DECISION SHEET OF THE OIL AND GAS APPELLATE REFEREE

APPLICANT:	LIGHTHOUSE OIL & GAS, L.P.	)
RELIEF SOUGHT:	HORIZONTAL WELL LOCATION EXCEPTION	) CAUSE CD NO. 201409061
LEGAL DESCRIPTION:	SECTION 14, TOWNSHIP 17 NORTH, RANGE 19 WEST, DEWEY COUNTY, OKLAHOMA	)

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ORAL APPEAL OF THE ADMINISTRATIVE LAW JUDGE'S RULING ON AN APPLICATION FOR EMERGENCY ORDER

This application for Emergency order came on for hearing before **Michael L. Decker**, Administrative Law Judge for the Oklahoma Corporation Commission, at 9 a.m. on the 24th day of August, 2015, 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: **Gregory L. Mahaffey**, attorney, appeared for applicant, Lighthouse Oil & Gas, L.P. ("Lighthouse"); **Charles L. Helm**, attorney, appeared for JMA Energy Co., LLC ("JMA") and Yukon Trading Company, LLC; **Freda Williams**, attorney, appeared for Chesapeake Operating Inc. and Chesapeake Exploration L.L.C. ("Chesapeake"); and **James L. Myles**, Deputy General Counsel for Deliberations, filed notice of appearance.

The Administrative Law Judge ("ALJ") issued his written Oral Report on the Application for Emergency Order on August 27, 2015 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 4th day of September, 2015. After considering the arguments of counsel and the record contained within this Cause, the Referee finds as follows:

STATEMENT OF THE CASE

On August 24, 2015, the Applicant presented its request for an emergency order to commence, complete, but not produce a horizontal well to test the Cleveland common source of supply in Section 14-17N- 19W, Dewey County, Oklahoma, at a location in the E/2 of the section with a planned completion interval not closer than 330 feet from the North and South lines and not closer than 560 feet from the East line of Section 14. The East line tolerance was amended at the hearing to not closer than 660 feet. The Section 14 spacing for the Cleveland is on 640 acres for standard vertical development pursuant to Order 105050; therefore, the tolerance provided in the spacing unit is 1,320 feet from the unit boundaries. The merits of the Application are set on the Oklahoma City protest docket for October 14, 2015.

ALJ'S SUMMARY OF THE EMERGENCY PROCEEDINGS

1) Lighthouse presented Richard Barker, petroleum land manager, who testified Lighthouse owns a 65% working interest in Section 14 compared to JMA's 0% ownership in the unit. JMA owns 19% in the offset Section 13-17N-19W, toward which the proposed location exception well is moving. Lighthouse operates an existing horizontal Cleveland well in the E/2 of Section 13. Lighthouse also operates an existing horizontal Cleveland in Section 23-17N-19W, the southern offset spacing unit to Section 14. Exhibit A was identified as a well location map for the vicinity of Section 14.

2) Mr. Barker stated Lighthouse has a current rig under contract with Atlas Drilling Co. ("Atlas"), which is completing a drilling project in Section 5-16N-18W, Dewey County, Oklahoma. The Atlas rig in Section 5 (drilling the Windjammer well) is six to seven miles away from Section 14. The rig and contractor have been consistently employed by Lighthouse in its Dewey County drilling program. Once the Atlas rig completes the project in Section 5, it would move to Section 14. Mr. Barker indicated the rig likely would move to Section 14 by September 12, 2015. The use of the Atlas rig immediately upon its completion in Section 5 would entail a substantial mobilization cost savings for Lighthouse.

3) Atlas would charge Lighthouse $15,000 to move the rig the six to seven miles from Section 5 to Section 14. If the rig is not used once available, Atlas would move the rig to its yard in Woodward, Oklahoma. The cost chargeable to Lighthouse, if the rig goes to the yard, would consist of a $55,000 mobilization fee to the yard, plus a $55,000 mobilization fee to bring it back to Section 14. The decommissioning process would also mean a $36,000 total day rate charge

to Lighthouse for the three days needed to move the rig from Section 5 to the Woodward yard.

4) Mr. Barker indicated Lighthouse requested the approval to commence, test, and complete, but not produce the well during the pendency of the protested application. Lighthouse would assume the risk of commencing a well under protest since the application could be denied on its merits. Lighthouse requested a 90 day expiration date from the date of the emergency order. Mr. Barker reported that leases in Section 14 are held by production from the Blackjack well, which produces from the Oswego common source of supply.

