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SEP 18 2008

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 QUESTAR)
EXPLORATION AND PRODUCTION COMPANY)
FOR AN ORDER ESTABLISHING 160-ACRE)
DRILLING AND SPACING UNITS FOR THE)
PRODUCTION OF GAS FROM THE DAKOTA,)
CEDAR MOUNTAIN, MORRISON, ENTRADA)
AND WINGATE FORMATIONS WITHIN)
SECTION 36, TOWNSHIP 14 SOUTH, RANGE 19)
EAST, SLM, UTAH COUNTY, UTAH)
)
)

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

Docket No. 2008-019

Cause No. 261-02

This cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, August 27, 2008, at the hour of 7:00 p.m. The following Board members were present and participated at the hearing: Chairman Douglas E. Johnson, Robert J. Bayer, Samuel C. Quigley and Kent R. Petersen. Board member Ruland J. Gill, Jr. recused himself from the proceeding and Board members Jean Semborski and Jake Y. Harouny were unable to attend. The Board was represented by Stephen G. Schwendiman, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Questar Exploration and Production Company ("Questar") were: Chad Matney, Associate Landman; Bob Larocque, Petroleum Geologist; and Bill Watts, Senior Petroleum Engineer. A. John Davis, Esq., of and for Holme Roberts & Owen, appeared as attorney for Questar.

Testifying on behalf of the Division of Oil, Gas and Mining (the "Division") was Bradley G. Hill, Oil & Gas Permitting Manager. Steven F. Alder, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division.

Following Questar's presentation, the Division expressed its support of Questar's Request for Agency Action ("Request"). The Division had previously submitted to the Board a staff memorandum dated August 14, 2008, which reserved the Division's recommendation pending presentation of Petitioner's testimony and other evidence at the hearing.

The Board received no objections to Questar's Request, and received into evidence a letter in support of Questar's Request from LaVonne Garrison, Associate Director-Oil and Gas, for the Utah School and Institutional Trust Lands Administration.

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

FINDINGS OF FACT

1. Questar is a Texas corporation which is in good standing and authorized to conduct business in the State of Utah.

2. The Request covers the following lands:

Township 14 South, Range 19 East, SLM

Section 36: Lot 1 (39.62), 2 (1.32), 3 (45.51),
4 (14.09), 5 (20.53) and 6 (38.93),
N $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$,
N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$ [ALL]

(containing 640 acres)

(hereinafter referred to as the "Subject Lands")

3. The geologic interval Questar seeks to space consists of the Dakota, Cedar Mountain, Morrison, Entrada and Wingate formations (the "Subject Depths") and is more particularly described as follows:

All depths from the stratigraphic equivalent of the top of the Dakota Silt found at a depth of 10,350 feet MD to the stratigraphic equivalent of the base of the Wingate found at a depth of 12,286 feet MD in the FR 9P-36-14-19 well located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 36 Township 14 South, Range 19 East, Uintah County, Utah.

4. The Subject Lands, as to the Subject Depths, are currently not covered by any Board well spacing order.

5. The Subject Lands are comprised of two separate tracts. Tract 1 is designated as Lot 3 and constitutes 45.51 acres located in the SW $\frac{1}{4}$ of Subject Section 36. The mineral estate in Tract 1 is owned partially by the heirs of an Allottee of the Ute Indian Tribe (#569) and partially by private owners. Tract 2 consists of all of Section 36 except for Tract 1 and the mineral estate within Tract 2 is owned by the State of Utah for the benefit of the State's schools and administered by the

Utah School and Institutional Trust Lands Administration (“SITLA”) and is subject to Oil and Gas Lease ML-49279. The surface estate is owned by the United States, in trust for the benefit of the Ute Indian Tribe.

