

See also dockets:
07-CONS-144-CBPO
&
07-CONS-145-CBPO

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

IN THE MATTER OF ESTABLISHING RULES)	DOCKET NO. C-164
AND REGULATIONS RELATING TO THE)	consolidated with
PRODUCTION, SALE AND CONSERVATION)	DOCKET NO. 60,024-C
OF NATURAL GAS IN THE HUGOTON FIELD)	(C-7,058)
AND THE PANOMA COUNCIL GROVE GAS)	
POOL OF KEARNY, FINNEY, GRANT,)	CONSERVATION DIVISION
HASKELL, MORTON, STEVENS, SEWARD,)	
STANTON, GRAY, HAMILTON AND)	
WICHITA COUNTIES, KANSAS.)	

**BASIC INTEGRATED PRORATION ORDER
FOR THE HUGOTON GAS FIELD
AND THE PANOMA COUNCIL GROVE GAS FIELD
(as amended and integrated)**

Now, the above captioned consolidated docket comes on for consideration and determination upon the investigation instituted by the Commission to determine the proper regulatory controls to be used in the Hugoton Gas Field and the Panoma Council Grove Gas Field ultimately to afford each developed lease therein an opportunity to produce approximately the amount of recoverable gas which underlies such lease. Based upon the evidence before it, the Commission finds as follows:

A. INTRODUCTION

1. HUGOTON GAS FIELD.

The Hugoton Gas Field is a common source of supply of natural gas located in Hamilton, Kearny, Finney, Grant, Gray, Haskell, Morton, Stevens, Seward, Stanton and Wichita Counties, Kansas. The field extends south to the Kansas-Oklahoma state line, into the Oklahoma Panhandle, and on into the Texas Panhandle. The Kansas portion of the field is approximately 90 miles long and approximately 50 miles wide. As of June 2006, approximately 7,543 commercial gas wells have been completed and are currently producing in said field. Over 24 trillion standard cubic feet of gas have been withdrawn from that common source of supply. The presently developed acreage held by production totals approximately 2,650,000 acres.

2. PANOMA COUNCIL GROVE GAS FIELD.

The Panoma Council Grove Gas Field is a common source of supply of natural gas located in Finney, Grant, Hamilton, Haskell, Kearny, Morton, Seward, Stanton, Stevens, and Wichita Counties, Kansas. The Kansas portion of the field is approximately 60 miles long and approximately 30 miles wide. As of June 2006, approximately 2,124 wells have been completed and are currently producing in said field. Over 3 trillion standard cubic feet of gas have been withdrawn from that common source of supply. The presently developed acreage held by production totals an estimated 1,360,000 acres, based on 640 x 2,124 producing wells..

B. COMMON SOURCES OF SUPPLY

1. K.A.R. § 82-3-101 defines “common source of supply” as each geographic area or horizon definitely separated from any other area or horizon that contains, or appears to contain, a common accumulation of oil, gas, or both.

2. HUGOTON GAS FIELD.

(a) Gas is found in porous limestone and dolomite, and clastics of the Chase Group of the Permian System at an average depth of from 2,700 to 2,800 feet below the surface. Impervious shale bodies are encountered within the producing horizons throughout the field, but it is evident that the Hugoton Field is a geographic area or horizon definitely separate from any other area or horizon that contains a common accumulation of gas and therefore constitutes one common source of supply. The thickness of the gas-producing horizons or zones varies considerably, throughout the field. The number of gas producing horizons varies between wells and tracts. The virgin shut-in wellhead pressure was 435 pounds per square inch. The movement of gas within a common reservoir is governed by pressure differentials; the gas migrates from the areas of higher pressure to the areas of lower pressure. The extent of the movement or drainage of gas between developed leases depends upon the heterogeneity of the reservoir and the magnitude of variations in pressures, the areas contained in such leases and the amounts of gas withdrawn.

(b) In 1942, after proper notice and hearing, this Commission determined that it was necessary to take jurisdiction over the Hugoton common source of supply in order to prevent waste and protect correlative rights of all interest owners. A Basic Proration Order has been in effect since 1942 and has been amended from time to time. The circumstances and conditions initially necessitating the Commission’s taking jurisdiction over the Hugoton Field continue to exist.

3. PANOMA COUNCIL GROVE GAS FIELD.

(a) The Panoma Council Grove Gas Field is made up of numerous interbedded limestone and shale members comprising what is commonly referred to as the Council Grove Group of the Lower Permian. Gas is generally encountered in the limestone members therein between the depths of 2,800 to 3,000 feet below the earth’s surface. The individual gas

productive limestone members in this reservoir are generally continuous and can be traced from well to well throughout the entire area, although due to localized conditions such as permeability, porosity, and the water table, one of these zones may be productive in one well and not productive in another. However, all wells in this entire area that were completed in the Council Grove reservoir have produced gas from one or more of the zones therein. There are no known stratigraphic barriers present in this Field, which might divide the area into two or more common sources of supply. Conversely, each of the approximately 2,124 wells currently producing therefrom have relatively the same bottom hole pressures, indicating that only one common source of supply exists throughout the area. It cannot be determined whether or not each separate horizon was, prior to development, a separate common source of supply. Rather, it has been determined that production from the various gas producing zones in each well typically has been commingled in the well bore and vertical interconnection now exists between these various productive zones. Since these various zones are in vertical communication with each other and because they extend laterally throughout the entire region, the Commission has determined that one common source of supply now exists in the Council Grove Group of the Lower Permian.

