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OCT 05 2009

SECRETARY, BOARD OF
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF KERR-MCGEE OIL & GAS ONSHORE LP FOR AN ORDER VACATING IN PART AND MODIFYING IN PART THE BOARD'S ORDERS IN CAUSE NOS. 173-1, 173-2, 173-8, 173-9, 173-9S, 173-10, 173-12(A), 173-13, 173-15, 173-16 AND 173-20 AND UTAH ADMIN. CODE RULES R649-3-2, R649-3-10 AND R649-3-11(1) AND (2) TO PROVIDE FOR THE DRILLING OF WELLS TO ACHIEVE THE EQUIVALENT OF AN APPROXIMATE 10-ACRE WELL DENSITY PATTERN FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND HYDROCARBONS FROM THE WASATCH FORMATION AND MESAVERDE GROUP (THROUGH THE BASE OF THE MANCOS B SAND) UPON ALL OF SECTIONS 33-36, TOWNSHIP 8 SOUTH, RANGE 20 EAST, SLM, PORTIONS OF SECTIONS 31 AND 32 AND ALL OF SECTIONS 33-36, TOWNSHIP 8 SOUTH, RANGE 21 EAST, SLM, ALL OF SECTION 31, TOWNSHIP 8 SOUTH, RANGE 22 EAST, SLM, ALL OF SECTIONS 1-4 AND 9, TOWNSHIP 9 SOUTH, RANGE 20 EAST, SLM, PORTIONS OF SECTIONS 1-4 AND ALL OF SECTIONS 5 AND 6, TOWNSHIP 9 SOUTH, RANGE 21 EAST, SLM, AND PORTIONS OF SECTIONS 5 AND 6, TOWNSHIP 9 SOUTH, RANGE 22 EAST, SLM, UINTAH COUNTY, UTAH

**FINDINGS OF FACT,
CONCLUSIONS OF LAW AND
ORDER**

Docket No. 2009-011

Cause No. 173-23

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, September 23, 2009, at 9:00 a.m. in Room 210 of the East (Senate) Building of the Capitol Complex in Salt Lake City. Cause Nos. 173-24, 210-05, and 268-01 were called concurrently with this Cause in the interest of efficiency, but the

presentation by the Petitioner and deliberation on the merits by the Board occurred separately for each Cause. The following Board members were present and participated at the hearing: Chairman Douglas E. Johnson, Samuel C. Quigley, Jean Semborski, James T. Jensen, and Kelly L. Payne. Board Members Jake Y. Harouny and Ruland J. Gill, Jr. were unable to attend. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Kerr-McGee Oil & Gas Onshore LP (“KMG”) were Jason K. Rayburn – Landman, Scott C. Mitchell – Geologist, and John L. Eisele – Reservoir Engineer, who were recognized as experts in petroleum land management, geology and reservoir engineering, respectively, for purpose of this Cause. Frederick M. MacDonald, Esq., of and for Beatty & Wozniak, P.C., appeared as attorney for KMG.

Testifying on behalf of the Division of Oil, Gas and Mining (the “Division”) was Gil Hunt – Associate Director – Oil & Gas. Steven F. Alder, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for the granting of KMG’s Request for Agency Action filed July 13, 2009 in this Cause (the “Request”), at the conclusion of its presentation.

EOG Resources, Inc. (“EOG”), a working interest/operating rights owner within the area affected by the Request, filed a letter with the Board in support of the granting of the Request.

No other party filed a response to the Request and no other party appeared or

participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, being fully advised, and for good cause, hereby makes the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. KMG is a Delaware limited partnership in good standing and authorized to conduct business in the State of Utah. It is duly bonded with all appropriate State of Utah and Federal agencies relevant to this cause.

