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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 AMENDED
REQUEST FOR AGENCY ACTION OF STONE
ENERGY CORPORATION FOR AN ORDER
ESTABLISHING A SPECIAL DRILLING UNIT
FOR THE LA SAL 29-28 HORIZONTAL WELL
FOR THE PRODUCTION OF OIL AND
ASSOCIATED GAS AND HYDROCARBONS
FROM THE CANE CREEK SHALES
COMPRISED OF PORTIONS OF SECTIONS 28
AND 29, TOWNSHIP 29 SOUTH, RANGE 23
EAST, SLM, SAN JUAN COUNTY, UTAH

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

Docket No. 2013-004

Cause No. 166-05

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, February 27, 2013, at approximately 2:10 p.m., in the Auditorium of the Utah Department of Natural Resources Building in Salt Lake City. The following Board members were present and participated at the hearing: Chairman James T. Jensen, Jean Semborski, Ruland J. Gill, Jr., Jake Y. Harouny, Kelly L. Payne, Carl F. Kendell and Chris D. Hansen. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Stone Energy Corporation ("Stone") were Kent S. Davis – Contract Landman for Stone, and Kim J. Overcash – Consulting Petroleum Engineer for Stone. Messrs. Davis and Overcash were recognized by the Board as experts in petroleum land management and petroleum engineering, respectively, for

purposes of this Cause. Frederick M. MacDonald, Esq., of and for MacDonald & Miller Mineral Legal Services, PLLC, appeared as attorney for Stone.

The Division of Oil, Gas and Mining (the “Division”) did not file a staff memorandum in this Cause but nevertheless participated in the hearing. Steven F. Alder, Esq., Assistant Attorney General, appeared as attorney for, and, with the Board’s permission, Dustin Doucet, Petroleum Engineer, asked questions on behalf of the Division. At the conclusion of Stone’s presentation in-chief, Mr. Alder expressed that the Division had no objection to the granting of Stone’s Amended Request for Agency Action dated January 28, 2013 (the “Request”), as conformed to the testimony and other evidence provided at the hearing.

At the conclusion of Stone’s and the Division’s presentations in-chief, Michael Coulthard, Petroleum Engineer, Utah State Office of the Bureau of Land Management (the “BLM”), made a statement expressing the BLM’s support for the granting of the Request.

No other party filed a response to Stone’s 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 in this Cause.

FINDINGS OF FACT

1. Stone is a Delaware corporation in good standing, with its principal place of business in Lafayette, Louisiana, and is duly 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. The oil and gas underlying the lands at issue in this Cause are owned by the United States of America, administered by the BLM, and subject to the following Federal oil and gas leases:

<u>Lease</u>	<u>Lands (all within T29S, R23E, SLM)</u>
UTU-76054	Section 28: $W\frac{1}{2}SE\frac{1}{4}NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}NE\frac{1}{4}$, $SW\frac{1}{4}SW\frac{1}{4}NE\frac{1}{4}$, and $S\frac{1}{2}SE\frac{1}{4}NW\frac{1}{4}$
UTU-87195	Section 28: $NW\frac{1}{4}NE\frac{1}{4}SE\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}$, $N\frac{1}{2}SW\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}SW\frac{1}{4}$, $N\frac{1}{2}SW\frac{1}{4}SW\frac{1}{4}$ and $SW\frac{1}{4}SW\frac{1}{4}SW\frac{1}{4}$ Section 29: $SE\frac{1}{4}NE\frac{1}{4}SE\frac{1}{4}$ and $E\frac{1}{2}SE\frac{1}{4}SE\frac{1}{4}$

(the "Subject Leases" and "Subject Lands," respectively). The operating rights in the Subject Leases as relevant to this Cause (*see* Findings of Fact No. 5 below) are owned by Stone, Whiting Oil & Gas Corporation, Headington Oil Company LLC, Halliburton Energy Services Inc., Ramshorn Investments, Inc., PAMCO Investments Corporation and Evertson Energy Partners, LLC. There are numerous owners owning overriding royalty interests in Lease UTU-76054, but none in Lease UTU-87195.

