

**FILED**  
FEB 08 2012

**BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF OKLAHOMA**

COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

**APPLICANT:**                    **CRAWLEY PETROLEUM CORPORATION**                    )

**RELIEF SOUGHT:**            **INCREASED DENSITY**                    )

**CAUSE CD NO.**  
**201106285**

**LEGAL DESCRIPTION:**    **SECTION 14, TOWNSHIP 11 NORTH, RANGE 23 WEST, ROGER MILLS COUNTY, OKLAHOMA**                    )

**APPLICANT:**                    **CRAWLEY PETROLEUM CORPORATION**                    )

**RELIEF SOUGHT:**            **LOCATION EXCEPTION**                    )

**CAUSE CD NO.**  
**201106286**

**LEGAL DESCRIPTION:**    **SECTION 14, TOWNSHIP 11 NORTH, RANGE 23 WEST, ROGER MILLS COUNTY, OKLAHOMA**                    )

**REPORT OF THE OIL AND GAS APPELLATE REFEREE ON  
AN ORAL APPEAL OF AN  
APPLICATION FOR EMERGENCY ORDER**

These Motions came on for hearing before **Michael Norris**, Administrative Law Judge for the Oklahoma Corporation Commission, at 9 a.m. on the 26th day of January, 2012, in the Commission's Courtroom, Jim Thorpe Building, Oklahoma City, Oklahoma, pursuant to notice given as required by law and the rules of the Commission for purpose of taking testimony and reporting to the Commission.

**APPEARANCES:** **John C. Moricoli, Jr.**, attorney, appeared for applicant, Crawley Petroleum Corporation ("Crawley"); **Eric R. King**, attorney, appeared

for JMA Energy Co., LLC ("JMA"); and **Jim Hamilton**, Assistant General Counsel for the Conservation Division, filed notice of appearance.

The Administrative Law Judge ("ALJ") issued his Oral Ruling on the Application for Emergency Order to which Oral Exceptions were timely lodged and proper notice given of the setting of the Exceptions.

The Appellate argument concerning the Oral Exceptions were referred to **Patricia D. MacGuigan**, Oil and Gas Appellate Referee ("Referee"), on the 3<sup>rd</sup> day of February, 2012. After considering the arguments of counsel and the record contained within these Causes, the Referee finds as follows:

**STATEMENT OF THE CASE**

JMA appeals the decision of the ALJ to grant the Emergency applications giving Crawley authority to commence drilling operations, complete, but not produce an off pattern well at the following locations:

SURFACE LOCATION: Not closer than 200 feet FSL and not closer than 1320 feet FEL of Section 14, T11N, R23W, Roger Mills County, Oklahoma;

COMPLETION INTERVAL:

**Proposed point of entry**: Not closer than 330 feet FSL and not closer than 1320 feet FEL of Section 14, T11N, R23W, Roger Mills County, Oklahoma;

TERMINUS: Not closer than 330 feet FNL and not closer than 1,320 feet FEL of Section 14, T11N, R23W, Roger Mills County, Oklahoma;

TOLERANCE DISTANCE: A tolerance of 80 feet along and perpendicular to the completion interval to allow correction of any deviation during drilling.

Section 14 constitutes a single drilling and spacing unit for the production of hydrocarbons from the Cottage Grove common source of supply by Order No. 183282. Crawley filed their applications for increased density and location exception on November 17, 2011. Two vertical wells and two horizontal wells have heretofore been drilled on the 640 acre unit in Section 14 and Crawley is

alleging that the same cannot adequately and efficiently develop the entire unit and request authority to drill and produce an additional well as an exception to Order No. 183282. Crawley alleges that because of contractual commitments, it is necessary for Crawley to commence operations for the drilling and completion of said well prior to the date in which these causes are set for protested hearing on February 15, 16 and 17, 2012.

## **REPORT OF THE ADMINISTRATIVE LAW JUDGE**

**ALJ Michael D. Norris** reported that he recommended granting the Crawley emergency applications. The main basis for the emergency applications was rig availability. Crawley has a rig that they have been using in the general area and they like the crew and the performance of the rig. The ALJ found that Crawley would suffer economic loss unless emergency orders were entered allowing authority to commence drilling operations, complete, but not produce the proposed Cottage Grove well because of the drilling contract Crawley has entered into with Unit Drilling.