2. KMG, except as noted in (3) below, owns 100% of the leased working interest or operating rights in the formations for which the in-fill authorization relevant to this Cause is sought (*see* (12) below) under valid oil and gas leases covering the following Uintah County, Utah lands:

Township 8 South, Range 20 East, SLM

- Section 33: Lots 1 (17.60), 2 (13.00), 3 (19.00), 4 (6.40), 5 (36.76), 6 (40.00) and 7 (37.60), SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ [All]
- Section 34: Lots 1 (29.41), 2 (7.57), 3 (42.36), 4 (33.18), 5 (4.05), 6 (22.40), 7 (14.50), 8 (34.00) and 9 (39.50), N $\frac{1}{2}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ [All]
- Section 35: Lots 1 (30.63), 2 (3.05), 3 (35.07), 4 (3.18), 5 (24.50), 6 (12.50), 7 (20.84), 8 (16.10), 9 (28.00), 10 (8.75), 11 (8.61) and 12 (28.15), N $\frac{1}{2}$, S $\frac{1}{2}$ SW $\frac{1}{4}$ [All]
- Section 36: Lots 1 (31.46), 2 (6.17), 3 (32.10), 4 (4.68), 5 (26.97), 6 (7.60), 7 (29.18), 8 (8.16), 9 (5.20) and 10 (32.51), N $\frac{1}{2}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ [All]

Township 8 South, Range 21 East, SLM

- Section 31: Lots 3 (39.59) and 4 (38.79), E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ [S $\frac{1}{2}$]
Section 32: S $\frac{1}{2}$
Section 33: All
Section 34: All
Section 35: All
Section 36: All

Township 8 South, Range 22 East, SLM

- Section 31: Lots 1 (39.52), 2 (39.65), 3 (39.75) and 4 (39.80), E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ [All]

Township 9 South, Range 20 East, SLM

- Section 1: Lots 1 (39.32), 2 (38.72), 3 (38.92) and 4 (41.38), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Section 2: Lots 1 (41.35), 2 (41.24), 3 (41.03) and 4 (40.83), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Section 3: Lots 1 (40.57), 2 (40.57), 3 (40.57) and 4 (40.55), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Section 4: Lots 1 (22.50), 2 (14.25), 3 (39.28), 4 (40.60), 5 (31.96), 6 (32.50), 7 (34.53), 8 (12.22), 9 (23.17), 13 (40.92), 14 (33.43), 15 (6.35), 16 (6.48) and 17 (31.86), SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ [All]
Section 9: All

Township 9 South, Range 21 East, SLM

- Section 1: Lots 1 (43.19), 2 (43.00), 3 (42.80) and 4 (42.60), S $\frac{1}{2}$ N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$
Section 2: Lots 1 (42.29), 2 (41.87), 3 (41.45) and 4 (41.03), S $\frac{1}{2}$ N $\frac{1}{2}$ [N $\frac{1}{2}$]
Section 3: Lots 1 (40.83), 2 (40.84), 3 (40.86) and 4 (40.87), S $\frac{1}{2}$ N $\frac{1}{2}$ [N $\frac{1}{2}$]
Section 4: Lots 1 (40.74), 2 (40.38), 3 (39.98) and 4 (39.60), S $\frac{1}{2}$ N $\frac{1}{2}$ [N $\frac{1}{2}$]

Section 5: Lots 1 (39.18), 2 (38.76), 3 (38.34) and 4 (37.93), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]

Section 6: Lots 1 (37.53), 2 (37.33), 3 (37.18), 4 (52.46), 5 (56.88), 6 (57.07) and 7 (57.25), SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ [All]

Township 9 South, Range 22 East, SLM

Section 5: Lots 1 (41.39), 2 (41.72), 3 (42.06) and 4 (42.39), S $\frac{1}{2}$ N $\frac{1}{2}$ [N $\frac{1}{2}$]

Section 6: Lots 1 (42.65), 2 (42.82), 3 (42.99) and 4 (29.99), 5 (27.64), SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$ [N $\frac{1}{2}$]

(hereinafter the “Subject Lands”). The Subject Lands comprise, in part, the area more commonly referred to as the “Ouray Field.”

3. KMG owns less than 100% of the leased working interest or operating rights in the formations for which the in-fill authorization relevant to the Cause is sought (*see* (12) below) in the following portions of the Subject Lands:

Township 8 South, Range 20 East, SLM

Section 35: N $\frac{1}{2}$

Township 8 South, Range 21 East, SLM

Section 32: N $\frac{1}{2}$ S $\frac{1}{2}$

Section 33: All

Section 34: N $\frac{1}{2}$

Section 36: N $\frac{1}{2}$, N $\frac{1}{2}$ SW $\frac{1}{4}$

Township 9 South, Range 20 East, SLM

Section 1: S $\frac{1}{2}$

Section 2: S $\frac{1}{2}$

Section 3: S $\frac{1}{2}$

Section 4: S¹/₂
Section 9: All

Township 9 South, Range 22 East, SLM

Section 5: Lots 1-4, S¹/₂N¹/₂ [N¹/₂].

