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KANSAS CORPORATION COMMISSION

**APR 05 2012**

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

**LEGAL SECTION**

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

In the Matter of the Application of Berexco, Inc. for a Basic Proration Order for the Terry Marmaton Oil Pool in Finney County, Kansas.	) ) ) ) ) )	Docket No.: 12-CONS-185-CBPO 183,811-C (C-26,681)  CONSERVATION DIVISION  License No. 5363
 In the Matter of the Application of Berexco, Inc. for a Basic Proration Order for the Terry Mississippian St. Louis Oil Pool in Finney County, Kansas.	 ) ) ) ) ) )	 Docket No.: 12-CONS-186-CBPO 183,812-C (C-26,682)  CONSERVATION DIVISION  License No. 5363
 In the Matter of the Application of Berexco, Inc. for a Basic Proration Order for the Terry Lansing-Kansas City Oil Pool in Finney County, Kansas.	 ) ) ) ) ) )	 Docket No.: 12-CONS-187-CBPO 183,813-C (C-26,683)  CONSERVATION DIVISION  License No. 5363

**PRE-FILED TESTIMONY  
OF JIM HEMMEN**

1 Q. Please state your name and business address for the record.

2 A. Jim Hemmen, My business address is 130 S. Market, Room 2078, Wichita, Kansas  
3 67202.

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

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

7 Q. For approximately how long have you been working as a Research Analyst for the  
8 Commission?

9 A. Just a little short of thirty years.

10 Q. Have you been involved with the enforcement/administration of the three basic proration  
11 orders covering wells in the Terry Field which are the subject of these dockets?

12 A. Yes, I have.

13 Q. Being as specific as possible without becoming too technical, could you describe the  
14 nature of the various duties/functions you perform that are either mandated or  
15 necessitated by these orders?

16 A. Yes. I (1) enforce the well-spacing provisions of each order; (2) create and maintain  
17 hardcopy files for each well that either is or was subject to one or more of these orders;  
18 (3) remind operators of the annual productivity-testing requirement while, at the same  
19 time, reviewing submitted test results and answering questions about testing; (4) add new  
20 well records to Table "B" whenever a new well gets drilled that will become subject to  
21 one or more of these proration orders; and (5) utilize the computer program that  
22 generates Table "B" on a monthly basis to track monthly oil production from the prorated  
23 wells/leases and also to track the allocation of allowable to the wells/leases. To facilitate  
24 tracking of the reported oil runs and to credit those runs against the proper oil reservoir,  
25 staff is provided with monthly producer reports showing how much oil came from  
26 particular wells and from which reservoir it was recovered.

27 Q. Have you been discharging these various responsibilities over much of the history of this  
28 field?

29 A. I've been involved with the proration of the oil wells comprising the Terry pool since the  
30 Commission issued these orders. In fact, I assisted the I.T. people at Wichita State  
31 University in creating the program that generates the monthly schedules of production

1 and allowable which appears as part of the Table "B" and shows the status of wells that  
2 are located in the Terry Field.

3 Q. So, it would be fair to say that you're familiar with the content and provisions of the  
4 three orders which are the subject of these dockets?

5 A. Yes, I'm quite familiar with all three of the orders.

6 Q. Would you summarize for the Commission what circumstances led to staff's decision to  
7 nominate these three proration orders for dissolution?

8 A. Yes. To do that, I need to review some of the history of the Terry Field and the wells  
9 located therein. Originally, when the field was first opened, the two operators  
10 (BEREXCO & Oxy) had been completing their respective wells in different reservoirs.  
11 Each operator felt that they needed the protection afforded by the well-spacing provisions  
12 of a basic proration order to be applied to their particular oil reservoir that they were  
13 recovering oil from. There were three different oil reservoirs being targeted for drilling  
14 and completion, the Lansing, the Marmaton, and the Mississippi.

15 In the end, the operators got together and settled on a spacing pattern that would work for  
16 all three reservoirs; likewise for the allowable mechanism. Adoption of spacing and  
17 allowable provisions which would be identical for all three reservoirs greatly simplified  
18 the creation of a workable computer program when it came time for staff to set up the  
19 programming that would generate the monthly schedules on Table "B".

20 As time went on, individual wells which had originally been completed in only one of the  
21 three reservoirs began to show significant declines in terms of their daily production  
22 rates. At that time, in order to maintain profitability of those wells, the operators began  
23 to perform workover operation on their wells to access the other oil reservoirs which  
24 hadn't been opened at the time of initial completion.

25 Once those workovers were completed, oil from the two or three reservoirs that were  
26 now accessed by the wellbore would be commingled together.

27 This made the filing of monthly production reports by the operators that much more  
28 important, in order to insure the correct breakout of the total amounts of oil being  
29 recovered into discrete volumes that were produced by the various individual wells from  
30 each respective reservoir.

1 Q. Why was the correct accounting of reported oil runs from the individual reservoirs such  
2 an important aspect of the proration process?

3 A. Because if oil reported as coming from a particular reservoir exceeded the amount of  
4 allocated allowable applicable to that reservoir, then the well would soon become  
5 overproduced and have to be curtailed or shut-in to make up the overage.

