STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

FIFTH AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

On September 26, 2008, Petitioner, Savoy Energy, L.P. filed a Motion for Fifth Amended Opinion and Order No. 02-2007, effective August 20, 2007. Order No. 02-2007: (i) formed a 640-acre Glenwood Formation/Prairie du Chien Group drilling unit as described therein; (ii) appointed Savoy Energy, L.P. as the operator of the Colfax 1-4 well to be drilled within 90 days from the effective date of that Order (approximately November 20, 2007); and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the drilling unit for purposes of drilling the Colfax 1-4 well only.

Petitioner filed its first Motion for Amendment on November 6, 2007, stating it had been unable to commence drilling operations due to an inability to secure a drilling rig. In the Amended Opinion and Order No. 02-2007, dated November 16, 2007, Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about February 20, 2008).

Petitioner filed its Motion for Second Amended Opinion and Order, stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operation early enough to avoid the potential operational, environmental, and safety concerns that would attend any such drilling during the period in which "frost laws" were in effect. Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about May 20, 2008).

Petitioner filed its Motion for Third Amended Opinion and Order also stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operations. Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about August 20, 2008).

Petitioner filed its Motion for Fourth Amended Opinion and Order, stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operations Petitioner was granted an additional 45 days to drill the Colfax 1-4 well (to expire on or about October 4, 2008).

Petitioner, in its Motion for Fifth Amended Opinion and Order, states that it was unable to complete drilling operations due to several mechanical problems which necessitated the abandonment of the well bore and will require the drilling of a replacement well. Petitioner's intention to commence the drilling of the replacement well has been delayed by Petitioner's inability to secure an appropriate drilling rig to replace the original drilling rig. Petitioner requests an additional 60 days to secure and produce its just and equitable share of the oil and gas from the 640-acre drilling unit.

Petitioner also asserts in its Motion for Fifth Amended Opinion and Order that correlative rights will be protected and waste will be prevented. Petitioner is the only party to this Cause and entry of the proposed Fifth Am ended Opinion and Order requested by Petitioner will not prejudice any party, including those whose interests were compulsorily pooled by that Order.

DETERMINATION AND ORDER

I have reviewed the Motion for Fifth Amended Opinion and Order submitted by Petitioner and have determined that Order No. 02-2007 should be amended a fifth time.

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 3 of the Determination and Order section of the original Opinion and Order effective August 20, 2007, in Cause No. 02-2007 is hereby amended in its entirety to provide as follows:

3. The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall commence drilling of the Colfax 1-4 well on or before December 4, 2008, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This Amended Opinion and Order applies only to the Colfax 1-4 well.

All other provisions of the original Opinion and Order No. 02-2007, effective August 20, 2007, are reaffirmed.

DATED: Sept. 30, 2008

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

FOURTH AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

On August 15, 2008, Petitioner, Savoy Energy, L.P. filed a Motion for Fourth Amended Opinion and Order No. 02-2007, effective August 20, 2007. Order No. 02-2007 (i) formed a 640-acre Glenwood Formation/Prairie du Chien Group drilling unit as described therein; (ii) appointed Savoy Energy, L.P. as the operator of the Colfax 1-4 well to be drilled within 90 days from the effective date of that Order (approximately November 20, 2007); and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the drilling unit for purposes of drilling the Colfax 1-4 well only.

Petitioner filed its first Motion for Amendment on November 6, 2007, stating it had been unable to commence drilling operations due to an inability to secure a drilling rig. In the Amended Opinion and Order No. 02-2007, dated November 16, 2007, Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about February 20, 2008).

Petitioner filed its Motion for Second Amended Opinion and Order, stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operation early enough to avoid the potential operational, environmental, and safety concerns that would attend any such drilling during the period in which "frost laws" were in effect. Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about May 20, 2008).

Petitioner, filed its Motion for Third Amended Opinion and Order, also stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operations. Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about August 20, 2008).

Petitioner, in its Motion for Fourth Amended Opinion and Order, states that it has been frustrated by its inability to secure an appropriate drilling rig and commence drilling operations. Petitioner requests an additional 45 days to secure and produce its just and equitable share of the oil and gas from the 640-acre drilling unit

Petitioner also asserts in its Motion for Fourth Amended Opinion and Order that correlative rights will be protected and waste will be prevented. Petitioner is the only party to this Cause and entry of the proposed Fourth Amended Opinion and Order requested by Petitioner will not prejudice any party, including those whose interests were compulsorily pooled by that Order.

