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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 REQUEST FOR AGENCY ACTION OF ANADARKO PETROLEUM CORPORATION FOR AN ORDER MODIFYING THE BOARD'S ORDER IN CAUSE NO. 241-01 TO ALLOW AN ADDITIONAL (SECOND) WELL IN EACH OF THE 160-ACRE (OR SUBSTANTIALLY EQUIVALENT) DRILLING UNITS FOR THE PRODUCTION OF GAS (INCLUDING COALBED METHANE) FROM THE FERRON FORMATION IN SECTIONS 32 AND 36, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SLM, AND SECTIONS 2 THROUGH 4, TOWNSHIP 14 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH	**FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER** Docket No. 2010-012 Cause No. 241-01A

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, April 28, 2010, at approximately 11:00 a.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 Douglas E. Johnson, Jean Semborski, Jake Y. Harouny, Ruland J. Gill, Jr., James T. Jensen, and Kelly L. Payne. Board Member Samuel C. Quigley was unable to attend. At the commencement of the hearing, Board Member Semborski disclosed that her employer, ConocoPhillips Company, was an overriding royalty interest owner in lands at issue but that she personally had not been involved with the wells, leases and lands at issue in the Cause in the course of her employment. Chairman Johnson asked if there were any objections to Ms. Semborski's participation in the Cause, but none were voiced

and Ms. Semborski continued her participation. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Anadarko Petroleum Corporation ("Anadarko") were Patrick G. McGraw – Landman, Andrew W. Taylor – Geoscience Manager, and Bennie J. Allen – Reservoir Engineer. Mssrs. Taylor and Allen were qualified and recognized by the Board as experts in geology and petroleum engineering, respectively, for purposes of this Cause. Frederick M. MacDonald, Esq., of and for Beatty & Wozniak, P.C., appeared as attorney for Anadarko.

Testifying on behalf of the Division of Oil, Gas and Mining (the "Division") was Gil Hunt – Associate Director – Oil & Gas. Fred Donaldson, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for the granting of Anadarko's Request for Agency Action filed in this Cause (the "Request") at the conclusion of the Division's presentation.

At the conclusion of Anadarko's and the Division's presentations, LaVonne J. Garrison, Associate Director – Oil and Gas, Utah School and Institutional Trust Lands Administration ("TLA"), made a statement expressing the TLA's support for 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 in this Cause:

FINDINGS OF FACT

1. Anadarko is a Delaware corporation in good standing, with its principal places of business in The Woodlands, Texas and Denver, Colorado. Anadarko is duly qualified to conduct business in the State of Utah and is fully bonded with all appropriate State agencies.

2. By Order entered January 2, 1998 in Cause No. 241-01 (the "241-01 Order"), the Board established the following drilling units located in Carbon County, Utah, each comprised of a governmental quarter section or combination of lots and quarter-quarter sections substantially comprising the same, for the production of gas (including coalbed methane) from the Ferron formation, defined as follows:

> the stratigraphic equivalent of the interval from 1,968 feet below the surface to 2,214 feet below the surface as shown in the density log for the Birch A-1 well located in the SW¼ of Section 5, T14S, R10E, SLM

(the "Subject Formation"):

Township 13 South, Range 10 East, SLM

Section 32: NE¼
Section 32: NW¼
Section 32: SE¼
Section 32: SW¼
Section 36: NE¼
Section 36: NW¼

Section 36: SE¼
Section 36: SW¼

Township 14 South, Range 10 East, SLM

Section 2:	Lots 1 (40.35) and 2 (40.25), S½NE¼ [NE¼]
Section 2:	Lots 3 (40.15) and 4 (40.05), S½NW¼ [NW¼]
Section 2:	SE¼
Section 2:	SW¼
Section 3:	Lots 1 (40) and 2 (40), S½NE¼ [NE¼]
Section 3:	Lots 3 (40) and 4 (40), S½NW¼ [NW¼]
Section 3:	SE¼
Section 3:	SW¼
Section 4:	Lots 1 (40) and 2 (40), S½NE¼ [NE¼]
Section 4:	Lots 3 (40) and 4 (40), S½NW¼ [NW¼]
Section 4:	SE¼
Section 4:	SW¼

(the "Subject Lands"), among other similar drilling units within Anadarko's Helper field, and ruled only one well on each unit producing gas in the Subject Formation would be allowed. The Board further ordered that the permitted well for each such unit shall be located no closer than 460 feet from the outer boundary of said unit and no closer than 920 feet from other wells completed and producing from the Subject Formation unless otherwise permitted by administrative action approved by the Division in compliance with Utah Admin. Code Rule R649-3-3.