4. The gas and associated oil and hydrocarbons underlying the Subject Lands are primarily under Federal ownership, with scattered State, Tribal and fee (private) ownership.

5. By Order entered in Cause No. 173-1 on February 22, 1978 (the "173-1 Order"), the Board established 320-acre "horizontal," a/k/a "lay-down," drilling units for the production of gas and associated hydrocarbons from the Wasatch-Mesaverde Formations, defined as:

that interval below the stratigraphic equivalent of 4,772 feet down to and including the stratigraphic equivalent of 9,740 feet, as shown on the induction electrical log of the Chapita Wells Unit Well No. 5 located 1908 feet from the South line and 2360 feet from the West line of the NE¹/₄SW¹/₄ of Sec. 22, T. 9 S., R. 22 E., S.L.M., Uintah County, Utah,

(the "Original Definition Formations") for all of the Subject Lands except Section 9, Township 9 South, Range 20 East, SLM. The permitted well was to be drilled within 660 feet of the center of the NW¹/₄ (for a well in the north half of a section) or the SE¹/₄ (for a well in the south half of a section), with no well to be closer than 2,640 feet from another well producing from the Original Definition Formations. The drilling units established under the 173-1 Order were made permanent by Order entered in Cause No. 173-2 on

April 25, 1979 (the "173-2 Order").

6. By Order entered in Cause No. 187-2 on August 20, 1980, as modified by Order entered in Cause No. 187-3 on August 25, 1983 (collectively, the "187 Orders"), the Board established 320-acre drilling units for the production of gas from the Wasatch formation (not specifically defined by reference to logs or stratigraphic equivalents) for Section 9, Township 9 South, Range 20 East, SLM. The permitted wells were to be drilled in the NE $\frac{1}{4}$ and SW $\frac{1}{4}$, with the drilling units to be stand-up or lay-down at the Operator's option; provided, no well was to be located closer than 660 feet to a lease line or drilling unit line.

7. Thereafter, the Board authorized a second well to be drilled on certain of these established drilling units, essentially authorizing a 160-acre equivalent well density. Specifically, by Order entered in Cause No. 179-8 on June 28, 1989 (the "173-8 Order"), the Board authorized the drilling of a second well on the drilling units comprised of the N $\frac{1}{2}$ of Sections 3 and 6, Township 9 South, Range 21 East, respectively. In addition, by Order entered in Cause No. 173-9 on October 19, 1990 (the "173-9 Order"), the Board authorized the drilling of a second well on the drilling unit comprised of the S $\frac{1}{2}$ of Section 35, Township 8 South, Range 21 East. Finally, by Order entered in Cause No. 173-9S on August 1, 1991 (the "173-9S Order"), the Board modified the 173-1 Order to authorize an optional second well on all of the drilling units established thereunder, said option to be exercised based upon the Operator's evaluation of financial and geologic

factors applicable to the proposed drillsite. Each optional additional well was to be drilled in the center of the offsetting quarter section within each drilling unit, with a tolerance of 660 feet in any direction, but no closer than 2,640 feet from the wells completed and producing from the Original Definition Formations. This Order tacitly by operation, but not expressly, superseded the 173-8 and 173-9 Orders.

8. Thereafter, the Board authorized the drilling of additional in-fill wells, essentially authorizing an 80-acre equivalent well density; albeit, initially on a spotty and select basis. By Order entered in Cause No. 173-10 on July 7, 1995 (the "173-10 Order"), the Board authorized the drilling of a second well in the SE¼ of Sections 34 and 35, Township 8 South, Range 21 East, respectively. In addition, by Order entered in Cause No. 173-12(A) on March 11, 1997 (the "173-12(A) Order"), the Board authorized the drilling of additional wells upon the following drilling units to achieve the equivalent of a 80-acre well density:

Township 8 South, Range 21 East, SLM

Section 35: N½
Section 36: S½

Township 8 South, Range 22 East, SLM

Section 31: N½
Section 31: S½

Township 9 South, Range 21 East, SLM

Section 1: N½

Township 9 South, Range 22 East, SLM

Section 6: N $\frac{1}{2}$.

