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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 KERR-MCGEE OIL & GAS ONSHORE LP FOR AN ORDER EXTENDING THE BOARD'S ORDERS IN CAUSE NOS. 241-1, 241-2, 241-4 AND 241-5 ESTABLISHING 160 ACRE DRILLING AND SPACING UNITS FOR THE PRODUCTION OF GAS (INCLUDING COALBED METHANE) FROM THE FERRON FORMATION IN PORTIONS OF SECTION 25, TOWNSHIP 14 SOUTH, RANGE 10 EAST, AND SECTION 30, TOWNSHIP 14 SOUTH, RANGE 11 EAST, SLM, CARBON COUNTY, UTAH	**FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER** Docket No. 2010-011 Cause No. 241-08

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, April 28, 2010, at the hour of 9:00 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. 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 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. Relma M. Miller, Esq., of and for Beatty & Wozniak, P.C.,

appeared as attorney for KMG.

Participating on behalf of the Division of Oil, Gas and Mining (the "Division") was Dustin Doucet – Petroleum Engineer. Fred Donaldson, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division filed its Staff Memorandum on March 10, 2010, expressing its support for KMG's Request for Agency Action filed in this Cause (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. 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. KMG is a wholly owned subsidiary of Anadarko Petroleum Corporation.

2. KMG is a lessee and owner of operating rights in the following Carbon County, Utah lands:

Township 14 South, Range 10 East, SLM

Section 25: NE¼

Township 14 South, Range 11 East, SLM

Section 30: Lots 1 (40.68) and 2 (40.42),
E½NW¼, E½

(hereinafter the "Subject Lands"). The Subject Lands comprise, in part, the area commonly referred to by KMG as the "Cardinal Draw" area.

3. As of the date of the hearing, the Subject Lands were not subject to any spacing order of the Board.

4. KMG has drilled and operates numerous wells in Cardinal Draw which produce from the Ferron formation.

5. By its Orders in Cause Nos. 241-1, 241-2, 241-4 and 241-5 (the "Prior Orders"), the Board has consistently established 160-acre drilling and spacing units for gas (including coalbed methane) production from the Ferron Formation in lands adjacent and contiguous to the Subject Lands.

6. The Ferron formation, consistent with the Prior Orders, is defined for purposes of this Request as:

> the stratigraphic equivalent of the interval between 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, Township 14 South, Range 10 East, SLM.

7. The Ferron Formation underlying the Subject Lands is a sequence of interbedded coals, carbonaceous shales and sandstones, all of which contribute to production from KMG wells in Cardinal Draw. The geologic exhibits and testimony

reflect that: (1) coal thickness is thinning toward the east; (2) the C Sand interval, KMG's main reservoir target in this area, ranges in thickness from 35 to 50 feet; (3) the C Sand interval in the Subject Lands demonstrates good lateral continuity; and (4) the combination of limited internal heterogeneity and lateral continuity of the sands results in a reservoir that exhibits good lateral and vertical connectivity.

8. The Ferron formation, including coals and surrounding sands, constitutes one pool for gas in the Subject Lands. One well will efficiently and economically drain approximately 160 acres.

9. The establishment of 160 acre (or substantial equivalent thereof) drilling and spacing units for the Ferron formation underlying the Subject Lands will allow for the orderly development of the Subject Lands, will prevent waste in the drilling of unnecessary wells, will adequately protect the correlative rights of all affected parties, will result in the greatest recovery of the resource and is just and reasonable.

10. Each such unit should be comprised of a governmental quarter section, or lots substantially equivalent thereto, and the permitted well for each such unit should be drilled no closer than 460 feet from the outer boundary of said unit and no closer than 920 feet from any other well drilling to or capable of producing gas 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 shown in accordance with Utah Admin. Code Rule R643-3-3.

11. 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. The mailings were sent to said parties at their last addresses disclosed by the relevant BLM and County records and KMG's internal records.

12. 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.

13. The Board deliberated and voted unanimously (6-0) to grant 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)(b).

3. 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. 160 acre (or substantial equivalent thereof) drilling and spacing units are hereby established for the Subject Lands for the production of gas, including coalbed methane, from the Ferron formation as defined herein.

3. Each such unit shall be comprised of the governmental quarter section (*e.g.*, NE¼) or lots and quarter-quarter sections substantially comprising the same.

4. 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 any other well drilling to or capable of producing gas 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 shown in accordance with Utah Admin. Code Rule R649-3-3.

5. KMG shall timely file with the Division its report of water encountered during drilling pursuant to Utah Admin. Code Rule R649-8-8.

6. 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.

7. 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.

8. 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.
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> (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.

9. 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.

10. 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 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. 2010-011, Cause No. 241-08 to be mailed with postage prepaid, this 25th day of May, 2010, to the following:

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