

FILED

APR 02 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 XTO ENERGY INC. FOR AN ORDER MODIFYING THE BOARD'S ORDER ENTERED IN CAUSE NO. 245-04 TO ALLOW THE DRILLING OF AN ADDITIONAL WELL IN THE DRILLING UNIT COMPRISED OF LOTS 3-6, 11 AND 12 IN SECTION 1, TOWNSHIP 17 SOUTH, RANGE 7 EAST, SLM, EMERY COUNTY, UTAH, FOR THE PRODUCTION OF GAS (INCLUDING BUT NOT LIMITED TO COALBED METHANE) FROM THE FERRON FORMATION

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

Docket No. 2008-006

Cause No. 245-04A

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, March 26, 2008, at approximately 3:45 p.m. The following Board members were present and participated at the hearing: Chairman Douglas E. Johnson, Kent R. Petersen, Robert J. Bayer, Samuel C. Quigley and Ruland J. Gill, Jr. Board Members Jean Semborski and Jake Y. Harouny were unable to attend. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner XTO Energy Inc. ("XTO") were Ryan O'Kelley – Landman, and Leonard L. West, P.E. – Manager of Special Projects. Frederick M. MacDonald, Esq., of and for Beatty & Wozniak, P.C., appeared as attorney for XTO.

Testifying on behalf of the Division of Oil, Gas and Mining (the "Division") was K. Michael Hebertson – Enforcement & Hearings Manager. Steven F. Alder, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its

support for the granting of XTO's Request for Agency Action dated February 11, 2008 (the "Request") at the conclusion of its presentation.

At the conclusion of XTO's and the Division's presentations, Michael Coulthard, Petroleum Engineer, Utah State Office, United States Bureau of Land Management ("BLM"), made a statement expressing the BLM's support for the granting of the Request.

Merrion Oil & Gas, a non-operating working interest owner in the Huntington (Shallow) CBM Unit, filed a letter with the Board on March 4, 2008 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. XTO is a Delaware corporation with its principal place of business in Fort Worth, Texas. XTO is duly qualified to conduct business in the State of Utah and is fully and appropriately bonded with all relevant Federal and State of Utah agencies.

2. By virtue of its Order entered on May 17, 2006 in Cause No. 245-04 (the “Order”), the Board established a drilling unit comprised of the following Emery County lands:

Township 17 South, Range 7 East, SLM

Section 1: Lots 3 (14.70), 4 (14.43),
5 (40), 6 (40), 11 (40) and
12 (40)

(containing 183.13 acres)

(hereinafter the “Subject Lands”) for the production of gas (including but not limited to coalbed methane) from the Ferron Formation, defined as:

the stratigraphic equivalent of the interval between 4,191 feet (top of the Upper Ferron Sandstone) and 4,511 feet (base of the Lower Ferron Sandstone/Top of Tununk Shale) as seen on the gamma ray log track for the Utah Federal #16-7-35-21 Well, located in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 35, Township 16 South, Range 7 East, SLM, Emery County, Utah

(the “Subject Formation”), and ruled the then existing Federal “KK” 1-140 Well, located 2,708 feet FNL and 1,427 feet FWL, in Lot 11 of said Section 1 (the “1-140 Well”), was the one and only authorized well for said drilling unit so established. The 1-140 Well commenced production of gas from the Spaced Formation on October 18, 2002 and currently continues to produce. XTO is the operator.

3. The gas ownership and leasehold status of the Subject Lands currently are as follows:

<u>Lands</u>	<u>Gas Ownership</u>	<u>Lease No.</u>
Sec. 1: Lots 3, 6, 11 and 12	United States	UTU-74822
Sec. 1: Lots 4 and 5	United States	UTU-74963

XTO is the sole lessee and operating rights owner under both leases. Other than the United States, the basic royalty owner, there are no other overriding royalty or other production interest owners in the Subject Lands.

4. The Subject Lands are subject to Communitization Agreement UTU-84721 which allocates production from the leases and lands on a pro-rata acreage basis as follows:

<u>Lands</u>	<u>Lease No.</u>	<u>Production Allocation</u>
Sec. 1: Lots 3, 6, 11 and 12	UTU-74822	71.22085%
Sec. 1: Lots 4 and 5	UTU-74963	28.77915%

5. XTO is a non-operating working interest/operating rights owner in the Drunkards Wash Federal Exploratory Unit (the "DWU"), located to the northeast of the Subject Lands. All wells in the DWU produce gas (primarily coalbed methane) from the Ferron Formation. From its inception in 1991 through 2006, development within the DWU has occurred on a 160-acre well density pattern.