9. By Amended Order entered in Cause No. 173-13 on March 24, 1999 (the "173-13 Order"), the Board modified its previous series of 173 Orders to authorize the drilling of up to eight (8) wells in each drilling unit originally established under the 173-1 Order and comprising the Subject Lands to achieve the equivalent of an approximate 40-acre well density pattern except as to the following portions of the Subject Lands:

Township 8 South, Range 20 East, SLM

Section 35: N $\frac{1}{2}$

Township 8 South, Range 21 East, SLM

Section 33: N $\frac{1}{2}$

Section 34: N $\frac{1}{2}$

Township 9 South, Range 20 East, SLM

Section 2: S $\frac{1}{2}$

Section 3: S $\frac{1}{2}$

Section 4: S $\frac{1}{2}$

Section 9: All

Township 9 South, Range 21 East, SLM

Section 1: N $\frac{1}{2}$ S $\frac{1}{2}$

Township 9 South, Range 22 East, SLM

Section 5: N $\frac{1}{2}$.

Permitted wells were to be drilled no closer than 460 feet from the drilling unit boundary line and no closer than 920 feet from another well producing from the Original Definition Formations. Exception locations may be approved by the Utah Division of Oil, Gas and Mining (the "Division"), without the necessity of a full hearing before the Board, for topographic, environmental and archaeological considerations and when "no surface occupancy" stipulations imposed by the landowners (lessors) prohibit drilling at a legal location.

10. By Consolidated Order entered in Cause No. 173-15 on December 2, 1999 (the "173-15 Order"), the Board modified its previous series of 173 Orders to create a special 480-acre drilling unit comprised of the N $\frac{1}{2}$ and N $\frac{1}{2}$ S $\frac{1}{2}$ of Section 1, Township 9 South, Range 21 East, SLM. The Board authorized the drilling of up to twelve (12) wells on this drilling unit to achieve the equivalent of an approximate 40-acre well density pattern, with the same offset and exception location requirements as set forth in the 173-13 Order.

11. By Order entered in Cause No. 173-16 on January 13, 2000 (the "173-16 Order"), the Board vacated its previous series of 173 Orders and the 187 Orders as relating to the following portion of the Subject Lands:

Township 9 South, Range 20 East, SLM

Section 2: S $\frac{1}{2}$
Section 3: S $\frac{1}{2}$

Section 4: S½
Section 9: All

(the “Unspaced Lands”), and modifying its previous series of 173 Orders to authorize the drilling of up to eight (8) wells in each of the following drilling units to achieve the equivalent of an approximate 40-acre well density pattern for the Original Definition Formations:

Township 8 South, Range 21 East, SLM

Section 33: N½
Section 34: N½

Township 9 South, Range 22 East, SLM

Section 5: N½,

with the same offset and exception location requirements as set forth in the 173-13 Order.

12. By Order entered in Cause No. 173-20 on September 12, 2003 (the “173-20 Order”), the Board modified its previous series of 173 Orders to modify and extend the Original Definition Formations to include the Blackhawk and Mancos “B” sands as follows:

the interval below the stratigraphic equivalent of 4,772 feet as shown on the induction electrical log of the Chapita Wells Unit Well No. 5 located 1,908 feet from the South line and 2,360 feet from the West line of the NE¼SW¼ of Section 22, Township 9 South, Range 22 East, SLM, Uintah County, Utah, down to and including the stratigraphic equivalent of 12,240 feet as shown on the electric log of the Ouray 34-79 well located 2,150 feet from the South line and 2,008 from the West line in the NE¼SW¼ of Section 34, Township 8 South, Range 21 East, SLM, Uintah County, Utah,

(the “Subject Formations”), and to authorize the drilling of up to eight (8) wells on the following drilling unit:

Township 8 South, Range 20 East, SLM

Section 35: N½,

to achieve the equivalent of an approximate 40-acre well density pattern for the Subject Formations, with the same offset and exception location requirements as set forth in the 173-13 Order.

13. As a consequence of the 173-16 Order, the Unspaced Lands are currently subject to the general well siting rule set forth in Utah Admin. Code Rule R649-3-2. Under Utah Admin. Code Rule R649-3-2, each well is to be located within a 400-foot “window” surrounding the center of each governmental quarter-quarter section, or a substantially equivalent lot or tract or combination of lots or tracts, and no well may be located closer than 920 feet from an existing well drilling to or capable of producing from the same pool. The result of this location pattern is to allow a maximum of four (4) wells per quarter section and sixteen (16) wells per section, *i.e.* the equivalent of 40-acre well density.