(b) In 1962, after proper notice and hearing, this Commission determined that it was necessary to take jurisdiction over the Panoma Council Grove common source of supply in order to prevent waste and protect correlative rights of all interested owners. A Basic Proration Order has been in effect since 1962 and has been amended from time to time. The circumstances and conditions initially necessitating the Commission to retain jurisdiction over the Panoma Council Grove Gas Field continue to exist.

C. JURISDICTION

1. The region under consideration and the potential production therefrom are very substantial in quantity, and each field and common source of supply at issue are comprised of one of the larger series of gas producing horizons in the state.
2. In order to safeguard the correlative rights of landowners and operators in each common source of supply, to prevent disproportionate production therefrom, and in order to provide for orderly development of new wells, it is necessary for the Commission to take jurisdiction of the Hugoton Gas Field and Panoma Council Grove Gas Field. Therefore, as contemplated by K.S.A. § 55-703, it is necessary for the Commission to prescribe rules and regulations for the drilling of wells and production of gas to the end that each person may take therefrom only such portion, of the amount that may be produced without waste, as will afford to each developed lease the opportunity to ultimately produce the volume of gas recoverable from the lease.
3. As of February 2007, substantial depletion of reservoir pressure and gas volumes in the fields reduces the need for continued strict prorationing under the basic proration orders for both the Hugoton Gas Field and the Panoma Council Grove Gas Field to prevent waste and protect correlative rights, inasmuch as each field's decline over six decades of production precludes significant uncompensated drainage of gas between developed leases. Moreover, low production rates among the wells in each field now dictate that the regulatory provisions of the basic proration orders be revised so that they will not unduly and adversely affect the economics of

prudently operating and producing wells in the fields. To that end, by this Order the Commission hereby exercises its jurisdiction in the field to permit, pursuant to the regulatory provisions set forth below, each well drilled therein to produce at 100% of open-flow capability, subject to production curtailment for non-conforming well locations, while maintaining spacing requirements as to future wells drilled and produced hereunder.

4 Accordingly, the Commission finds that the production of gas in accordance with the regulatory controls prescribed herein has a reasonable relation to prevention of waste, to the prevention of inequitable and unfair production of gas from the common source of supply, and to the prevention of unreasonable discrimination in favor of one producer in said field and against another producer therein and that production of gas in such manner will in fact accomplish the purposes for which Article 7 Chapter 55, General Statutes of Kansas of 1935, was enacted.

D. GEOGRAPHIC LIMITS

1. At the present time we find that the Hugoton Gas Field should be considered to be within and include the following described acreage.

See Appendix A

2. At the present time we find that the Panoma Council Grove Gas Field should be considered to be within and include the following described acreage.

See Appendix B

E. BASIC UNIT ACREAGE REQUIREMENTS

1. HUGOTON GAS FIELD

Since 1936, practically all of the drilling in the field has occurred upon 640-acre tracts. The Basic Proration Order of 1944 adopted 640 acres as the basic acreage unit to be used in the proration formula, and equities have been established among and between the basic acreage units in the field such that it would be inequitable to modify the basic acreage units established to date. However, in 1986, the Commission determined that one well completed in the Hugoton Field common source of supply may not effectively and efficiently drain 640 acres without causing waste. Since July 18, 1986, upon considering the cost of drilling, equipping and operating two wells per basic acreage unit, the Commission has maintained hereunder basic acreage units of 640 acres, with each operator having the right at his option to drill up to two wells on each basic acreage unit of 480 acres or more, and one well on those basic acreage units of less than 480 acres. Accordingly, the basic acreage unit to be used in the continued regulation of the Field as prescribed hereunder shall be 640 acres. Certain wells drilled to date in established basic acreage units lying within sections which, according to the United States Governmental Survey, contain more than 640 acres, may have such excess acreage within the unit attributed thereto as hereunder provided.

2. PANOMA COUNCIL GROVE GAS FIELD

Since development in the Panoma Council Grove Gas Field began, it has been the prevailing view that one well completed in said common source of supply can adequately and efficiently drain 640 acres without causing waste. Accordingly, acreage units largely consisting of 640 acres have been the basic acreage units to be used in the attribution of acreage to fairly proration production from the field, and equities have been established among and between said units in the field. Therefore, it would be inequitable to modify the basic acreage units established to date. Accordingly, the basic acreage unit to be used in the continued regulation of the Field as prescribed hereunder shall be 640 acres.

F. WELL DENSITY, SETBACKS AND SPACING

1. Due to the current low pressures and low volumes of production in the Hugoton Gas Field and the Panoma Council Grove Gas Field, it is now necessary that the Basic Proration Order for the Hugoton Gas Field and the Panoma Council Grove Gas Field allow commingling of production between these fields in order to promote conservation and prevent waste by increasing the ultimate recovery of remaining gas reserves from both the Hugoton Gas Field and the Panoma Council Grove Gas Field, while assuring the protection of the correlative rights of the owners of interests therein. Therefore, the Commission determines that, on each basic acreage unit of 480 acres or more, at the option of the operator, the completion of up to three wells shall be permitted in each common source of supply. These wells may be completed as set forth in paragraphs (a) and (b) below:

(a) At the option of the operator, each operator of any unit of 480 acres or more, may drill and complete up to three (3) wells, each of which may penetrate through and produce from both the Chase Group and the Council Grove Group in each of those three (3) wells; the production from those formations may be commingled in said wells. In the event that diverse ownership interests in the Chase Group and/or the Council Grove Group in a particular production unit will not allow the commingling of production from those formations, then the operator of said proration unit of 480 acres or more may drill up to three (3) wells that may be completed in the Chase Group and up to three (3) wells that may be completed in the Council Grove Group.