3. The Subject Lands and Subject Leases are either effectively or fully committed to the La Sal Federal Exploratory Unit, approved by the BLM effective July 30, 2010. Stone serves as Unit Operator.

4. Under the terms of the La Sal Unit Agreement, all oil and gas in all formations underlying the committed lands are unitized. However, production is only allocated on a participating area basis, established by wells that are capable of producing Unitized Substances in Paying Quantities; *to wit*: “quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit.” Production from any well not meeting the “Unit Paying Quantities” criteria and not otherwise within an established participating area is instead to be allocated on a leasehold basis.

5. Pursuant to an application to drill approved by both the BLM and the Division, and as required under the terms of the La Sal Unit Agreement, Stone spud the La Sal 29-28 Well (the “Subject Well”) on January 9, 2011 at a surface location 743 feet FSL and 738 feet FEL in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 29, and drilled it horizontally with a terminus located 2,344 feet FNL and 1,319 feet FEL in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 28. The lateral was drilled through and perforated without hydraulic fracture stimulation, in the Cane Creek Shales, defined for purposes of this Cause as:

the stratigraphic equivalent of the interval from 8,168 feet to 8,232 feet MD as identified on the Gamma Ray Log run on February 5, 2011 for the LaSal 29-28 Well with a surface location in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 29, T29S, R23E, SLM,

and the Subject Well completed on May 16, 2011 as a producing oil well. However, despite several months of testing and production, the BLM, by Letter dated February 15, 2013, advised Stone that the Subject Well, under current circumstances, did not satisfy the “Unit Paying Quantities” criteria under the La Sal Unit Agreement.

6. The lateral and perforated intervals of the Subject Well extend over portions of both of the Subject Leases. As a consequence, the BLM has requested Stone to obtain an order for the Board establishing a special drilling unit for the Subject Well so a communitization agreement can be prepared and approved in accordance with Federal regulations, guidelines and practices.

7. The Cane Creek Shales have low permeability with some natural fracturing. There are confining salt intervals above and below the Shales. The interval of the Cane Creek Shales as defined in Findings of Fact No. 5 above constitutes a common source of supply of oil and associated gas and hydrocarbons.

8. Utilizing the following circle-tangent method currently employed by the Reservoir Management Group of the Wyoming State Office of the Bureau of Land Management to determine the participating areas (drainage area) for horizontal wells within Federal exploratory units; namely:

creating circles with 660’ radii around the casing shoe point of the lateral in the producing formation and around the end of the lateral, constructing tangents between them, and including as part of the participating area any 10-acre

subdivision then cut by the circles and tangent so created/constructed,

modified to utilize the last perforation prior to the terminus, rather than the terminus itself, as the point for the radius, which method has been approved by the BLM and utilized as the basis for the Board's Order entered in Cause Nos. 197-012 and 197-013, the Subject Lands are not smaller than the maximum area that can be effectively and economically drained by the Subject Well. Testimony established this methodology as valid based on an estimated 500,000 bbls. of recoverable oil from the Subject Well.

9. Although not applicable to the lands with a Federal unit (*see* Utah Admin. Code Rule R649-3-2(8)), Utah Admin Code Rule R649-3-2(5) provides for a 1,320 foot set back for any well (whether vertical or horizontal) drilled to and producing from the same formation from any portion of a horizontal well, Stone has requested such a set back be adopted in this Cause, and there is no evidence before the Board to reflect a different set back should instead be adopted.

10. Stone has represented that additional fracture stimulation and perforations of the lateral are planned and that such additional operations may prospectively result in the Subject Well being deemed by the BLM to produce Unitized Substances in Paying Quantities as defined in the La Sal Unit Agreement. In such an event, Stone desires that the requested drilling unit be suspended, the conforming communitization agreement be

terminated, and the terms of the La Sal Unit Agreement then govern, particularly the participating area allocation provisions set forth therein.

