

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF ATLAS GAS & OIL COMPANY, LLC, FOR AN)
ORDER FROM THE SUPERVISOR OF WELLS GRANTING AN)
EXCEPTION TO THE WELL SPACING PROVISIONS OF)
ORDER NO. (A) 14-9-94; OR IN THE ALTERNATIVE,) ORDER NO. 14-2008
ESTABLISHING A UNIFORM SPACING PLAN CONSISTENT)
WITH ORDER NO. (A) 14-9-94 AND COMPULSORY POOLING)
ALL INTERESTS INTO THE UNIT.)
)

OPINION AND ORDER

This case involves the Petition of Atlas Gas & Oil Company, LLC (Petitioner). The Petitioner seeks an Order of the Supervisor granting an exception to Order No. (A) 14-9-94, as amended, authorizing a bottom hole location less than 330 feet from the unit boundary for the Conant B4-16 HD1 Antrim Shale Formation well. Under Order No. (A) 14-9-94, as amended (the Antrim Order), the bottom hole location of Antrim Shale Formation wells shall be not less than 330 feet from the drilling unit boundary. The Conant B4-16 HD1 is in a Uniform Spacing Plan (USP) consisting of the SW/4 of NW/4, Section 15, and N/2 of NW/4, N/2 of NE/4, S/2 of NE/4, NE/4 of SW/4 and N/2 of SE/4, Section 16, T31N, R8W, Central Lake Township, Antrim County, Michigan. In the alternative, Petitioner seeks an Order to establish an alternate USP consistent with Order No. (A) 14-9-94 and pursuant to R 324 304 to compulsory pool all interests into an alternate USP.

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 well spacing. MCL 324.61513(2) and (5). The spacing and location of Antrim Shale Formation wells in Antrim County is subject to the Antrim Order. Under the Antrim Order, exceptions to the spacing and location requirements of that Order can only be approved after an evidentiary hearing. 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 April 23, 2008.

FINDINGS OF FACT

Petitioner specifically requests that the Supervisor issue an Order that:

1. Authorizes a bottom hole location less than 330 feet from the unit (USP) boundary for the Conant B4-16 HD1 well;
Or in the alternative:
2. Establishes a USP of approximately 200 acres consisting of the following tracts of land in T31N, R8W, Central Lake Township, Antrim County, Michigan:
Section 15: SW 1/4 of NW 1/4 and NW 1/4 of SW 1/4
Section 16: E 1/2 of NE 1/4 and NE 1/4 of SW 1/4
3. Names Petitioner as operator of the proposed USP;
4. Pools all tracts and mineral interests within the proposed USP that have not agreed to voluntary pooling; and
5. Authorizes Petitioner to recover certain costs and other additional compensation from the parties subject to the compulsory pooling Order.

The Administrative Law Judge determined the Notice of Hearing was properly served and published. No party filed an answer and the Petitioner is the only party to this case. 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 oral testimony.

In support of its case, the Petitioner offered the testimony of Mr. Michael A. Link, Senior Petroleum Engineer, and Mr. Paul R. Conlen, Senior Landman. Mr. Link was accepted as an expert in the area of petroleum engineering.

Drilling Unit

The Petitioner, as operator, proposes to drill the Conant B4-16 HD1 well at the proposed surface location in order to make use of an existing, but abandoned, salt water disposal well (SWD) referred to as the Conant B1-15 SWD. Mr. Link testified that the SWD was drilled at a location less than 330 feet from the unit boundary because the well was always intended as a brine disposal well, but the casing was set in the wrong place due to an error. The costs and risk associated with repairing this well are such that drilling a new SWD would be more prudent.

Mr. Link testified that the SWD was within the boundaries of the Central Lake 15 USP, comprised of the SW 1/4 of NW 1/4 of Section 15; and the N 1/2 of NW 1/4, N 1/2 of NE 1/4, S 1/2 of NE 1/4, NE 1/4 of SW 1/4 and the N 1/2 of SE 1/4 of Section 16, T31N, R8W, Central Lake Township, Antrim County, Michigan. Mr. Link indicated that Petitioner considered drilling the proposed Conant B4-16 HD1 well from different surface locations, and while drilling from a different location would eliminate the encroachment on the USP boundary, drilling from a new location would result in the clearing of a new location and the waste that would occur in not using the existing well bore. Mr. Link testified that the Conant B4-16 HD1 well was to be drilled in a northwesterly direction

to a bottom hole location at approximately 100 feet from the north line and 400 feet from the west line of the SE 1/4 of NE 1/4 of Section 16. Mr. Link testified that petitioner would attempt to drill the well in such a manner as to avoid encroachment on the USP boundary, but it was likely that the well could be open in the Lachine Formation at a bottom hole location 293 feet from the USP boundary.

Mr. Link testified that he had examined fracture logs from the Shooks A3-16 and Conant B1-15 SWD wells and that his review of this data indicated that the nature of the fractures in the Antrim Shale Formation are predominately northeast-southwest trending with very few northwest-southeasterly oriented fractures. As a result of the orientation of the well bore and the nature and distribution of the natural fractures in the vicinity of the Conant B4-16 HD1 well, it was Mr. Link's opinion that drainage would occur in a northeast to southwest direction and there would be very little, if any, drainage of gas from the 40-acre tract (the NW 1/4 of SW 1/4 of Section 15) located immediately South of the proposed well.

