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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 MODIFYING THE BOARD'S ORDERS IN CAUSE NOS. 210-01 AND 210-04 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 UPON PORTIONS OF TOWNSHIPS 10 AND 11 SOUTH, RANGES 21 AND 22 EAST, SLM, UINTAH COUNTY, UTAH

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

Docket No. 2009-013

Cause No. 210-05

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. 173-23, 173-24, 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 Jessica Pink – 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 purposes of this Cause. Anthony T. Hunter, 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 operating rights/working interest in the formations for which the in-fill authorization relevant to this Cause is sought (*see* (6) below), in the following Uintah County, Utah lands:

Township 10 South, Range 21 East, SLM

Section 25: S¹/₂S¹/₂, NE¹/₄SE¹/₄
Section 26: SW¹/₄
Section 28: SW¹/₄, W¹/₂SE¹/₄, SE¹/₄SE¹/₄
Section 31: Lots 1 (40.94), 2 (40.68), 3 (40.96), 4 (40.54),
E¹/₂W¹/₂, S¹/₂NE¹/₄, SE¹/₄
Section 32: S¹/₂, SE¹/₄NE¹/₄
Section 33: All
Section 34: All
Section 35: All
Section 36: All

Township 10 South, Range 22 East, SLM

Section 27: S¹/₂NE¹/₄, N¹/₂SE¹/₄, NE¹/₄SW¹/₄, S¹/₂SW¹/₄
Section 28: S¹/₂S¹/₂, NW¹/₄SW¹/₄
Section 29: SE¹/₄NE¹/₄, W¹/₂NE¹/₄, NW¹/₄, E¹/₂SE¹/₄
Section 30: Lot 4 (24.85)
Section 31: Lots 1 (24.64), 2 (24.44), 3 (24.24) and 4
(24.04), E¹/₂W¹/₂, SW¹/₄NE¹/₄, SE¹/₄
Section 32: S¹/₂, E¹/₂NE¹/₄
Section 33: W¹/₂, W¹/₂E¹/₂, NE¹/₄NE¹/₄

Township 11 South, Range 21 East, SLM

- Section 1: Lots 1 (37.49), 2 (37.54), 3 (37.60), 4 (37.65),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 2: Lots 1 (37.69), 2 (37.70), 3 (37.72), 4 (37.73),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 3: Lots 1 (37.80), 2 (37.92), 3 (38.04), 4 (38.16),
SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 4: Lots 1 (38.30), 2 (38.47), 3 (38.63), 4 (38.80)
- Section 5: Lots 1 (38.91), 2 (39.35), 3 (39.46), 4 (39.34),
S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 7: Lots 1 (30.24), 2 (30.45), 3 (30.65), 4 (30.86),
E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ [All]
- Section 8: W $\frac{1}{2}$, W $\frac{1}{2}$ E $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 9: W $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$
- Section 10: NE $\frac{1}{4}$ NE $\frac{1}{4}$
- Section 11: N $\frac{1}{2}$ N $\frac{1}{2}$
- Section 12: N $\frac{1}{2}$ N $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$
- Section 13: W $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$
- Section 14: S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$
- Section 15: S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$
- Section 16: W $\frac{1}{2}$, W $\frac{1}{2}$ E $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 17: All
- Section 18: Lots 1 (31.00), 2 (31.06), 3 (31.14), 4 (31.20),
E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ [All]
- Section 24: W $\frac{1}{2}$, W $\frac{1}{2}$ E $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 25: All

Township 11 South, Range 22 East, SLM

- Section 2: Lots 1 (15.19), 2 (15.16), 3 (15.14), 4 (15.11),
5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 3: Lots 1 (15.15), 2 (15.26), 3 (15.36), 4 (15.47),
5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 4: Lots 1 (15.43), 2 (15.23), 3 (15.05), 4 (14.85),
5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]

- Section 5: Lots 1 (14.76), 2 (14.78), 3 (14.78), 4 (14.80), 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 6: Lots 1 (43.58), 2 (37.54), 3 (37.47), 4 (32.38), 5 (34.57), 6 (34.55), 7 (34.55), 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 7: Lots 1 (34.56), 2 (34.62), 3 (34.66), E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$
- Section 8: All
- Section 9: All
- Section 10: All
- Section 11: All
- Section 14: All
- Section 15: All
- Section 16: All
- Section 17: All
- Section 18: N $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$
- Section 19: Lots 2 (35.11), 3 (35.19), 4 (35.26), E $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ SE, E $\frac{1}{2}$ E $\frac{1}{2}$
- Section 20: All
- Section 21: All
- Section 22: All
- Section 23: All

(containing 26,761.79 acres, more or less)

(hereinafter the "Subject Lands"). The Subject Lands comprise, in part, the area more commonly referred to by KMG as the "Bitter Creek" area and surround the lands included within the Love Federal Exploratory Unit.

