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MAY 25 2011

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 QEP ENERGY COMPANY FOR APPROVAL OF UNIT OPERATIONS AND ENHANCED AND SECONDARY RECOVERY OPERATIONS IN THE GREEN RIVER FORMATION WITHIN ALL OF SECTION 5 AND THE SE¼SE¼ OF SECTION 6 IN TOWNSHIP 8 SOUTH, RANGE 22 EAST, SLM, UINTAH COUNTY, UTAH, FOR AUTHORITY FOR UNDERGROUND INJECTION OF WATER, FOR EXCEPTION TO THE SITING AND LOCATION REQUIREMENTS FOR VERTICAL WELLS, AND FOR CERTIFICATION AS AN ENHANCED RECOVERY PROJECT FOR PURPOSES OF SECTION 59-5-102(7) OF THE UTAH CODE, ANNOTATED.	**AMENDED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER GRANTING APPROVAL OF ENHANCED AND SECONDARY RECOVERY OPERATIONS, AUTHORITY FOR UNDERGROUND INJECTION OF WATER, FOR EXCEPTION TO THE SITING AND LOCATION REQUIREMENTS FOR VERTICAL WELLS, AND FOR CERTIFICATION AS AN ENHANCED RECOVERY PROJECT** **Docket No. 2011-004** **Cause No. 271-01**

THIS CAUSE came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Thursday, February 24, 2011, at the hour of 10:30 a.m. in the Board Room, Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present at the February 24, 2011, hearing: Douglas E. Johnson, Chairman, Ruland J. Gill, Jr., James T. Jensen, Kelly L. Payne, and Jean Semborski. Steven Alder and Mike Johnson, Assistant Attorneys General and counsel to the Division and Board, respectively, were present at the February 24, 2011, hearing. QEP Energy Company ("QEP") was represented by William E. Ward, of Holme Roberts & Owen LLP. Nathan C. Koeniger, Senior Landman, Bob Basse, Geologist, and Bill Watts, Petroleum Engineer, testified on behalf

of the Petitioner at the February 24, 2011, hearing. No parties appeared in opposition to QEP's Request for Agency Action in this matter. After considering the testimony in this matter, the Board unanimously approved Petitioner's request to approve enhanced and secondary recovery operations, authority for underground injection of water, exception to the siting and location requirements for vertical wells, and to certify the Horse Unit as an "Enhanced Recovery Project," all as set forth below.

Following the issuance of the Board's February 28, 2011 Findings of Fact, Conclusions of Law and Order (the "Original Order") granting the Request for Agency Action, the United States Bureau of Land Management ("BLM") filed a March 15, 2011 Request for Reconsideration of February 28, 2011 Order ("Request for Reconsideration"). The Request for Reconsideration noted that the Original Order did not accurately describe the BLM's actions with respect to its approval of the proposed plan of operations and its execution of the applicable unit agreement.

During the months of March and April of 2011, certain typographical errors were discovered in the unit agreement as originally proposed. As discussed more fully in the Findings below, these errors in the proposed unit agreement have since been corrected and the BLM has expressed its acceptance of these changes in a new designation letter.

In order to account for and correct errors in the Original Order as well as the typographical errors in the unit agreement as originally proposed, the Board issues this amended order.

NOW, THEREFORE, the Board having fully considered the evidence and good cause appearing, makes the following Amended Findings Of Fact, Conclusions Of Law, And Order Granting Approval Of Enhanced And Secondary Recovery Operations, Authority For

Underground Injection Of Water, For Exception To The Siting And Location Requirements For Vertical Wells, And For Certification As An Enhanced Recovery Project:

FINDINGS OF FACT

1. Notice of the time, place, and purpose of the February 24, 2011, hearing were mailed to all interested parties and all owners or operators and surface owners within one-half mile of the proposed project by first-class mail, postage prepaid, and was duly published in the Salt Lake Tribune, Deseret News, and the Vernal Express pursuant to the requirements of Utah Administrative Code ("U.A.C.") R641-106-100. Copies of the Request for Agency Action were mailed to all interested parties pursuant to U.A.C. R641-104-135.

2. QEP is a Texas corporation in good standing, having its principal place of business in Denver, Colorado, and is qualified to, and is doing business in Utah.

