

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF TRENDWELL OIL CORPORATION FOR)
AN ORDER OF THE SUPERVISOR OF WELLS GRANTING)
EXCEPTIONS TO THE WELL LOCATION REQUIREMENTS)
OF R 299.201 FOR WELLS DRILLED IN THE ANTRIM)
FORMATION IN PORTIONS OF CHARLETON TOWNSHIP,) ORDER NO. (A) 10-12-87
OTSEGO COUNTY, MICHIGAN, AND THE PETITION OF)
THE SUPERVISOR OF WELLS TO CONSIDER A SPECIAL)
ORDER FOR LOCATION OF ANTRIM FORMATION GAS)
WELLS.)

FIRST AMENDED OPINION AND ORDER

Order No. (A) 10-12-87 was originally issued in 1988. On December 15, 1987, a contested case hearing was held before the Supervisor of Wells (Supervisor) and the Oil and Gas Advisory Board regarding the above-captioned matter. The hearing was held under the authority of the Supervisor of Wells Act, 1939 PA 61, as amended, MCL 319.1 et seq.; MSA 13.139(1) et seq., and the administrative rules, 1979 AC, R 299.1101 et seq.¹ The hearing was conducted in accordance with the Administrative Procedures Act, 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560 (101) et seq. The purpose of the hearing was to consider the petition of Trendwell Oil Corporation to consider well location exceptions and completion techniques for wells drilled for gas into the Antrim Shale Formation. The Supervisor enlarged the scope of the hearing to consider the need or desirability of adopting a special spacing order for the location and spacing of wells and completion techniques for the Antrim Shale Formation in the lower peninsula of Michigan north of Townline 20 North. Order No. (A) 10-12-87 was signed by Assistant Supervisor of Wells, R. Thomas Segall on January 25, 1988 and was given immediate effect.

¹ By signature of the Governor May 23, 1995, the Supervisor of Wells Act, 1939 PA 61, as amended, MCL 319.1 et seq.; became Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA).

On April 23, 2002, a contested case hearing was held before the Supervisor of Wells (Supervisor) 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, 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 was initiated by the Supervisor for the purpose of receiving testimony and evidence pertaining to the need or desirability of issuing an order amending this Order and Order No. (A) 14-9-94 to include the Sunbury Shale Formation. The Oil and Gas Advisory Committee was present at the Supervisor's request to give advice regarding this matter.

Timely answers to the Notice of Hearing on the April 23, 2002 hearing were filed by MCN Oil & Gas Company, Trendwell Energy Corporation, Ward Lake Energy, and Muskegon Development Company. Staff of the Geological Survey Division (GSD) of the Department of Environmental Quality (DEQ) presented evidence in support of amending this Order and Order No. (A) 14-9-94. MCN Oil & Gas Company, Trendwell Energy Corporation, and Ward Lake Energy participating as full parties through their attorney, Mr. Gary Worman, also presented evidence in support of the proposed amendments. Representatives of Muskegon Development Company and T-Rex Resources made statements in support of the proposed amendments. No parties appeared in opposition to the proposed amendments.

FINDINGS OF FACT

1. For the purposes of Order No. (A) 10-12-87, the Antrim Formation was defined to include those rocks commonly referred to as "light Antrim" and "dark Antrim".

2. At the April 23, 2002 hearing, GSD staff presented evidence in support of the proposed amendment through the testimony of Mr. Rick Henderson, Cadillac District Supervisor; Mr. D. Michael Bricker, Petroleum Geology and Production Unit Supervisor; and Mr. Thomas Wellman, Permit and Bonding Unit Supervisor.

a. Upon being sworn, Mr. Henderson testified:

(i) An Application for Change of Well Status was received from Dominion Energy in December 2001, stating the applicant intended to perforate the "upper Antrim" Formation. Upon review it was discovered the formations to be perforated were actually the

Sunbury Shale and the Bedford Shale, and the application was subsequently denied.

(ii) An investigation by Cadillac District Staff found over 50 Antrim Shale Formation wells have been completed in the Sunbury Shale or Berea Bedford. This number did not include wells originally completed in the Sunbury Shale or Berea Bedford zones.

(iii) Since December 2001, the Cadillac District Office has received approximately 20 applications to Change Well Status, in the Sunbury Shale or Berea Bedford zones.

(iv) Amending Order No. (A) 10-12-87 and Order No. (A) 14-9-94 to include the Sunbury Shale and Berea Bedford would allow wells already drilled to be completed in the Sunbury Shale or Berea Bedford, will prevent waste, and will cause no economic or environmental harm.

(v) In the 50 plus wells that have been completed in the Sunbury above the Antrim, there have not been any problems. The shales of the Sunbury and Berea Bedford are shallow and behave much the same way as does the Antrim Shale; therefore, there should not be any problems.

b. Upon being sworn, Mr. Bricker testified:

(i) The Stratigraphic Nomenclature for Michigan (Exhibit 4) shows the Sunbury Shale as a separate formation above the Antrim Shale Formation.