3. KMG owns less than 100% of the leased working interest or operating rights in the following portions of the Subject Lands:

Township 10 South, Range 21 East, SLM

Section 33: All

Section 35: All

Township 11 South, Range 21 East, SLM

Section 1: Lots 1 (34.79), 2 (37.54), 3 (37.60), 4 (37.65),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]

Section 12: N $\frac{1}{2}$ N $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$

Section 13: W $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$

Section 24: W $\frac{1}{2}$, W $\frac{1}{2}$ E $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$

Section 25: All

Township 11 South, Range 22 East, SLM

Section 2: Lots 3 (15.14), 4 (15.11), 5 (40.00), 6 (40.00),
S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$

Section 4: Lots 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00),
S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$

Section 5: Lots 1 (14.76), 2 (14.78), 3 (14.78), 4 (14.80), 5
(40.00), 6 (40.00), 7 (40.00), 8 (40.00),
S $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$

Section 6: S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$

Section 7: Lots 1 (34.56), 2 (34.62), 3 (34.66), E $\frac{1}{2}$ W $\frac{1}{2}$,
E $\frac{1}{2}$

Section 8: All

Section 9: All

Section 10: E $\frac{1}{2}$

Section 11: All

Section 14: All

Section 16: All

Section 17: N $\frac{1}{2}$, E $\frac{1}{2}$ SE $\frac{1}{4}$

Section 18: N $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 19: Lots 2 (35.11), 3 (35.19), 4 (35.26), E $\frac{1}{2}$ SW $\frac{1}{4}$,
SW $\frac{1}{4}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ SE, E $\frac{1}{2}$ E $\frac{1}{2}$

Section 20: NW $\frac{1}{4}$, SE $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$

Section 21: All

Section 22: All

4. The gas and associated oil and hydrocarbons underlying the Subject Lands are owned by the United States (79.62%) and the State of Utah (20.32%).

5. By Order entered in Cause No. 210-01 on July 26, 1984 (the “210-01 Order”), the Board established 320-acre vertical (“stand-up”) drilling units for the development and production of gas and associated hydrocarbons from the Wasatch, Mesaverde, Segoe and Castle Gate formations (no specific definition included) for the following portions of the Subject Lands:

Township 11 South, Range 22 East, SLM

- Section 2: Lots 1 (15.19), 2 (15.16), 3 (15.14), 4 (15.11), 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 3: Lots 1 (15.15), 2 (15.26), 3 (15.36), 4 (15.47), 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 4: Lots 1 (15.43), 2 (15.23), 3 (15.05), 4 (14.85), 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 5: Lots 1 (14.76), 2 (14.78), 3 (14.78), 4 (14.80), 5 (40.00), 6 (40.00), 7 (40.00), 8 (40.00), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
- Section 6: Lots 1 (43.58), 2 (37.54), 3 (37.47), 4 (32.38), 5 (34.57), 6 (34.55), 7 (34.55), 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 8: All
- Section 9: All
- Section 10: All
- Section 11: All
- Section 14: All
- Section 15: All

Section 16: All
Section 17: All

(containing 8,536.16 acres, more or less)

(the "210-01 Lands"). The Board additionally ruled that the permitted well location for each drilling unit must be within the NE $\frac{1}{4}$ or SW $\frac{1}{4}$ or each government section, with locations being no closer than 500 feet from quarter section boundaries provided, however, that the Division may grant administrative approval for exception well locations for topographical reasons without the necessity of a full hearing before the Board.

6. By Order entered in Cause No. 210-04 on April 12, 2004 (the "210-04 Order"), the Board vacated the 210-01 Order as to all of the 210-01 Lands except Lots 1, 2, 7 and 8, S $\frac{1}{2}$ NE $\frac{1}{4}$ and SE $\frac{1}{4}$ [E $\frac{1}{2}$] of Section 4, Township 11 South, Range 22 East, SLM, which the Board modified to allow for eight wells, as to the production of gas and associated hydrocarbons from the Wasatch Formation and Mesaverde Group, defined as:

the top of the Wasatch formation is defined as the stratigraphic equivalent of 3,790 feet as shown on the electric log of the Willow Creek Unit #1 well located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 21, Township 11 South, Range 21 East, SLM, and as the stratigraphic equivalent of 5,552 feet as shown on the electric log of the Ouray #34-79 well located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 34, Township 8 South, Range 21 East, SLM, and the base of the Mesaverde Group is defined as the stratigraphic equivalent of approximately 9,550 feet in said Willow Creek Unit #1 well (a stratigraphic equivalent which lies approximately 20 feet below the base of the electric log for said well), and as the stratigraphic equivalent of 11,718 feet as shown on the electric log of said Ouray #34-79 well