DETERMINATION AND ORDER

I have reviewed the Motion for Fourth A mended Opinion and Order submitted by Petitioner and have determined that Order No. 02-2007 should be amended a fourth time.

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 3 of the Determination and Order section of the original Opinion and Order effective August 20, 2007, in Cause No. 02-2007 is hereby amended in its entirety to provide as follows:

3 The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall commence drilling of the Colfax 1-4 well on or before October 4, 2008, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This Amended Opinion and Order applies only to the Colfax 1-4 well.

All other provisions of the original Opinion and Order No. 02-2007, effective August 20, 2007, are reaffirmed.

DATED: Aug. 18, 2008

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

THIRD AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

On May 16, 2008, Petitioner, Savoy Energy, L.P. filed a Motion for Third Amended Opinion and Order No. 02-2007, effective August 20, 2007. Order No. 02-2007 (i) formed a 640-acre Glenwood Formation/Prairie du Chien Group drilling unit as described therein; (ii) appointed Savoy Energy, L.P. as the operator of the Colfax 1-4 well to be drilled within 90 days from the effective date of that Order (approximately November 20, 2007); and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the drilling unit for purposes of drilling the Colfax 1-4 well only.

Petitioner filed its first Motion for Amendment on November 6, 2007, stating it had been unable to commence drilling operations due to an inability to secure a drilling rig. In the Amended Opinion and Order No. 02-2007, dated November 16, 2007, Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about February 20, 2008).

Petitioner filed its Motion for Second Amended Opinion and Order, stating that it had been frustrated by its inability to secure an appropriate drilling rig and commence drilling operation early enough to avoid the potential operational, environmental, and safety concerns that would attend any such drilling during the period in which "frost laws" were in effect. Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about May 20, 2008)

Petitioner, in its Motion for Third Amended Opinion and Order, states that it has been frustrated by its inability to secure an appropriate drilling rig and commence drilling operations. Petitioner requests an additional 90 days to secure and produce its just and equitable share of the oil and gas from the 640-acre drilling unit.

Petitioner also asserts in its Motion for Third Amended Opinion and Order that a Third Amended Opinion and Order will protect correlative rights and prevent waste. Petitioner is the only party to this Cause and entry of the proposed Third Amended Opinion and Order requested by Petitioner will not prejudice any party, including those whose interests were compulsorily pooled by that Order.

DETERMINATION AND ORDER

I have reviewed the Motion for Third Amended Opinion and Order submitted by Petitioner and have determined that Order No. 02-2007 should be amended a third time

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 3 of the Determination and Order section of the original Opinion and Order effective August 20, 2007, in Cause No. 02-2007 is hereby amended in its entirety to provide as follows:

3. The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall commence drilling of the Colfax 1-4 well on or before August 20, 2008, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This Amended Opinion and Order applies only to the Colfax 1-4 well.

All other provisions of the original Opinion and Order No. 02-2007, effective August 20, 2007, are reaffirmed.

DATED: May 19, 2008

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

SECOND AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

On January 31, 2008, Petitioner, Savoy Energy, L.P. filed a Motion for Second Amended Opinion and Order No. 02-2007, effective August 20, 2007. Order No. 02-2007 (i) formed a 640-acre Glenwood Formation/Prairie du Chien Group drilling unit as described therein; (ii) appointed Savoy Energy, L.P. as the operator of the Colfax 1-4 well to be drilled within 90 days from the effective date of that Order (approximately November 20, 2007); and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the drilling unit for purposes of drilling the Colfax 1-4 well only.

Petitioner filed its first Motion for Amendment on November 6, 2007, stating it had been unable to commence drilling operations due to an inability to secure a drilling rig. In the Amended Opinion and Order No. 02-2007, dated November 16, 2007, Petitioner was granted an additional 90 days to drill the Colfax 1-4 well (to expire on or about February 20, 2008).

Petitioner, in its Motion for Second Amended Opinion and Order, states that it has been frustrated by its inability to secure an appropriate drilling rig and commence drilling operation early enough to avoid the potential operational, environmental, and safety concerns that would attend any such drilling during the period in which "frost laws" are in effect. Petitioner requests an additional 90 days to secure and produce its just and equitable share of the oil, gas, from the 640-acre drilling unit.

Petitioner also asserts in its Motion for Second Amended Opinion and Order that a Second Amended Opinion and Order will protect correlative rights and prevent waste. Petitioner is the only party to this Cause and entry of the proposed Second Amended Opinion and Order requested by Petitioner will not prejudice any party, including those whose interests were compulsorily pooled by that Order.