(b) At the option of the operator, each operator of any unit of less than 480 acres may drill and complete up to two (2) wells, each of which may penetrate through and produce from both the Chase Group and the Council Grove Group in each of those two (2) wells; the production from those formations may be commingled in said wells. In the event that diverse ownership interests in the Chase Group and/or the Council Grove Group in a particular production unit will not allow the commingling of production from those formations, then the operator of said proration unit of less than 480 acres may drill up to two (2) wells that may be completed in the Chase Group and up to two (2) wells that may be completed in the Council Grove Group.

2. While drilling an increased density well may be appropriate for some proration units that are subject to this order, such wells may not be necessary or economic for all such units due to variability in the Chase Group interval and in the Council Grove Group interval. Therefore, permission to drill one (1) additional well on each fully developed proration unit shall be determined on a unit-by-unit basis and subject to the approval of the Commission. One (1) additional well completion in the Chase Group interval and/or the Council Grove Group interval shall be allowed whenever the Commission shall find that such additional well (a) is necessary to recover significant additional gas reserves from the unit that would not otherwise be recovered by the existing wells on that unit, and (b) will not cause uncompensated cognizable drainage between proration units. An operator seeking an additional well completion shall submit an application with the Commission, and shall provide notice of the filing of that application in accordance with K.A.R. § 82-3-135a(b) & (d). If a protest is filed in accordance with K.A.R. § 82-135a(e), the application shall be set for hearing before the Commission and the applicant shall bear the burden of proof at the hearing.

3. As to units of less than 480 acres, such additional drilling of wells will be allowed on a unit-by-unit basis upon the filing and Commission approval of an increased density application as set forth above in paragraph F.2., above.

4. For basic acreage units subject to this order, acreage shall be contiguous and adjoining with each well (in the absence of a well location exception being granted by the Commission) being located not nearer than 1,250 feet from any boundary line of the unit. All well location exceptions granted by the Commission or for which an application requesting a well location exception was filed prior to the effective date of this Consolidated Order shall be maintained without further proceedings. All wells in either the Hugoton Gas Field or the Panoma Council Grove Gas Field which were drilled prior to the effective date of this Consolidated Order, and for which a well location exception was granted by the Commission, shall be allowed to produce at full capability pursuant to paragraph J herein, unless the Commission has restricted the production of the pertinent well due to the location of the well. Absent a location exception being granted by the Commission, setting a different allowable restriction, any Hugoton Chase or Panoma Council Grove well drilled after the effective date of this Consolidated Order, either commingled or completed in either interval, drilled nearer than 1,250 feet to any unit boundary shall have its daily allowable determined by the following formula:

$$\text{Daily Allowable} = \text{Initial test CAOF per day} \times D / 1250$$

Where D = Distance from well location to nearest unit line, but no less than 330 feet from same.

Under the above formula, if any such well drilled is drilled closer than 1250 feet but not closer than 330 feet to the nearest unit boundary line, without a location exception being granted by the Commission, such well shall be required to produce at a daily allowable restricted by the proportionate reduction determined using the above formula.

5. For each well drilled closer than 1,250 feet but not closer than 330 feet to the nearest unit boundary line, without a location exception and thus subject to the required allowable reduction according to the above formula, the operator thereof may file an affidavit with the Commission's Conservation Division stating that it is electing to accept a restricted allowable thereunder,

showing the calculation of said allowable according to the applicable distance “D” used in said calculation.

6. Absent the filing of an affidavit as allowed by paragraph F.5. above, wells which are drilled closer than 1,250 feet from the nearest unit boundary line shall be assigned a production allowable only if a well location exception is granted by the Commission as provided herein and under the rules and regulations of the Commission, and shall be subject to any allowable restriction the Commission may impose, after notice of the application and any hearing prescribed by said regulations (in the event of a protest). In addition, any horizontal well drilled such that more than 625 feet of the horizontal portion is within 1,250 feet of a unit boundary shall be permitted only by the grant of a well location exception as provided herein and under the rules and regulations of the Commission, and subject to any allowable restriction that the Commission may impose after notice of the application and any hearing prescribed by said regulations (in the event of a protest) in lieu of that as determined above.

7. An operator will be subject to K.A.R. § 82-3-133a for the balancing of overage accrued in excess of a restricted allowable set pursuant to an affidavit filed as set forth hereinabove, as imposed by the Commission as a condition of the grant of a location exception, or as may be otherwise imposed.

G. NONCONFORMING UNIT ACREAGE REQUIREMENTS

1. In addition to the basic unit acreage requirements set forth above at Section E, all acreage attributable to units formed or otherwise subject to this Order shall be contiguous and adjoining, unless an exception is granted after notice of the application and any hearing prescribed by Commission regulations (in the event of a protest). However, these restrictions of contiguous and adjoining acreage shall not apply to units which have already been formed in compliance with orders issued by the Commission prior to April 1, 2007 (“existing non-contiguous units”).

2. In the event undrilled acreage which is not attributed to a gas well lies within the confines of a municipality, and the drilling of gas wells thereon would create hazardous conditions and endanger the welfare of the inhabitants of such city, the Commission may, upon proper application and after a public hearing, authorize the attribution of such undrilled acreage to a unit on which there is a producing well or wells provided the requirements of paragraphs a, b and c are met: (a) such well or wells shall be located within a three-mile radius of the acreage located within the municipal boundaries; (b) such undrilled acreage is reasonably productive of gas; and (c) up to but not exceeding 320 undrilled lease acres may be attributed to any one gas producing well and unit under this paragraph, making a total of 960 acres attributable to such a well.