14. Even though subject to the series of 173 Orders, the following portions of the Subject Lands are currently not subject to any communitization or pooling agreements relating to the Subject Formations:

Township 8 South, Range 20 East, SLM

Section 35: N $\frac{1}{2}$

Township 8 South, Range 21 East, SLM

Section 36: N $\frac{1}{2}$

Township 9 South, Range 20 East, SLM

Section 1: S $\frac{1}{2}$

Section 2: N $\frac{1}{2}$.

15. KMG has since drilled several wells in the Subject Formations on the Subject Lands, and on nearby lands on equivalent 10-acre density, the data from which has evidenced and/or confirmed that:

- a) The sand bodies are numerous, small and discontinuous. Wells drilled even as close as 505 feet apart do not intersect all of the same sand bodies and therefore reflect great lateral variability in the productive sandstones of the Subject Formations. Surface outcrop studies indicate that the average apparent width of the sand bodies is 637 feet. Theoretically, wells on a 10-acre density pattern would be located 660 feet apart;
- b) The sand bodies contain complex internal structures, many of which are barriers to flow, and are tight with permeability in the micro-darcy range;
- c) Consistent fracture orientation in the area allows wells to be placed in a pattern so as to minimize potential interference; and
- d) Pressure measurement (DFIT) data detected minimal or no depletion in a majority of the wells where tests were designed to seek out intervals with the highest chance of seeing depletion.

16. Volumetric estimations reflect a 54% recovery efficiency on a 10-acre density pattern for the Subject Formations underlying the Subject Lands.

17. Economic Sensitivity to Reserve analysis reflects that drilling wells for production from the Subject Formations on a 10-acre density pattern for the Subject Lands is economic.

18. The Board has previously authorized 10-acre equivalent well density for Wasatch and Mesaverde production from the nearby Bonanza and Hatch areas in Cause Nos. 179-14 and 179-15, respectively.

19. There is likelihood that, if development of the discontinuous sand bodies of the Subject Formations underlying the Subject Lands does not occur on an approximate 10-acre well density pattern, valuable resources will not be recovered.

20. Drilling on a 10-acre density pattern will almost always prohibit locating within the allowed “window” under the general well siting regulation (Utah Admin. Code Rule R649-3-2) and conversely almost always requires an exception location approval (in accordance with Utah Admin. Code Rule R649-3-3). Furthermore, wells may need to be directionally drilled from existing pads to minimize surface disturbance and alleviate certain environmental concerns.

21. There are numerous communitization agreements already in place covering portions of the Subject Lands, which were executed and approved by the requisite agencies in order to establish proration units in conformance with the 173 Series of

Orders. Production from any additional wells drilled within the existing drilling units subject to said agreements will be allocated to all royalty, overriding royalty, working and other production interest owners within the units in the same manner as is production from the wells currently within said units. Amendments to said communitization agreements to conform with the definition of the Subject Formations established under the 173-20 Order have, in nearly all instances, been filed and have been approved or are awaiting approval by the supervising agency.

22. A copy of the Request was mailed, postage pre-paid, certified with return receipt requested, and properly addressed, to all working interest/operating rights owners and operators within the Subject Lands to their last addresses disclosed by the appropriate Federal, Indian, State and County realty records, and to the governmental agencies having jurisdiction over the minerals underlying said lands. Copies of the return receipts, evidencing receipt of all such mailings, or such mailings returned as undeliverable at the last address of record were filed with the Board. The Utah School and Institutional Trust Lands Administration was inadvertently omitted, but executed a waiver of notice on August 24, 2009.

23. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune and Deseret Morning News on August 2, 2009, and in the Vernal Express on August 4, 2009, and the Uintah Basin Standard on August 5, 2009.

24. The vote of the Board members present in the hearing and participating in this Cause was unanimous (5-0) in favor of granting the Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request in the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board has jurisdiction over all matter covered by the Request and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6(6).