DETERMINATION AND ORDER

I have reviewed the Motion for Second Amended Opinion and Order submitted by Petitioner and have determined that Order No. 02-2007 should be amended a second time.

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 3 of the Determination and Order section of the original Opinion and Order effective August 20, 2007, in Cause No. 02-2007 is hereby amended in its entirety to provide as follows:

3. The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall commence drilling of the Colfax 1-4 well on or before May 20, 2008, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This Amended Opinion and Order applies only to the Colfax 1-4 well.

All other provisions of the original Opinion and Order No. 02-2007, effective August 20, 2007, are reaffirmed.

DATED: Feb. 8, 2008

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

On November 6, 2007, Petitioner, Savoy Energy, L.P. filed a Motion for Amendment of Order No. 02-2007, effective August 20, 2007. Order No. 02-2007 (i) formed a 640-acre Glenwood Formation/Prairie du Chien Group drilling unit as described therein; (ii) appointed Savoy Energy, L.P. as the operator of the Colfax 1-4 well to be drilled within 90 days from the effective date of that Order; and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the drilling unit for purposes of drilling the Colfax 1-4 well only.

Petitioner, in its Motion for Amendment, states that due to the inability to secure an appropriate drilling rig, Petitioner has not been able to commence drilling operations on the lands subject to the Order. Petitioner requests that the 90-day deadline for the drilling of one well (which will expire on or about November 20, 2007) be extended an additional 90 days to provide Petitioner the opportunity to secure and produce its just and equitable share of the oil, gas, and gas energy producible from the 640-acre drilling unit. Petitioner also asserts in its Motion For Amendment that an Amended Order and Opinion will protect correlative rights and prevent waste. Petitioner is the only party to this Cause and entry of the proposed Amended Opinion and Order requested by Petitioner will not prejudice any party, including those whose interests were compulsorily pooled by that Order.

DETERMINATION AND ORDER

I have reviewed the Motion For Amendment submitted by Petitioner and have determined that Order No. 02-2007 should be amended.

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 3 of the Determination and Order section of the original Opinion and Order effective August 20, 2007, in Cause No. 02-2007 is hereby amended in its entirety to provide as follows:

3. The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall commence drilling of the Colfax 1-4 well on or before February 20, 2008, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This Amended Opinion and Order applies only to the Colfax 1-4 well.

All other provisions of the original Opinion and Order No. 02-2007, effective August 20, 2007, are reaffirmed.

DATED: Nov. 16, 2007

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) ORDER NO. 02-2007

OPINION AND ORDER

Background

This case involves the Petition of Savoy Energy, L.P. (Petitioner). The Petitioner proposes to drill and complete a well for oil and gas exploration (the Colfax 1-4 well) within a drilling unit in the stratigraphic intervals known as the Glenwood Formation and/or Prairie du Chien Group. Under Special Order No 1-86, the drilling unit size for a Prairie du Chien Group well is 640 acres, more or less. Since not all of the mineral owners within the proposed drilling unit have agreed to voluntarily pool their interests, the Petitioner seeks an Order of the Supervisor of Wells (Supervisor) designating the Petitioner as operator of a 640-acre, more or less, drilling unit and requiring compulsory pooling of all tracts and interests within that geographic area for which the owners have not agreed to voluntary pooling.

At the time the Petition was filed, the northern half of Petitioners' proposed unit for the Colfax 1-4 well was part of a drilling unit held by the non-producing State Grant 1-32A well, owned by Ranch Production, LLC. Petitioner, in its Petition, requested the Supervisor terminate the drilling permit for the State Grant 1-32A, thereby dissolving the drilling unit.

Jurisdiction

The development of oil and gas in this State is regulated under Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended. MCL 324.61501 *et seq.* The purpose of Part 615 is to ensure the orderly development and production of the oil and gas resources of this State. MCL 324.61502. To that end, the Supervisor may establish drilling units and compulsorily pool mineral interests within said units. MCL 324.61513(2) and (4). However, the formation of drilling units by compulsory pooling of interests can only be effectuated after an evidentiary hearing. 1996 MR 9, R 324.302 and R 324.304. The evidentiary hearing is governed by the applicable provisions of the Administrative Procedures Act, 1969 PA 306, as amended, MCL 24.201 *et seq.* See 1996 MR 9, R 324.1203. The evidentiary hearing in this matter was held on June 12, 2007.