(the “Subject Formations”); provided, however, that the permitted additional wells shall be located no closer than 920 feet from other wells completed in and producing from said formation, and no closer than 460 feet from the exterior boundary of the drilling unit without an exception location approval as provided in Utah Admin. Code Rule R649-3-3. In addition, the Board also established the following special drilling units for the production of gas and associated hydrocarbons for the Subject Formations:

Township 11 South, Range 22 East, SLM

- Section 4: Lots 3 (15.05) and 6 (40)
- Section 4: Lots 4 (14.85) and 5 (40)
- Section 5: Lots 1 (14.76) and 8 (40)
- Section 5: Lots 2 (14.78) and 7 (40)
- Section 5: Lots 3 (14.78) and 6 (40)
- Section 5: Lots 4 (14.80) and 5 (40),

and authorized one well for each such drilling unit producing from the Subject Formations, subject to the same off-set limitations set forth above.

7. No other spacing order relating to the Subject Formations and the Subject Lands have been entered by the Board. As a consequence, all of the Subject Lands, except those specifically described in (6) above 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. The result of the 210-04 Order is to effectively create the same density pattern throughout the Subject Lands.

8. There are existing communitization agreements covering the drilling units described in (6), above, except for Section 5: Lots 4 and 5, which were approved by the BLM in order to establish proration units in conformance with the 210-01 and 210-04 Orders. Production from any additional wells drilled on any of these drilling units will be allocated to the royalty, overriding royalty and working and other production interest owners in the same manner as production from wells currently within the respective units.

9. 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 and validate KMG's pressure model;

10. Volumetric estimations reflect a 55% recovery efficiency on a 10-acre density pattern for the Subject Formations underlying the Subject Lands.

11. 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.

12. 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.

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

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

15. 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 of mail undeliverable to the last address of record, were filed with the Board.

16. 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.

17. 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 210-01 and 210-04 Orders to allow the drilling additional wells on each drilling and spacing unit, and Utah Admin Code Rule R649-3-2 to allow the drilling of additional wells on the balance of the Subject 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, with the proviso that the additional wells so authorized may be located no closer than 460 feet from the exterior boundary of each drilling unit or lease as applicable 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. Utah Admin. Code Rules R649-3-10 and R649-3-11 govern 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 or leasehold 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 boundary of a lease or drilling unit 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 boundary of the lease or drilling unit 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.

5. 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 prior Board Orders and is just and reasonable under the circumstances.

6. Authorizing in-fill drilling, rather than vacating the existing orders or 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.

7. 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.

8. 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. The Board Orders entered in Cause Nos. 210-01 and 210-04 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 the drilling unit comprised of the E $\frac{1}{2}$, Section 4, Township 11 South, Range 22 East, SLM, and five producing wells on each of the special drilling units created under the 210-04 Order for the production of gas and associated oil and hydrocarbons from the Subject Formations.
3. 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 are eliminated and Utah Admin. Code Rules R649-3-10 and R649-3-11(1) and (2) as

applicable to each such drilling unit are 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. Utah Admin. Code Rule R649-3-2 is hereby modified as applicable to the Subject Formations underlying the balance of the Subject Lands 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 said formations.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

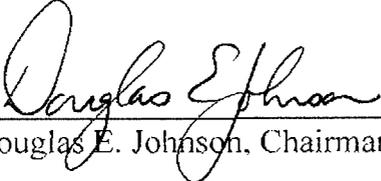
Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later 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.

12. 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.

13. 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. 2009-013, Cause No. 210-05 to be mailed with postage prepaid, this 6th day of October, 2009, to the following:

FREDERICK M MACDONALD
JUSTIN C RAMMELL
BEATTY & WOZNIAK PC
6925 UNION PARK CENTER SUITE 525
COTTONWOOD HEIGHTS UT 84047-6003

JESSICA PINK LANDMAN
KERR-MCGEE OIL & GAS ONSHORE LP
1099 18TH STREET
DENVER CO 80202

MICHAEL S JOHNSON
STEPHEN SCHWENDIMAN
ASSISTANT ATTORNEYS GENERAL
UTAH BOARD OF OIL GAS & MINING
1594 WEST NORTH TEMPLE SUITE 300
SALT LAKE CITY UT 84116
[VIA EMAIL]

RCM EXPLORATION (AMERICA) INC
NICHOLSON HOUSE HIGH STREET
MAIDENHEAD BERKSHIRE ENGLAND
SL6-1LD
[UNDELIVERABLE 8/10/09]