6. In 2006, Dominion Resources – Utah, Inc., XTO's predecessor in title, and the relevant DWU working interest owners drilled and completed eight (8) wells as an in-fill

pilot program to determine the effect of an 80-acre well density pattern. Five of the eight wells are located approximately nine miles to the northeast of the Subject Lands and, together with the offsetting 23 base wells originally drilled on a 160-acre density pattern, served as the study area for XTO's exhibits and testimony.

7. Data from the DWU in-fill study area reflects a projected incremental production of approximately 1.3 bcf per well. Furthermore, a comparison of average reserves from the DWU in-fill study area and the KK-140 well and immediate offsetting wells to the Subject Lands reflects similar recoveries, and therefore suggests the projected incremental production may very well be achieved from and around the Subject Lands. This indicates that, without in-fill drilling, additional gas reserves underlying the Subject Lands may not be recovered.

8. Economic analyses of a projected 1.3 bcf well in and around the Subject Lands indicate the well will yield a rate of return of 37%. Economic reserve sensitivity analysis indicates a well recovering only 860 MMcf will still generate a rate of return greater than 20%, therefore establishing that in-fill drilling should be economic.

9. Based on the results of the DWU in-fill study area, XTO is conducting its own pilot in-fill study program, including the drilling of in-fill wells within in the Huntington (Shallow) CBM Unit area, which is immediately adjacent to the north and east of the Subject Lands and in which XTO is a working interest owner and serves as Unit Operator. However,

while drilled, these wells have not yet been completed, and therefore no data has yet been generated.

10. As part of its pilot program, XTO is proposing to drill the “Federal 17-7-1-11” Well, to be located 1,153 feet FNL and 1,132 feet FWL in Lot 5 of subject Section 1 (the “1-11 Well”), in anticipation of gas production from the Spaced Formation. Said location appears to be the optimum location upon the Subject Lands for an 80-acre offset to the 1-140 well given the surface constraints of the Huntington Power Plant and ancillary facilities located on the Subject Lands. A conforming application for permit to drill for the 1-11 Well was submitted to the Utah Division of Oil, Gas and Mining (the “Division”) on May 9, 2007. However, without modification of the Order, XTO is currently prohibited from drilling the 1-11 Well as proposed.

11. XTO desires to maintain the same general set off limitations (no closer than 460 feet to a drilling unit boundary or 920 feet to a well also producing from the Spaced Formation) as are currently established under the Order and applicable to lands other than the Subject Lands. The proposed 1-11 Well location conforms to these limitations.

12. A copy of the Request was mailed via certified mail, return receipt requested, addressed to their last addresses as disclosed by the appropriate Federal, State, and County realty records to all production interest owners within the Subject Lands and to the working interest owners and operators in the adjacent drilling units (as established under the Order)

and to the working interest owners in the Huntington (Shallow) CBM Unit, and was received by all. In addition, a copy of the Request was mailed properly addressed to their last addresses to all governmental agencies having any supervisory jurisdiction over any of those lands.

13. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune, Deseret Morning News and Emery County Progress on March 4, 2008.

14. The vote of the Board members present and participating in the hearing 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.

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)(d).

3. The drilling of the proposed 1-11 Well is currently prohibited unless the Order is modified by the Board.

4. In-fill drilling of an additional well on the Subject Lands appears necessary to

recover gas reserves that would otherwise be left in the ground and is deemed otherwise just and reasonable under the circumstances.

5. Correlative rights will not be adversely affected because of the existing communitization agreement and the fact that in-fill drilling authorization, and not down spacing, is requested.

