APR 09 2013

DECISION SHEET OF THE OIL & GAS APPELLATE REFEREE

APPLICANT:	HALLCO PETROLEUM, INC.	
RELIEF SOUGHT:	UNITIZATION ENHANCED RECOVERY UNIT – DESCRIBED AS THE CONKLIN UNIT	CAUSE CD NO. 201202483
LEGAL DESCRIPTION:	S/2 OF SECTION 9, TOWNSHIP 27 NORTH, RANGE 5 EAST, KAY COUNTY, OKLAHOMA	

FILED
MAR 28 2013
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

APPLICANT:	CHAPARRAL ENERGY, L.L.C.	
RELIEF SOUGHT:	UNITIZED MANAGEMENT, OPERATION AND FURTHER DEVELOPMENT OF THE BURBANK KAY COUNTY ENHANCED RECOVERY UNIT, INCLUDING TERTIARY RECOVERY OPERATIONS	CAUSE CD NO. 201203768
LEGAL DESCRIPTION:	W/3 OF SECTION 3, ALL OF SECTION 4, ALL OF SECTION 9, THE W/2 OF SECTION 10, THE W/2 OF SECTION 15, ALL OF SECTION 16, THE N/2 NE/4 OF SECTION 21, AND THE W/2 OF SECTION 22, ALL IN TOWNSHIP 27 NORTH, RANGE 5 EAST, KAY COUNTY, OKLAHOMA	

REPORT OF THE OIL AND GAS APPELLATE REFEREE ON AN ORAL APPEAL OF MOTION TO CONTINUE CAUSES OFF PROTEST DOCKET

This Motion came on for hearing before **Michael Decker**, Administrative Law Judge for the Oklahoma Corporation Commission, in the Commission's Courtroom, at 9 a.m. on the 8th day of March, 2013, 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: **Dale E. Cottingham**, attorney, appeared for applicant, Hallco Petroleum, Inc. ("Hallco"); **Gregory L. Mahaffey**, attorney, appeared for applicant, Chaparral Energy, LLC ("Chaparral"); **Richard A. Grimes**, attorney, appeared for Garry Davis Oil Company; 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 Motion to which Oral Exceptions were timely lodged and proper notice given of the setting of the Exceptions.

The Appellate argument concerning the Oral Exceptions was referred to **Patricia D. MacGuigan**, Oil and Gas Appellate Referee ("Referee"), on the 15th day of March, 2013. After considering the arguments of counsel and the record contained within this Cause, the Referee finds as follows:

STATEMENT OF THE CASE

Hallco filed its application in Cause CD 201202483 on April 19, 2012 seeking the unitization enhanced recovery unit described as the Conklin unit for the S/2 of Section 9, T27N, R5E, Kay County, Oklahoma. Hallco sought to unitize the geological interval within the Unit Area known as the Red Fork (Burbank) interval, being identified from 2,951 feet to 3,040 feet in the electric logs survey of the Conklin #9-3 well, now operated by Hallco, which well is located in the NE/4 SW/4 of Section 9. The unitized interval of the Red Fork (Burbank) was previously spaced in the S/2 of Section 9 by Order No. 256462 with 40 acre units. Hallco requested in its application that pursuant to 52 O.S. Section 287.9 an order granting their application would supersede and modify the existing Commission Order No. 256462 affecting the proposed unit. Hallco alleged that the enhanced recovery operation would be in the interest of conservation, prevention of waste and protection of correlative rights. Hallco also alleges that the unitized method of operation as applied to the unitized interval is feasible, will prevent waste and will with reasonable probability result in increased recovery of substantially more oil and gas from the unitized interval than would otherwise be recovered. Hallco requested that it or some other party requested by Hallco be approved as unit operator.

Chaparral filed its application in Cause CD 201203768 seeking unitized management, operation and further development of the Burbank Kay County enhanced recovery unit, including tertiary recovery operations for the W/2 of Section 3, all of Section 4, all of Section 9, the W/2 of Section 10, the W/2 of Section 15, all of Section 16, the N/2 NE/4 of Section 21, and the W/2 of Section 22, all in T27N, R5E, Kay County, Oklahoma. Chaparral requested an order creating the Burbank Kay County enhanced recovery unit for the purpose of unitized management, operation and further development of the oil and gas underlying that subsurface portion of the Unit Area from the Burbank common source of supply, found between the base of the Pink Lime down to the top of the Mississippian Unconformity, being the stratigraphic equivalent of a subsurface depth of 2928 feet down to and including 3,070 feet, as found in the Dual Induction/Gamma Ray Log of the Conklin #9-3 well located in the NE/4 SW/4 of Section 9. Chaparral considered the plan to be fair, reasonable and equitable to the end that it would protect, safeguard and adjust the respective rights and obligations of the respective owners entitled to share in production from the proposed Burbank Kay County enhanced recovery unit. Chaparral was requesting that it be named operator of the Unit Area under the plan. The plan would be ratified by owners of record owning more than 63% (exclusive of royalty interest owned by lessees or by subsidiaries of any lessee of record) of the normal 1/8th royalty interest in and to the Unit Area. The Plan would be signed and ratified by lessees of record owning more than 63% of the Unit Area. The land described in the caption of the application was reasonably underlain by the Burbank common source of supply and the unitized management, operation and further development of the Unit Area and of said common source of supply are reasonably necessary to waterflooding operations and other forms of joint effort calculated to increase substantially the ultimate recovery of oil and gas from said Unit Area and said common source of supply than would otherwise be recovered. Unitized management, operations and further development of the Unit Area and the Burbank common source of supply by pressure maintenance, pressuring operations, waterflooding operations (CO_2 injection) and other forms of joint effort, in accordance with the Plan, are feasible, will prevent waste and will, with reasonable probability, result in the recovery of substantially more oil and gas from said Unit Area and said common source of supply than would otherwise be recovered. The estimated additional cost, if any, of conducting such operations as are contemplated by the Plan will not exceed the value of the additional oil and gas recovered.