3. The proposed Horse Unit embraces the following described lands in Uintah County, Utah:

Township 8 South, Range 22 East, SLM

Section 5: All
Section 6: SE¼SE¼

(containing 731.75 acres, more or less)

4. The formation to be approved for enhanced and secondary recovery operations in the Horse Unit is a portion of the Green River Formation, consisting of several sandstone and limestone beds of varying thickness and more particularly described as follows:

> That certain interval in the Lower Green River formation as identified by the Schlumberger Induction Electrical Log dated February 28, 2002, run in the WV 11G5-8-22 well located in the NE¼SW¼ of Section 5, Township 8 South, Range 22 East, Uintah

County, Utah, with the top of the Unitized Formation being found at a depth of 5,304 feet below the surface and the base of the Unitized Formation being found at a depth of 6,080 feet below the surface or to the stratigraphic equivalent thereof.

5. The oil, gas and other minerals in the lands embraced within the Horse Unit are owned by the United States of America, and administered by the BLM.

6. QEP owns 100% of the working interest in the acreage to be committed to the Horse Unit.

7. To date, drilling on the lands within the Horse Unit has proceeded under state-wide location and density patterns for the location and siting of wells established by U.A.C. R649-3-2.

8. The following oil wells have been completed in the acreage embraced within the Horse Unit:

(a) WVX 11G5 Well situated in the NE¼SW¼ of Section 5. Producing oil from the G1 sand.

(b) WVX 13G5 Well situated in the SW¼SW¼ of Section 5. Producing oil from the G1 sand.

(c) WVX 15G5 Well situated in the SW¼SE¼ of Section 5. Producing oil from the E3 sand.

9. A water flood enhanced and secondary recovery project in the Green River Formation in the Horse Unit could increase ultimate recovery by approximately 162,000 barrels of oil.

10. The majority of the water to be used for the water flood project will be fresh water from the Green River via QEP water rights. Water from the identical source is now being used, or is authorized for use, for water flood operations at other water flood units or projects operated by QEP as authorized by the Board. The remaining water to be injected will be obtained from wells producing oil and gas in the area. That produced water is suitable for injection.

11. The value of the estimated additional recovery of oil substantially exceeds the estimated additional cost incident to conducting enhanced and secondary recovery operations.

12. Following the February 24, 2011 hearing, the BLM filed with the Board a copy of a letter from the BLM to QEP dated April 20 (the "New Designation Letter"). Attached to this letter is a copy of a corrected version of the unit agreement for the subject unit correcting typographical errors contained in the unit agreement as originally proposed. The New Designation Letter indicates the BLM's approval of the language and terms of the corrected, proposed unit agreement. The New Designation Letter, by reference to the BLM's earlier February 11, 2011 designation letter, indicates that the BLM is willing to execute the corrected, proposed unit agreement once it is presented to the BLM. The New Designation Letter and its attachments are admitted into the record as evidence in this matter.

13. The plan of unit development detailed at the February 24, 2011 hearing, with corrections as noted in the New Designation Letter and its attachments (referred to hereinafter as the "corrected plan of unit development"), is acceptable to the Board and the Division and will accomplish the goals of the enhanced and secondary recovery project. In excess of 70 percent of all owners of working interests and non-cost bearing interests, such as royalty and overriding royalty interests, are agreeable to the corrected plan of unit development and enhanced and

secondary recovery operations, and have expressed in writing their approval of the terms of said corrected plan of unit development.

14. The BLM has indicated that it is willing to execute the proposed unit agreement setting forth the corrected plan of unit development.

15. Enhanced and secondary recovery operations for the Green River Formation in the Horse Unit are necessary to fulfill the purposes of Chapter 6 of Title 40 of the Utah Code Annotated.

16. Section 59-5-102(7) of the Utah Code Annotated provides that a 50% reduction in the severance tax rate is imposed upon the incremental production achieved from an enhanced recovery project. Section 59-5-101(7) proves, in pertinent part, that:

> "Enhanced recovery project" means: (a) the injection of liquids . . . directly into a reservoir for the purpose of augmenting reservoir energy; modifying the properties of the fluids or gases in a reservoir, or changing the reservoir conditions to increase the recoverable oil, gas, or oil and gas through the joint use of two or more well bores; and (b) a project initially approved by the board as a new or expanded recovery project on or after January 1, 1996.

Section 59-5-101(9) provides that:

> "Incremental production" means that part of the production, certified by the Division of Oil, Gas and Mining, which is achieved from an enhanced recovery project that would not have economically occurred under the reservoir conditions existing before the project and that has been approved by the division as incremental production.