5) Mr. Barker identified Exhibit "B", which was explained to be a compilation of orders and applications for horizontal well location exceptions for the Cleveland common source of supply in the vicinity of Section 14-17N-19W, Dewey County, Oklahoma. The Exhibit "B" compilation of orders and applications demonstrated the trend of Cleveland development in the vicinity of Section 14 had been with horizontal wells drilled at 660 foot distances from the 640 acre spacing unit boundaries.

6) Pursuant to cross-examination by JMA, Mr. Barker stated it was possible the Interim Orders for Cleveland horizontal well location exceptions found in Exhibit "B" had occurred as a result of unprotested applications. Some of the orders involved in the well location applications in Exhibit "B" concerned 640 acre horizontal spacing units for the Cleveland, so that the tolerances were 660 feet from the unit boundaries. Because Lighthouse decided to pursue the drilling proposal in Section 14 on a standard 640 acre spacing unit, the horizontal well location exception application was needed because of the 1,320 foot tolerance. Mr. Barker was not aware if any of the horizontal well location exception orders in Exhibit "B" involved wells drilled at 660 foot locations as mirror image wells found in offsetting spacing units.

7) Mr. Barker was asked about the protested hearing that occurred regarding increased density and horizontal well location exception applications in Section 23-17N-19W, Dewey County, Oklahoma, the southern offset section to Section 14. He agreed horizontal well location applications presented in conjunction with an increased density application for the Tonkawa had been recently recommended for denial by an ALJ report filed in Cause CDs 201408566, 201408567, and 201408568. (The AIJ report for Section 23 was presented as Exhibit "C".) Mr. Barker agreed there is no immediately offsetting horizontal Cleveland well in the W/2 of Section 13. Such a possible location would be a "protection well" opposite the proposed 660 foot location requested for the E/2 of Section 14. Mr. Barker agreed the protest to the merits of Cause CD 201409061 had been continued on the protest docket several times, being currently scheduled for October 14, 2015. He indicated the commencement of the well had been delayed because of declining commodity prices.

8) Mr. Barker stated the Atlas contract pertained to the wells planned for Sections 5 and 14. Prior to the current drilling projects, he agreed the rig had

been stacked at the Atlas yard in Woodward. The rig could be decommissioned again, but the mobilization fees to move from Section 5 to the yard, and then at a later time, back to Section 14, would cost Lighthouse in excess of $100,000. Mr. Barker stated once the Windjammer well is completed, Lighthouse has no other Cleveland location that is feasible except Section 14. There is no plan to drill into the Tonkawa formation. Mr. Barker repeated that the proximity of the Windjammer well project to Section 14 would provide the opportunity for Lighthouse to save approximately $131,000 in mobilization costs (comparing the $15,000 fee for the Section 5 to Section 14 move, to the higher mobilization expense caused by the decommissioning move to the yard). If the emergency application is denied the Atlas rig would move back to the Woodward yard and Lighthouse would incur the higher costs. Mr. Barker agreed the higher mobilization expense would arise for Lighthouse if the rig is moved back to the yard, regardless of when the rig is used for Section 14.

9) Under redirect examination, Mr. Barker explained Lighthouse operates an existing horizontal well in E/2 of Section 23, which is 660 feet from the spacing unit boundary. The A1,J recommended denial of the increased density and location exceptions recently proposed for Section 23. Mr. Barker reiterated the Atlas rig contract offered a $15,000 mobilization fee if the rig moved immediately from Section 5 to Section 14 once the Windjammer well project is finished. If the emergency application is denied, the Atlas rig would move back to the Woodward yard. Lighthouse would face a mobilization expense in excess of $100,000 to retain control of the rig.

10) JMA is opposed to the Lighthouse application and wants the opportunity to litigate the merits of the horizontal well location application without the condition of a well having been commenced through an emergency order. The ALJ report filed in the protest impacting Section 23 recommended denial of three applications. If no well is allowed to commence in Section 14, JMA believes it can show reasons to deny the application for the horizontal Cleveland well location exception requested in Cause CD 201409061.

11) Lighthouse stated the emergency application is supported by competent evidence of a substantial financial loss, which Lighthouse would sustain if the emergency request is denied. The ALJ report filed in the protested Section 23 matters should be considered irrelevant to the instant application. Lighthouse's proposed horizontal Cleveland well location for Section 14 comports with the prevailing plan for development of the Cleveland in the vicinity—horizontal wells drilled at 660 foot tolerances in 640 acre spacing units.

REPORT OF THE ADMINISTRATIVE LAW JUDGE

1) After consideration of the Emergency Application, the exhibits, and arguments of counsel, the ALJ recommends that the Emergency Application filed by Lighthouse should be granted. The emergency order should expire 90 days from the date of the order.