H. LOCATION AND CONTIGUOUS ACREAGE EXCEPTIONS

1. Exceptions to the well location restriction may be granted whenever the Commission shall find that the granting of such exception is necessary to prevent waste or to protect correlative rights because of one of the following:

- (a) A surface obstruction, either natural or man made;
- (b) Inability to secure acreage after a reasonable attempt has been made;
- (c) The well has been drilled to a depth below the Council Grove Group, and the most favorable location for obtaining production from the deeper formations, based on geological evidence, does not comply with the provisions of said restrictions;
- (d) Geological evidence establishes that the most favorable location is outside the prescribed location for the well;
- (e) Wells which are drilled to test the Chase Group or deeper formations and were spudded prior to April 18, 1986;
- (f) Recompletion of wells which were drilled below the Chase Group prior to April 18, 1986; or
- (g) The well was inadvertently mislocated and written waiver of objection to the location designation furnished the Kansas Corporation Commission from offset operators and notice has been furnished those persons as defined in K.A.R. 82-3-135a(b) within one mile of the acreage attributed.

2. Exceptions to the adjoining and contiguous acreage provision may be granted, whenever the Commission finds:

- (a) (1) That the granting of such exception is necessary to prevent waste or to protect correlative rights;
- (2) That a reasonable attempt has been made to form a unit made up of wholly contiguous acreage and there is no acreage in closer proximity to the well site available on approximately the same economic basis for attribution thereto;
- (3) That the average per acre reserve of the noncontiguous acreage to be attributed to a unit is reasonably comparable to the per acre reserve of the acreage upon which the well is located in the Chase Group or the Council Grove Group, as applicable, or both if the Groups are to be commingled in one or more wellbores located on the subject acreage; or
- (b) The well is proposed for completion in the Council Grove Group and is to be drilled on an existing non-contiguous unit for which a Hugoton allowable previously was granted; and, all acreage concerned is proven to be reasonably comparable in the Council Grove Group.
- (c) The well proposed for completion in the Chase Group is to be drilled on an existing non-contiguous unit for which a Council Grove allowable previously was granted; and, all acreage concerned is proven to be reasonably comparable in the Hugoton Group.

3. All acreage attributed hereunder to a unit must be proven to be productive of gas. The Commission may, either on a complaint filed with the Commission, or upon its own motion, after notice and hearing, exclude any acreage from inclusion in any basic proration unit which, in its judgment, is not productive and should not be considered as proven acreage.
4. The Commission may impose, after notice, and hearing upon protest of a party entitled to notice pursuant to K.A.R. 82-3-135, or upon its own motion, a restricted production allowable on a well being considered for a location exception in the Hugoton Chase common source of supply or Panoma Council Grove common source of supply, or both, where it is determined that the drilling of such well at the location proposed and production thereafter at open-flow capability would cause waste or violate correlative rights.
5. Exceptions to the restriction of two wells to each basic acreage unit of less than 480 acres may be granted if, after notice and hearing, the Commission shall find the granting of such exception is necessary to prevent waste or to protect correlative rights because substantial economic reserves can not be effectively and efficiently drained by the existing wells on the basic acreage unit of less than 480 acres.
6. There are located in the field certain so-called "short" sections, according to the United States Governmental Survey, and that some of such sections contain materially less than 640 acres. Whenever, possible, such sections should be unitized among themselves, or with other leases or tracts, in order to form units of approximately 640 acres; provided, however, that short sections located along the Kansas-Oklahoma state line shall be unitized only with tracts immediately north thereof and the units thus formed may contain more than 640 acres.
7. In cases where it is impossible to create such units, the Commission may, upon proper application, authorize the unitization of such "short" sections containing materially less than 640 acres with other tract or tracts, and under such conditions the acreage attributable to such unit may be greater than the 640 acres hereinbefore provided.
8. There are located in the field certain so-called "long" sections, according to the United States Governmental Survey, and that such "long" sections lie along the north (correction) line of Township 26 South in Hamilton, Kearny, and Finney Counties, and that such "long" sections contain materially more than 640 acres. The Commission finds that, notwithstanding anything else in this order to the contrary, the acreage permitted to be attributable to any one of such "long" sections may exceed 640 acres but shall not exceed 900 acres.
9. Any well capable of producing natural gas, in existence at the time of the adoption of this order, located in any of the subject "long" sections, shall be considered as the well for such "long" section, regardless of its location within the section. The unit on which said well is located shall be entitled to have attributed thereto, when properly unitized, acreage within said section not in excess of 900 acres.

I. UNITIZATION AND ALTERNATE-TRACT UNITS

1. It shall be lawful for the owners of two, or more, separately owned tracts of such land, or, of the minerals located thereunder, by appropriate contract between such owners to cause such lands or minerals to be consolidated as one production unit and to apportion the royalties accruing from the production of the well or wells, to be divided among them as they may agree and when such agreement shall have been made, the royalties arising from the production of the well or wells shall be allocated as the parties thereto may agree. It shall further be lawful for any operator or well owner to agree with the owners of the lands or minerals to become part of a production unit and to share the royalties upon such basis as the operator and landowner or mineral owners may agree.

2. In addition to the existing basic production units in the Hugoton Gas Field and Panoma Council Grove Gas Field, operators, working interests, and owners of minerals in the Chase Group or the Council Grove Group, or both, may pool their interests in such production units to create an "alternate tract unit" only for the purpose of drilling one well on said unit, designated the "alternate tract unit well" for said unit, with production from such well shared equitably among all of the owners of working and royalty interests in the existing basic production units that contribute acreage to the alternate tract unit as agreed by those owners of the alternate tract unit. In the event of less than full agreement among all such owners, nothing in this order shall either prohibit or authorize the filing of an application for unitization under K.S.A. § 55-1301, *et seq.*

The formation of an alternate tract unit shall only affect the ownership of production from the alternate tract unit well or any replacement thereof. The formation of an alternate tract unit shall not affect the ownership or equities in all existing or future wells in the basic production units that contribute acreage to the alternate tract unit, regardless of the location of such wells.

