

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANT:	ROBYN STRICKLAND)	
	DIRECTOR OF OIL AND GAS)	
	CONSERVATION DIVISION)	
	OKLAHOMA CORPORATION COMMISSION)	
)	CAUSE
RELIEF SOUGHT:	STATEWIDE PRORATION)	CD NO.
	FORMULA FOR UNALLOCATED)	
	GAS WELLS FOR THE PERIOD OF)	202002102
	APRIL, 2021, THROUGH MARCH, 2022)	
)	
)	ORDER NO.
)	
)	<u>717220</u>

**ORDER ESTABLISHING PRORATION FORMULA
FOR THE PERIOD OF APRIL 1, 2021,
THROUGH MARCH 31, 2022**

This cause was heard by the Oklahoma Corporation Commission ("Commission"), sitting *en banc* at 1:30 p.m. on March 1, 2021, in Courtroom 301, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma. Susan Dennehy Conrad, Deputy General Counsel, Oil and Gas Conservation Division ("OGCD") of the Commission, appeared for the Applicant.

The Commission, being fully advised in the premises, finds as follows:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. On December 17, 2020, Robyn Strickland, Director, OGCD of the Commission, filed an application to establish the proration formula for unallocated gas wells for the period of April 1, 2021, through March 31, 2022.
2. The Commission has jurisdiction of the subject matter and persons. Notice was given as required by law and the rules of the Commission.
3. Authority for this Application arises under 52 O.S. Section 29 and OAC 165:10-17-11.
4. Pursuant to OAC 165:10-17-11, the Commission assigns maximum permitted rates of production for unallocated gas wells. The Commission conducts hearings to adjust the proration formula used in calculating allowable production, when necessary, because of changes in market demand and to prevent waste.
5. A public technical conference occurred on January 15, 2021, during which comments were made regarding the proration formula. Written comments were filed in this cause, and comments concerning the proration formula were presented during the hearing. Comments

were received from active natural gas producers operating in Oklahoma and an industry organization. Some of the commenters advocated raising the formula percentage up to 100% of the wellhead calculated absolute open flow potential (WCAOFP). Other commenters stated that they favored keeping the current rate at 50% of the WCAOFP or 2000 mcf/d, whichever is greater, while some sought a return to 65% of the WCAOFP or 2000 mcf/d, whichever is greater. Other commenters proposed a rate of 75% of the WCAOFP or 3000 mcf/d, whichever is greater.

6. Proponents for raising the allowable rate expressed concern that the continued lower proration rates will foster regulatory uncertainty and motivate companies to divert their resources to less restrictive States, and will ultimately contribute toward making Oklahoma less competitive on a national scale. Also, associated (casinghead) gas from oil wells is not subject to the State's proration restrictions, so with a lower proration rate, there will be a more disproportionate production of unrestricted associated gas at the expense of primary gas producing wells. More specific to this proration period, overall natural gas consumption has declined in part due to the COVID-19 pandemic. Nonetheless, supply has fallen even more than demand, and gas prices have risen since April 2020. Proponents of the higher allowable rates maintain that the lower proration percentage seems to have materially contributed to the disincentive of investment and drilling activity in Oklahoma.

7. Proponents for maintaining the current percentage rate of 50%, or returning to the 65% rate, referred to the statutory obligation of the Commission to consider current and foreseeable conditions in order to maximize the State's mineral resources and minimize waste in a reasonable market demand scenario. While production has fallen, storage inventories still remain high due to the continuing effects of the COVID-19 pandemic. This recent decline in production has allowed natural gas supply and pipeline capacity to become more aligned, resulting in a more favorable price for natural gas. Further, while there are some preliminary signs indicating a market improvement, it's still much too early to consider significantly changing the proration factor.

8. OGCD staff recommended increasing the proration formula to the greater of 75% of the wellhead calculated absolute open flow potential, or 2,000 mcf/d for the proration period of April 1, 2021, through March 31, 2022. Current market conditions indicate that with continued rebound in gas prices over the course of the year and preliminary signs of an improving market, this is an appropriate time to convey a more positive message conducive to encouraging investment and drilling activity in the State, while at the same time reducing some of the concerns expressed about regulatory uncertainty.

9. At the hearing on March 1, 2021, the Commission heard testimony of OGCD witness Duncan Woodliff and public comments, and took the matter under advisement. After hearing testimony of Mr. Woodliff and comments from the public, and upon reviewing the record and filed public comments, the Commission finds that the proration factor for the period of April 1, 2021, through March 31, 2022, should be established at **seventy-five percent (75%) of wellhead calculated absolute open flow potential or 3000 mcf/d, whichever is greater.**

10. The Commission finds that this rate will help preserve a stable regulatory environment, maintain important incentives to the domestic petroleum industry, and encourage

production to meet the nation's demand for gas. The Commission continues to recognize that it should take all reasonable steps, including, but not limited to, modifying and modernizing the proration process and further examining the need for the existing proration structure, as alternative methods in ensuring the supply of natural gas from the State's common sources of supply is maximized in a fair manner, while preventing waste or production in excess of reasonable market demand.

ORDER

IT IS THEREFORE ORDERED BY THE OKLAHOMA CORPORATION COMMISSION AS FOLLOWS:

The proration formula for unallocated gas wells for the period of April 1, 2021, through March 31, 2022, shall be established at **seventy-five percent (75%) of wellhead calculated absolute open flow potential or 3000 mcf/d, whichever is greater.**

IT IS SO ORDERED.

CORPORATION COMMISSION OF OKLAHOMA



J. TODD HIETT, CHAIRMAN



BOB ANTHONY, VICE CHAIRMAN

DANA L. MURPHY, COMMISSIONER

CERTIFICATION

DONE AND PERFORMED by the Commissioners participating in the making of this Order, as shown by their signatures above, this 9th day of March, 2021.

BY ORDER OF THE COMMISSION:





PEGGY MITCHELL, Commission Secretary