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

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

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's Order entered in Cause No. 245-04 is hereby modified to permit the drilling of an additional well for the production of gas, including, but not limited to, coalbed methane, from the Ferron Formation, defined as:

the stratigraphic equivalent of the interval between 4,191 feet (top of the Upper Ferron Sandstone) and 4,511 feet (base of the Lower Ferron Sandstone/Top of Tununk Shale) as seen on the gamma ray log track for the

Utah Federal #16-7-35-21 Well, located in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 35,
Township 16 South, Range 7 East, SLM, Emery County, Utah,

including all coals and surrounding sands, upon the existing drilling unit comprised of the
following described Emery County lands:

Township 17 South, Range 7 East, SLM

Section 1: Lots 3 (14.70), 4 (14.43),
5 (40), 6 (40), 11 (40) and
12 (40)

(containing 189.13 acres);

provided, however, that such additional well shall be drilled no closer than 460 feet from the
outer boundary of said unit and 920 feet from another well producing from the Ferron
Formation as so defined, except as may otherwise be permitted by administrative action for
topographic, cultural, archaeological, environmental or geologic reasons or other good cause
pursuant to Utah Admin. Code Rule R649-3-3;

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

4. 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.

5. 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.

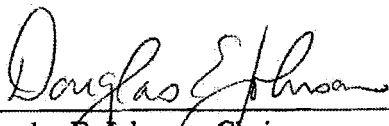
Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63-46b-13 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later 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.

6. 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.

7. 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 2 day of APRIL, 2008.

**STATE OF UTAH
BOARD OF OIL, GAS AND 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. 2008-006, Cause No. 245-04A to be mailed, postage prepaid, on this 3rd day of April, 2008, to the following:

Frederick M. MacDonald
Anthony T. Hunter
BEATTY & WOZNIAK, P.C.
Attorneys for Petitioner XTO Energy
6925 Union Park Center, Suite 525
Cottonwood Heights, UT 84047

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)

Steven F. Alder
James P. Allen
Assistant Attorneys General
Utah Division of Oil, Gas & Mining
1594 West North Temple, Suite 300
Salt Lake City, UT 84116
(Via Email)

XTO Energy Inc.
Attn: Ryan O'Kelley, Landman
810 Houston St.
Fort Worth, TX 76102

Bureau of Land Management
Attn: Rebecca Hammond
Chief-Branch of Fluid Minerals
P.O. Box 45155
Salt Lake City, UT 84145-0155

Bureau of Land Management
Moab Field Office
Attn: Eric Jones, Petroleum Engineer
82 E. Dogwood
Moab, UT 84532

Trust Lands Administration
Attn: LaVonne Garrison
Assistant Director-Oil & Gas
675 East 500 South, Suite 500
Salt Lake City, UT 84102

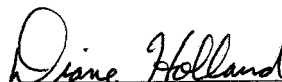
Dennis L. Lott and
Pauline Lott
P.O. Box 279
Escalante, UT 84726

Patricia Fessenden Roy
1102 Elgin Heights Ln.
Salt Lake City, UT 84106

PetroGulf Corporation
518 17th St., Suite 1455
Denver, CO 80202

Merrion Oil & Gas Corporation
610 Reilly Ave.
Farmington, NM 87401

Questar Exploration & Production Co.
180 East 100 South
P.O. Box 45601
Salt Lake City, UT 84145



FILED

MAR 21 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 XTO ENERGY INC. FOR AN ORDER MODIFYING THE BOARD'S ORDER ENTERED IN CAUSE NO. 245-04 TO ALLOW THE DRILLING OF AN ADDITIONAL WELL IN THE DRILLING UNIT COMPRISED OF LOTS 3-6, 11 AND 12 IN SECTION 1, TOWNSHIP 17 SOUTH, RANGE 7 EAST, SLM, EMERY COUNTY, UTAH, FOR THE PRODUCTION OF GAS (INCLUDING BUT NOT LIMITED TO COALBED METHANE) FROM THE FERRON FORMATION

**ORDER GRANTING LEAVE TO FILE
ADDITIONAL EXHIBITS**

Docket No. 2008-006

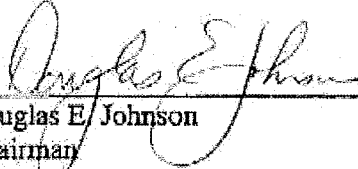
Cause No. 245-04A

The Board of Oil, Gas and Mining, having fully considered XTO Energy Inc.'s ("XTO's") Motion for Leave to File Additional Exhibits filed March 19, 2008, and finding good cause therefore, hereby grants said Motion and authorizes the filing and acceptance of Exhibits "K" and "M" attached to XTO's Motion.

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 21 day of March, 2008

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

By: 
Douglas E. Johnson
Chairman