## **POSITIONS OF THE PARTIES**

### **JMA**

- 1) **Eric R. King**, attorney, appearing on behalf of JMA, stated the legal description of the concerned land is Section 14, T11N, R23W, Roger Mills County, Oklahoma.
- 2) JMA states that it is contesting both applications on their merits and the need for emergency orders.
- 3) JMA asserts that the reasons the ALJ granted the emergency were (i) the costs involved, (ii) the fact that the cases were protested, (iii) a *prima facie* case for emergency existed, and (iv) that there was no contradiction of the facts presented by JMA.
- 4) JMA asserts that the facts were not contradicted because the uncontested facts do not display a need for an emergency order.
- 5) JMA states that the rig contract was entered into on January 18, 2012 with Unit Drilling. JMA states that the contract is for a period of six months.
- 6) JMA states that Crawley sent out a proposal for drilling of a Upper Cherokee well in Section 14 on January 5, 2012, 13 days prior to entering into

the contract with Unit Drilling. JMA asserts that the Upper Cherokee prospect within Section 14 has already been approved by the Commission and that JMA has gone non-consent under the Joint Operating Agreement ("JOA") in that well. JMA contends, therefore, there is no impediment to the drilling of that well in Section 14.

7) JMA asserts that Crawley is creating the emergency itself by entering into the Unit Drilling contract on January 18th and they have already proposed another well in Section 14 on January 5<sup>th</sup>.

8) JMA states that there are two wells existing in the section, one on the eastern flank and one on the western flank (the Hudson Farms #3-14H and the Moore #5-14H, respectively).

9) JMA states that Mr. Roddy testified at the emergency hearing that the proposed well would take 35 days to drill, but that the Hudson Farms #3-14H well took 70 days to drill and the Moore #5-14H well took 71 days to drill. JMA asserts that the drilling conditions in Section 14 have caused anticipated drill times to double.

10) JMA contends that when Mr. Roddy and Mr. Sullivan were questioned regarding the wells in Section 23, neither provided testimony regarding location (from the south line), a location exception, or uncompensated drainage.

11) JMA reasserts that it was unnecessary to contradict the facts presented by Crawley, and that the facts presented did not justify an emergency.

12) JMA notes that a consideration in the ALJ's ruling was cost. JMA states that at hearing Mr. Roddy testified that he was concerned with an increase in cost under the contract. JMA asserts, however, that because the costs were equal to the costs under the prior contract, Mr. Roddy's concern for an upward trend in cost is unmerited and does not warrant an emergency.

13) JMA contends that due to the distance between prospects and the delays in drilling evidenced by the other wells in the section, the earliest the well could actually commence is March 9, 2012.

14) JMA asserts that there is no *prima facie* case of emergency and that the motion is premature.

15) JMA contends that though the Commission has historically permitted the drilling of a well when the applicant had expended great cost upfront, the prejudicial and unnecessary nature of this well make it not an emergency.

16) JMA asserts that it would be prejudicial for the Commission to allow the drilling of the well based upon the expense of capital alone.

17) JMA reasserts that there was no need to contradict the facts presented by Crawley as there was no *prima facie* case of emergency.

18) JMA posits that Crawley proposed the higher risk Cherokee well to artificially create facts in support of the emergency in this matter.

19) JMA contends that as the earliest the well could be commenced is March 9, 2012, there would be no financial loss incurred by Crawley and therefore no emergency exists.

20) JMA asserts that its protest in this matter has no bearing on the matter's emergency status. JMA states that the parties agreed to set the matter for the middle of February.

21) JMA contends that the ALJ was mistaken in his interpretation of the facts and requests that the decision of the ALJ be reversed.

### **CRAWLEY**

1) **John C. Moricoli, Jr.**, attorney, appearing on behalf of Crawley, stated that Crawley has a contract with Unit Drilling for drilling operations and that the contract has increased \$4,000 from its initial amount of \$14,750 standby rate per day to \$18,750 per day.

2) Crawley asserts that, industry-wide, comparable drilling operations contracts are increasing 10 to 15% per annum.

3) Crawley contends that Unit Drilling provided superior services in the drilling of the Moore #5-14H well and the Moore #3-14H well and that Crawley does not want to jeopardize the use of Unit Drilling's equipment, crew and services. Crawley references the expense of \$18 million by ConocoPhillips in the nearby Burlington well as comparative evidence.