3. The modification of the 173 Series of Orders on that portion of the Subject Lands subject to valid and existing communitization agreements and Utah Admin. Code Rule R649-3-2 on the balance of the Subject Lands to allow the drilling of additional wells on the Subject Lands to achieve the equivalent of an approximate 10-acre well density pattern, *i.e.* to allow up to 32 producing wells on each of the 320-acre or substantial equivalent drilling units established under the 173-1 Order (as later amended or superseded) and 48 producing wells on the special 480-acre drilling unit established under the 173-15 Order, for the production of gas and associated oil and hydrocarbons from the Subject Formations, with the proviso that the additional wells so authorized may be located no closer than 460 feet from the exterior boundary of each unit unless an

exception is granted by the Division in accordance with Utah Admin. Code Rule R649-3-3 for topographical, geological, environmental, and archeological considerations and when “no surface occupancy” stipulations imposed by the lessors prohibit drilling at a legal location, is just and reasonable under the circumstances.

4. The vacation of the 173 Series of Orders on that portion of the Subject Lands not subject to valid and existing communitization orders will not upset contractual expectations or valid and existing rights to produce equitable shares of oil or gas, and is therefore just and reasonable under the circumstances.

5. Utah Admin. Code Rules R649-3-10 and R649-3-11 govern such directional drilling in the absence of a specific Board order otherwise addressing such directional drilling. The elimination of any offset limitations as between wells within each such drilling unit and the suspension of Utah Admin. Code Rules R649-3-10 and R649-3-11 (1) and (2), with the provisos that:

- (a) no well may be directionally drilled if any portion of a 460-foot radius along the projected wellbore intersects with a drilling unit or lease boundary without approval of the Division or Board in accordance with Utah Admin. Code Rules R649-3-10 and R649-3-11(1) and (2); and
- (b) the operator provides to the Division a plat or sketch showing the distance to the drilling unit or lease boundary and the target location within the Subject Formations with any application for permit to drill filed for a well to be directionally drilled,

are just and reasonable under the circumstances.

6. Declaring that all existing wells located on the Subject Lands and producing gas and associated oil and hydrocarbons from the Subject Formations are authorized and deemed to be at lawful locations, notwithstanding the relief granted hereby, is necessary to avoid inconsistency with the existing 173 Series of Orders and is just and reasonable under the circumstances.

7. Authorizing in-fill drilling, rather than vacating the existing orders and downspacing, is necessary to avoid interfering with the contractual rights established under the existing communitization agreements covering portions of the Subject Lands. The correlative rights of the parties to said agreements will not be adversely affected by the in-fill drilling authorized hereby.

8. The relief granted hereby will result in the orderly development and greatest recovery of gas and associated oil and hydrocarbons from the Subject Formations underlying the Subject Lands, prevent waste and adequately protect the correlative rights of all affected parties.

9. KMG has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request.

ORDER

Based upon the Request, testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The Request in this cause is granted.

2. Orders entered in Cause Nos. 173-1, 173-2, 173-8, 173-9, 173-9S, 173-10, 173-12(A), 173-13, 173-15, 173-16 and 173-20, as well as any other Board orders otherwise inconsistent with the relief requested herein, as relating to all of the Subject Lands except those specifically addressed in (5) and (6) below are hereby modified to allow the drilling of additional wells to achieve the equivalent of an approximate 10-acre well density pattern, *i.e.* to allow up to 32 producing wells on each of the 320-acre (or substantial equivalent combination of lots and quarter-quarter sections) drilling units and 48 producing wells on the special 480-acre drilling unit created under the 173-15 Order for the production of gas and associated oil and hydrocarbons from the Subject Formations.

3. The wells so authorized may be located no closer than 460 feet from the exterior boundary of each such drilling unit; provided, however, that approval by the Division may be granted in accordance with Utah Admin. Code Rule R649-3-3 for exception well locations for topographical, geological, environmental, and archaeological considerations and when “no surface occupancy” stipulations imposed by the lessors prohibit drilling at a legal location, without the necessity of a full hearing before the Board.

4. Any inter-well offset limitation as between wells within each such drilling unit is hereby eliminated and Utah Admin. Code Rules R649-3-10 and R649-3-11(1) and (2) as applicable to each such drilling unit is hereby suspended; provided, however, that

no well may be directionally drilled if any portion of the 460-foot radius along the projected wellbore intersects with a drilling unit boundary without approval of the Division or Board in accordance with Utah Admin. Code Rules R649-3-3 and R649-3-11(1) and (2), and further provided that KMG or the Operator provides to the Division a plat or sketch showing the distance to the drilling unit boundary and the target location within the Subject Formations with any application for permit to drill filed for a well to be directionally drilled.

