,
4 covering the same territory. In 16-CONS-4129-CBSO, the order covered the Morrow
5 formation. The order in this docket covers the Mississippian-Chester formation.
6 Production from the two formations was commingled during the initial stages of reservoir
7 development, so it made sense to adopt identical well spacing for both reservoirs.

8 Q. Why was the spacing order in this docket originally necessary?

9 A. When the order was issued in 1996 (Exhibit A), the area was being controlled by a
10 proration order from 1961. The establishment of the 1996 spacing order involved both
11 subsurface geological factors and specific contractual drilling obligations that Hugoton
12 Energy had at the time. The 1961 order mandated 80-acre units with minimum 1,020-foot
13 separation between Mississippian-Chester formation wells, which Hugoton Energy said
14 was not optimum for development. Exceptions could only be granted after notice and
15 hearing. Hugoton Energy's witness explained that it was under contractual drilling
16 obligations pursuant to a farm-out agreement, which, if not met, would result in severe
17 monetary penalties and loss of offsetting acreage that was being counted on to provide
18 future drill sites.

19 Q. Does Hugoton Energy still operate any wells subject to the spacing order in this docket?

20 A. No, most of them are now being operated by Merit Energy Company.

21 Q. If the spacing order in this docket is cancelled, will the Commission's general rules and
22 regulations then control spacing in this field?

23 A. Yes.

24 Q. And the Commission's general rules allow 10 acre spacing while still providing 330-foot
25 setbacks?

26 A. Yes.

27 Q. Why is the spacing order no longer necessary?

28 A. There has been almost no drilling activity in the field for quite a number of years. Many
29 of the oil wells drilled after the issuance of the spacing order are currently inactive.
30 Production has already moved beyond the primary phase of recovery. Infill drilling also
31 seems unlikely, as does horizontal drilling. Even if more drilling were to occur, tighter

1 well spacing under the general rules could enhance production. Cancellation of the
2 spacing order will have no negative effect that I can determine.

3 Q. Will cancellation of the spacing order in this docket cause waste or lead to violations of
4 correlative rights?

5 A. No.

6 Q. Have all active operators with wells subject to the spacing order been notified of this
7 docket?

8 A. Yes. None of them have contested the cancellation.

9 Q. So Staff's recommendation is that the spacing order, your Exhibit A, be cancelled?

10 A. Yes.

11 Q. Does this conclude your testimony as of this date, December 5, 2016?

12 A. Yes.

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Timothy E. McKee, Chair
Susan M. Seltsam
John Wine

In the Matter of the Application)	DOCKET NO. 194,758-C
of Hugoton Energy Corporation for)	(C-28,007)
an order deleting certain acreage from)	
the Eubank Mississippi Oil and)	
Gas Pool, and establishment of a)	
Basic Spacing Order for their Eubank)	CONSERVATION DIVISION
South Mississippian-Chester Sand Oil))	
and Gas Pool, Haskell County, Kansas)	LICENSE NO. 3871

ORDER

Now, the above-captioned matter comes on for consideration and determination by the State Corporation Commission of the State of Kansas.

An application was filed on September 27, 1996, by Hugoton Energy Corporation asking the Commission to issue an order deleting certain acreage from the Eubank Mississippi Oil and Gas Pool, and establishment of a Basic Spacing Order for their Eubank South Mississippian-Chester Sand Oil and Gas Pool, Haskell County, Kansas.

A Petition for Leave to Intervene was filed by Anadarko Petroleum Corporation requesting all rights to have notice of and fully participate in this matter.

A Petition to Intervene was filed by Frances L. Tiller and Stanley R. Tiller, mineral owners, requesting the Commission to examine the geological information submitted and respace the Eubank Mississippi Oil and Gas Pool.

Entries of Appearance were filed by OXY USA, Inc. and Berexco, Inc.

Notice was published at least ten days in advance of the hearing in the Wichita Eagle and Haskell County Monitor-Chief, stating that the matter would be heard on October 24, 1996, at the Commission's Hearing Room, First Floor, 1500 SW Arrowhead Rd., Topeka, Kansas.

The matter was heard pursuant to said notice. Philip M. Knighton, Wichita, Kansas, appeared on behalf of Applicant, Stanley R. Tiller appeared for his wife,

Frances L. Tiller, and *pro se*, and William J. Wix, Assistant General Counsel, appeared on behalf of the Commission staff and the public generally.