STEVEN F ALDER
KEVIN BOLANDER
ASSISTANT ATTORNEYS GENERAL
UTAH DIVISION OF OIL GAS & MINING
1594 WEST NORTH TEMPLE STE 300
SALT LAKE CITY UT 84116
[VIA EMAIL]

BIG SNOWY EXPLORATION LP
1050 17TH STREET SUITE 1800
DENVER CO 80265

UNITED STATES OF AMERICA
BUREAU OF LAND MANAGEMENT
UTAH STATE OFFICE
ATTN BECKY HAMMOND
CHIEF-BRANCH OF FLUID MINERALS
PO BOX 45155
SALT LAKE CITY UT 84145-0155

ROBERT L BAYLESS PRODUCER LLC
ATTN C JAY MUNOZ
621 17TH STREET SUITE 2300
DENVER CO 80293

UNITED STATES OF AMERICA
BUREAU OF LAND MANAGEMENT
VERNAL FIELD OFFICE
170 SOUTH 500 EAST
VERNAL UT 84078

ROSEWOOD RESOURCES INC
2101 CEDAR SPRINGS RD STE 1500
DALLAS TX 75201-2147

STATE OF UTAH
TRUST LANDS ADMINISTRATION
ATTN LAVONNE GARRISON
ASSISTANT DIRECTOR OIL AND GAS
675 EAST 500 SOUTH SUITE 500
SALT LAKE CITY UT 84102

BEST EXPLORATION INC
PO BOX 1705
GRAND JUNCTION CO 81502
[UNDELIVERABLE 8/11/09]

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

MORGAN MARATHON LLC
3333 S BANNOCK ST SUITE 950
ENGLEWOOD CO 80110

HAROLD B HOLDEN AND EVA
HOLDEN 1995 LIVING TRUST
PO BOX 1743
BILLINGS MT 59103

MORGAN EXPLORATION LLC
3333 S BANNOCK ST SUITE 950
ENGLEWOOD CO 80110

DJ INVESTMENTS COMPANY LTD
448 S 400 E # 200
SALT LAKE CITY UT 84111

T-K PRODUCTION CO
PO BOX 2235
BILLINGS MT 59103

WALTER S FEES INTERVIVOS TRUST
2516 FORESIGHT CIRCLE #10
GRAND JUNCTION CO 81505

MCELVAIN OIL COMPANY
P O BOX 801888
DALLAS TX 75830

XTO ENERGY INC
ATTN MICK DOW
810 HOUSTON STREET
FORT WORTH TX 76102-6298

ELLIOTT INDUSTRIES LP
P O BOX 3300
ROSWELL MN 88202

FOREST OIL CORPORATION
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707 17TH STREET SUITE 3600
DENVER CO 80202

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OGDEN UT 84402

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

HOUSTON EXPLORATION COMPANY
1100 LOUISIANA SUITE 2000
HOUSTON TX 77002

TH MCELVAIN OIL & GAS LP
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DENVER CO 80265

INTEGRITY OIL & GAS COMPANY
999 18TH STREET #3300
DENVER CO 80202
**[UNDELIVERABLE 8/10/09 – NO SUCH
COMPANY AT THIS ADDRESS]**

J&M RAYMOND LTD
P O BOX 291445
KERRVILLE TX 78029-1445

JOHN A MASEK
DRAWER 3114
CASPER WY 82602
[UNDELIVERABLE 8/10/09]


A handwritten signature in cursive script, reading "Maurine Brubaker", is written over a horizontal line.

FILED

SEP 14 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 MODIFYING THE BOARD'S ORDERS IN CAUSE NOS. 210-01 AND 210-04 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 UPON PORTIONS OF TOWNSHIPS 10 AND 11 SOUTH, RANGES 21 AND 22 EAST, SLM, UTAH COUNTY, UTAH

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

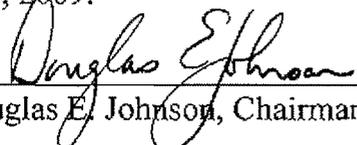
Docket No. 2009-013

Cause No. 210-05

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

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

SO ORDERED, this 14 day of September, 2009.



Douglas E. 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 EXHIBITS OUT OF TIME for Docket No. 2009-013, Cause No. 210-05 to be mailed with postage prepaid, this 15 day of September, 2009, to the following:

FREDERICK M MACDONALD
JUSTIN C RAMMELL
BEATTY & WOZNIAK PC
6925 UNION PARK CENTER SUITE 525
COTTONWOOD HEIGHTS UT 84047-6003

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Maurice Burtedje