5. Orders entered in Cause Nos. 173-1, 173-2, 173-9S, 173-12(A), 173-13, 173-15, 173-16 and 173-20, as well as any other Board Orders otherwise inconsistent with the relief requested herein, are hereby vacated as to the following lands:

Township 8 South, Range 20 East, SLM

Section 35: N $\frac{1}{2}$

Township 8 South, Range 21 East, SLM

Section 36: N $\frac{1}{2}$

Township 9 South, Range 20 East, SLM

Section 1: S $\frac{1}{2}$

Section 2: N $\frac{1}{2}$

6. Utah Admin. Code Rule R649-3-2 is hereby modified as applicable to the Subject Formations underlying the following lands:

Township 8 South, Range 20 East, SLM

Section 35: N½

Township 8 South, Range 21 East, SLM

Section 36: N½

Township 9 South, Range 20 East, SLM

Section 1: S½

Section 2: All

Section 3: S½

Section 4: S½

Section 9: All,

to allow the drilling of wells on said lands to achieve the equivalent of an approximate 10-acre well density pattern for the production of gas and associated oil and hydrocarbons from the Subject Formations.

7. The wells so authorized may be located no closer than 460 feet from the exterior boundary of any lease within the said lands; provided, however, that approval by the Division may be granted in accordance with Utah Admin. Code Rule R649-3-3 for exception well locations for topographical, geological, environmental, and archaeological considerations and when “no surface occupancy” stipulations imposed by the lessors prohibit drilling at a legal location, without the necessity of a full hearing before the Board.

8. Any inter-well offset limitation as between wells upon the same leasehold within the said lands is hereby eliminated and Utah Admin. Code Rules R649-3-10 and

R649-3-11(1) and (2) as applicable to each leasehold within the said lands is hereby suspended; provided, however, that no well may be directionally drilled if any portion of the 460-foot radius along the projected wellbore intersects with a lease boundary without approval of the Division or Board in accordance with Utah Admin. Code Rules R649-3-3 and R649-3-11(1) and (2), and further provided that KMG or the Operator provides to the Division a plat or sketch showing the distance to the lease boundary and the target location within the Subject Formations with any application for permit to drill filed for a well to be directionally drilled.

9. All existing wells located on the Subject Lands and producing gas and associated oil and hydrocarbons from the Subject Formations are hereby declared to be authorized and located at lawful locations, notwithstanding the consequences of the relief granted hereby.

10. Pursuant to Utah Admin. Code Rules R641 and Utah Code Ann. § 63G-4-204 to 208, the Board has considered and decided this matter as a formal adjudication.

11. This Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63G-4-208 and Utah Administrative Code Rule R641-109.

12. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to

Request Board Reconsideration: As required by Utah Code Ann. § 63G-4-208(e) - (g), the Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order issued. Utah Code Ann. §§ 63G-4-401(3)(a) and 403. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63G-4-302, entitled, “Agency Review - Reconsideration,” states:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, “Rehearing and Modification of Existing Orders,” states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

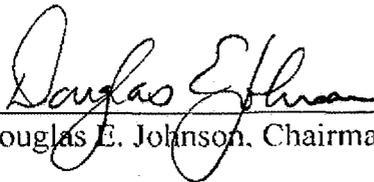
Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

13. The Board retains continuing jurisdiction over all the parties and over the subject matter of this cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

14. For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 5 day of OCT, 2009.

**STATE OF UTAH
BOARD OF OIL, GAS & MINING**

By: 
Douglas E. Johnson, Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER for Docket No. 2009-011, Cause No. 173-23 to be mailed with postage prepaid, this 6th day of October, 2009, to the following:

FREDERICK M MACDONALD
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[VIA EMAIL]

SHEAR INC
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BUREAU OF LAND MANAGEMENT
UTAH STATE OFFICE
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CHIEF-BRANCH OF FLUID MINERALS
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SALT LAKE CITY UT 84145-0155

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621 17TH STREET SUITE 2300
DENVER CO 80293

JUANITA ARCHULETA LUJAN
516 E KIOWA #707
COLORADO SPRINGS CO 80903-3446
[UNDELIVERABLE 9/24/09]

