

FILED

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

OCT 04 2012

SECRETARY, BOARD OF
OIL, GAS & MINING

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF KOCH EXPLORATION COMPANY, LLC FOR AN ORDER ESTABLISHING 40 ACRE DRILLING AND SPACING UNITS ALLOWING FOUR WELLS PER DRILLING AND SPACING UNIT FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND OTHER HYDROCARBONS FROM THE WASATCH FORMATION AND MESAVERDE GROUP, AND TO MODIFY UTAH ADMIN. CODE R649-3-10 AND R649-3-11(1) AND (2) FOR PORTIONS OF SECTIONS 28, 34, AND 35; AND SUSPENDING APPLICATION OF UTAH ADMIN. CODE R649-3-2, R649-3-10, AND R649-3-11(1) AND (2) FOR LANDS WITHIN THE NORTH ALGER FEDERAL EXPLORATORY UNIT COVERING SECTION 27, AND PORTIONS OF SECTIONS 28, 33 AND 34, ALL LOCATED IN TOWNSHIP 10 SOUTH, RANGE 19 EAST, SLM, UINTAH COUNTY, UTAH.

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

Docket No. 2012-019

Cause No. 259-02

This cause came on for hearing before the Utah Board of Oil, Gas, and Mining (the "Board") on Wednesday July 25, 2012, at approximately 9:00 a.m. in the auditorium of the Utah Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present and participated in the hearing: James T. Jensen, Chairman; Ruland J. Gill, Jr., Jake Y. Harouny, Kelly L. Payne, Carl F. Kendell, and Jean Semborski. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner, Koch Exploration Company, LLC, was Morgan Connor, Land Manager, Glenn C. Baack, Senior Geologist-Divestiture Manager, and

Robert C. Wright, Senior Reservoir Engineer. A. John Davis, Esq. of Holland & Hart, LLP appeared as counsel for Petitioner.

Attending and participating on behalf of the Division of Oil, Gas and Mining (the "Division") was Brad Hill, Oil and Gas Permitting Manager, and Dustin Doucet, Petroleum Engineer. The Division was represented by Steve Alder, Esq. Assistant Attorney General. The Division expressed its support for the Request for Agency Action (the "Request").

The United States Bureau of Land Management, as managing agency for the federal mineral interest underlying the lands subject to the Request, issued a letter on May 8, 2012, indicating its support for the Request.

There were no objections to the Request.

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

FINDINGS OF FACT

1. Petitioner is a Delaware limited liability company in good standing having its principal place of business in Denver, Colorado. Petitioner is qualified to do business in Utah and is fully and appropriately bonded with all Federal and State of Utah agencies.

2. The lands subject to this Request include the following lands located within the North Alger Federal Exploratory Unit:

Township 10 South, Range 19 East, SLM

Section 27: All

Section 28: E $\frac{1}{2}$ SE $\frac{1}{4}$

Section 33: E $\frac{1}{2}$ NE $\frac{1}{4}$

Section 34: NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$

(containing 1,040.00 acres)

(the “North Alger Unit”) and the following lands located outside the North Alger Unit:

Township 10 South, Range 19 East, SLM

Section 28: W $\frac{1}{2}$, NE $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$

Section 34: S $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$

Section 35: All

(containing 1,600.00 acres)

(the “Non-Unit Lands”) (Collectively the Non-Unit Lands and the North Alger Unit are called the “Subject Lands”).

3. The Subject Lands are generally located in the area known as the Natural Buttes Field. Oil and gas ownership in the Subject Lands consists entirely of federal lands. All of the oil and gas interest underlying the Subject Lands is leased. Petitioner owns 100% of the working interest in Sections 27, 28, the E $\frac{1}{2}$ NE $\frac{1}{4}$ of Section 33 and the W $\frac{1}{2}$ of Section 34, and 50% of the working interest in the E $\frac{1}{2}$ of Section 34 and all of Section 35.

4. The requested spacing covers the Wasatch Formation and Mesaverde Group, which are defined as:

The top of the Wasatch formation is defined as the stratigraphic equivalent of 4,451 feet as shown on the electric log of the Old Squaws Crossing #123-27 well located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 27, Township 10 South, Range 19 East SLM, and the base of the Mesaverde Group is defined as the stratigraphic equivalent of 10,486 feet in said Old Squaws Crossing #123-27 well.

(the "Subject Formations").

5. The Subject Lands are currently not subject to any spacing order of the Board. All wells drilled on the Subject Lands have been located in accordance with the Utah Division of Oil, Gas and Mining's ("DOG M") and the Board's general rules, including the well location and siting rules contained in Utah Admin. Code R649-3-2. Under this rule, each well is to be located within a 400-foot square "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 wells may be drilled less than 920 feet from any other well capable of producing from the same pool. This location pattern permits one well per quarter-quarter section or sixteen wells per section, the equivalent of 40 acre well spacing.

6. Petitioner is the operator of multiple gas wells within the Subject Lands. The geologic and engineering data obtained from the wells operated by Petitioner and others and producing gas from the Wasatch Formation and Mesaverde Group in surrounding areas has shown that:

(a) The sand bodies containing recoverable hydrocarbons 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 in the general area performed on behalf of other operators indicate that the average apparent width of the sand bodies is 637 feet. Theoretically, wells drilled 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;

7. The complex and discontinuous nature of the productive sand bodies justify the creation of 40 acre drilling units with four wells per unit for the Non-Unit Lands and suspension of the default siting and location rules as to the North Alger Unit Lands to enable the drilling of wells on an approximate 10 acre well density. Without approximate 10 acre well density, additional gas reserves may be left in the ground.