6 Q. Continue with your summarization of the past history of the Terry Field.

7 A. Staff observed the workover activity and viewed the commingling of the oil from all  
8 three reservoirs as a strong indication of the ongoing decline of these reservoirs to the  
9 point where one could legitimately ask whether or not proration of the Terry pool of  
10 wells still served its intended purpose or could be justified upon solid engineering  
11 grounds.

12 Q. At the time this became apparent; did you take any action to dissolve the Terry orders?

13 A. No. After conversations with the operators, staff became convinced that the timing for  
14 such a move wasn't right.

15 Q. What led staff to reach that conclusion?

16 A. The production engineer for one of the operators convinced staff that there was still a  
17 good possibility that production rates could be significantly increased through a  
18 combination of drilling of a few new wells coupled with stimulation of the existing wells.  
19 However, he expressed his belief that the only way that the proposed strategy could work  
20 was if the spacing provision of the three Terry orders were retained.  
21 He felt, at that time, that putting the spacing for the Terry Field back under the  
22 Commission's General Rules and Regulation would open the field to the drilling of  
23 unneeded additional wells which would have undermined the success of the proposed  
24 strategy for raising production rates.

25 Q. Why is dissolution of these three orders being proposed at this time?

26 A. The operators of the wells don't want the monthly production-reporting requirement in  
27 effect any longer. They see it as an unnecessary and burdensome obligation which  
28 intrudes upon their time. In addition, the daily production rate of every well comprising  
29 the Terry pool is already below or right at the statewide minimum allowable of 25  
30 Bbls/Day. In view of this development, the feeling is there's no longer any need for the  
31 existence of the much more liberal allowable prescribed by any one of the Terry

1 proration orders. The wells will never again be capable of producing at those rates  
2 without some form of operator-enhancement such as waterflooding. In addition, the  
3 well-spacing contained within the BPO is no longer needed since all of the available  
4 drillsites already have wells on them and there doesn't appear to be any interest in  
5 pursuing opportunities for increased density in the Terry Field.

6 To boil it all down, these orders have outlived their usefulness and require staff time to  
7 be expended in preparing the Table "B" schedules that isn't really serving any useful  
8 purpose.

9 Q. Has the depletion of the three oil reservoirs been fairly uniform and consistent over time?

10 A. No. The Marmaton reservoir appears to have depleted faster than the other two  
11 reservoirs.

12 Q. Do you see any possibility that the removal of these three orders will result in the future  
13 drilling of unneeded new wells?

14 A. No. Staff is confident that the combination of low current reservoir pressures, high  
15 drilling costs, and the increasing water cut being exhibited by these three reservoirs will  
16 all act as deterrents to future drilling of unnecessary and wasteful new wells.

17 Q. What is the average production from wells covered by the Terry Field orders?

18 A. On average it is less than 25 barrels per day.

19 Q. So, is it your testimony that removing these orders won't cause waste nor lead to possible  
20 violations of correlative rights?

21 A. Yes. Staff feels that the time is right for returning the Terry pool of oil wells to the  
22 jurisdiction of the Commission's General Rules and Regulations.

23 Q. Do any of Terry Field proration orders contain "sunset clauses" that automatically  
24 terminate the order either upon a certain date or upon the attainment of some defined  
25 status or condition?

26 A. No. Evidently, at the time of drafting these orders, the engineers who testified at the  
27 hearing couldn't agree on the primary-recovery life-span that would be reasonable to  
28 expect from any one of these three oil reservoirs. So, they couldn't make any  
29 recommendations concerning a possible "sunset" date.

30 Q. Do you have anything else concerning the dissolution of these three orders which you  
31 wish to add, at this time?

- 1 A. No.
- 2 Q. Does this conclude your testimony?
- 3 A. Yes.

VERIFICATION OF JIM HEMMEN

STATE OF KANSAS )  
 ) ss:  
COUNTY OF SEDGWICK )

Jim Hemmen, being first duly sworn, deposes and says that he is the Jim Hemmen referred to in the foregoing document entitled "Prefiled Testimony of Jim Hemmen" in Docket No.: 12-CONS-185-CBPO, 12-CONS-186-CBPO, 12-CONS-187-CBPO before the State Corporation Commission of the State of Kansas and the statements and attached exhibits therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

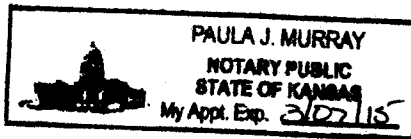
Jim Hemmen  
Jim Hemmen

SUBSCRIBED AND SWORN to before me on this 5<sup>th</sup> day of April, 2012.

Paula J Murray  
Notary Public

My Commission expires:

3/07/15



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   Ward Loyd  
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Inc. for a Basic Proration Order for the Terry             )  
Marmaton Oil Pool in Finney County, Kansas.             )  
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**CERTIFICATE OF SERVICE**

I, John McCannon, Litigation Counsel, with the Kansas Corporation Commission, certify that on 04-05-2012, 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 parties:

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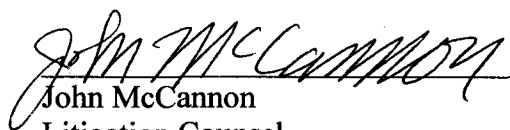
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And delivered by hand to:

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