ENDURING RESOURCES LLC
ATTN ALEX CAMPBELL
475 17TH STREET SUITE 1500
DENVER CO 80202

EOG RESOURCES INC
ATTN MS TONI MILLER
600 17TH STREET SUITE 1000N
DENVER CO 80202

QUESTAR EXPLORATION &
PRODUCTION COMPANY
ATTN BIRGIT ROESINK
1040 17TH STREET SUITE 500
DENVER CO 80265
[UNDELIVERABLE 9/21/09]

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FOREST OIL CORPORATION
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DENVER CO 80202

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1515 E 4000 S
VERNAL UT 84078

RICK MURRAY
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BILLINGS MT 59102
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SATHER & SONS INC
P O BOX 365
ROOSEVELT UT 84066

R R SATHER & BONNIE LEE SATHER
5 N 200 E
ROOSEVELT UT 84066-3025

HEIRS OF PETE ROBERT LUCERO
C/O ROBERTA CABUTUTAN
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VERNAL UT 84078

RICHARD D ROUNDY
527 WEST 24TH STREET
OGDEN UT 84401-1224

BOWERS OIL AND GAS INC
2532 F RD #11
GRAND JUNCTION CO 81505

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FILED

SEP 14 2009

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

**SECRETARY, BOARD OF
OIL, GAS & MINING**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF KERR-MCGEE OIL & GAS ONSHORE LP FOR AN ORDER VACATING IN PART AND MODIFYING IN PART THE BOARD'S ORDERS IN CAUSE NOS. 173-1, 173-2, 173-8, 173-9, 173-9S, 173-10, 173-12(A), 173-13, 173-15, 173-16 AND 173-20 AND UTAH ADMIN. CODE RULES R649-3-2, R649-3-10 AND R649-3-11(1) AND (2) TO PROVIDE FOR THE DRILLING OF WELLS TO ACHIEVE THE EQUIVALENT OF AN APPROXIMATE 10-ACRE WELL DENSITY PATTERN FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND HYDROCARBONS FROM THE WASATCH FORMATION AND MESAVERDE GROUP (THROUGH THE BASE OF THE MANCOS B SAND) UPON ALL OF SECTIONS 33-36, TOWNSHIP 8 SOUTH, RANGE 20 EAST, SLM, PORTIONS OF SECTIONS 31 AND 32 AND ALL OF SECTIONS 33-36, TOWNSHIP 8 SOUTH, RANGE 21 EAST, SLM, ALL OF SECTION 31, TOWNSHIP 8 SOUTH, RANGE 22 EAST, SLM, ALL OF SECTIONS 1-4 AND 9, TOWNSHIP 9 SOUTH, RANGE 20 EAST, SLM, PORTIONS OF SECTIONS 1-4 AND ALL OF SECTIONS 5 AND 6, TOWNSHIP 9 SOUTH, RANGE 21 EAST, SLM, AND PORTIONS OF SECTIONS 5 AND 6, TOWNSHIP 9 SOUTH, RANGE 22 EAST, SLM, UTAH COUNTY, UTAH

**ORDER GRANTING LEAVE TO
FILE PETITIONER'S CORRECTED
EXHIBIT OUT OF TIME**

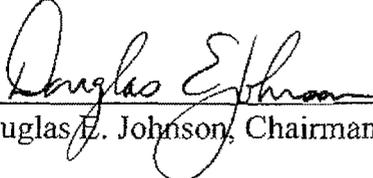
Docket No. 2009-011

Cause No. 173-23

Having reviewed the Motion for Leave to File Petitioner's Corrected Exhibit Out of Time and otherwise being fully advised on the premises,

1. Petitioner is hereby granted leave to amend the referenced Exhibit out of the time allowed by Utah Admin. Code Rule R649-105-500; and
2. The original, incorrect Exhibit will be replaced with the Replacement Exhibit as described in and submitted with Petitioner's Motion.

SO ORDERED, this 14 day of September, 2009.



Douglas L. Johnson, Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing ORDER GRANTING LEAVE TO FILE PETITIONER'S CORRECTED EXHIBIT OUT OF TIME for Docket No. 2009-011, Cause No. 173-23 to be mailed with postage prepaid, this 15 day of September, 2009, to the following:

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