Staff examined service and recommended its approval. The Commission approved service and found it had jurisdiction to hear the matter at this time and place.

The Commission, after taking the matter under advisement and after giving consideration to the record and files, makes the following findings:

1. The Applicant, Hugoton Energy Corporation has filed an application asking that the Commission issue an order deleting certain acreage from the Eubank Mississippi Oil and Gas Pool, and establishment of a Basic Spacing Order for the Eubank South Mississippian-Chester Sand Oil and Gas Pool, Haskell County, Kansas, with 40 acre spacing, 330 foot setbacks, and no proration therein, other than by the Commission's General Rules and Regulations.
2. The application in this docket was filed pursuant to the rules and regulations of the State Corporation Commission, thus fulfilling all statutory and regulatory requirements. Notice is proper in every respect and was published as required by law. As a result of the foregoing, the Commission finds it has jurisdiction of the subject matter and the parties.
3. The Eubank Mississippi Oil and Gas Pool, Haskell County, Kansas, consists at the present time of the following acreage, to-wit:

All of Township 28 South, Range 34 West; All of Township 29 South, Range 34 West; Sections 1 thru 12, Township 30 South, Range 34 West, Haskell County, Kansas.
4. The Applicant requests that the following acreage be removed from the Eubank Mississippi Oil and Gas Pool and establish the Eubank South Mississippian-Chester Sand Oil and Gas Pool:

Sections 25 thru 36, Township 29 South, Range 34 West; Sections 1 thru 12, Township 30 South, Range 34 West, Haskell County, Kansas, as to the Mississippian-Chester Sand as found between the depths of 5,413 feet to 5,578 feet throughout the area and shown on the electric log of the Hugoton Energy Corporation No. 1-10 MLP Leathers Land well at 2,066 feet from the South Line and 2,313 feet from the West Line of Section 10, Township 30 South, Range 34 West, Haskell County, Kansas.

5. The Applicant moved the Commission to admit the Application, the prefiled testimony and exhibits, and to approve the present testimony of Jimmy W. Gowens, Vice President of Exploration for Hugoton Energy Corporation, to testify as an expert in the matter now in hearing. The prefiled testimony and exhibits were admitted and Mr. Gowens was permitted to testify as an expert. Mr. Gowens testified that due to recent acquisition of seismic data across the area sought to be respaced, that the current field rules are not adequate to fully drain or develop the Mississippian-Chester Sand reservoir because the sand is in a narrow channel some 600 feet wide. The current minimum distance for the 80 acre units places the closest wells at 1,020 feet apart whereby the 600 foot wide channel can be missed by either party, leaving the deposit undeveloped, the respective correlative rights violated and forcing the drilling of unnecessary and risky wells causing waste thereof. Mr. Gowens testified the tight nature of the sands and current drilling therefore shows that one well will likely only drain 40 acres at best. He pointed out certain areas outside the channel where outliers of this sand exist and the proposed spacing and proration is best suited to their development. He testified that the protection of correlative rights requires 40 acre drilling units with 330 feet lease line setbacks and recommended governmental quarter-quarter sections as the basis for such units with the General Rules and Regulations for both oil and gas as the allowables and only proration necessary. He stated that Hugoton Energy Corporation must drill an additional number of wells this year under its farmout agreement and if it is not allowed to drill, it will face severe penalties under its farmout agreement or be forced to drill locations that are not optimum for developing the sand and cause economic and physical waste thereby. The request for this hearing on an accelerated basis was required by this dilemma and a ruling as soon as possible is requested to meet the drilling requirements and avoid waste.

6. Stanley R. Tiller, a mineral owner of the W/2 Section 10, Township 29 South, Range 34 West, was sworn in and moved the Commission to permit his intervention and to present testimony. Objection was made by Hugoton Energy and Mr. Tiller's testimony and intervention was permitted for its weight and sufficiency. Mr. Tiller has asked the Commission to examine Applicant's prefiled testimony and exhibits that were filed and to respace the whole of the existing field. The Commission finds that Mr. Tiller's request is beyond the scope of the hearing notice and is essentially consistent with the relief requested by the Applicant, therefore no prejudice can be had by granting the Application. The Commission finds that the only inconsistency is Mr. Tiller's view that only 90% of the statewide allowable be applied. We do not agree that this is appropriate because Mr. Tiller is not able to present any competent or substantial evidence that the portions sought to be respaced are reservoir connected. The existence of the dry holes and pressure data presented by Applicant are convincing that there are reservoir separations. Mr. Tiller is free to file his separate Application to respace the remaining portions of the Eubanks Mississippi Oil and Gas Field

to remedy any situations he sees are within the scope of the Commission's jurisdiction.