Preliminary Proceedings

This matter was originally scheduled for hearing on January 30, 2007. The Supervisor converted the January 30, 2007, hearing to a pre-hearing conference to address legal issues pertaining to Petitioner's request to terminate the State Grant 1-32A drilling permit. At that time the Administrative Law Judge determined the Notice of Hearing was properly served and published. The Supervisor adjourned the hearing pending resolution of the existing State Grant 1-32A well. The evidentiary hearing was later scheduled for June 12, 2007, at which time the State Grant 1-32A well had been plugged and abandoned by Ranch Production LLC, making termination of the drilling permit no longer necessary.

FINDINGS OF FACT

Petitioner specifically requests that the Supervisor issue an Order that:

1. Requires compulsory pooling of all tracts and mineral interests within the proposed drilling unit that have not agreed to voluntary pooling;

2. Names Petitioner as operator of the proposed drilling unit and the Colfax 1-4 well; and

3. Authorizes Petitioner to recover certain costs and other additional compensation from the parties subject to the compulsory pooling order.

In support of its Petition, the Petitioner offered the testimony of Messrs. Michael Flynn and Matthew W. Stachnik. Mr. Flynn was accepted as an expert in the areas of land and oil field operations and Mr. Stachnik was accepted as an expert in the areas of geophysics, petroleum geology, petroleum engineering, and oil field operations.

No answers to the Petition were filed. Therefore, Petitioner is the only party to this case. Ms. Marcia Pratt, mineral owner in the proposed drilling unit, appeared at the hearing as an observer. The Supervisor designated the hearing to be an evidentiary hearing pursuant to R 324.1205(1)(b) and directed substantive evidence be presented in the form of testimony and exhibits.

I. Drilling Unit

The spacing of wells targeting the Glenwood Formation/Prairie du Chien Group is governed by Special Order No. 1-86. This Order establishes drilling units of 640 acres, more or less, consisting of four contiguous governmental-surveyed quarter sections of land in a square, with allowances being made for the size and shape of the government-surveyed quarter sections. Under Special Order No. 1-86, it is presumed that one well will efficiently and economically drain the entire unit of hydrocarbons. The Petitioner's proposed drilling unit is described as W 1/2 of Section 4, and E 1/2 of Section 5, T15N, R9W, Colfax Township, Mecosta County.

Mr. Flynn testified that the proposed drilling unit is actually 598.5 acres due to Sections 4 and 5 being located in an area of so-called "transitional sections" consisting of fewer than 640 acres. Mr. Flynn further testified that although Government Land Office records show the area comprising the proposed drilling unit consists of 590.04 acres, he believes a surveyor's estimate obtained by Petitioner showing the proposed drilling unit to consist of 598.5 acres to be more accurate. I find that Petitioner shall obtain a division order title opinion survey prior to drilling the Colfax 1-4 well to determine the exact acreage of the drilling unit.

Mr. Stachnik sponsored Petitioner's Exhibit 6, a Prairie du Chien Group Structure Contour map, which indicates most of the productive portion of the reservoir is contained within the proposed drilling unit. He testified 3 wells were previously drilled into the structure by another operator. The State Grant 1-32 and Beard 1-5 wells, in Sections 32 and 5 respectively, were drilled as dry holes. The State Grant 1-32A well

was a productive directional re-drill of the State Grant 1-32 well, at one time producing 1,600 mcf of gas a day.

I find that the proposed drilling unit is consistent with Special Order No. 1-86; and, as such, it is a proper drilling unit for the proposed well.

II. Drilling Unit Operator

Exhibit 4, sponsored by Mr. Flynn, shows Petitioner owns or controls all but 5.5625 net acres of undivided mineral interests that are not subject to an oil and gas lease with the Petitioner. Given this, the Petitioner seeks to be designated as the operator of the Colfax 1-4 well. I find, as a Matter of Fact, the Petitioner is eligible to be designated operator of the Colfax 1-4 well.

III. Compulsory Pooling

As found, the Petitioner has proposed a proper drilling unit for the Glenwood Formation/Prairie du Chien Group, but was unable to obtain the agreement of all mineral interest owners to gain its full control of the interests in such unit. The Petitioner may not produce a well on the drilling unit without first obtaining control of all of the oil and gas interests. In cases like this, it is necessary for the Petitioner to request compulsory pooling from the Supervisor. A mineral or working interest owner who does not agree to voluntarily pool his, her, or its interest in a drilling unit may be subject to compulsory pooling. 1996 MR 9, R 324.304. The compulsory pooling of an interest must be effectuated in a manner that ensures "each owner...is afforded the opportunity to receive his or her just and equitable share of the production of the unit." Id. In addition to protecting correlative rights, the compulsory pooling must prevent waste. MCL 324.61502. An operator must first seek voluntary pooling of mineral interests within a proposed drilling unit prior to obtaining compulsory pooling through an order of the Supervisor.