17. The enhanced and secondary operations for the Horse Unit qualify as operations of an enhanced recovery project for purposes of Section 59-5-102(7) of the Utah Code Annotated.

CONCLUSIONS OF LAW

18. Due and regular notice of the time, place, and purposes of the February 24, 2011, hearing, was given to all interested parties and all owners and operators and surface owners within one-half mile of the proposed project 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 and all owners and operators and surface owners within one-half mile of the Horse Unit in the form and manner and within the time required by law and the Rules and Regulations of the Board.

19. The Board has jurisdiction of the parties and subject matter of the Request for Agency Action, pursuant to Sections 40-6-5, 40-6-7, and 59-5-102 of the Utah Code Annotated and has power and authority to make and promulgate the order herein set forth.

20. Enhanced and secondary recovery operations in the portion of the Green River Formation as proposed for the Horse Unit are in the public interest and promote conservation, will increase ultimate recovery of oil, will prevent waste, and will protect correlative rights.

21. Enhanced and secondary recovery operations for the Horse Unit are reasonably necessary to fulfill the purposes of Chapter 6 of Title 40 of the Utah Code Annotated.

22. The plan of development as introduced and admitted at the February 24, 2011, hearing, with the corrections noted in the New Designation Letter and its attachments, will accomplish the goals of the Horse Unit.

23. Good cause appears to certify the Horse Unit as an enhanced recovery project for the purposes of Section 59-5-102(7) of the Utah Code Annotated.

ORDER

IT IS THEREFORE ORDERED that:

1. The portion of the Green River formation, defined as follows:

> That certain interval in the Lower Green River formation as identified by the Schlumberger Induction Electrical Log dated February 28, 2002, run in the WV 11G5-8-22 well located in the NE¼SW¼ of Section 5, Township 8 South, Range 22 East, Uintah County, Utah, with the top of the Unitized Formation being found at a depth of 5,304 feet below the surface and the base of the Unitized Formation being found at a depth of 6,080 feet below the surface or to the stratigraphic equivalent thereof.

underlying the lands within the Horse Unit described as follows:

Township 8 South, Range 22 East, SLM

Section 5: All
Section 6: SE¼SE¼

(containing 731.75 acres, more or less)

constitutes a pool for the operation of the Horse Unit and the Board hereby establishes the same as a pool to be operated jointly as a unit for enhanced and secondary recovery operations.

2. The plan of operations set forth in the geology and engineering report as introduced and admitted at the February 24, 2011, hearing, and the attachments to the BLM's April 20th letter previously described as the "corrected plan of unit development" are hereby approved.

3. Pursuant to Section 20 of the Horse Unit Agreement, said unit agreement is effective as of 7:00 a.m. on the first day of the calendar month next following approval of this Unit Agreement by the Secretary of the Interior or his duly authorized delegate.

4. The Horse Unit is certified as an enhanced recovery project for purposes of the severance tax rate reduction pursuant to Section 59-5-102(7) of the Utah Code Annotated.

5. The state-wide well location and siting rules affecting the Horse Unit are hereby suspended.

6. No new well proposed for the Horse Unit shall be located within 460 feet from the boundary line of the Unit.

7. QEP will obtain the necessary Underground Injection Control (UIC) permits from the appropriate regulatory authorities with respect to the injection well contemplated for the Horse Unit.

8. The underground injection program proposed by QEP in connection with the Horse Unit is hereby approved.

9. Pursuant to U.A.C. R641 and Utah Code Ann. § 63-46b to -10 the Board has considered and decided this matter as a formal adjudication.

10. 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. § 63-46B-10 and U.A.C. R641-109.

11. 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(1)(e) to -10(1)(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 in 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 denied.

Id. The Board also hereby notifies the parties that U.A.C. 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* U.A.C. 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 U.A.C.

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.

12. The Board retains continued 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.

ISSUED this 25th day of May, 2011.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: James T. Jensen
James T. Jensen

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing **AMENDED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER GRANTING APPROVAL OF ENHANCED AND SECONDARY RECOVERY OPERATIONS, AUTHORITY FOR UNDERGROUND INJECTION OF WATER, FOR EXCEPTION TO THE SITING AND LOCATION REQUIREMENTS FOR VERTICAL WELLS, AND FOR CERTIFICATION AS AN ENHANCED RECOVERY PROJECT** for Docket No. 2011-004, Cause No. 271-01 to be mailed with postage prepaid, this 1st day of June, 2011, to the following:

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