

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 18047
ORDER NO. 20316

IN THE MATTER OF A HEARING CALLED ON
A MOTION OF THE COMMISSION TO
CONSIDER THE APPLICATION OF SM
ENERGY CO. FOR AN ORDER AMENDING
THE APPLICABLE ORDERS FOR THE
AMBROSE-BAKKEN POOL, DIVIDE COUNTY,
ND, TO ALLOW ALL WELLS TO PRODUCE
OIL AT AN UNRESTRICTED RATE AND
FLARE GAS PRODUCED IN ASSOCIATION
THEREWITH UNTIL JUNE 30, 2013, OR SUCH
OTHER TIME AS MAY BE ESTABLISHED BY
THE COMMISSION, OR FOR SUCH OTHER
RELIEF AS MAY BE APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

- (1) This cause came on for hearing at 9:00 a.m. on the 27th day of June, 2012.
- (2) SM Energy Company (SM Energy) provided telephonic testimony in this matter, pursuant to North Dakota Administrative Code (NDAC) Section 43-02-03-88.2. The Telephonic Communication Affidavit was received on July 11, 2012, therefore, such testimony may be considered evidence.
- (3) SM Energy made application to the Commission for an order amending the field rules for the Ambrose-Bakken Pool, Divide County, North Dakota, to allow wells to produce at an unrestricted rate and flare gas produced in association therewith until June 30, 2013, or such other time as may be established by the Commission, and such other relief as is appropriate.
- (4) Order No. 19474 provides that all wells in the Ambrose-Bakken Pool shall be allowed to produce at a maximum efficient rate for a period of 60 days commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run; after that, oil production from such wells shall not exceed an average of 200 barrels per day for a period of 60 days; after that, oil production from such wells shall not exceed an average of 150 barrels per day for a period of 60 days, thereafter, oil production from such wells shall not exceed an average of 100 barrels of oil per day; if and when such wells are connected to a gas gathering and processing facility the foregoing restrictions shall be removed,

and the wells shall be allowed to produce at a maximum efficient rate. The Director is authorized to issue an administrative order allowing unrestricted production at a maximum efficient rate for a period not to exceed 120 days, commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run, if the necessity therefor can be demonstrated to his satisfaction.

(5) The Ambrose-Bakken Pool is an oil reservoir, but gas is produced in association with the oil at the wellhead as a by-product of oil production.

(6) SM Energy is operator of several wells completed in the Ambrose-Bakken Pool. Some of the wells are not connected to a gas gathering system and pursuant to Order No. 19474, production is or will soon be restricted. The current gas gathering system in the area is operating at capacity and cannot process all the gas from wells currently connected to the system. SM Energy is prudently attempting to market their gas and is contracting with another gas gathering company to bring additional gas gathering infrastructure into the area, although it is anticipated the project will not be completed until March 2013. In the interim, SM Energy plans to conduct two pilot projects, one to generate electricity from the surplus gas and another to extract the liquids from the gas stream prior to flaring.

(7) Granting SM Energy's request will encourage additional drilling in the area to evaluate the success of their drilling program and will also make additional gas volumes available for processing which will help economically justify the connection to a gas plant and associated facilities.

(8) Allowing all wells completed in the Ambrose-Bakken Pool to produce crude oil at an unrestricted maximum efficient rate and flare any surplus gas produced, until March 31, 2013, will provide for the effective and efficient recovery of oil from said pool, encourage rapid development, avoid the drilling of unnecessary wells, and prevent waste in a manner that will protect correlative rights.

IT IS THEREFORE ORDERED:

(1) All current wells and all wells hereafter completed in the Ambrose-Bakken Pool shall be allowed to produce at a maximum efficient rate through March 31, 2013.

(2) After March 31, 2013, all wells in the Ambrose-Bakken Pool shall be allowed to produce at a maximum efficient rate for a period of 60 days commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run; after that, oil production from such wells is not to exceed an average of 200 barrels per day for a period of 60 days, after that, oil production from such wells is not to exceed an average of 150 barrels per day for a period of 60 days, thereafter, oil production from such wells is not to exceed an average of 100 barrels of oil per day; if and when such wells are connected to a gas gathering and processing facility the foregoing restrictions are removed, and the wells are allowed to produce at a maximum efficient rate. The Director is authorized to issue an administrative order allowing unrestricted production at a maximum efficient rate for a period not to exceed 120 days, commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run, if the necessity therefor can be demonstrated to his satisfaction.

- (3) This order shall remain in full force and effect until further order of the Commission.

Dated this 13th day of July, 2012.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

By the Director, on behalf of the Commission

/s/ Lynn D. Helms, Director