All of the owners of oil and gas interests within the proposed drilling unit agreed to voluntarily pool their interests, with the exception of approximately 5.5625 undivided acres of mineral rights. Mr. Flynn's affidavit (Exhibit 3) indicates he made attempts to find and lease all of the mineral interest owners who had not yet voluntarily pooled their interests for purposes of drilling the Colfax 1-4 well. However, despite those efforts, Mr.

Flynn testified that the following mineral owners had not executed a lease in the formation of such unit as of the date of the hearing (Exhibit 4):

Unleased Interest	Net Acres
Edward Archer	0.0259
Richard L. Childs	0.1500
Katherine Edahl a/k/a Katherine Lercari	2.9467
Garnett Natural Gas Partners, L.P.	0.3333
Garnett Oil and Gas, Inc.	0.0333
Glenn E. & Celeste L. Girard	0.2400
Estate of Emily B. Orr	1.0000
Estate of Dorelyn Chopard Rech	0.8333
Total Unleased Acreage	5.5625

Based on the foregoing, I find, as a Matter of Fact:

1. The Petitioner was able to voluntarily pool approximately 592.9375 acres of the proposed approximately 598.5-acre Glenwood Formation/Prairie du Chien Group drilling unit.

2. The Petitioner was unsuccessful in its attempts to voluntarily pool 5.5625 acres owned by the various mineral owners involved.

3. Compulsory pooling is necessary to form a full drilling unit, to protect correlative rights of unleased mineral owners, and to prevent waste by preventing the drilling of unnecessary wells.

Now that it has been determined compulsory pooling is necessary and proper in this case, the terms of such pooling must be addressed. When pooling is ordered, the owner of the compulsorily pooled lands or interests (Pooled Owner) is provided an election on how he or she wishes to share in the costs of the project. R 324.1206(4). A Pooled Owner may participate in the project, or in the alternative be "carried" by the operator. If the Pooled Owner elects to participate, he or she assumes the economic risks of the project, specifically, by paying his or her proportionate share of the costs, or giving bond for the payment. Whether the well drilled is ultimately a producer or dry hole is immaterial to this obligation. Conversely, if a Pooled Owner elects not to participate, the Pooled Owner is, from an economic perspective "carried" by the

operator. Under this option, if the well is a dry hole the Pooled Owner has no financial obligation because they did not assume any risk. If the well is a producer, the Supervisor considers the risks associated with the proposal and awards the operator compensation, out of production, for assuming all of the economic risks

In order for a Pooled Owner to decide whether he or she will "participate" in the well or be "carried" by the operator, it is necessary to provide reliable cost estimates. In this regard the Petitioner must present proofs on the estimated costs involved in drilling, testing, completing, and equipping the proposed well. Petitioner's Authorization for Expenditure (AFE) form for the Colfax 1-4 well, as introduced by Mr. Stachnik, itemizes estimated costs to be incurred in the drilling, completing, testing, equipping, and plugging of the well (Exhibit 5). The estimated costs are $1,411,750.00 for drilling; $485,300.00 for completion; and $473,000.00 for equipping. The total estimated producing well costs for the Colfax 1-4 well are $2,370,050.00. Id. There is no evidence on this record refuting Petitioner's estimated costs. I find, as a Matter of Fact, the estimated costs recited in Exhibit 5 are reasonable for the purpose of providing the pooled owners a basis on which to elect to participate or be carried. However, I find actual costs shall be used in determining the final share of costs and additional compensation assessed against a Pooled Owner.

The next issue is the allocation of these costs. Part 615 requires the allocation be just and equitable. MCL 324.61513(4). Petitioner presented a map as evidence showing that the structure substantially underlies the drilling unit (Exhibit 6). The Petitioner requests the actual well costs and production from the well be allocated based upon the ratio of the number of surface acres in the tracts of various owners to the total number of surface acres in the drilling unit. Established practices and industry standards suggest this to be a fair and equitable method of allocation of production and costs.

Therefore, I find, as a Matter of Fact, utilizing acreage is a fair and equitable method to allocate to the various tracts in the proposed drilling unit, each tract's just and equitable share of unit production and costs. However, I find that an owner's share in production and costs should be in proportion to their net mineral acreage.

