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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 MAR/REG OIL COMPANY FOR AN ORDER ESTABLISHING 160-ACRE DRILLING AND SPACING UNITS FOR HORIZONTAL WELLS IN AND THE PRODUCTION OF OIL, GAS, AND OTHER HYDROCARBONS FROM THE DESERT CREEK AND UPPER ISMAY FORMATIONS IN THE NE¼ OF SECTION 19, TOWNSHIP 38 SOUTH, RANGE 26 EAST, S.L.M., SAN JUAN COUNTY, UTAH	)	**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER** **Docket No. 2010-024** **Cause No. 188-04**

This Cause came on regularly for hearing before the Utah Board of Oil, Gas, and Mining (the "Board") on Wednesday, September 22, 2010, at the hour of 9:00 a.m. in the Multipurpose Room, Uintah Basin Applied Technology College, 1100 East Lagoon Street, Roosevelt, Utah, and on December 8, 2010, at the hour of 9:00 in the Auditorium of the Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present and participated at both hearings: Douglas E. Johnson, Chairman, Samuel C. Quigley, Jake Y. Harouny, and James T. Jensen. Board Member Jean Semborski was present and participated at only the September 22, 2010 hearing, and Board Members Ruland J. Gill, Jr. and Kelley L. Payne were present and participated at only the December 8, 2010 hearing. John R. Baza, Director, was present at both hearings for the Utah Division of Oil, Gas and Mining (the "Division") and John Rogers, Associate Director--Oil and Gas, was present at the December 8, hearing for the

Division. The Board was represented at both hearings by Michael S. Johnson, Assistant Attorney General. Board Member Ruland J. Gill, Jr. participated at the December 8, 2010 hearing, but recused himself before the Board deliberated, and did not participate in the Board's deliberations and decision.

The petitioner, Mar/Reg Oil Company ("Mar/Reg"), was represented at both hearings by Thomas W. Clawson of Van Cott, Bagley, Cornwall & McCarthy, and Tariq I. Ahmad, Petroleum Engineer, testified on behalf of Mar/Reg at both hearings and Mobashir Ahmad, Geophysicist, testified on behalf of Mar/Reg at the September 22, 2010 hearing.

The Division was represented by Fred Donaldson, Assistant Attorney General. The Division filed its Staff Memorandum to the Board on September 14, 2010. Brad Hill, Permitting Manager, Dustin Doucet, Petroleum Engineer, and Clinton Dworshak, Compliance Manager, participated on behalf of the Division at the hearings. At the December 8, 2010 hearing, the Division stated that the concerns raised in the Staff Memorandum had been resolved and that it had no objection to the Board's approval of Mar/Reg's requested spacing.

No other person or party filed a response to the Request for Agency Action and no other person or party appeared at or participated at either hearing.

At the September 22, 2010 hearing, Mar/Reg moved the Board to enter an order allowing Mar/Reg to withdraw its request to establish temporary 160-acre drilling and spacing units for horizontal wells in and the production of oil, gas, and other hydrocarbons from the Desert Creek and Upper Ismay Formations underlying the NW¼, SW¼, and SE¼ of subject Section 19. On September 30, 2010, Mar/Reg filed its written Motion to Withdraw Request for Temporary Drilling and Spacing Units (together, "Mar/Reg's

Motion"). By that certain Order Allowing Withdrawal of Request for Temporary Drilling and Spacing Units dated October 4, 2010 (the "Withdrawal Order"), the Board granted Mar/Reg's Motion.

The Board, having fully considered the testimony adduced and the exhibits received into evidence at the September 22, 2010 hearing and the December 8, 2010 hearing, being fully advised, and good cause appearing, hereby makes the following findings of fact, conclusions of law, and order:

FINDINGS OF FACT

1. Notice of the time, place, and purposes of the Board's regularly scheduled September 22, 2010 hearing was mailed to all interested parties by first-class mail, postage prepaid, and was duly published in the Salt Lake Tribune, Deseret Morning News, and San Juan Record pursuant to the requirements of the Utah Administrative Code ("U.A.C.") Rule 641-106-100. Copies of the Request for Agency Action were mailed to all interested parties pursuant to U.A.C. Rule R641-104-135.

2. Mar/Reg's Request for Agency seeks an order establishing 160-acre drilling and spacing units for horizontal wells in and the production of oil, gas, and other hydrocarbons from the Desert Creek and Upper Ismay Formations underlying the following described lands in the Squaw Canyon Field in San Juan County, Utah (the "Subject Lands"):

Township 38 South, Range 26 East, S.L.M.

Section 19: NE¼

(containing 160.00 acres, more or less).

3. The formations to be unitized for drilling and spacing purposes are (1) the Desert Creek Formation described as follows (the "Desert Creek Interval"):

> The Desert Creek Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal #1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,480 feet and the base of the spaced formation being found at a measured depth of 5,580 feet or to the stratigraphic equivalent thereof;

and (2) the Upper Ismay Formation described as follows (the "Upper Ismay Interval"):

> The Upper Ismay Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal #1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,250 feet and the base of the spaced formation being found at a measured depth of 5,400 feet or to the stratigraphic equivalent thereof.