With respect to the 40-acre tract immediately south of the proposed well, Mr. Conlen testified Petitioner is the owner of oil and gas leases covering 25.0 acres in the NW 1/4 of SW 1/4 of Section 15. This 25-acre tract shares in production from the USP by virtue of a voluntary unit agreement. There are 15.73 acres in the NW 1/4 of SW 1/4 of Section 15 owned by Cellular North Network Michigan (Alltel) which are not leased. The northern boundary of this tract is approximately 793 feet from the point where the proposed well would be open in the Lachine Formation. Mr. Conlen testified that Petitioner had attempted on numerous occasions to acquire a lease from Alltel, with no response from Alltel. Mr. Link testified he does not believe there will be any communication between the Conant B4-16 HD1 well and the unleased tract of Alltel. Mr. Link testified that, in his opinion, waste would occur if Petitioner was unable to make use of the existing Conant B1-15 SWD.

I find as a matter of fact, the Conant B4-16 HD1 well's approximately 37-foot encroachment on the 330-foot hard line will not substantially harm the interest in the unleased tract owned by Alltel and waste would occur if Petitioner were to drill the Conant B4-16 HD1 well from a new surface location.

Compulsory Pooling

In addition to Mr. Conlen's testimony regarding Petitioner's efforts to voluntarily pool Alltel, Mr. Link provided estimated costs to drill the Conant B4-16 HD1 well through Petitioner's Authorization for Expenditure (Exhibit 5). However, I find, based upon the Findings of Fact and Conclusions of Law set out herein, it is not necessary to address the alternative relief requested by Petitioner.

CONCLUSIONS OF LAW

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

1. An exception to the bottom hole location requirements established by Order No (A) 14-9-94, as amended, is appropriate for the Conant B4-16 HD1 well. Exceptions to the Order may be granted by the Supervisor after notice and hearing.
2. The Supervisor has jurisdiction over the subject matter and the persons interested therein.
3. 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 MR 9, R 324.1204.

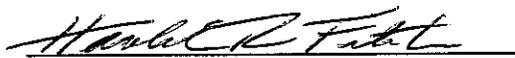
DETERMINATION AND ORDER

Based on the Findings of Fact and Conclusions of Law, the Supervisor determines an exception to Order No (A) 14-9-94, as amended, is appropriate for the Conant B4-16 HD1 well.

NOW, THEREFORE, IT IS ORDERED:

1. An exception to Order No. (A) 14-9-94, as amended, is granted authorizing drilling and production of the Conant B4-16 HD1 well at the producing well interval approximately 293 feet from the USP boundary.
2. Approval is granted for the Conant B4-16 HD1 well bore in its current proposed configuration only.
3. The Supervisor retains jurisdiction in this matter
4. This Order shall be effective immediately.

DATED: *July 11, 2008*


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 ATLAS GAS & OIL COMPANY, LLC,)
FOR AN ORDER FROM THE SUPERVISOR OF WELLS)
GRANTING AN EXCEPTION TO THE WELL SPACING)
PROVISIONS OF ORDER NO. (A) 14-9-94; OR IN THE) CAUSE NO. 14-2008
ALTERNATIVE, ESTABLISHING A UNIFORM SPACING)
PLAN CONSISTENT WITH ORDER NO. (A) 14-9-94 AND)
COMPULSORY POOLING ALL INTERESTS INTO THE)
UNIT.)

NOTICE OF HEARING

Take notice that a hearing will be held before the Supervisor of Wells (Supervisor) in the city of Lansing, Michigan, on the TWENTY-THIRD DAY OF APRIL (APRIL 23) 2008, BEGINNING AT 2:00 P.M., OR AS SOON THEREAFTER AS MAY BE HEARD, AT 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 AACRS, 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 Atlas Gas & Oil Company, LLC (Petitioner).

Petitioner seeks an order of the Supervisor as an exception to Order No. (A) 14-9-94, authorizing a bottom hole location less than 330 feet from the unit boundary for the Conant B4-16 HD1 Antrim Shale Formation well. The Conant B4-16 HD1 well is in a Uniform Spacing Plan (USP) consisting of the SW 1/4 of NW 1/4, Section 15; and N 1/2 of NW 1/4, N 1/2 of NE 1/4, S 1/2 of NE 1/4, NE 1/4 of SW 1/4, and N 1/2 of SE 1/4, Section 16, T31N, R8W, Central Lake Township, Antrim County, Michigan.

In the alternative, Petitioner seeks an order of the Supervisor, pursuant to R 324.302 to establish an alternate USP consistent with Order No. (A) 14-9-94, and pursuant to R 324.304 to compulsory pool all interests into a proposed USP consisting of the SW 1/4 of NW 1/4 and NW 1/4 of SW 1/4, Section 15; and E 1/2 of NE 1/4 and NE 1/4 of SW 1/4, Section 16, T31N, R8W, Central Lake Township, Antrim County, Michigan. Take note that the final USP boundary will be determined by the Supervisor and may be different from the USP proposed.

You can obtain a copy of the written petition by requesting it in writing from Mr. Paul R. Conlen, Atlas Gas & Oil Company, LLC, 1501 Cass Street, Suite B, Traverse City, Michigan, 49684, telephone number 231-995-0250.

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. Paul R. Conlen 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 USP 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 USP, include in their timely filed answers a request to hold the hearing in the county where the proposed USP 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 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: 3/13/08



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