The final issue is the additional compensation for risk to be assessed against a Pooled Owner who elects to be carried. The administrative rules under Part 615 provide for the Supervisor to assess appropriate compensation for the risks associated with drilling a dry hole and the mechanical and engineering risks associated with the completion and equipping of wells. 1996 AACS, R 324.1206(4)(b). Mr Stachnik testified he reviewed well logs, structural cross-sections, and production history for the Beard 1-5, State Grant 1-32, and State Grant 1-32A wells drilled in the area of the proposed Colfax 1-4 well. Of these three wells, two were dry holes and one produced gas at rates that led him to conclude that it was a poor well at best. Exhibits 8 and 9. Analysis of this well data led him to consider the drilling, completion, and equipping of the Colfax 1-4 well to be a high risk venture.

I find, as a Matter of Fact, that the risk of the proposed Colfax 1-4 well being a dry hole supports additional compensation from the Pooled Owners of 300 percent of the actual drilling costs incurred. In addition, the mechanical and engineering risks associated with the well support additional compensation of 200 percent of the actual completing, and 100 percent of the actual equipping costs incurred. Operating costs are not subject to additional compensation for risk.

CONCLUSIONS OF LAW

Based on the findings of fact, I conclude, as a matter of law:

1. The Supervisor may compulsorily pool properties when pooling cannot be agreed upon. Compulsory pooling is necessary to prevent waste and protect the correlative rights of the Pooled Owners in the proposed drilling unit. MCL 324.61513(4).

2. This Order is necessary to provide for conditions under which each mineral interest owner who has not voluntarily agreed to pool all of his, her, or its interest in the pooled unit may share in the production. 1996 AACS, R 324.1206(4).

3. The Petitioner is an owner within the drilling unit and therefore is eligible to drill and operate the Colfax 1-4 well. 1996 AACS, R 324.1206(4).

4. The Petitioner is authorized to take from each nonparticipating interest's share of production, the cost of drilling, completing, equipping, and operating the well, plus an additional percentage of the costs as identified in the Determination and Order section of this Order for the risks associated with drilling a dry hole and the mechanical and engineering risks associated with the completion and equipping of the well. 1996 AACS, R 324.1206(4).

5. The applicable spacing for the proposed drilling unit is 640 acres, more or less, as established by Special Order No. 1-86.

6. The Supervisor has jurisdiction over the subject matter and the persons interested therein.

7. Due notice of the time, place, and purpose of the hearing was given as required by law and all interested persons were afforded an opportunity to be heard. 1996 AACS, R 324.1204.

DETERMINATION AND ORDER

Based on the Findings of Fact and Conclusions of Law, the Supervisor determines that compulsory pooling to form a 640-acre, more or less, Glenwood Formation/Prairie du Chien Group drilling unit is necessary to protect correlative rights and prevent waste by the drilling of unnecessary wells.

NOW, THEREFORE, IT IS ORDERED:

1. A 640-acre, more or less, Glenwood Formation/Prairie du Chien Group drilling unit is established for the W 1/2 of Section 4, and the E 1/2 of Section 5, T15N, R9W, Colfax Township, Mecosta County. All properties, parts of properties, and interests in this area are pooled into the drilling unit. This pooling is for the purpose of forming a drilling unit only and neither establishes a right, nor

diminishes any independent right, of the Petitioner to operate on the surface or subsurface lands of a Pooled Owner.

2. Each Pooled Owner shall share in production and costs in the proportion that their net mineral acreage in the drilling unit bears to the total acreage in the drilling unit.

3. The Petitioner is named Operator of the Colfax 1-4 well. The Operator shall obtain a division order title opinion survey prior to commencement of drilling of the Colfax 1-4 well. The Operator shall commence the drilling of the Colfax 1-4 well within 90 days of the effective date of this Order, or the compulsory pooling authorized in this Order shall be null and void as to all parties and interests. This pooling Order applies to the drilling of the Colfax 1-4 well only.

4. A Pooled Owner who is an unleased mineral owner shall be treated as a working interest owner to the extent of 100 percent of the interest owned in the drilling unit. Such a Pooled Owner is considered to hold a 1/8 royalty interest, which shall be free of any charge for the costs of drilling, completing, or equipping the well, or for compensation for the risks of the well, or operating the proposed well.