(The Desert Creek Interval and the Upper Ismay Interval are collectively referred to herein as the "Spaced Intervals.")

4. Mar/Reg is a Nevada corporation in good standing, having its principal place of business in Reno, Nevada. Mar/Reg is qualified to and is doing business in Utah.

5. Mar/Reg operates the Squaw Canyon Federal #1-19 Well and the Squaw Canyon #3-19 Federal Well, both of which are located on the Subject Lands.

6. The minerals in the Subject Lands are owned by the United States of America and are subject to United States Oil and Gas Lease No. U-40401 (the "Subject Lease"). The surface of the Subject Lands is owned by the United States of America. The United States Department of the Interior, Bureau of Land Management administers the federally-owned minerals and lands.

7. Mar/Reg's partner, Nathan Oil LLC, owns 75% of the operating rights in the Subject Lease beneath the Subject Lands in the stratigraphic interval from the

surface of the Earth to 5,612 feet. QEP Energy Company owns the remaining operating rights in that interval. The referenced stratigraphic interval includes the "Spaced Intervals" as defined in Paragraph 3 herein. QEP Energy Company and ExxonMobil Corporation each own a 50% interest in the operating rights below 5,612 feet beneath the Subject Lands.

8. The lands and minerals within Section 19 were subject to spacing orders entered by the Board in Causes Nos. 188-1, 188-1(C), 188-3, and 188-3(A) (the "Previous Orders"). The spacing and drilling units established in connection with the Previous Orders have been vacated. Accordingly, the Subject Lands, are not currently subject to any spacing order of the Board for the production of oil, gas, or other hydrocarbons. The lands are currently governed by the Board's general well-location and siting rules set forth in U.A.C. Rule R649-3-2(1), which authorizes one well to be drilled for the production of oil or gas in the center of every public land survey quarter-quarter section or equivalent lot. With respect to horizontal wells, the lands within subject Section 19 are subject to a temporary 640-acre spacing unit consisting of all of Section 19 for horizontal wells established by U.A.C. Rule R649-3-2(6).

9. The Upper Ismay Interval beneath the Subject Lands is a limestone build up or stratigraphic feature comprised of phylloid-algal material, and the Deseret Creek Interval beneath the Subject Lands is a dominantly dolomitic carbonate build up stratigraphic feature. Both Spaced Intervals are stratigraphic traps. Production from the existing vertical wells within the Subject Lands is associated with a combination of stratigraphic traps and fractures.

10. The Spaced Intervals underlie all or substantially all of the Subject Lands and each constitutes a separate pool—a common source of supply—for oil, gas, and other hydrocarbons.

11. The following wells have been drilled within Section 19:

a. Squaw Canyon Federal #1-19 Well (API #43-037-30485) located in the SE¼NE¼ of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1979. The well was recompleted in September 1987. The well has produced from the Desert Creek and Ismay Formations, but is currently shut-in.

b. Squaw Canyon #3-19 Federal Well (API #43-037-30622) located in the NW¼NE¼ of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1981. The well currently produces oil from the Desert Creek and Ismay Formations.

c. Federal #19-2 Well (API #43-037-30494) located in the NW¼NW¼ of Section 19. This well has been plugged and abandoned.

d. Squaw Canyon Federal #10-19 Well (API #43-037-30785) located in the NW¼SE¼ of Section 19. This well has been plugged and abandoned.

e. Three Amigos Federal #1 Well (API #43-037-31456) located in the NE¼NW¼ of Section 19. This well has been plugged and abandoned.

12. Mar/Reg intends to drill a new horizontal well as an offset to the Squaw Canyon Federal #1-19 Well. A lateral bore hole will be drilled from the proposed well into each separate pool within the Spaced Intervals. The production from each Spaced Interval will be commingled in the well bore. Mar/Reg also intends to continue producing

the Squaw Canyon #3-19 Federal Well as a vertical well and return the Squaw Canyon Federal #1-19 Well to production as a vertical well.

13. Projected decline curve and economic analyses based on the best available data support the conclusion that lateral well bores drilled from the proposed well will efficiently and economically drain 160 acres within the pools within the Spaced Intervals beneath the Subject Lands. 160 acres is not smaller than the maximum area that can be efficiently and economically drained by a lateral well bore drilled as a horizontal well completed and producing from the Spaced Intervals.

14. The testimony and evidence submitted at the hearings supports Mar/Reg's request that the drilling and spacing units should comprise the Subject Lands. The evidence and testimony also support Mar/Reg's requested set-off limitations that horizontal lateral well bores within the Subject Lands and Spaced Intervals shall not be closer than 1,320 feet from other wells completed and producing from the Spaced Intervals within the Subject Lands, with the exception of the existing vertical wells (the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells), and that such well bores be no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing units.

15. The participating Board Members voted unanimously to approve Mar/Reg's Request for Agency Action, as amended by the Withdrawal Order.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place, and purposes of the Board's regularly scheduled September 22, 2010 and December 8, 2010 hearings was given to all interested parties in the form and manner and within the time required by law and the

rules and regulations of the Board. Due and regular notice of the filing of the Request for Agency Action was given to all interested parties in the form and manner required by law and the rules and regulations of the Board.