Alternate tract units shall consist of approximately 640 acres forming an approximate square, consisting of either: (a) two half-sections in two governmental sections or production units directly adjacent and contiguous, forming a "stand-up" north-south oriented rectangle or a "lay-down" east-west oriented rectangle; or (b) four quarter-sections in four governmental sections or production units directly adjacent and contiguous forming an approximate square. The non-contiguous unit exception provisions of paragraph G of this Order shall not apply to alternate tract units.

Alternate tract unit wells drilled on such alternate tract units shall be located as near to the geographic center of the unit as practicable, but in no case less than 1,250 feet from any alternate tract unit boundary. Alternate tract unit wells shall not be drilled outside of these designated tolerances, and the location exception provisions of paragraph H of this Order shall not apply to alternate tract unit wells.

Not more than one alternate tract unit well may be drilled on each alternate tract unit, and the increased density provisions of paragraph F of this Order shall not apply to alternate tract units.

In no case shall any acreage included in an alternate tract unit formed under this paragraph be included in any other such alternate tract unit as to production from the Chase Group, the Council Grove Group, or both, as the case may be.

3. Additionally, notwithstanding any provision in this order to the contrary, where the operator elects to drill an alternate tract unit well on an alternate tract unit as provided hereinabove, said well may be commingled as to production from the Chase Group and Council Grove Group as may be encountered therein, according to the provisions of Paragraph F of this order.

4. All alternate tract units, in vertical alignment for the drilling and completion of both the Chase Group and the Council Grove Group, shall be comprised of equal acreage situated on the same geographic position. Such vertically aligned units that differ in either acreage size or geographic position, or both, shall be permitted only by an Order of the Commission obtained after notice and hearing.

5. Prior to drilling an alternate tract unit well, the unit operator shall file with the Conservation Division of the Commission an affidavit describing the acreage comprising the alternate tract unit with a plat showing same and including the acreage comprising the alternate tract unit and each Chase and Council Grove well within the alternate tract unit which is producing or has produced therein. The Commission Staff shall have thirty (30) days from the date of filing of the affidavit to object to the drilling of an alternate tract unit well thereon for failing to prevent waste, and upon such objection, shall set the matter for hearing and provide notice in accordance with K.A.R. 82-3-135a. If no objection is filed within thirty (30) days, the alternate tract unit and the drilling of a well thereon is automatically approved.

J. PRODUCING CAPABILITY

The adoption of regulatory controls that will provide each well the opportunity to ultimately produce approximately the amount of recoverable gas underlying the acreage attributable to such wellbore is the object sought to be accomplished by this Order. To that end, each well drilled hereunder that conforms to the applicable well location tolerances set forth herein shall be allowed to produce up to the physical limit of its productive capability. Wells that do not conform to the well location tolerances set forth in paragraph F of this Order shall be subject to the restrictions on production set forth in paragraph F unless an order is entered by the Commission granting a well location exception in accordance with the provisions of paragraph H of this Order.

K. OPEN FLOW TESTING

1. The initial open-flow capability of each new or recompleted well in the Hugoton Field and/or the Panoma Field shall be determined by conducting a 24-hour one-point stabilized open flow test using a slope factor "n" equal to 0.85 in accordance with the general rules and regulations of the Commission, including, but not limited to, the provisions of K.A.R. § 82-3-

303, as amended from time to time. The results of that well test shall be reported by the operator to the Commission in accordance with the general rules and regulations of the Commission.

2. All data collected from an individual well test must be available in a reproducible format for verification and analysis by Commission Staff. If there is any loss or interruption of data transmission, the well shall be retested. No change of data recording elements shall be allowed during a well test.

L. MONTHLY REPORTS

The Commission shall publish monthly for dissemination among the Hugoton Field and Panoma Field operators and producers a report that contains the following information for each of the wells in both of those fields: monthly production volume; pressure data; the monthly allowable and the overage or underage status for any wells that are subject to a restricted allowable; a notation identifying those wells that are authorized to produce under vacuum conditions; a notation identifying whether said well is producing from the Chase Group, the Council Grove Group, or both; a notation identifying alternate tract unit wells; and any other information deemed proper by the Commission.

M. MARKET DEMAND JURISDICTION RESERVED

If the Commission determines that the total volume of gas produced from the Hugoton Field and the Panoma Field exceeds the market demand for gas from said fields, as determined under K.S.A. § 55-703(a), the Commission may, on its own motion and upon due notice to the operators of the wells in both fields, conduct a hearing to determine whether production from all the wells in both the Hugoton Field and the Panoma Field should be reduced ratably to account for such decreased market demand. In the event that the Commission enters an order that restricts production from the wells in those fields, the Commission shall give notice of and conduct additional hearings, not less frequently than every six months thereafter, to receive evidence and consider whether the market demand for gas produced from those fields has changed and whether production from the wells in those fields should be increased or reduced, or whether the restrictions on production should be removed. The Commission shall continue to conduct such hearing until such time as the Commission enters an order eliminating the restrictions placed on production from said fields pursuant to this paragraph.

N. TREATMENT OF OVERAGE AND UNDERAGE

1. As of July 1, 2007, all accrued overage and underage on all wells in the Hugoton Field and the Panoma Field shall be canceled. However, nothing in this provision shall prohibit the accumulation of overage and underage after July 1, 2007, for any wells in the Hugoton Field or the Panoma Field that are subject to restrictions on production under the provisions of this Order or under the provisions of any subsequent Order issued by the Commission restricting production from any well.