8. Volumetric estimations indicate that an approximate 10 acre well density will result in 52% recovery efficiency.

9. The evidence presented regarding economic sensitivity to reserves indicates that wells drilled on an approximate 10 acre density will be economical.

10. Drilling wells on an approximate 10 acre density will prohibit location of wells within the window discussed in Paragraph 5 above. Additionally, topographical constraints on the Subject Lands will further limit Petitioner's ability to locate wells within the window allowed by DOGM's rules. Thus, directional drilling is required in order to allow drilling of multiple wells from a single pad.

11. A copy of the Request was sent via certified mail, with return receipt requested, to all mineral, leasehold and production interest owners in the Subject Lands, and to the State of Utah and Vernal Field Offices of the Bureau of Land Management.

12. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune and the Deseret Morning News on July 1, 2012, the Uintah Basin Standard on July 3, 2012, and the Vernal Express on July 4, 2012.

13. The vote of the Board members present at the July 25, 2012 hearing in this cause was unanimous 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 in the form and manner as required by law and the rules and regulations of the Board and Division to all parties whose legally protected interests are affected by the Request.

2. The Board has jurisdiction of the parties and of the subject matter pursuant to Utah Code Ann. § 40-6-1. *et seq.*

3. The Wasatch Formation and Mesaverde Group, as defined above, constitutes a “common source of supply” as defined in Utah Code Ann. § 40-6-2(18).

4. As to the Non-Unit Lands, the creation of 40 acre drilling units allowing four wells per drilling unit for the Subject Formations with the inter-well offset

limitations in Utah Admin. Code R649-3-2(1.1) being eliminated and Utah Admin. Code R649-3-10 and R649-3-11(1) and (2) being modified to enable the drilling of multiple wells from a single pad, is just and reasonable.

5. As to the North Alger Unit Lands, the suspension of Utah Admin. Code R649-3-2, R649-3-10 and R649-3-11(1) and (2), is just and reasonable.

6. The relief granted will result in consistent and orderly development and the greatest recovery of oil, gas and associated hydrocarbons from the Wasatch Formation and Mesaverde Group underlying the Subject Lands, prevent waste, and adequately protect the correlative rights of all affected parties.

7. Petitioner 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 other 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. As to the Non-Unit Lands, 40 acre drilling and spacing units allowing four wells per unit for the production of gas and associated oil and hydrocarbons from the Wasatch Formation and Mesaverde Group are created and Utah Admin. Code R649-3-10 and R649-3-11(1) and (2) is modified to remove all inter-well set back requirements.

3. As to the North Alger Unit lands, Utah Admin. Code R649-3-2, R649-3-10 and R649-3-11(1) and (2) are suspended.

4. Wells authorized by this Order may not be located closer than 460 feet to the lease boundary or the exterior boundary of the Subject Lands without an exception location approved by DOGM or the Board in accordance with Utah Admin. Code R649-3-3.

5. 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 without an exception location approved by DOGM or the Board in accordance with Utah Admin. Code R649-3-3 and R649-3-11(1) and (2).

6. Petitioner will provide DOGM with a plat or sketch showing the distance of the drilling and spacing unit boundary and target location within the Non-Unit Lands with any application for permit to drill to be directionally located.

7. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63G-4-204 through 208, and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641.

8. This Order is based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative

Procedures Act, Utah Code Ann. § 63G-4-208, and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109; and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

9. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** As required by Utah Code Ann. § 63-G-4-208(e) through (g), the Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63G-4-401(3)(a) and 403.

10. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they may apply for reconsideration of this Order. Utah Code Ann. § 63G-4-302. The Utah Administrative Procedures Act provides:

(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 63-46b-12 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 Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled “Rehearing and Modification of Existing Orders” state:

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 that month. Utah Admin. Code R641-110-100.

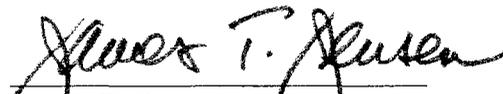
The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

11. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

12. The Chairman’s signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

DATED this 27th day of September, 2012.

STATE OF UTAH
BOARD OF OIL, GAS, AND MINING

By: 
James T. Jensen, Chairman

5715440_1.DOCX

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. 2012-019, Cause No. 259-02 to be mailed with postage prepaid, this 4th day of October, 2012, to the following:

A. John Davis
Mark L. Burghardt
Holland & Hart, LLP
Attorneys for Petitioner,
Koch Exploration Company, LLC
222 South Main Street, Suite 2200
Salt Lake City, UT 84101

Michael S. Johnson
Assistant Attorney General
Utah Board of Oil, Gas & Mining
1594 West North Temple, Suite 300
Salt Lake City, UT 84116
[Via Email]

Steven F. Alder
Assistant Attorney General
Utah Division of Oil, Gas & Mining
1594 West North Temple, Suite 300
Salt Lake City, UT 84116
[Via Email]

Koch Exploration Company, LLC
950 17th Street Suite 1900
Denver, CO 80202-2898
[Address updated 7/5/2012]

Bureau of Land Management
Utah State Office
Attn: Michael Coulthard
P.O. Box 45155
Salt Lake City, UT 84145-0155

Bureau of Land Management
Vernal Field Office
Attn: Jerry Kenczka
170 South 500 East
Vernal, UT 84078

XTO Energy Inc.
Attn: Rebecca Bodenhamer
810 Houston Street
Fort Worth, TX 76102



Julie Ann Carter