4) Crawley reasserts that it is important to its business to maintain the services, crew and equipment of Unit Drilling.

5) Crawley contends that it signed a contract extension on January 18, 2012, necessary to maintain the use and rates of Unit Drilling's services for a six month period.

6) Crawley asserts that this six month contract renewal process is necessary for the drilling contractor to adjust its costs according to market conditions.

7) Crawley contends that if this contractual relationship is not maintained (i) it will not have any assurances regarding the availability of drilling equipment, and (ii) any replacement for Unit Drilling will be of inferior quality. Crawley again notes the Burlington Hudson Farms #3-13H well – a well that had an AFE of \$9 million but reached \$18 million in expenditures without reaching total depth – in support of its second contention.

8) Crawley asserts that if it is not able to drill when the rig is available, it will needlessly incur the daily cost of \$18,750 or have to pay the buyout of \$750,000. Crawley contends that JMA's assertion that there is no emergency in this matter is refuted by these costs.

9) Crawley asserts that a hearing in the middle of February will not lead to a final order by the beginning of March. Crawley claims that it will take 30 to 45 days at a minimum after hearing to receive a report from the ALJ. Crawley contends that the Commission appeals process will last at least another two months, with a final order issuing at least five months from the middle of February.

10) Crawley asserts that it is only following Commission procedure in a prudent manner in order to prevent the incurring of unproductive costs.

11) Crawley contends that uncompensated drainage is not an issue in this matter.

12) Crawley states that the engineer testified that were Crawley forced to release the rig, costs will have risen substantially by the time Crawley obtains a final order in this matter. Crawley references the \$4,000 increase in daily costs in its contract with Unit Drilling as evidence.

13) Crawley asserts that the other proposed well in the Upper Cherokee formation (termed Cottage Grove in Section 14, Hogshooter in Section 23, and Marchand in Section 24) is a wildcat well, and that the Commission permitting of that well was obtained for emergency purposes only. Crawley references the testimony of Mr. Paul Sullivan in Cause Nos. 201005586 and 201005585 as support.

14) Crawley contends that it only desires to replicate the process of Apache in Section 23 by drilling a well in the middle of the section.

15) Crawley asserts that it will be able to meet its burden regarding waste at the merit hearing.

16) Crawley contends that it is an economic imperative to proceed with the well to protect its business interests and the correlative rights of the owners of Section 14. Crawley contends that it has not only made a *prima*

*facie* case of emergency, but that it has also supported its case with substantial, unrebutted evidence.

- 17) Crawley requests that the ALJ be affirmed.

### **RESPONSE OF JMA**

- 1) JMA asserts that the Moore #3-14H well and the Moore #5-14H well have dropped significantly in production (663 BOPD to 200 BOPD and 1000 BOPD to 350 BOPD, respectively).

- 2) JMA contends that the increase in contract price between Crawley and Unit Drilling is only evidence of the ebb and flow of pricing in the oil and gas industry, rather than an intractable upward trend. JMA references the ebb and flow of costs of drilling in the Anadarko Basin as evidence.

- 3) JMA asserts that the Burlington #3-13H well was abandoned and therefore not pertinent in this matter. JMA also asserts that Section 11 is irrelevant in this matter.

- 4) JMA notes, when discussing Unit Drilling operations, that the other wells in this Section 14 took twice the 35 day estimate to drill.

- 5) JMA contends that there is no emergency because Crawley has Commission approval to drill the Upper Cherokee well in this same section. JMA contends that if Crawley did not desire to drill the Upper Cherokee well, it would not have proposed to do so under the JOA.

- 6) JMA asserts that contract day rate payments or buy out payments from Crawley to Unit Drilling can be avoided by drilling the Upper Cherokee well. JMA reasserts that Crawley has the secondary option of drilling the Cottage Grove, making this matter not an emergency.

- 7) JMA reasserts there is no need to rebut the evidence as it does not support an emergency order. JMA reasserts that since the issue of drainage was not raised, there is no financial loss to require an emergency order.

- 8) JMA requests that the ALJ be reversed and the emergency denied.