2. As to overage accrued prior to July 1, 2007, and canceled pursuant to paragraph 1 of this Section, any interested party may file with the Commission an application for hearing with notice in accordance with K.A.R. 82-3-135a on or before December 31, 2007 to protest such permanent cancellation and request reinstatement of the overage on a well-by-well basis. The Commission after hearing may reinstate all or part of the overage and impose by Order such restrictions on future production from such well as necessary to protect correlative rights and prevent waste. If no such application is filed pertaining to a given well on or before December 31, 2007, overage accrued by such well prior to July 1, 2007 shall be deemed permanently canceled immediately thereafter without further recourse.

3. As to any restriction on allowed production imposed on a well by the provisions of this Order, as amended effective July 1, 2007, or by an Order of the Commission, the Commission Staff is directed to publish semi-annually the over/under status of all such wells in the Hugoton Field and the Panoma Field no later than May 1 and November 1 of each year.

4. Except as otherwise provided herein, all future overage and underage shall be balanced and canceled in accordance with the provisions of K.A.R. § 82-3-133a, as amended from time to time. Overage that is not made up within the time designated in K.A.R. § 82-3-133a(c) shall subject the well and the operator to the penalties for overproduction set forth in K.A.R. § 82-3-133.

5. If an affidavit is filed with the Conservation Division of the Commission stating that additional gas must be produced from any overproduced well that is subject to restrictions on production during certain months to meet irrigation tap requirements, the production from that well may exceed the amount of gas that would otherwise be allowed under K.A.R. § 82-3-133 to bring that well into balance; provided, however, that such production shall not exceed 3,000 MCF during any 6-month balancing period.

6. An operator may at any time request relief from the curtailment allowable described in this paragraph by filing an Application with the Commission in accordance with K.A.R. § 83-3-300, and otherwise in accordance with the Commission's rules of procedure, K.A.R. §§ 82-1-201, et seq. Any such application for relief shall (1) include a plan for bringing the well back in tolerance to achieve the required reduction in a reasonable amount of time; and (2) demonstrate that an undue hardship will occur without the requested relief. "Undue hardship" shall be deemed to exist if the applicant shows either (1) that without the requested relief there is no alternative means for overcoming the hardship, or (2) that the operator had no control over the circumstances that resulted in the well exceeding tolerance levels.

O. WELL TEST RESPONSIBILITY AND SHUT-IN WELL TEST SCHEDULING

1. Initial open-flow tests and all subsequent shut-in well tests of the wells in the Hugoton Field and the Panoma Field, including retests, shall be taken by the owner or operator of the well. The owner or operator shall obtain a 48-hour shut-in pressure well test during the applicable year as set out below. Said tests will be taken as hereinafter provided:

(a) One commingled well in each of the even numbered sections comprising the Hugoton Field and/or Panoma Field, the identity of which shall be determined by the operator, shall be tested between January 1 and December 31 beginning in the year 2008, and thereafter, one commingled well in each of the odd numbered sections comprising the Hugoton Field and/or Panoma Field, the identity of which shall be determined by the operator, shall be tested between January 1 and December 31 in the year 2009. Thereafter, this biannual testing cycle shall be repeated. For sections that do not contain a commingled well, a 48-hour shut-in pressure test shall be run in accordance with the above schedule on one well completed in either the Chase Group or the Council Grove Group selected by the operator. Results of such tests, including the date of the test, shall be reported to the Commission no later than sixty (60) days following the end of the calendar year when such test was conducted.

(b) New wells and recompleted wells shall have an initial 24-hour single-point open-flow test after such completion or recompletion using a .85 slope factor and otherwise conducted in accordance with the provisions of K.A.R. §§ 82-3-303 and 304.

(c) (i) The Conservation Division shall, upon written request by the operator, grant a 24-hour single point open flow retest on any well whenever the operator verifies to the Conservation Division that any of the following work has been performed on that well subsequent to its most recent test: acidizing, reperforation, fracture treatment, sand/paraffin/scale removal or other wellbore cleanouts, casing repair, squeeze cementing, initial installation, or enhancement of artificial lifts including plunger lifts, rods, pumps, submersible pumps and coiled tubing velocity strings, downsizing existing tubing to reduce well loading, drilling deeper or recompleting in the Chase Group and/or Council Grove Group, bacteria treatment, polymer treatments, upgrading the size of the pumping unit equipment, setting bridge plugs to insulate water producing zones, addition of mechanical devices to dewater a well, enhancement of surface equipment, installation or enhancement of compression equipment, line looping or other technique or equipment which increases production from a well or a group of wells in a project, or any combination of the aforementioned operations. The following operations shall not entitle an operator to a retest: routine maintenance, routine repair, or like-for-like replacement of downhole or surface equipment such as rods, pumps, tubing, packers or other mechanical device. The retest shall be performed in accordance with the provisions of paragraph O(1)(b) of this Order.

(ii) With respect to operations performed on any well other than as specified in paragraph (c)(i) above, the Conservation Division may, in its discretion, grant a retest regardless of the year that the well is regularly scheduled for testing if the operator files with the Conservation Division a verified written request for a retest describing the actions that have been taken by the operator on the well and upon the Conservation Division's determination that those actions were intended to and will likely result in a sustained enhancement of the deliverability of the well. When requesting a discretionary retest, the operator shall verify to the Conservation Division that a copy of its request for a retest was mailed or delivered to each operator or lessee of record and each owner of

the minerals in unleased acreage within a one-mile radius of the well for which the retest is sought. The request shall be held in abeyance for a period of twenty-one (21) days following the filing and service of the request. If no protests are filed during that time period, the request may be granted administratively by the Conservation Division. If any protests are filed, the request shall be set for hearing before the Commission.