The Motion to Consolidate was filed by Chaparral on July 30, 2012, stating that these causes concerned the same land insofar as the S/2 of Section 9,

T27N, R5E, Kay County, Oklahoma. These causes both involve enhanced recovery proposals, but involve competing ideas on how the S/2 of Section 9 and adjacent land should be developed. The witnesses testifying will be the same in each cause and that in the interest of judicial economy and consistency of decisions said causes should be consolidated for hearing. An order issued December 13, 2012 consolidating the above styled cases.

The current Motion to Continue Causes Off Protest Docket was filed on February 28, 2013 in CDS 201202483 and 201203768.

REPORT OF THE ADMINISTRATIVE LAW JUDGE

1) **ALJ Michael Decker** recommended the denial of the April 17, 18, and 19, 2013 continuance request and granted the continuance request for April 10, 11, and 12, 2013.

2) The Motion to Continue concerned the protest dockets of April 10 through April 12 and April 17 through April 19, 2013. One of the reasons that Hallco requested the continuance was to allow for the determination by ALJ Paul Porter on a Motion to Consolidate Cause CD 201204362 with the above listed consolidated causes. ALJ Porter orally denied the motion finding that Cause CD 201204362 should be heard and determined independent of the captioned protested proceedings. Hallco argued that until a determination could be made in the Motion to Consolidate, the captioned causes should be continued off the protest docket to be reset at a later date agreeable to all parties. Hallco stated that Chaparral had filed some motions for deposition and discovery and those were on the docket on the week of March 11th and were heard by ALJ Decker, whereby he entered recommendations concerning one of the motions, and took one under advisement. Hallco also therefore requested a continuance due to the discovery requests being appealed or not decided before the April protest dates.

3) Chaparral presented their case that there had been an agreement in early 2013 and Chaparral felt it was prejudice to his client for Hallco to request to change the hearing protest dates. After hearing the arguments of the parties, ALJ Decker recommended that the protest docket setting for the consolidated unitization cases in CD 201202483 and CD 201203768 be

continued from the April 10, 11 and 12 protest docket, but not continued from the April 17, 18 and 19 protest docket.

DECISION OF THE OIL & GAS APPELLATE REFEREE

1) The Referee would affirm the ALJ's ruling on the above Motion to Continue Causes Off Protest Docket. The ALJ's ruling is supported by the weight of the evidence and free of reversible error.

2) The determination of whether to grant a Motion to Continue in a case pending before the Commission is discretionary. There is no showing that the ALJ abused his discretion in granting the Motion to Continue the consolidated cases off the protest docket on April 10 through 13, 2013 and denying the continuance of said consolidated cases off the protest docket on April 17 through April 19, 2013.

3) Order No. 605383 issued by the Commission on December 13, 2012 denied Hallco's Motion to Dismiss Chaparral's Cause CD 201203768 and found that Chaparral had legal authority for its cause under 52 O.S. Sections 287.1 - 287.15 and OCC-OAC 165:5-7-20 as Order No. 27937 was not an unitization order. Chaparral's unitization application in CD 201203768 was not a collateral attack on Order No. 27937. Order No. 27937 was found to be a cooperative water flooding project between people that owned or formed the cooperative water flood, and the Phillips' records indicated that whatever distribution of costs had existed under the cooperative water flood project under Order No. 27937 had been abandoned where the leases had been released and there had been numerous new leases taken. Thus, the records of Phillips agree that Order No. 27937 was a cooperative water flood project and not a unitization. Therefore, Hallco's argument that Cause CD 201204362 should be heard and determined prior to these consolidated cases proceeding is not necessary.

4) It should be noted that Chaparral's Motion for Deposition and Subpoena Duces Tecum was filed on March 5, 2013 after Hallco's Motion to Continue Causes Off Protest Docket was filed on February 28, 2013. Thus, Hallco's Motion to Continue is only based on its assertion that Cause CD 201204362 should be heard before the captioned causes can proceed. As stated above, the Motion to Consolidate Cause CD 201204362 with the captioned causes was heard and determined by the Appellate Referee with a decision being to deny the consolidation because the parties as well as the issues and evidence would not be the same as will be in the consolidated Hallco and Chaparral unitization cases. The Referee did not find that Cause CD 201204362 should be tried and determined before the above consolidated

cases. Also, Order No. 605383 does not find that the issues concerning Order No. 27937 in Cause CD 201204362 should be heard before the captioned consolidated unitization causes. Thus, the Referee finds that the issues concerning Cause CD 201204362 can be heard independently from the issues concerning the above consolidated causes. Thus the Referee would therefore affirm the ALJ in his determination that Hallco's Motion to Continue the above styled causes should be denied as to the April 17 through April 19, 2013 hearing protest dates.

RESPECTFULLY SUBMITTED THIS 28th day of March, 2013.

Patricia D. MacGuigan

PATRICIA D. MACGUIGAN
OIL & GAS APPELLATE REFEREE

PM:ac

xc: Commissioner Douglas
Commissioner Anthony
Commissioner Murphy
Jim Hamilton
Gregory L. Mahaffey
Dale E. Cottingham
Richard A. Grimes
Michael L. Decker, OAP Director
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