



BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE PROMULGATION AND)	CAUSE NO. 166
ESTABLISHMENT OF FIELD RULES TO GOVERN)	
OPERATIONS IN THE PLATEAU FIELD, MESA)	ORDER NO. 166-30
COUNTY, COLORADO)	CORRECTED

REPORT OF COMMISSION

The Commission heard this matter on September 19, 2011, at the Broomfield City & County Building, One Descombes Drive, Broomfield, Colorado 80020, upon application to pool all nonconsenting interests in the proposed 313-acre drilling and spacing unit in the N½ of Section 25, Township 9 South, Range 95 West, 6th P.M., for the development and operation of the Williams Fork and Iles Formations of the Mesaverde Group, and the Mancos, Niobrara, Frontier, and Mowry Formations (the "Deep Formations").

FINDINGS

The Commission finds as follows:

1. Laramie Energy II, LLC ("Laramie" or "Applicant"), as applicant herein, is an interested party in the subject matter of the above-referenced hearing.
2. Due notice of the time, place and purpose of the hearing has been given in all respects as required by law.
3. The Commission has jurisdiction over the subject matter embraced in said Notice, and of the parties interested therein, and jurisdiction to promulgate the hereinafter prescribed order pursuant to the Oil and Gas Conservation Act.
4. Rule 318.a. of the Rules and Regulations of the Oil and Gas Conservation Commission requires that wells drilled in excess of 2,500 feet in depth be located not less than 600 feet from any lease line, and located not less than 1,200 feet from any other producible or drilling oil or gas well when drilling to the same common source of supply. The N½ of Section 25, Township 9 South, Range 95 West, 6th P.M. is subject to this Rule for Williams Fork and Iles Formations of the Mesaverde Group, and the Mancos, Niobrara, Frontier, and Mowry Formations.
5. On June 9, 2011, Laramie, by its attorney, filed with the Commission a verified application (the "Application") for an order to: (1) establish a 320-acre drilling and spacing unit for the below-listed lands (the "Application Lands"), and approve the equivalent of one well per 10 acres well density within the unit, for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations of the Mesaverde Group, and the Mancos, Niobrara, Frontier, and Mowry Formations (the "Deep Formations"); and (2) pool all nonconsenting interests in the proposed 320-acre drilling and spacing unit for the Application Lands, for the development and operation of the Williams Fork and Iles Formations of the Mesaverde Group and the Deep Formations:

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All future Williams Fork and Iles Formation wells to be drilled under the Application should be located downhole anywhere upon the Application Lands, but no closer than 100 feet from the boundaries of the unit, without exception being granted by the Commission. It should be provided, however, that in cases where the lands abut or corner lands in respect of which the Commission has not granted the right to drill 10-acre density Williams Fork Formation wells, the well should be located downhole no closer than 200 feet from the boundaries of the unit, without exception being granted by the Commission.

All future Deep Formation wells to be drilled under the Application should be located anywhere within the unit, but no closer than 600 feet from the boundaries of the unit, unless such boundary abuts or corners lands in which the Commission has granted the right to drill 10-acre density wells for the Deep Formations, in which event, the Deep Formation well should be drilled downhole no closer than 100 feet, or the setback footage in such other Deep Formations order, whichever is greater, from that portion of such boundary which so abuts or corners the lands in respect of which 10-acre density downhole drilling for Deep Formation wells has been ordered by the Commission, without

exception being granted by the Commission.

All Iles Formation wells to be drilled under the Application should be drilled only in connection with the drilling of a Williams Fork Formation well. The above well density and location rules shall apply to vertical and directional wells, but not to horizontal wells for which existing Commission rules and orders shall continue to apply. Wells to be drilled under the Application should be drilled from the surface either vertically or directionally from no more than one pad located on a given quarter-quarter section (or lots or parcels approximately equivalent thereto) unless exception is granted by the Director of the Commission.

6. On July 22, 2011, Merial Currier Vander Laan and James Vander Laan ("Vander Laans") filed with the Commission a protest in this matter, objecting to administrative approval of the spacing and density requests, and requesting bifurcation of the involuntary pooling order for later consideration.

7. On July 26, 2011 a prehearing conference was held by the Acting Hearings Manager. The Parties discussed possible bifurcation of the pooling issue, without reaching resolution on the spacing and well density issues. The parties agreed to engage in further negotiations.

8. On July 27, 2011, Daniel Currier joined in the protest of the Vander Laans, objecting to the proposed spacing unit and involuntary pooling request.

9. On July 29, 2011 the Oil and Gas Consultation Consultant for the Colorado Department of Public Health and Environment ("CDPHE") submitted comments on the Application. He requested that CDPHE be notified by COGCC staff to permit CDPHE consultation on any Form 2A applications from Laramie within the N½ of Section 25, Township 9 South, Range 95 West, 6th P.M.

10. On August 1, 2011, Laramie and protesting parties submitted a joint motion for: 1) bifurcating the pooling action from the spacing and well density request; 2) continuing the pooling request to the September 19, 2011 Commission meeting; 3) and withdrawing the protesting parties' protest of the Application with regard to the spacing unit and well density request.