3. Operators of offset wells shall have the right, upon request, to witness the initial test of a new or recompleted well, a retest, or a 48-hour shut in test. A written report thereof, signed by the representative of the Conservation Division who took or supervised the same, shall be made and filed with the Conservation Division, form for which shall be furnished by the Division. The acreage attributed to each well, including an alternate tract unit well, shall be certified in writing by the owner or operator of the well and, if the attributed acreage is increased or decreased at any time after the initial report thereon is made, such fact shall be promptly certified by the owner to the Conservation Division. Any operator in the field shall have the right to challenge the correctness of the acreage assigned to any well, unit, or alternate tract unit. As new wells are brought in, their open-flow capabilities and pressures, shall be taken, reported and certified in like manner.

P. GAS METER REQUIREMENTS

All wells shall be equipped with meters of an approved type and the amount of gas produced from each well shall be accurately measured. All units that contain more than one well shall accurately measure the gas from each well separately, and such measurements shall be reported to the Commission. Where more than one well is situated on a unit, a meter for each well is not required if, upon application and proper showing, the Commission finds that all the gas produced from the wells can be accurately measured so as to determine whether production is ratable and without unreasonable discrimination.

Q. WELLS OPERATED UNDER VACUUM CONDITIONS

1. While vacuum compression may be appropriate for certain wells, due to variability within the reservoir, it may not be necessary or economic for all wells in the Hugoton Gas Field and Panoma Council Grove Gas Field. Therefore, the decision whether to utilize vacuum compression shall be left to the discretion of each operator on a well-by-well basis. The optional use of vacuum compression on a well-by-well basis at the discretion of the operator shall be allowed on wells in the Hugoton Gas Field and the Panoma Council Grove Gas Field; provided, however, that no operator may produce gas from any well under vacuum conditions until such time as the operator has provided written notice, in accordance with the provisions of K.A.R. § 82-3-135a(b), that contains the following information:

- (a) the operator's name and license number;

(b) the lease name and well number, the Commission's lease code number, API number and the location and producing formation of the well or wells that will be subject to vacuum operations;

(c) the approximate date upon which vacuum operations will commence;

(d) a certification that the operator has provided notice as required by K.A.R. § 82-3-135a(b) and a list of those persons to whom notice was provided ; and

(e) a statement that the well or wells will be operated in accordance with the terms of this Integrated Basic Proration Order.

A copy of that written notice shall be served by the operator upon the Conservation Division of the Commission.

2. The operator desiring to implement vacuum operations shall be automatically allowed to commence those operations upon the expiration of twenty-one days after service of written notice that strictly complies with these rules, subject to the right of a complainant or the Commission Staff to file a complaint at any time thereafter.

3. Any party or the Commission Staff may file a complaint, at any time, objecting to the vacuum operations and shall provide notice of the hearing on the matter in accordance with K.A.R. § 82-3-135. Unless the Commission grants emergency relief preventing or limiting the vacuum operations pending the resolution of the complaint, the vacuum operations can proceed during the pendency of the complaint. At any hearing on such complaint, the complainant shall have the burden to prove the vacuum operations will cause waste, violate correlative rights, or are otherwise contrary to the provisions of this Order or the rules and regulations of the Commission. If the operator whose vacuum operations are the subject of the complaint chooses to conduct vacuum operations during the pendency of the complaint, that operator shall be precluded from arguing that economic waste will result if the Commission determines that its vacuum operations should be terminated or suspended.

4. The Commission shall include a notation on the monthly production report that identifies all wells in the Hugoton Gas Field and the Panoma Council Grove Gas Field that have been authorized to produce under vacuum conditions.

5. For any well authorized to produce under vacuum conditions, the operator shall keep and maintain the records for such wells as are normally maintained by the operator.

R. DECLARATION OF BASIC INTEGRATED ORDER

This order shall constitute the Basic Integrated Order for the regulation of the drilling of wells in and the production of gas from the Hugoton Gas Field and the Panoma Council Grove Gas Field on and after April 1, 2007, and until amended, changed, or modified by further order of the Commission.

IT IS, THEREFORE, BY THE COMMISSION ORDERED, that this order shall constitute and is hereby designated as the Basic Integrated Order for the regulation of production of gas from the Hugoton Gas Field and the Panoma Council Grove Gas Field; that the production of natural gas from said fields be, and the same is hereby regulated and restricted in conformance with the findings hereinabove made and in compliance with the rules, regulations and other matters therein contained; and that this order shall take effect and be in force from and after July 1, 2007.

IT IS FURTHER ORDERED: That the Commission hereby retains continuing jurisdiction of the subject matter hereof and of the parties thereto for the purpose of issuing from time to time such further order, amendments, additional orders, rules and regulations as may be necessary and proper in the premises.

BY THE COMMISSION IT IS SO ORDERED.

Moline, Chr.; Krehbiel, Com.; Moffet, Com.

Susan K. Duffy
Executive Director

(SEAL)

APPENDIX A

The boundaries of the Hugoton Gas Field for the regulation of drilling and production under this Integrated Basic Proration Order are designated and defined as all acreage productive of gas from that Common Source of Supply comprised of the Chase Group within the boundaries of the eleven Kansas Counties of Hamilton, Kearny, Finney, Grant, Gray, Haskell, Morton, Stevens, Seward, Stanton and Wichita, unless areas within these counties have been deleted by an Order of the Commission excepting said areas from regulation hereunder.