5. A Pooled Owner shall have ten days from the effective date of this Order to select one of the following alternatives and advise the Supervisor and the Petitioner, in writing, accordingly:

   a. To participate, by paying to the Operator, within ten days of making the election, the Pooled Owner's share of the estimated costs for drilling, completing, testing, and equipping the well, or by giving bond for the payment of the Pooled Owner's share of such costs promptly upon completion; and authorizing the Operator to take from the remaining 7/8 of such Pooled Owner's share of production, the Pooled Owner's share of the actual costs of operating the well; or

b. To be carried, then if the well is put on production, authorize the Operator to take from the remaining 7/8 of the Pooled Owner's share of production:

(i) The Pooled Owner's share of the actual cost of drilling, completing, and equipping the well.

(ii) An additional 300 percent of the actual drilling costs, 200 percent of the actual completion costs, and 100 percent of the actual equipping costs attributable to the Pooled Owner's share of production, as compensation to the Operator for the risk of a dry hole.

(iii) The Pooled Owner's share of the actual cost of operating the well.

6. In the event the Pooled Owner does not notify the Supervisor in writing of the decision within ten days from the effective date of this Order, the Pooled Owner will be deemed to have elected the alternative described in ¶ 5(b). If a Pooled Owner who elects the alternative in ¶ 5(a) does not, within ten days of making their election, pay their proportionate share of costs or give bond for the payment of such share of such costs, the Pooled Owner shall be deemed to have elected the alternative described in ¶ 5(b) and the Operator may proceed to withhold and allocate proceeds for costs from the Pooled Owners' share of production (the remaining 7/8 in the case of an unleased mineral owner) as described in 5(b)(i)(ii)&(iii).

7. For purposes of the Pooled Owners electing alternatives, the amounts of $1,411,750.00 for estimated drilling costs (dry hole costs); $485,300.00 for estimated completion costs; and $473,000.00 for estimated equipping costs are fixed as well costs. Actual costs shall be used in determining the Pooled Owner's final share of well costs and in determining additional compensation for the risk of a dry hole. If a Pooled Owner has elected the alternative in ¶ 5(a) and the actual

cost exceeds the estimated cost, the Operator may recover the additional cost from the Pooled Owner's share of production (the remaining 7/8 in the case of an unleased mineral owner). Within 60 days after commencing drilling of the well, and every 30 days thereafter until all costs of drilling, testing, completing, and equipping the well are accounted for, the Operator shall provide to the Pooled Owner a detailed statement of actual costs incurred as of the date of the statement and all costs and production proceeds allocated to that Pooled Owner.

8. All Pooled Owners shall receive the following information from the Operator by no later than the effective date of the Order:

   a. The Order;

   b. The AFE; and

   c. Each Pooled Owner's percent of charges from the AFE if the Pooled Owner were to choose option "a" in Paragraph 5, above.

9. A Pooled Owner shall remain a Pooled Owner only until such time as a lease is entered into with the Operator. At that time, terms of the lease shall prevail over the terms of this Order.

10. The Supervisor retains jurisdiction in this matter.

11. The effective date of this Order is Aug. 20, 2007.

DATED: Aug. 10, 2007

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT	) CAUSE NO. 02-2007

at a session of the Department of Environmental Quality held at Lansing, Michigan, on January 30, 2007, Harold R. Fitch, Assistant Supervisor of Wells, Presiding

ORDER OF ADJOURNMENT

The Supervisor of Wells hearing in this matter scheduled for 9:00 a.m. on January 30, 2007, was converted to a pre-hearing conference by the Assistant Supervisor of Wells (Supervisor) to address legal issues pertaining to Petitioner, Savoy Energy, L.P.'s (Savoy) request to terminate a drilling permit owned by Ranch Production, LLC (Ranch). Savoy's Petition also requests compulsory pooling to form a drilling unit for the proposed Colfax 1-4 well which would overlap part of the drilling unit for Ranch's State Grant 1-32A well

NOW THEREFORE, IT IS ORDERED:

1. The contested case hearing on Cause No. 02-2007, is hereby adjourned. A hearing to establish a 640-acre drilling unit for the Colfax 1-4 well by compulsory pooling all interests into the unit will be rescheduled after resolution of the issue of the existing State Grant 1-32A well.

2 Petitioner, Savoy, is the only party in this matter.

3. Service and publication of the Notice of Hearing in this matter was found to be proper and will not be required again at such time the hearing for compulsory pooling of interests in the drilling unit for the proposed Colfax 1-4 well is rescheduled.