## CONCLUSIONS

**The Referee finds the Oral Report of the Administrative Law Judge should be affirmed.**

1) The Referee finds that the ALJ's recommendation to grant the emergency applications of Crawley based on his finding of a substantial financial loss to be supported by the weight of the evidence and free of reversible error. The determination of whether a certain and definite financial loss was established under the emergency applications to justify the ruling is a question of fact for the ALJ, the initial trier of fact. It is the ALJ's duty to listen to the expert opinions espoused before him and assign the appropriate weight to that opinion. *Grison Oil Corporation v. Corporation Commission*, 99 P.2d 134 (Okl. 1940); *Palmer Oil Corporation v. Phillips Petroleum Company*, 231 P.2d 997 (Okl. 1951).

2) The Referee notes that the ALJ as the trier of fact determined that a financial loss existed, in that, Crawley would have to pay the rig contractor, Unit Drilling, liquidated damages or a buyout figure of \$750,000, or would have to pay \$18,750 a day standby rate for the well pending the granting of the application. Crawley signed an extension of the rig contract with Unit Drilling on January 18, 2011. The contract had been in place between Crawley and Unit Drilling for many months and the requirement was that every six months it had to be renewed. At the end of the six month time period it had to be extended and Unit Drilling would have the ability to increase the costs depending upon the market changes. The evidence presented was that for wells of this type in this area the cost of services to drill and complete are increasing approximately 10 to 15% on an annual basis. Apparently these particular Des Moines wells are difficult to drill and encounter difficulties periodically. A well drilled by Burlington in Section 13, the Hudson Farm #3-13H was finally plugged and abandoned after ConocoPhillips spent \$18 million drilling that well.

3) The testimony also was that Crawley has developed with Unit Drilling a relationship they wish to continue. Unit Drilling provides superb equipment and crews that are extremely competent. Unit Drilling has drilled for Crawley two horizontal wells in Section 14, the Moore #5-14H and the Moore #3-14H. The testimony also was that if they lose the Unit Drilling contract, this rig and the excellent crews, then whenever another rig to drill this well becomes available, Crawley will not have the type of people and the type of equipment provided by Unit Drilling which will most likely increase the costs of drilling the well.

4) JMA presented the proposition that there was no emergency in the present case. The evidence presented by Crawley, however, established that

even though the protested hearing is set for the middle of February a final order most likely will not issue in the present case until five months after the hearing is held in the middle of February. The ALJ has to write a report which takes anywhere from 30 days to 60 days and then if appealed, the Appellate Referee would write a report which could take another two months. This matter is therefore timely because Crawley is attempting to obtain the necessary regulatory orders in a prudent manner so that they do not have to pay \$18,750 a day while they are attempting to get the necessary orders in place. The Referee believes that Crawley is simply being prudent in filing the emergency orders at this time so that they know they will have the necessary orders in place to drill the well in time to prevent a financial loss they would be faced with.

5) Lastly, JMA stated that Crawley already had the necessary permission to drill another well in Section 14 and therefore Crawley should drill that well now and not this other well under an emergency basis. However, the well that has been proposed and granted to Crawley to drill in Section 14 is not a Cottage Grove well but an Upper Cherokee well and it is a wildcat well which they don't want to drill right now. They only proposed the Upper Cherokee well to obtain another option in the event that the Commission would decline the drilling of the present Cottage Grove well in Section 14 on an emergency basis.

6) The Referee notes that while Crawley will be allowed to drill the proposed well under the emergency applications, the orders to issue under the emergency applications are temporary orders and the granting of the authority and the well's allowable are still subject to the merit hearing. Crawley takes the risk that the applications may be denied or the allowable restricted on the proposed well if there is evidence showing that the proposed well could occasion waste or cause a violation of correlative rights of the owners within the common source of supply.

7) Under the above listed circumstances, the Referee can find no reason to vary the recommendation of the ALJ and the ALJ should be affirmed.

**RESPECTFULLY SUBMITTED THIS** 8<sup>th</sup> **day of February, 2012.**

  
PATRICIA D. MACGUIGAN  
OIL & GAS APPELLATE REFEREE

PM:ac

xc: Commissioner Murphy  
Commissioner Anthony

Commissioner Douglas  
Jim Hamilton  
ALJ Michael Norris  
John C. Moricoli, Jr.  
Eric R. King  
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