Extension And Deletion of Acreage From The Hugoton Field Limits

Extensions

Gray County

Township 25 South, Range 30 West, Sections 18, 19, 20.
Order dated March 27, 1980; Docket No. C-164.

Wichita County

Township 20 South, Range 37 West, SW $\frac{1}{4}$ Section 31
Township 20 South, Range 38 West, S $\frac{1}{2}$ Section 34, SW $\frac{1}{4}$, N $\frac{1}{2}$ Section 35, E $\frac{1}{2}$ Section 36.
Order dated April 14, 1983; Docket No. C-164.

Deletions

Seward County

Township 32 South, Range 31 West, Sections 19, 20, 29, 30, 31, 32.
Township 32 South, Range 32 West, Sections 13, 14, 23, 24, 25, 26, 35, 36.
Township 33 South, Range 31 West, Sections 5, 6, 7, 8, SW $\frac{1}{4}$ 14, W $\frac{1}{2}$ 16, 17, 18, 19, NW $\frac{1}{4}$ 23, E $\frac{1}{2}$ 28.
Township 33 South, Range 32 West, Sections 1, 2, 10, 11, 12, 13, 14, 15, 16, 21, 22, 23, 24, 26, 27, 28, 33.

Haskell County

Township 29 South, Range 31 West, Sections 25, 26, 35, 36.
Township 30 South, Range 31 West, Sections 1, 2.
Order dated October 17, 1989; Docket No. 164,951-C (C-24,493).
Order dated: May 21, 1992; Docket No. 176,418-C (C-26,113).
Order dated April 26, 1993; Docket No. 182,133-C (C-26,577).

APPENDIX B

FINNEY COUNTY

All of Township 21 South, Range 34W
All of Township 22 South, Range 34W
All of Township 23 South, Range 33W
All of Township 23 South, Range 34W
Township 24 South, Range 33 W, Section 6
All of Township 24 South, Range 32W
All of Township 24 South, Range 33W
All of Township 24 South, Range 34W
All of Township 25 South, Range 32W
All of Township 25 South, Range 33W
All of Township 25 South, Range 34W
All of Township 26 South, Range 32W
All of Township 26 South, Range 33W
All of Township 26 South, Range 34W

GRANT COUNTY

All of Grant County

HAMILTON COUNTY

E/2 of Township 23 South, Range 39W
E/2 of Township 24 South, Range 39W
Township 25 South, Range 39W, Sections 1, 2, 3, 10, 11, 12, 13, 14, 15, 22, 23, 24, 25, 26, 27,
28, 29, 31, 32, 33, 34, 35, 36
All of Township 26 South, Range 39W
E/2 of Township 26 South, Range 40W

HASKELL COUNTY

All of Township 27 South, Range 33W
All of Township 27 South, Range 34W
All of Township 28 South, Range 33W
All of Township 28 South, Range 34W
All of Township 29 South, Range 33W
All of Township 29 South, Range 34W
Township 30 South, Range 33W, Sections 6, 7, 18, 19, 30, 31
All of Township 30 South, Range 34W

KEARNY COUNTY

All of Kearny County

MORTON COUNTY

W/2 of Township 31 South, Range 39W
All of Township 31 South, Range 40W
W/2 of Township 32 South, Range 39W
All of Township 32 South, Range 40W
W/2 of Township 33 South, Range 39W
All of Township 33 South, Range 40W
W/2 of Township 34 South, Range 39W
All of Township 34 South, Range 40W
Township 35 South, Range 39W, Sections 4, 5, 6, 7, 8, 9, 16, 17, 18, & Fractional Sections 19, 20 and 21
Township 35 South, Range 40W, Sections 1, 2, 11, 12, 13, 14, & Fractional Sections 23, 24
Township 32 South, Range 41W, Sections 10, 11, 12, 13, 14, 15, 22, 23, 24

SEWARD COUNTY

All of Township 31 South, Range 34W
Township 32 South, Range 34W, Sections 1, 2, 3, 4, 5, 6, 7

STANTON COUNTY

All of Township 27 South, Range 39W
All of Township 27 South, Range 40W
All of Township 28 South, Range 39W
Township 27 South, Range 41W, NE/4 Section 24
Township 38 South, Range 40W, Sections 1 through 18; 22 through 27; 34 through 36
All of Township 29 South, Range 39W
All of Township 30 South, Range 39W
Township 29 South, Range 40W, Sections 1, 2, 3, 10 through 17, 20 through 29, 34, 35, 36
E/2 of Township 30 South, Range 40W

STEVENS COUNTY

All of Township 31 South, Range 35W
All of Township 31 South, Range 36W
All of Township 31 South, Range 37W
All of Township 31 South, Range 38W
E/2 of Township 32 South, Range 39W
All of Township 32 South, Range 35W
All of Township 32 South, Range 36W
All of Township 32 South, Range 37W
All of Township 32 South, Range 38W
E/2 of Township 32 South, Range 39W
All of Township 33 South, Range 35W
All of Township 33 South, Range 36W
All of Township 33 South, Range 37W

All of Township 33 South, Range 38W
E/2 of Township 33 South, Range 39W
All of Township 34 South, Range 35W
All of Township 34 South, Range 36W
All of Township 34 South, Range 37W
All of Township 34 South, Range 38W
E/2 of Township 34 South, Range 39W
All of Township 35 South, Range 36W
All of Township 35 South, Range 37W
All of Township 35 South, Range 38W
E/2 of Township 35 South, Range 39W

WICHITA COUNTY

Township 20 South, Range 37W, Sections 19 through 36
Township 20 South, Range 38W, Sections 19 through 36