

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 10408
(CONTINUED)
ORDER NO. 12556

IN THE MATTER OF A HEARING CALLED ON A MOTION OF THE COMMISSION TO CONSIDER THE APPLICATION OF CONTINENTAL RESOURCES, INC. FOR AN ORDER PURSUANT TO NDAC § 43-02-03-88.1 POOLING ALL INTERESTS IN A SPACING UNIT FOR THE ARVID #1-34H, SECTIONS 27 AND 34, T.161N., R.95W., SADLER-BAKKEN POOL, DIVIDE COUNTY, ND; AUTHORIZING THE RECOVERY FROM EACH NONPARTICIPATING OWNER A RISK PENALTY AS PROVIDED BY NDCC § 38-08-08 AND SUCH OTHER RELIEF AS IS APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

(1) This cause originally came on for hearing at 9:00 a.m. on the 28th day of August, 2008. At that time, counsel for Continental Resources, Inc. (Continental) requested that the case be continued to the regularly scheduled hearing in September 2008. Order No. 12300 continued the case until September 25, 2008. At that time, counsel for Continental requested that the case be continued to the regularly scheduled hearing in October 2008. Order No. 12422 continued the case until October 23, 2008.

(2) Pursuant to North Dakota Administrative Code Section 43-02-03-88.1, the Director is authorized to sign, on behalf of the Commission, orders relating to, inter alia, pooling under North Dakota Century Code (NDCC) Section 38-08-08.

(3) Continental is the owner of an interest in an oil and gas leasehold estate in a spacing unit for the Sadler-Bakken Pool described as all of Sections 27 and 34, Township 161 North, Range 95 West, Divide County, North Dakota.

(4) Said spacing unit is created in accordance with an order of the Commission and there are separately owned tracts and/or separately owned interests in the spacing unit, and some of the

owners thereof have not voluntarily pooled their interests for the development and operation of said spacing unit.

(5) The Commission makes no findings with regard to the specific acreage or percentage attributed to separately owned tracts or interests.

(6) NDCC Section 38-08-08 requires the Commission to enter a pooling order upon application when two or more separately owned tracts are embraced within a spacing unit, or there are separately owned interests in all or a part of a spacing unit, in the absence of voluntary pooling. The section further provides that working interest owners in the spacing unit shall pay their share of the reasonable actual cost of drilling and operating the well plus a reasonable charge for supervision. In addition to such costs and charges, nonparticipating lessees may be required to pay a risk penalty of 200 percent and unleased mineral interest owners may be required to pay a risk penalty of 50 percent of their share of the reasonable actual cost of drilling and completing the well.

(7) Applicant requests an order of the Commission pooling all interests in the spacing unit, and allowing the recovery of a risk penalty from nonparticipating owners.

(8) The Commission received a letter on August 25, 2008 from Branex Resources, Inc., an owner of minerals under the spacing unit, objecting to the risk penalty being applied to their minerals. Counsel for Continental indicated they do not intend to attempt to assess the risk penalty on such interest.

(9) This application should be granted in order to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) All oil and gas interests in a spacing unit for the Sadler-Bakken Pool described as all of Sections 27 and 34, Township 161 North, Range 95 West, Divide County, North Dakota, are hereby pooled for the development and operation of the spacing unit. In addition, the risk penalty cannot be imposed upon the Branex Resources, Inc. interests.

(2) This pooling shall not determine or establish the specific acreage to be attributed to separately owned tracts, or specific interests attributed to separately owned interests.

(3) The operator of the well for said spacing unit shall conduct operations in a manner so as to protect correlative rights of all interested parties.

(4) All owners of interests shall recover or receive, without unnecessary expense, their just and equitable share of production from said spacing unit in the proportion as their interests may appear in the spacing unit.

(5) The working interest owners shall reimburse the operator for their proportionate share of the reasonable actual cost of drilling and operating said well, plus a reasonable charge for supervision.

(6) In the event of any dispute as to such costs the Commission shall determine the proper cost.

(7) If a lessee owning an interest in the spacing unit elects not to participate in the risk and cost of drilling a well thereon, the owner paying for the nonparticipating lessee's share of the drilling and operation of a well may recover from the nonparticipating lessee a risk penalty for the risk involved in drilling the well. The risk penalty is 200 percent of the nonparticipating lessee's share of the reasonable actual costs of drilling and completing the well and may be recovered out of, and only out of, production from the pooled spacing unit, as provided by NDCC Section 38-08-10, exclusive of any royalty or overriding royalty.

(8) If an unleased mineral interest owner in the spacing unit refuses a good-faith attempt to execute a lease and elects not to participate in the risk and cost of drilling a well thereon, the owner paying for the nonparticipating mineral interest owner's share of the drilling and operation of a well may recover from the nonparticipating mineral interest owner a risk penalty for the risk involved in drilling the well. The risk penalty is 50 percent of the nonparticipating mineral interest owner's share of the reasonable actual costs of drilling and completing the well and may be recovered out of, and only out of, production from the pooled spacing unit, as provided by NDCC Section 38-08-10, exclusive of any royalty.

(9) In the event the size of the spacing unit pooled herein is modified by the Commission, this order shall terminate as of the date of such order.

(10) This order shall be effective from the date of first operations, and shall remain in full force and effect until further order of the Commission.

Dated this 25th day of November, 2008.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

By the Director, on behalf of the Commission

/s/ Lynn D. Helms, Director