2) Based upon the evidence and the arguments of the parties presented on August 24, 2015, the ALJ recommends the approval of the Emergency Application for a horizontal well location exception in the E/2 of Section 14-17N-19W, Dewey County, Oklahoma, with a planned completion interval not closer than 330 feet from the North and South lines and not closer than 660 feet from the East line of Section 14. The evidence presented by Lighthouse demonstrated a financial loss would occur if Lighthouse is denied the opportunity to use the drill rig available from contractor Atlas. The rig is under contract to Lighthouse and currently completing a drilling project in Section 5-17N-19W, Dewey County, Oklahoma. The six to seven mile move of the rig would cost Lighthouse a $15,000 mobilization fee compared to the cost of the rig being decommissioned and moved to the Atlas yard in Woodward, Oklahoma. The Lighthouse witness testified that the mobilization expense to transport the rig to the yard and then back to Section 14 would be $55,000 for each leg of the move, if the rig is not moved to Section 14 once the Section 5 project is complete. The Section 5 drilling project is scheduled for completion by approximately September 12, 2015. The witness also testified Lighthouse would be charged three days of day work expense (a total of $36,000), if the rig is moved to the Woodward yard once the Section 5 project is finished.

3) The evidence established Lighthouse owns a 65% working interest in Section 14 while JMA owns no interest in the spacing unit. JMA owns a 19% working interest in Section 13, the eastern offset spacing unit to Section 14. In Section 13, Lighthouse operates an existing well in the E/2 of the section. Certainly, JMA can assert the position (as expressed during cross examination) that Lighthouse should consider drilling a "protection well" in the W/2 of Section 13 if the Section 14 well is successfully completed in the Cleveland at the proposed location.

4) The compilation of orders and applications provided as Exhibit "B" demonstrates that the prevailing pattern for development for the Cleveland common source of supply in the vicinity of Section 14 has consisted of horizontal wells drilled at 660 foot tolerances from the east and west lines of 640 acre spacing units. Apparently, JMA has drilled (or proposed to drill) several Cleveland horizontal wells in the vicinity with such tolerances. The denial of the applications for increased density and location exception orders in Section 23-17N-19W, Dewey County, Oklahoma, recommended by the ALJ report filed in Cause CDs 201408566, 201408567, and 201408568, appears to have been based upon the ALJ's proposed findings of incomplete expert

testimony in the protested hearing. Lighthouse has demonstrated an immediate financial loss will occur with respect to its proposed horizontal well location exception in Section 14. Lighthouse will commence the Section 14 well at its own risk of denial of the merits application. Therefore, if Lighthouse fails to meet its burden of proof and persuasion in the protested hearing on the merits of the instant application, it will sustain the loss of its investment in the horizontal Cleveland well at the proposed location in Section 14.

DECISION OF THE OIL & GAS APPELLATE REFEREE

1) The Referee finds the ALJ should be affirmed.

2) I have thoroughly read the transcript of the August 24, 2015 hearing before ALJ Michael L. Decker, concerning Lighthouse's application for emergency order. In addition, the evidence and facts presented at the hearing on August 24, 2015 are thoroughly set forth in ALJ Michael L. Decker's Report issued on August 27, 2015. The ALJ has written a well-reasoned report, has addressed all of the factual and legal issues and has reached the correct legal conclusion. I therefore would adopt and affirm the Summary of the Emergency Proceedings and the Findings and Recommendations set forth by the ALJ in his Oral Report of the Administrative Law Judge in Response to Application for Emergency Order filed on August 27, 2015 as fully and completely as if set out herein.

3) After reviewing the evidence presented in the transcript by Lighthouse and the ALJ's Summary of the Emergency Proceedings set out in his Oral Report, the Referee finds there was substantial evidence to support the ALJ's decision. *Cameron v. Corporation Commission*, 414 P.2d 266 (Okl. 1966); *Application of Continental Oil Company*, 376 P.2d 330 (Okl. 1962); and *Chenoweth v. Pan American Petroleum Corporation*, 382 P.2d 743 (Okl. 1963) and *Vogel v. Corporation Commission*, 399 P.2d 474 (Okl. 1965).

RESPECTFULLY SUBMITTED THIS 9th day of September, 2015.

Patricia D. MacGuigan

PATRICIA D. MACGUIGAN
OIL & GAS APPELLATE REFEREE

PM:ac

xc: Commissioner Anthony

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Commissioner Hiett
James L. Myles
ALJ/Director Michael L. Decker
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