3. Ownership and the leasehold status of the gas in the Subject Formation in the Subject Lands are as follows:

Owner(s)	Lands	Applicable Lease(s)
State of Utah (administered by TLA)	T13S, R10E, SLM Sec. 32: NW¼SW¼, SE¼SE¼	ML-45803
	Sec. 36: All	ML-45802
	T14S, R10E, SLM Sec. 2: All Sec. 3: All	ML-45805
	Sec. 4: All	ML-45804
Royal and Glenna E. Stewart, Trustees of the Royal and Glenna E. Stewart Trust dated January 20, 1993	T13S, R10E, SLM Sec. 32: 2.21 acre m&b tract in NW¼	Bk. 347/Pg. 566 Carbon County Records
Talmadge Lee and Frances Kay Fillingim, husband and wife	T13S, R10E, SLM Sec. 32: 1.06 acre m&b tract in NW¼	Bk. 347/Pg. 569 Carbon County Records
Antonio Miguel and Donna Vallejos, husband and wife	T13S, R10E, SLM Sec. 32: 2.95 acre m&b tract in NW¼	Bk. 351/Pg. 81 Carbon County Records
Jerry L. and Bonnie J. Vea, husband and wife	T13S, R10E, SLM Sec. 32: 0.78 acre m&b tract and a 0.63 acre m&b tract, both located in the NW¼	Bk. 353/Pg. 437 Carbon County Records
Helper Associates	T13S, R10E, SLM Sec. 32: W½E½, E½W½, E½NE¼, N½SE¼, SW¼SW¼	Bk. 311/Pg. 327 Carbon County Records

John Vea and Rosa Vea, husband and wife	T13S, R10E, SLM Sec. 32: W½E½, E½W½, E½NE¼, N½SE¼, SW¼SW¼	Bk. 307/Pg. 805 ("Vea/RGU" Lease) AND Bk. 356/Pg. 346 Carbon County Records

Anadarko is the sole lessee and working interest/operating rights owner. ConocoPhillips Company and Devon Uinta Basin Corporation own overriding royalty interests in the Vea/RGU Lease. There are no overriding royalty or other production interest owners in the remaining leases.

4. In accordance with the 241-01 Order, Anadarko drilled the following wells which have been completed and continue to produce gas from the Subject Formation and each of which currently constitutes the authorized well for the identified drilling and spacing unit:

Well	Location	Applicable Drilling Unit
Vea A-1	Sec. 32: SW¼NW¼ (1,731' FNL/1,291' FWL)	Sec. 32: NW¼
Vea A-2	Sec. 32: NE¼NE¼ (1,307' FNL/842' FEL)	Sec. 32: NE¼
Vea A-3	Sec. 32: SE¼SW¼ (700' FSL/1,641' FWL)	Sec. 32: SW¼
Vea A-4	Sec. 32: NW¼SE¼ (1,670' FSL/1,335' FEL)	Sec. 32: SE¼
Helper State E-1	Sec. 36: SE¼SW¼ (1,255' FSL/1,379' FWL)	Sec. 36: SW¼

Helper State E-2	Sec. 36: SW¼NW¼ (1,711' FNL/1,258' FWL)	Sec. 36: NW¼
Helper State E-3	Sec. 36: NE¼NE¼ (494' FNL/1,005' FEL)	Sec. 36: NE¼
Helper State E-4	Sec. 36: SW¼SE¼ (660' FSL/1,980' FEL)	Sec. 36: SE¼
Helper State A-8	Sec. 2: NW¼SE¼ (1,700' FSL/2,000' FEL)	Sec. 2: SE¼
Helper State A-3	Sec. 2: Lot 4 [NW¼NW¼] (1,200' FNL/900' FWL)	Sec. 2: Lots 3 & 4, S½NW¼ [NW¼]
Helper State A-4	Sec. 2: Lot 2 [NW¼NE¼] (1,100' FNL/1,700' FEL)	Sec. 2: Lots 1 & 2, S½NE¼ [NE¼]
Helper State A-7	Sec. 2: NE¼SW¼ (1,635' FSL/1,497' FWL)	Sec. 2: SW¼
Helper State A-1	Sec. 3: SE¼NW¼ (1,621' FNL/2,019' FWL)	Sec. 3: Lots 3 & 4, S½NW¼ [NW¼]
Helper State A-2	Sec. 3: Lot 1 [NE¼NE¼] (1,321' FNL/464' FEL)	Sec. 3: Lots 1 & 2, S½NE¼ [NE¼]
Helper State A-5	Sec. 3: NE¼SW¼ (1,816' FSL/2,201' FWL)	Sec. 3: SW¼
Helper State A-6	Sec. 3: NE¼SE¼ (2,288' FSL/820' FEL)	Sec. 3: SE¼
Helper State D-7	Sec. 4: NW¼SW¼ (1,500' FSL/1,200' FWL)	Sec. 3: SW¼
Helper State D-4	Sec. 4: SW¼NW¼ (1,681' FNL/1,232' FWL)	Sec. 3: Lots 3 & 4, S½NW¼ [NW¼]

Helper State D-5	Sec. 4: Lot 2 [NW¼NE¼] (644' FNL/2,165' FEL)	Sec. 4: Lots 1 & 2, S½NE¼ [NE¼]
Helper State D-8	Sec. 4: SE¼SE¼ (981' FSL/445' FEL)	Sec. 4: SE¼

5. In conformance with the 241-01 Order and the correlative rights established pursuant thereto, and as required by State statute and TLA regulation, the following Pooling Agreements relating to subject Section 32 were signed by Anadarko (both on its own behalf and on behalf of the fee lessors pursuant to the pooling/unitization clauses contained in their respective leases) and signed and approved by TLA (as to the SW¼ and SE¼ of Section 32 only):