2. Pursuant to Sections 40-6-5 and 40-6-6 of the Utah Code Annotated, the Board has jurisdiction over all of the interested parties and the subject matter of the Request for Agency Action, and has the power and authority to make and issue the order herein set forth.

3. Good cause appears to grant the Request for Agency Action regarding establishing 160-acre drilling and spacing units for the Spaced Intervals within the Upper Ismay and Desert Creek Formations beneath the Subject Lands.

4. Establishing 160-acre drilling and spacing units within the Subject Lands as provided in the Request for Agency Action is just and reasonable and will allow for the orderly development of the Spaced Intervals within the Subject Lands, prevent waste, adequately protect the correlative rights of all affected parties, promote the public interest, and increase the ultimate recovery of hydrocarbons from the Subject Lands.

5. The requested set-off limitations of 1,320 feet from a well completed and producing from the Spaced Intervals within the Subject Lands, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells, and 660 feet from the drilling unit boundary are just and reasonable under the circumstances and will protect correlative rights.

6. Commingling the production from the Space Intervals within the well bore of MAR/Reg's proposed horizontal well will not adversely affect any party's

correlative rights because the ownership of such production is uniform between such intervals.

7. Mar/Reg has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request for Agency Action.

ORDER

Based upon the Request for Agency Action, the testimony and evidence submitted and entered at the September 22, 2010 hearing and the December 8, 2010 hearing, and the findings of fact and conclusions of law as stated above, it is therefore ordered that:

1. The Request for Agency Action in this Cause, as amended by the Withdrawal Order, is granted.

2. 160-acre drilling and spacing units for the production of oil, gas, and other hydrocarbons from the Spaced Intervals defined as follows:

> The Desert Creek Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal #1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,480 feet and the base of the spaced formation being found at a measured depth of 5,580 feet or to the stratigraphic equivalent thereof

and

> The Upper Ismay Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal # 1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,250 feet and the base of the spaced formation being found at a measured depth of 5,400 feet or to the stratigraphic equivalent thereof

for the following described lands:

Township 38 South, Range 26 East, S.L.M.

Section 19: NE¼

(containing 160.00 acres, more or less)

are hereby established.

3. Each such drilling and spacing unit shall be comprised of the Subject Lands, and the producing interval in the Spaced Intervals for an authorized lateral well bore for each such unit shall be located no closer than 1,320 feet from other wells completed in and producing from the Spaced Intervals, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells, and no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing units, unless otherwise permitted by administrative action approved by the Division according to U.A.C. Rule R649-3-3.

4. Commingling the production from the pools in each Spaced Interval within the well bore of Mar/Reg's proposed horizontal well is approved.

5. Pursuant to U.A.C. Rule R641 and Utah Code Ann. § 63G-4-204 to -208 (1953, as amended), the Board has considered and decided this matter as a formal adjudication.

6. This Findings of Fact, Conclusions of Law, and Order ("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 Utah Administrative Procedures Act, Utah Code Ann. § 63G-4-208 and U.A.C. 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(1)(e) to -208(1)(g) (1953, as amended), 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. § 63G-4-401(3)(a) and -403 (1953, as amended). 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 Administrative Code 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 that month.

Id. See Utah Administrative Code 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 (1953, as amended) and the deadline in Utah Administrative Code 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 __20_ day of January, 2011.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By_____
Douglas E. Johnson, Chairman

4838-5460-4552, v. 1

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. 2010-024, Cause No. 188-04 to be mailed with postage prepaid, this 24th day of January, 2011, to the following:

Thomas W. Clawson
Van Cott, Bagley, Cornwall & McCarthy
36 South State Street, Suite 1900
Salt Lake City, UT 84111

Michael S. Johnson
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
Fred Donaldson
Assistant Attorneys General
Utah Division of Oil, Gas & Mining
1594 West North Temple, Suite 300
Salt Lake City, UT 84116
[Via Email]

Mar/Reg Oil Company
Attention: Tariq I. Ahmad PE
P.O. Box 18148
Reno, NV 89511

Nathan Oil LLC
P.O. Box 18148
Reno, NV 89511

ExxonMobil Corporation
P.O. Box 4358
Houston, TX 72210-4358

Fischer Family Trust
Robert E. Fischer Trustee
1615 California Street #322
Denver, CO 80202

McAdams, Poux and Associates, Inc.
730 17th Street
Denver, CO 80202
[Undeliverable]

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

Questar Exploration & Production Company
1050 17th Street, Suite 500
Denver, CO 80265

Devon Energy Corporation
20 North Broadway, #1500
Oklahoma City, OK 73102-8260

Marvin L. McGahey
560 Petroleum Club Bldg.
Denver, CO 80202
[Undeliverable]

Duane H. Buckner
4220 E. Walker Rd.
Colorado Springs, CO 80908
[Undeliverable]

Bureau of Land Management
Attn: Eric Jones
Moab Field Office
82 East Dogwood
Moab, UT 84532

Julie Ann Carter