

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF MERIT ENERGY COMPANY FOR AN)
ORDER FROM THE SUPERVISOR OF WELLS)
AUTHORIZING A SECOND WELL IN AN 80-ACRE RUFF) ORDER NO. 08-2009
FORMATION/ GUELPH DOLOMITE FORMATION DRILLING)
UNIT AS AN EXCEPTION TO SPECIAL ORDER NO 1-73.)

OPINION AND ORDER

This case involves the Petition of Merit Energy Company (Petitioner) pertaining to the drilling of a second well on an 80-acre drilling unit. Petitioner is requesting (i) an exception to Special Order No. 1-73 so that it may maintain two wells within a single 80-acre drilling unit, but only producing one at any given time; (ii) a permit to drill and produce the State Blue Lake 9-17 well while the State Blue Lake "G" 4-17 is in Temporarily Abandoned (TA) status. The drilling unit for the State Blue Lake "G" 4-17 well (PN 32316) consists of the SW 1/4 of SW 1/4 of Section 17 and NW 1/4 of NW1/4 of Section 20, T28N, R5W, Blue Lake Township, Kalkaska County, Michigan; (iii) the Supervisor retain jurisdiction over both the State Blue Lake "G" 4-17 and State Blue Lake 9-17 wells and authorize staff to permit and approve the operations and changes in status necessary to allow both wells to operate and produce (not simultaneously), to allow Petitioner to change the status of both wells to TA as needed, to maintain either well as a mechanical backup to the other, and to sidetrack the State Blue Lake "G" 4-17.

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 (NREPA). 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 of Wells (Supervisor) may establish drilling units and the spacing of wells. MCL 324.61513(2) and (5). The evidentiary hearing in this matter 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 August 13, 2009.

FINDINGS OF FACT

Petitioner requests approval from the Supervisor to maintain and produce both the State Blue Lake "G" 4-17 and State Blue Lake 9-17 wells, although not simultaneously, thereby having more than one well in an 80 acre drilling unit established under Special Order No. 1-73.

No answers or objections to the Petition were filed with the Supervisor. Therefore, the Petitioner is the only Party to this case. The Supervisor designated the hearing to be an uncontested evidentiary hearing pursuant to R 324.1205(1)(c) and directed substantive evidence be presented in the form of verified statements.

In support of its case, Petitioner offered the testimony of Mr. Joseph Nicholas, Operations Engineer for Petitioner and Mr. Chris Dennen, Geologist for Petitioner.

Evidence was presented that, at no fault of Petitioner, the Michigan Oil & Gas News published the Notice of Hearing one day late, thus failing to meet the 21-day requirement of R 324.1204. All other publications and mailings were timely and properly made by Petitioner. The Administrative Law Judge determined Petitioner had substantially complied with the Notice under R 324.1209.

Well Density

The spacing of wells in Kalkaska County targeting the Ruff Formation/ Guelph Dolomite Formation is governed by Special Order 1-73. This Special Order establishes drilling units of 80 acres, more or less, formed by combining two governmental surveyed quarter-quarter sections of land with one common boundary of approximately 1,320 feet. Under Special Order 1-73, it is presumed that one well will efficiently and economically drain the entire unit of hydrocarbons.

In his verified statement, Mr. Nicholas states the State Blue Lake "G" 4-17 well is in an established 80-acre drilling unit, which Petitioner refers to as the Blue Lake 18-28N-R5W, described as the SW 1/4 of SW 1/4 of Section 17 and the NW 1/4 of NW 1/4 of Section 20, Blue Lake Township, Kalkaska County, Michigan. The State Blue Lake "G" 4-17 well was drilled in 1995, but was put in TA status in 2006 due to dramatic declines in

production and eventual production of only water. Prior to being put in TA status, Petitioner made several unsuccessful attempts to increase production from the well.

Mr. Nicholas further stated that to plug and abandon the State Blue Lake "G" 4-17 well would cost approximately \$150,000.00. The well would have value to Petitioner if it remains in TA status, in that it could be used as a monitoring well to determine which portion of the reservoir the State Blue Lake 9-17 is draining; be held as a mechanical backup in the event of failure of the State Blue Lake 9-17; or utilized for enhanced oil recovery (EOR), gas storage, or unitization. Mr. Nicholas stated it would cost approximately \$1,200,000.00 to replace the State Blue Lake "G" 4-17 well, but only \$650,000.00 to reuse the well. It is his opinion that the drilling of the State Blue Lake 9-17 well is necessary to efficiently and economically recover oil from the reservoir, which will allow Petitioner to drain the southern edge of the drilling unit. Also, leaving the State Blue Lake "G" 4-17 in place, whether in TA status or producing, would prevent waste as that term is defined by Part 615 of NREPA. Retaining the wellbore could be the difference between pursuing additional projects or abandoning the field, thereby wasting unrecovered hydrocarbons which would be realized if the Petition is granted.