Lands	Date	Carbon Cty. Rec. Book/Page
NW¼	5/5/03 but effective as of 8/17/98	550/606
NE¼	5/5/03 but effective as of 8/6/98	550/603
SE¼	Effective 8/6/98	546/594
SW¼	Effective 8/6/98	546/587

Pursuant to these Agreements, all gas production from the Subject Formation is communitized (pooled) as to the respective quarter section and allocated to the leaseholds and respective parties on a pro-rata acreage basis. Because one lease respectively covers

the entirety of each of the remaining drilling units in the Subject Lands and production interests therein are uniform as to such drilling unit, no such pooling agreements are required for the remaining Subject Lands.

6. The Subject Formation underlying the Subject Lands is comprised of coals, carbonaceous shales and sandstones, all of which are reservoirs contributing to production from the wells identified in Paragraph 4 above. The geologic exhibits and testimony reflect that: (1) the sands are fluvial or distributory channel and shoreface deposits and there is little preferential orientation in the sands due to the variability in the depositional environment; (2) the coals exhibit compartmentalization and limited lateral connectivity; (3) because of both the sandstone and coal reservoirs, there is a mix of thermogenic and biogenic gas sources; (4) there is more heterogeneity and less lateral continuity in reservoir strata, this limiting overall lateral and vertical connectivity; and (5) directional permeability is mainly associated with the Southwest-Northeast orientation of faults, joints and coal cleats. All of these geologic factors support a need for in-fill drilling in the Helper field to recover additional gas reserves from the Subject Formation.

7. Comparison of estimated ultimate recoveries for each well with gas-in-place calculations strongly indicates significant reserves are not being recovered by the existing wellbores and therefore in-fill drilling appears appropriate. Anadarko estimates each in-fill well should recover an additional 2,884 MMCF of gas with a rate of return of 49.2%. Economic reserve sensitivity analysis indicates even an in-fill well recovering

only 949 MMCF of gas should generate at least a 10% rate of return. In-fill drilling should therefore be economic and not constitute waste.

8. Anadarko has proposed a five-section pilot program comprised of the Subject Lands to confirm that 80-acre well density for production of gas from the Subject Formation may be more appropriate and, if so, for future extension to the entire Helper field. Anadarko 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 Subject Formation) as are currently established under the 241-01 Order.

9. A copy of the Request was mailed, postage pre-paid, certified with return receipt requested, and properly addressed to all mineral, leasehold and production interest owners in the Subject Lands and to all owners and operators in the drilling units adjacent to the Subject Lands. The mailings were sent to said parties at their last addresses disclosed by the relevant TLA and County records and Anadarko's internal records. The mailings sent to Mr. & Mrs. Antonio Vallejos were returned as undeliverable but Anadarko testified that it subsequently tracked down the Vallejos, sent them a copy of the Request by e-mail, and that, in a responsive e-mail dated April 22, 2010, the Vallejos' consented to the granting of the Request.

10. Notice of the filing of the Request and of the hearing thereon was duly published in the Price Sun Advocate on March 2, 2010, and in the Salt Lake Tribune and the Deseret Morning News on March 7, 2010.

11. The vote of the Board members present and participating in the hearing on this Cause was unanimous (6-0) 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 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 an additional well for production of gas from the Subject Formation on each of the established drilling units for the Subject Lands is currently prohibited unless the 241-01 Order is modified by the Board.

4. In-fill drilling of an additional well on each of the established drilling units for the Subject Lands appears necessary to recover gas reserves from the Subject Formation that would otherwise be left in the ground and, as a pilot program, is deemed otherwise appropriate, just and reasonable under the circumstances.

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

6. Anadarko 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 results 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. 241-01 is hereby modified to permit, as a pilot program, the drilling of an additional well for the production of gas, including, but not limited to, coalbed methane, from the Ferron Formation, as defined in said Order and in Findings of Fact Paragraph 2 above, to achieve an 80-acre (or substantially equivalent) well density within the drilling units upon the Subject Lands as identified in Findings of Fact Paragraph 2 above.

3. No such additional well may be drilled closer than 460 feet from the exterior boundary of each such drilling unit or closer than 920 feet from other wells completed and producing gas from the Subject Formation; provided, however, that approval by the Division may be granted in accordance with Utah Admin. Code Rule R649-3-3 for exception well locations when topographical, geological, environmental,

and archaeological considerations, or other good causes prohibit drilling at a legal location, without the necessity of a full hearing before the Board.

4. All existing wells located on the Subject Lands and producing gas from the Subject Formation (as described in Findings of Fact Paragraph 4 above) are declared to be authorized and deemed to be located at lawful locations, notwithstanding the consequences of the relief granted herein.

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 6 day of MAY, 2010.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: Douglas E. Johnson
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. 2010-012, Cause No. 241-01A to be mailed with postage prepaid, this 10th day of March, 2010, to the following:

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Mr. and Mrs. Antonio Miguel Vallejos
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