



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

IN THE MATTER OF THE PROMULGATION AND
ESTABLISHMENT OF FIELD RULES TO GOVERN
OPERATIONS IN THE ORCHARD FIELD,
MORGAN COUNTY, COLORADO

) CAUSE NO. 542
)
) ORDER NO. 542-1
) DOCKET NO. 1208-UP-211

REPORT OF THE COMMISSION

The Commission heard this matter on October 1, 2012, at the Routt County Justice Center, 1955 Shield Drive, Steamboat Springs, Colorado, upon application for an order to: 1) establish an approximate 80-acre drilling and spacing unit for Section 2, Township 4 North, Range 60 West, 6th P.M.; 2) approve up to two directional wells within the unit, for the production of oil, gas and associated hydrocarbons from all formations and depths from the base of the J Sand Formation to the surface; and 3) pool all interests within the approximate 80-acre drilling and spacing unit, to accommodate the Jones 2-12-4-60 Well, for the development and operation of all formations from the base of the J Sand Formation to the surface.

FINDINGS

The Commission finds as follows:

1. Esenjay Operating, Inc. ("Esenjay" 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. Section 2, Township 4 North, Range 60 West, 6th P.M. is subject to Rule 318.a. for all formations from the base of the J Sand Formation to the surface.

5. On June 21, 2012, Esenjay, by its agents, filed with the Commission pursuant to § 34-60-116 C.R.S., a verified application ("Application") for an order to: 1) establish an approximate 80-acre drilling and spacing unit for the below-described lands ("Application Lands"), and approve up to two directional wells within the unit, for the production of oil, gas and associated hydrocarbons from all formations and depths from the base of the J Sand Formation to the surface, with the treated interval of the wellbore to be located no closer than 600 feet from the unit boundaries, 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, without exception being granted by the Director; and 2) pool all interests within the approximate 80-acre drilling and spacing unit for the below-described Application Lands, to accommodate the Jones 2-12-4-60 Well ("Well"), for the development and operation of all formations from the base of the J Sand Formation to the surface, effective as of the earlier of the date of the Application, or the date that any of the costs specified in C.R.S. § 34-60-116(7)(b)(II) were first incurred for the drilling of the Well, and to subject any nonconsenting interests to the cost recovery provisions of C.R.S. § 34-60-116(7):

Township 4 North, Range 60 West, 6th P.M.
Section 2: NE $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$

6. On September 6, 2012, Esenjay, by its agents, filed with the Commission 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.

7. Land testimony and exhibits submitted in support of the Application by James C. Karo, Contract Landman for Esenjay Operating, Inc. and showed that all nonconsenting interest owners were notified of the Application and received an Authority for Expenditure ("AFE") and an

offer to participate in the Well. Further testimony concluded that the AFE sent by the Applicant to the interest owners was a fair and reasonable estimate of the costs of the proposed drilling and operation and was received at least 30 days prior to the October 1, 2012 hearing date.

8. 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.

9. Esenjay agreed to be bound by oral order of the Commission.

10. Based on the facts stated in the verified Application, having received no protests, and based on the Hearings Officer review of the Application under Rule 511., the Commission should enter an order to: 1) establish an approximate 80-acre drilling and spacing unit for Section 2, Township 4 North, Range 60 West, 6th P.M.; 2) approve up to two directional wells within the unit, for the production of oil, gas and associated hydrocarbons from all formations and depths from the base of the J Sand Formation to the surface; and 3) pool all interests within the approximate 80-acre drilling and spacing unit, to accommodate the Jones 2-12-4-60 Well, for the development and operation of all formations from the base of the J Sand Formation to the surface.

ORDER

NOW, THEREFORE IT IS ORDERED, that an approximate 80-acre drilling and spacing unit, for the below-described lands, is hereby established, and up to two directional wells within the unit, are hereby approved, for the production of oil, gas, and associated hydrocarbons from the base of the J Sand Formation to the surface, with the treated interval of the wellbore to be located no closer than 600 feet from the unit boundaries, and located not less than 1,200 feet from the treated interval of any wellbore located in the unit, without exception being granted by the Director:

Township 4 North, Range 60 West, 6th P.M.
Section 2: NE $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$

IT IS FURTHER ORDERED, that:

1. Pursuant to the provisions of §34-60-116, C.R.S., as amended, of the Oil and Gas Conservation Act, all interests in the approximate 80-acre drilling and spacing unit established for the below-described lands, are hereby pooled, for the development and operation of the base of the J Sand Formation to the surface, effective as of the earlier of the date of the Application, or the date that the costs specified in C.R.S. §34-60-116(7)(b)(II) are first incurred for the drilling of the Jones 2-12-4-60 Well:

Township 4 North, Range 60 West, 6th P.M.
Section 2: NE $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$

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 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 17 day of October, 2012, as of October 1, 2012.

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By 
Robert J. Frick, Secretary