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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 CONOCOPHILLIPS COMPANY FOR AN ORDER ESTABLISHING A 160-ACRE DRILLING AND SPACING UNIT FOR THE PRODUCTION OF GAS (INCLUDING COALBED METHANE) FROM THE FERRON FORMATION IN THE SE¼ OF SECTION 9, TOWNSHIP 15 SOUTH, RANGE 8 EAST, SLM, CARBON COUNTY, UTAH	**FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER** Docket No. 2014-001 Cause No. 243-12

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, January 22, 2014, at approximately 2:00 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 Ruland J. Gill, Jr., Kelly L. Payne, Chris D. Hansen, Carl F. Kendell, Susan S. Davis and Michael R. Brown. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner ConocoPhillips Company ("COP") were Jordan M. Zongol - Landman, and Thomas W. Zadick – Consulting Reservoir Engineer. Mr. Zongol testified as a fact witness and Mr. Zadick was recognized by the Board as an expert in reservoir engineering for purposes of this hearing. Relma M. Miller, Esq., of

and for MacDonald & Miller Mineral Legal Services, PLLC, appeared as attorney for Petitioner.

The Division of Oil, Gas and Mining (the "Division") did not file a staff memorandum in this Cause. Steven F. Alder, Esq., Assistant Attorney General, appeared as attorney for the Division.

At the conclusion of COP's presentation, Mr. Alder expressed the Division's support for 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.

FINDINGS OF FACT

1. COP is a Delaware corporation in good standing, having its principal place of business in Houston, Texas. COP is duly authorized to conduct business in the State of Utah, and is fully bonded with all appropriate State of Utah and Federal agencies.

2. COP, XTO Energy ("XTO") and Devon Uinta Basin Corporation ("Devon") collectively own all the operating rights in the SE¼ of Section 9, Township 15 South, Range 8 East, SLM (the "Subject Lands"). COP is the duly designated operator on behalf of XTO and Devon with respect to the Subject Lands.

3. COP is also the operator of the Drunkards Wash Federal Exploratory Unit (the "Unit"). In such capacity, COP has drilled and currently operates approximately 475 wells which produce coalbed methane from the Ferron formation, defined as:

> the stratigraphic equivalent of the interval between 1,175 feet and 1,400 feet as shown on the Dual Induction Guard/Gamma Ray and Compensated Density-Neutron/Gamma Ray logs of the Cotner 29-549 well located in the NW¼SE¼ of Section 29, Township 14 South, Range 10 East, SLM.

4. The oil and gas underlying the Subject Lands are owned by the United States and the State of Utah and are subject to Federal oil and gas leases UTU-78408 and UTU-79775 and State of Utah Oil, Gas and Hydrocarbon Lease ML-46105.

5. The Subject Lands were included within the Unit via its sixth expansion effective as of May 1, 2000. By the Board's Order in Cause No. 243-6, Utah Admin. Code Rule R649-3-2 was suspended as to the Subject Lands while said lands are committed to the Unit. The Order provides that upon Unit contraction or termination, lands eliminated from the Unit shall once again become subject to prior orders of the Board or Utah Admin. Code Rule R649-3-2, as applicable.

6. While the Subject Lands were included within the Unit, COP drilled and continues to operate the USA 9-670D Well at a surface location 175' FSL, 203' FEL in the SE¼SE¼ of Section 9, and bottom hole location 1690' FSL, 1320' FEL in the NE¼SE¼ of said Section 9. The well was completed December 3, 2010, first produced

January 19, 2011, and has produced gas continuously since. Production proceeds from the well have been shared on a 160-acre basis since the date of first production.

7. The Bureau of Land Management (the "BLM"), administrator of the Unit, determined that the well was not capable of producing unitized substances in paying quantities, as defined in Section 9 of the governing Unit Agreement. The Subject Lands were thereafter contracted out of the Unit effective January 1, 2012.

8. As there are no prior spacing orders applicable to the Subject Lands, the statewide well siting rule, Utah Admin. Code Rule R649-3-2, once again applies.

9. Development in the Unit has occurred based on equivalent 160-acre spacing. Further, the Board has uniformly established 160-acre (or substantial equivalent thereof) drilling and spacing units for gas (including coalbed methane) production from the Ferron formation throughout Carbon and Emery Counties, including lands adjacent to the Subject Lands, through its Orders in the series of Cause Nos. 137, 241, 243 and 245.

10. Evidence presented in many prior hearings has established that the coals within the Ferron formation underlying the Subject Lands are of uniform content and rank with those underlying nearby lands, that the Ferron formation, including all coal and surrounding sands, generally constitutes one pool for gas in the Subject Lands and correlates with said formation as underlying nearby lands which are the subject of the Board's Orders in the series of Cause Nos. 137, 241, 243 and 245, and that one well will

efficiently and economically drain approximately 160 acres in that pool.

11. The requested order is consistent with other drilling and spacing units established by the Board for gas production from the Ferron formation, will prevent waste, will adequately protect the correlative rights of all affected parties and is just and reasonable under the circumstances.

12. A copy of the Request was mailed, via certified US Mail, and properly addressed to all royalty, working and other production interest owners in the Subject Lands, and to the BLM, the governmental agency having jurisdiction over the Subject Lands. The mailings were sent to the last addresses disclosed by the relevant Federal records and COP's internal records. No party opposed the relief requested in the Petition. The Division was supportive of the request, and given the past sharing of production on a 160-acre basis, was also supportive of retroactive spacing to the date of first production.

13. Notice of the filing of the Request and of the hearing thereon was duly published in the Price Sun Advocate on January 2, 2014, the Salt Lake Tribune and Deseret Morning News on January 5, 2014, and the Emery County Progress on January 7, 2014.

14. The vote of the Board members 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 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 matters 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.

3. Petitioner has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request as ordered below.

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. A 160-acre drilling and spacing unit for the production of gas, including but not limited to coalbed methane, from the Ferron formation, is hereby established for the SE¼ of Section 9, Township 15 South, Range 8 East, SLM. The USA 9-670D Well is deemed the permitted well for such unit. Spacing shall be retroactive to January 19, 2011, the date of first production from said Well.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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 7th day of March, 2014.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: _____
Ruland J. Gill, Jr., Chairman

CERTIFICATE OF SERVICE

I hereby certify that on this 10th day of March, 2014, I caused a true and correct copy of the foregoing **FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER**, for Docket No. 2014-001, Cause No. 243-12, to be served via Email or U.S. Mail, properly addressed with postage prepaid, upon each of the following:

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