In his verified statement, Mr. Dennen stated that based on his review of geological and geophysical information, including seismic data, the unit is underlain by a Niagaran Brown (Guelph Dolomite) reef. It is his opinion that the State Blue Lake "G" 4-17 well is incapable of recovering the reserves in the unit and that the location of the State Blue Lake 9-17 well is optimal to recover those reserves. Mr. Dennen stated that based on his review of three seismic lines (Exhibits 2 and 3 of Mr. Dennen's verified statement, returned to Petitioner due to their confidential status) and information from other wellbores that penetrate the reef, he believes the reef has been fully delineated and the State Blue Lake 9-17 well will effectively drain the reservoir, including accessing the undrained reserves in the southern portion of the reservoir. Mr. Dennen further stated that production from the State Blue Lake 9-17 would not impair the rights of surrounding property and mineral owners.

I find that the drilling and producing of the State Blue Lake 9-17 well, while maintaining the State Blue Lake "G" 4-17 well, will prevent waste by recovering oil not otherwise recoverable.

CONCLUSIONS OF LAW

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

1. Well spacing for Ruff Formation /Guelph Dolomite Formation wells in Kankaska County is one well per 80 acres as established by Special Order No. 1-73. 1996 MR 9 R 324.302.
2. An exception to the well spacing provisions of Special Order 1-73 is appropriate for the drilling unit known as the Blue Lake 18-28N-5W. Exceptions to the Order may be granted by the Supervisor after notice and hearing.
3. The Supervisor has jurisdiction over the subject matter and the persons interested therein.
4. 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 that drilling a second well, the State Blue Lake 9-17, while maintaining the State Blue Lake "G" 4-17 well, will not result in waste.

NOW, THEREFORE, IT IS ORDERED:

1. Upon issuance of the permit, Petitioner is authorized to drill and produce the State Blue Lake 9-17 well and also maintain the State Blue Lake "G" 4-17 well as an exception to Special Order No. 1-73. However, Petitioner is not authorized to produce both wells simultaneously. Petitioner shall file all test results from the State Blue Lake 9-17 well with the Office of Geological Survey.

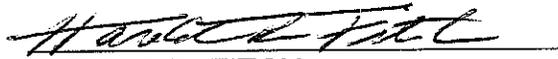
2. During the drilling and production of the State Blue Lake 9-17 well, the State Blue Lake "G" 4-17 well shall remain in temporarily abandoned status until the Supervisor issues written approval to either: (i) plug and abandon the well; or (ii) use the well for another purpose such as mechanical backup in the event of failure of the State Blue Lake 9-17 well, enhanced oil recovery, gas storage, or unitization. The Supervisor may impose additional conditions on either well as they become necessary.

3. All other provisions of Special Order No. 1-73 shall remain in effect.

4. The Supervisor retains jurisdiction in this matter.

5. This Order shall be effective immediately.

DATED: *Sept. 18, 2009*


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 MERIT ENERGY COMPANY FOR AN)
ORDER FROM THE SUPERVISOR OF WELLS)
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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 THIRTEENTH DAY OF AUGUST (AUGUST 13) 2009, BEGINNING AT 9:00 A.M., 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 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 Merit Energy Company, 13727 Noel Road, Suite 500, Dallas, Texas 75240.

Merit Energy Company seeks an order of the Supervisor as an exception to Special Order No.1-73, to authorize a second well (the State Blue Lake 9-17 well) on the 80-acre Guelph Dolomite/Ruff Formation drilling unit described as the SW 1/4 of SW 1/4 of Section 17 and NW 1/4 of NW 1/4 of Section 20, T28N, R5W, Blue Lake Township, Kalkaska County, Michigan. It is Petitioner's intent to leave the existing well in the unit, the State Blue Lake "G" 4-17, on Temporarily Abandoned status while producing the State Blue Lake 9-17 well.

You can obtain a copy of the written petition by requesting one in writing from Mr. Leland L. Abel, Jr., Merit Energy Company, P.O. Box 910, Kalkaska, MI 49646, telephone number 231-258-6404.

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. Leland L. Abel, Jr. 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.

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: *July 9, 2009*


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