11. On August 2, 2011, Laramie, by its attorney, filed with the Commission an amended application (the "Amended Application"), along with a written request to approve the Application based on the merits of the verified Application and the supporting exhibits. Sworn written testimony and exhibits were submitted in support of the Application. The Amended Application corrected the size of the proposed spacing unit from approximately 320 acres to 313 acres. It further requested that

"[w]ells drilled under the requested order shall be drilled either vertically or directionally from adjacent lands owned by the Applicant, or from no more than one pad located in a given quarter section of the Application Lands (or lot or parcels approximately equivalent thereto), unless an additional surface location on such Lands is necessary (i) in order to comply with requirements contained in any directive or permit issued by a regulatory body with jurisdiction over surface use (including without limitation any Town of Collbran Watershed District Permit, or any rule or regulation of the Colorado Department of Public Health and Environment (CDPHE)), or (ii) based on a Commission finding that an approved bottom hole location is not reasonably accessible vertically or directionally from only one approved pad in each quarter section of the Application Lands. If necessary to meet regulatory requirements or to access all approved bottom hole locations, the Commission may approve up to one additional surface location per quarter section of the Application Lands."

12. Testimony and exhibits submitted in support of the pooling application by Mark R. Petry, Vice President of Business Development for Laramie, showed that all nonconsenting interest owners were notified of the Application and received an Authority for Expenditure ("AFE") and a letter advising them of their rights to participate in the proposed operations within the subject spacing unit. In the opinion of the witness, the AFE sent by the Applicant to the interest owners was a fair and reasonable estimate of the costs of the proposed drilling operation, including terms no less favorable than those currently prevailing in the area, and was received at least 30 days

prior to the September 19, 2011 hearing date.

13. On August 8, 2011 the Commission entered Order 166-29, approving the requested spacing application.

14. On September 19, 2011 the parties reached agreement as to terms of participation by protestants, and the protest was withdrawn.

15. The above-referenced testimony and exhibits show that granting the Application will allow more efficient reservoir drainage, will prevent waste, will assure a greater ultimate recovery of hydrocarbons, and will not violate correlative rights.

16. Laramie agreed to be bound by oral order of the Commission.

17. Based on the facts stated in the verified Application, having no unresolved protests regarding the spacing and well density request, and based on the Hearing Officer review of the Application under Rule 511., the Commission should enter an order to pool all nonconsenting interests in the proposed 313-acre drilling and spacing unit in the N½, Section 25, Township 9 South, Range 95 West, 6th P.M., for the development and operation of the Williams Fork and Iles Formations of the Mesaverde Group, and the Mancos, Niobrara, Frontier, and Mowry Formations.

ORDER

NOW, THEREFORE IT IS ORDERED, that:

1. Pursuant to the provisions of §34-60-116, C.R.S., as amended, of the Oil and Gas Conservation Act, all nonconsenting interests in the approximate 313-acre **drilling and spacing unit** designated for the below-described lands, for the development and operation of the Williams Fork and Iles Formations of the Mesaverde Group, and the Mancos, Niobrara, Frontier, and Mowry Formations retroactive to the earliest date costs are incurred for the Well, or the date of the Application, whichever is earlier:

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2. The production obtained from the **drilling and spacing unit** shall be allocated to each owner in the unit on the basis of the proportion that the number of acres in such owner's tract bears to the total number of mineral acres within the **drilling and spacing unit**; each owner of an interest in the **drilling and spacing unit** shall be entitled to receive its share of the production of the Well located on the **drilling and spacing unit** applicable to its interest in the **drilling and spacing unit**.

3. The nonconsenting leased (working interest) owners must reimburse the consenting working interest owners for their share of the costs and risks of drilling and operating the Well (including penalties as provided by §34-60-116 (7)(b), C.R.S.) out of production from the **drilling and spacing unit** representing the cost-bearing interests of the nonconsenting working interest owners as provided by §34-60-116(7)(a), C.R.S.

4. Any unleased owners are hereby deemed to have elected not to participate and shall therefore be deemed to be nonconsenting as to the Well and be subject to the penalties as provided for by §34-60-116 (7), C.R.S.

5. Each nonconsenting unleased owner within the **drilling and spacing unit** shall be treated as the owner of the landowner's royalty to the extent of 12.5% of its record title interest, whatever that interest may be, until such time as the consenting owners recover, only out of each nonconsenting owner's proportionate 87.5% share of production, the costs specified in §34-60-116(7)(b), C.R.S. as amended. After recovery of such costs, each unleased nonconsenting mineral owner shall then own its proportionate 8/8ths share of the Well, surface facilities and production, and then be liable for its proportionate share of further costs incurred in connection with the Well as if it had originally agreed to the drilling.

6. The operator of the Well drilled on the above-described **drilling and spacing**

unit shall furnish the nonconsenting owners with a monthly statement of all costs incurred, together with the quantity of oil and gas produced, and the amount of proceeds realized from the sale of production during the preceding month.

7. Nothing in this order is intended to conflict with §34-60-116, C.R.S., as amended. Any conflict that may arise shall be resolved in favor of the statute.

IT IS FURTHER ORDERED, that the provisions contained in the above order shall become effective immediately.

IT IS FURTHER ORDERED, that the Commission expressly reserves its right, after notice and hearing, to alter, amend or repeal any and/or all of the above orders.

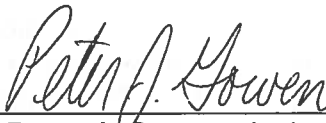
IT IS FURTHER ORDERED, that under the State Administrative Procedure Act the Commission considers this Order to be final agency action for purposes of judicial review within 30 days after the date this Order is mailed by the Commission.

IT IS FURTHER ORDERED, that an application for reconsideration by the Commission of this Order is not required prior to the filing for judicial review.

ENTERED this 23rd day of September 2011, as of September 19, 2011.

CORRECTED this 1st day of February 2012, as of September 19, 2011.

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By 
Peter J. Gowen, Acting Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
February 1, 2012