6. There are currently five wells located on the Subject Lands and producing from the Subject Depths. The wells were drilled in the order listed below and are described as follows:

a. FR 9P-36-14-19 well, first production February, 2005, located at a surface location 1,920’ FSL and 175’ FWL in the NW¼SW¼ of Section 31, T14S, R20E, SLM and a bottom hole location 2,115’ FSL and 668’ FEL in the NE¼SE¼ of Subject Section 36, hereinafter the “9P well.”

b. FR 1P-36-14-19 well, first production February, 2006, located at a surface location 623’ FNL and 1,249’ FWL in the NW¼NW¼ of Section 31, T14S, R20E, SLM and a bottom hole location 730’ FNL and 698’ FEL in the NE¼NE¼ of Subject Section 36, hereinafter the 1P well.”

c. FR 3P-36-14-19 well, first production January, 2007, located at a surface location 542’ FNL and 353’ FWL in the NW¼NW¼ of Subject Section 36 and a bottom hole location 606’ FNL and 1,973’ FWL in the NE¼NW¼ of Subject Section 36, hereinafter the “3P well.”

d. FR 11P-36-14-19 well, first production March, 2007, located at a surface location 287’ FWL and 1,746’ FSL in the NW¼SW¼ of Subject Section 36 and a bottom hole location 2,482’ FSL and 2,532’ FWL in the NE¼SW¼ of Subject Section 36, hereinafter the “11P well.”

e. FR 7P-36-14-19 well, first production November, 2007, located at a surface location 1910’ FSL and 162’ FWL in the NW¼SW¼ of Section 31, T14S, R20E, SLM and a bottom hole location 1,821’ FNL and 1,762’ FEL in the SW¼NE¼ of Subject Section 36, hereinafter the “7P well.”

A true and correct copy of Questar’s Exhibit “C” showing the location of the subject wells as well as other pertinent information is attached hereto as Attachment 1 and fully incorporated herein.

7. All of the subject wells were directionally drilled due to topographic conditions.

8. The 11P well was drilled under an exception location granted by DOGM within Tract 1 (Lot 3) in the Northeast corner of said Tract 1 as shown on Attachment 1.

9. SITLA contacted Questar in late 2007 expressing concern that the 11P well was draining the State of Utah's adjacent mineral lands in the Subject Lands and requesting that Questar space the well and lands.

10. At that time, Questar's geologists and reservoir engineers did not believe they had sufficient production and other data from the 11P or neighboring wells to meet Questar's burden of proof and obtain an order from the Board establishing a proper spacing area.

11. In order to resolve any claims of drainage, Questar and SITLA entered into an "Agreement to Pay Compensatory Royalty" wherein Questar agreed to pay SITLA a compensatory royalty for a period of time and further agreed to file a request for spacing and appear before the Board on or before August 27, 2008. Questar continued to pay 100% of the production proceeds from the 11P well to the royalty and working interest owners in Tract 1. Questar filed this Request, in part, in compliance with the terms of the Compensatory Royalty Agreement.

12. Questar drilled the first 4 wells in the Subject Lands in a 160 acre pattern and drilled the fifth well, the 7P well, in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ with the intent of moving to an 80 acre pattern. Questar performed two pressure build up tests ("PBU Test") in the 7P well and compared those results with a PBU Test conducted on the 9P well, the first well drilled in the Subject Depths in the Subject Lands. The evidence presented from these PBU Tests showed that the original reservoir pressure as measured within 9P well was significantly higher than the pressure measured in the 7P well drilled

two years later, indicating that there was significant communication between the wells. These tests and analysis, together with the volumetric estimates presented, indicates that the subject wells will each effectively and efficiently drain 160 acres in the Subject Depths in the Subject Lands and not 80 acres as originally anticipated.

13. The evidence presented established that the Dakota, Cedar Mountain, Morrison, Entrada and Wingate formations each constitutes a pool and common source of supply across and within the Subject Land.

14. A copy of the Request was mailed to all working interest owners within the Subject Lands as disclosed by the appropriate Federal, State and County realty records as well as to the Bureau of Land Management, the Utah School and Institutional Trust Lands Administration and Bureau of Indian Affairs.

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 interest 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 matters 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.

3. The evidence presented established that 160 acre drilling and spacing units for the production of natural gas comprised of the NE¼, NW¼, SW¼ and SE¼ of subject Section 36 and encompassing the Subject Depths are not smaller than the maximum area that can be efficiently and economically drained by one well and appear reasonable, justified and economic.

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

5. The relief granted hereby will result in the orderly development and greatest recovery of gas in the Subject Lands, prevent waste and adequately protect the correlative rights of all affected parties.