11. A copy of the Request was mailed, postage pre-paid, certified with return receipt requested, and properly addressed to the addresses disclosed by searches of the respective BLM and San Juan County records, and based on Stone's internal records, to all overriding royalty owners and operating rights owners of the Cane Creek Shales in the leases covering, and to the governmental agencies owning the oil and gas and having jurisdiction over said minerals underlying, the Subject Lands. Copies of the return receipts, evidencing receipt of such mailings, or of the returned mailing themselves, evidencing either their undeliverability to the last addresses disclosed by the searches of the records indicated above, or the refusal of the addressee to pick them up from the United States Postal Service, were filed with the Board.

12. 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 February 3, 2013, and in the San Juan Record on February 6, 2013.

13. The vote of the Board members present in the hearing and participating in this Cause was unanimous (7-0) 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. Stone has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request.

4. Creation of a special drilling unit for Cane Creek Shales production from the Subject Lands for the Subject Well, retroactively to May 16, 2011, its date of first production, is required for the protection of the correlative rights of the parties owning interests in the Subject Leases, and is a requisite to allowing conforming communitization of the Subject Lands in accordance with Federal regulations, guidelines and practice, and the express request of the BLM. It is also fair, reasonable and justified under the circumstances.

5. Suspension of said drilling unit upon the determination by the BLM that the Subject Well is capable of producing Unitized Substances in Paying Quantities, as defined in the La Sal Unit Agreement, and inclusion of the Subject Lands within a Unit participating area is fair, reasonable and justified under the circumstances.

6. Adoption of the 1,320-foot set back as set forth in Utah Ann. Code Rule R649-3-2(5) and as requested by Stone will be protective of correlative rights and prevent waste, and is fair reasonable and justified under the circumstances.

7. The relief granted hereby will result in consistent and orderly development and the greatest recovery of oil, and associated gas and hydrocarbons from the Cane Creek Shales underlying the Subject Lands.

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 is granted.
2. A special drilling unit for the La Sal 29-28 Well for the production of oil and associated gas and hydrocarbons for the Cane Creek Shales, defined as:

the stratigraphic equivalent of the interval from 8,168 feet to 8,232 feet MD as identified on the Gamma Ray Log run on February 5, 2011 for the La Sal 29-28 Well with a surface location in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 29, T29S, R23E, SLM,

comprised of the following San Juan County, Utah lands:

Township 29 South, Range 23 East, SLM

Section 28: W $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$

Section 29: SE $\frac{1}{4}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$ and E $\frac{1}{2}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$

(containing 270 acres)

is hereby established, retroactive to May 16, 2011, the date of first production from said Well.

3. No well (whether vertical or horizontal) producing from Cane Creek Shales (as defined above) may be located closer than 1,320 feet from any portion of the La Sal 29-28 Well's lateral located within said Shales without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

4. This Order shall be suspended upon the determination by the BLM that the La Sal 29-28 Well is capable of producing Unitized Substances in Paying Quantities, as defined in the La Sal Unit Agreement, and inclusion of the drilling unit lands in a Unit participating area. Stone, or its successor Unit Operator, shall provide to the Board's secretary a copy of the BLM Letter reflecting such determination so the Board's records may be properly noted to reflect such suspension becoming effective.

5. 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.

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. § 63G-4-208 and Utah Administrative Code Rule R641-109.

7. 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.

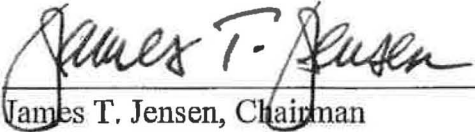
Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. §63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of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

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 20th day of March, 2013.

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

By: 
James T. Jensen, Chairman

FMM:nmc
1150.02

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. 2013-004, Cause No. 166-05 to be mailed via E-Mail, and First Class Mail, with postage prepaid, this 20th day of March, 2013, to the following:

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A handwritten signature in blue ink that reads "Julie Ann Carter". The signature is written in a cursive style and is positioned above a horizontal line.