7. The evidence shows that the acreage in paragraph 4 should be deleted from the present Eubank Mississippi Oil and Gas Pool.

IT IS, THEREFORE, BY THE COMMISSION ORDERED that:

- (a) Sections 25 thru 36, Township 29 South, Range 34 West, and Sections 1 thru 12, Township 30 South, Range 34 West, Haskell County, Kansas, shall be and hereby are removed from the Eubank Mississippi Oil and Gas Pool.

IT IS FURTHER ORDERED that:

- (a) The Order entered herein be and the same is hereby designated as the Basic Spacing Order for the production of crude oil, gas, and associated hydrocarbons from Eubank South Mississippian-Chester Sand Oil and Gas Pool.

- (b) The Eubank South Mississippian-Chester Sand Oil and Gas Pool lies within the confines of the following described area:

Sections 25 thru 36, Township 29 South, Range 34 West;
Sections 1 thru 12, Township 30 South, Range 34 West,
Haskell County, Kansas

- (c) The acreage and well spacing in the Eubank South Mississippian-Chester Sand Oil and Gas Pool shall be as follows:

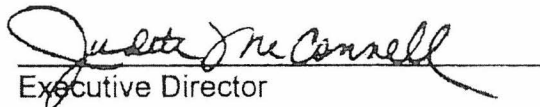
1. To have forty (40) acres attributed thereto for spacing purposes, a well in said oil and gas pool shall be located within 330 foot unit line setbacks to conform with governmental quarter-quarter section tracts.
2. The Commission may exclude any acreage from inclusion in any unit which in its judgment is not productive, or should not be attributed, provided however, that if any interested party so requests, the matter shall be noticed and set for hearing. Acreage shall not be attributed to more than one well at the same time; however, the completion of a well within the borders of a tract, all of which acreage has been allocated to another well, will necessitate a readjustment of attributed acreage in conformance with the revised status of the lease or unit.

- (d) There is no proration except under the General Rules and Regulations.
- (e) Exceptions to oil and gas well location restrictions contained in paragraph (c) may be granted whenever the Commission finds, after notice and hearing, that the granting of such exception is necessary to prevent waste or to protect correlative rights because of one of the following:
1. A surface obstruction, either natural or man made;
 2. Inability to secure acreage after a reasonable attempt has been made;
 3. Whenever non-uniform tracts are created due to governmental survey, or
 4. By any other similar unusual circumstance requiring exception hereto.

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.

McKee, Chr.; Seltsam, Com.; Wine, Com.

Dated: NOV 5 1996


Executive Director

Date Mailed: NOV 12 1996

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

NOV 05 1996


EXECUTIVE DIRECTOR

CERTIFICATE OF SERVICE

I hereby certify that on NOV 12 1996, 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:

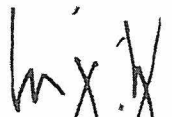
Philip M. Knighton
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106 West Douglas
Wichita, KS 67202-3395

Frances L. Tiller and Stanley R. Tiller
4026 Campbell
Kansas City, MO 64110-1114

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800 First National Bank Bldg.
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151 N. Main Street, Ste. 700
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William J. Wix
Assistant General Counsel
Kansas Corporation Commission

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for their Eubank South Mississippian-Chester)	
<u>Sand Oil and Gas Pool, Haskell County, Kansas.</u>)	License No.: N/A

CERTIFICATE OF SERVICE

I, Paula Murray, certify that on December 5, 2016, I did cause a true and correct copy of the Pre-Filed Testimony of Jim Hemmen to be served by United States mail, first class, postage prepaid to the following:

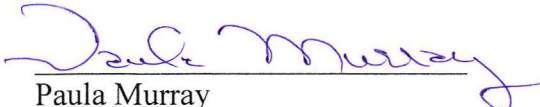
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