ORDER

Based upon the Request, the 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. 160 acre drilling and spacing units comprised of each quarter section in the Subject Lands for the production of natural gas from all formations in the Subject Depths are hereby established.
3. The wells listed below shall be recognized as the unit wells for the following drilling and spacing units in the Subject Lands established by this order:

(a) NE¼ FR 1P-36-14-19

(b) NW¼ FR 3P-36-14-19

(c) SW¼ FR 11P-36-14-19

(d) SE¼ FR 9P-36-14-19

4. A second well, namely the FR 7P-36-14-19 is authorized for the 160 acre unit comprised of the NE¼ of the Subject Lands.

5. Pursuant to Utah Admin. Code Rule R641-100-100 *et seq.* and Utah Code Ann. §63-46b-6 to 10, the Board has considered and decided this matter as a formal adjudication.

6. 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. §63-46b-10 and Utah Admin. Code Rule R641-109-100.

7. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. §63-46b-10(e) to – 10(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 is issued. Utah Code Ann. §63-46b-14(3)(a) and – 16. 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. §63-46b-13, 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 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 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. §63-46b-13 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

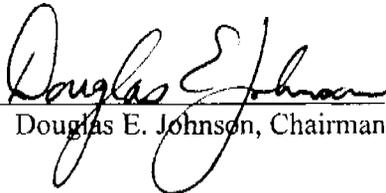
matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

8. 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.

9. 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 18 day of September, 2008.

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. 2008-019, Cause No. 261-02 to be mailed, postage prepaid, on this 18th day of September, 2008, to the following:

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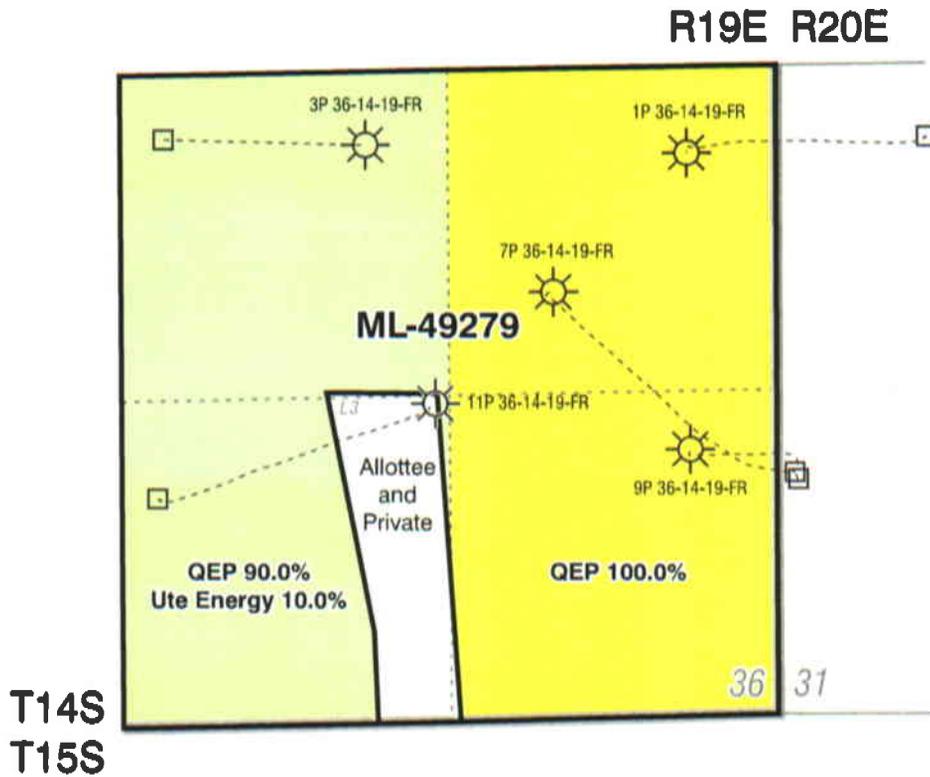
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QUESTAR

Exhibit "C"

Flat Rock Area Hearing

Uintah County, Utah

Docket #: 2008-019

Cause #: 261-02