Dated: Feb. 2, 2007

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256-7756
Lansing, Michigan 48909

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF SAVOY ENERGY, L.P. FOR AN ORDER FROM THE SUPERVISOR OF WELLS REVOKING THE PERMIT TO OPERATE THE STATE GRANT 1-32A WELL; TERMINATING THE EXISTING 640-ACRE DRILLING UNIT; AND ESTABLISHING A NEW 640-ACRE PRAIRIE DU CHIEN GROUP DRILLING UNIT FOR THE COLFAX 1-4 WELL, CONSISTENT WITH SPECIAL ORDER NO. 1-86, BY COMPULSORY POOLING ALL INTERESTS INTO THE UNIT.	) CAUSE NO. 02-2007

NOTICE OF HEARING

Take notice that a contested case hearing will be held before the Supervisor of Wells (Supervisor) in the city of Lansing, Michigan, on the THIRTIETH DAY OF JANUARY (JANUARY 30) 2007, BEGINNING AT 9:00 A.M., IN THE DEPARTMENT OF ENVIRONMENTAL QUALITY STEPHEN NISBET HEARING ROOM, ATRIUM LEVEL, SOUTH TOWER, CONSTITUTION HALL, 525 WEST ALLEGAN STREET, LANSING, MICHIGAN. The hearing will be conducted pursuant to Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA); MCL 324.61501 et seq., the administrative rules, 1996 AACS, 2001 MR 2, 2002 MR 23, R 324.101 et seq., and the Administrative Procedures Act, 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.

The hearing is for the purpose of receiving testimony and evidence pertaining to the need or desirability of issuing an order in the matter of the petition of Savoy Energy, L.P. (Petitioner), P.O. Box 1560, Traverse City, Michigan 49685.

Petitioner seeks an order of the Supervisor revoking the Permit to Operate the existing State Grant 1-32A well, held by Ranch Production L.L.C., and to terminate the 640-acre State Grant 1-32A Prairie du Chien Group drilling unit, consisting of the SE 1/4 of Section 32, SW 1/4 of Section 33, NW 1/4 of Section 4, and NE 1/4 of Section 5, T16N, R9W, Grant Township, Mecosta County. Petitioner also seeks to establish a 640-acre Prairie du Chien Group drilling unit for the proposed Colfax 1-4 well, consistent with Special Order No. 1-86, and pursuant to R 324.304 to compulsory pool all interests into the proposed drilling unit. The proposed drilling unit consists of the W 1/2 of Section 4, and the E 1/2 of Section 5, T15N, R9W, Colfax Township, Mecosta County, Michigan.

You can obtain a copy of the written petition by requesting one in writing from Mr. William T. Sperry, President of Petitioner, P.O. Box 1560, Traverse City, Michigan 49685, telephone number 231-941-9552.

Take note that if you wish to participate as a party in the hearing by presenting evidence or cross-examining witnesses, you shall prepare and mail or otherwise deliver to the petitioner and Supervisor, not less than 5 days before the hearing date, an answer to the petition in the manner set forth in R 324.1204(6). Proof of mailing or delivering the answer shall be filed with the Supervisor on or before the date of the hearing. The answer shall state with specificity the interested person's position with regard to the petition. Failure to prepare and serve an answer in a timely manner shall preclude you from presenting evidence or cross-examining witnesses at the hearing. If an answer to the petition is not filed, the Supervisor may elect to consider the petition and enter an order without oral hearing. Mail the answer to the petition to Mr. William T. Sperry at the above address, and to the Supervisor in care of the Assistant Supervisor of Wells, Mr. Harold R. Fitch, Office of Geological Survey (OGS), P.O. Box 30256, Lansing, Michigan 48909-7756.

Take further note that you may request a change in the location of the hearing to the county in which the proposed drilling unit is located. If the majority of the owners of the oil and gas rights, which are listed in the Petition as not voluntarily pooling their interests into the proposed drilling unit, include in their timely filed answers a request to hold the hearing in the county where the proposed drilling unit is located, the Assistant Supervisor of Wells shall: (i) at the time and place scheduled in this notice adjourn the scheduled hearing; (ii) reschedule the hearing for a location in such county, and (iii) provide, by first-class mail, notice of the rescheduled hearing date, time, and place prior to the rescheduled hearing date to all persons who filed an answer in response to this notice.

Questions regarding the Notice of Hearing should be directed to Ms. Susan Maul, OGS, Michigan Department of Environmental Quality, P.O. Box 30256, Lansing, Michigan 48909-7756, phone 517-241-1552. Persons with disabilities needing accommodations for effective participation in this hearing should call or write Ms. Maul at least a week in advance of the hearing date to request mobility, visual, hearing, or other assistance.

Dated: Dec. 18, 2006

HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756