(ii) Exhibit 6 is an electric log showing the original completion of a well in the Sunbury Shale Formation. The electric log shows completions in the normal Antrim zones of the Lachine Member and Norwood Member but also the Sunbury Shale and the Upper Antrim Member. This electric log demonstrates that even on original completions, not recompletions, these wells are being completed in zones other than strictly the Antrim Shale.

(iii) The inclusion of the interval between the Sunbury Shale and the Antrim Shale should apply only to gas wells, because the drainage characteristics between oil and gas are considerably different.

c. Upon being sworn, Mr. Wellman testified:

(i) Except for existing Berea fields in the subject counties, wells completed above the Antrim Shale Formation are subject to the general spacing provisions of R 324.301. Berea fields are spaced either on 10 acre units or have specific spacing orders.

(ii) Approximately 200 wells were found to be perforated above the Antrim Shale Formation.

(iii) The majority of the 10 acre spaced Berea fields were oil fields.

3. Mr. Robert Butka, Certified Petroleum Geologist, testified the Sunbury Shale is an organic rich black shale similar to the black Antrim Shales and should be included in orders addressing the Antrim Shale Formation with the exception of the Berea Sandstone, which is distinct from the shale reservoirs. Excluding sandstone from the Order would prevent waste by allowing shale gas to be produced from existing Antrim gas well bores and not restrict potential Berea development.

4. Mr. John G. Wilkinson, Senior Engineer, Ward Lake Energy testified reserves of between 270 and 450 billion cubic feet (Bcf) of gas are available in the upper shale formations, including the Bedford Shale, Sunbury Shale and Upper Antrim Formations. He further stated it would not be economic to drill new wells to recover resources from the Sunbury Shale, Bedford Shale and Upper Antrim Formations.

5. Mr. Michael Mesbergen of Muskegon Development Company and Mr. Dan McGuire of T-Rex Resources made statements in support of including the Sunbury Shale Formation with the Antrim Shale Formation in amendments to this Order and Order No. (A) 14-9-94.

6. I find the Sunbury Shale, Ellsworth Shale, and Bedford Shale Formations are sufficiently similar in characteristics to the Antrim Shale Formation and should be included in this Order and Order No. (A) 14-9-94.

7. I find the rock interval subject to this Order and Order No. (A) 14-9-94 should be expanded to include the interval from the top of the Sunbury Shale Formation to the top of the Antrim Shale Formation and equivalent, excluding the Berea Sandstone Formation.

8. I find the Berea Sandstone Formation means a fine-grained sandstone, some siltstone and shale, about 50 feet thick ranging upward to 100 feet thick (15.2-30.5 meters) in eastern and central Michigan, as described in the Stratigraphic Lexicon for Michigan (Exhibit 7).

CONCLUSIONS OF LAW

1. Section 61506(a) of Part 615 of the NREPA provides that the Supervisor shall prevent waste. To accomplish this purpose, the Supervisor is empowered:

To promulgate and enforce rules, issue orders and instructions necessary to enforce the rules, and to do whatever may be necessary with respect to the subject matter stated in this part to implement this part, whether or not indicated, specified, or enumerated in this or any other section of this part. MCL 324.61506(a)

2. Section 61513(2) and (3) of Part 615 of the NREPA states:

(2) To prevent the drilling of unnecessary wells, the supervisor may establish a drilling unit for each pool. A drilling unit, as described in this subsection, is the maximum area that may be efficiently and economically drained by 1 well. A drilling unit constitutes a developed area if a well is located on the drilling unit that is capable of producing the economically recoverable oil or gas under the unit. Each well permitted to be drilled upon any drilling unit shall be located in the approximate center of the drilling unit, or at such other location on the drilling unit as may be necessary to conform to a uniform well spacing pattern as adopted and promulgated by the supervisor after due notice and public hearing, as provided in this part. MCL 324.61513(2)

(3) The drilling of unnecessary wells is hereby declared waste because unnecessary wells create fire and other hazards conducive to waste, and unnecessarily increase the production cost of oil and gas to the operator, and therefore also unnecessarily increase the cost of the products to the ultimate consumer. MCL 324.61513(3)

3. R 324.302 of the administrative rules of Part 615 of the NREPA states:

The development of an oil or gas field after the completion of a discovery well may warrant the adoption of a drilling unit and well spacing pattern other than as specified in R 324.301. An interested person may request, or the supervisor may schedule, a hearing pursuant to part 12 of these rules to consider the need or desirability of adopting a special spacing order to apply to a designated area, field, pool, or geological strata. The drilling unit established by the special spacing order may be smaller or larger than the basic 40-acre unit pursuant to R 324.301(1)(a). 1996 AACS, R 324.302

4. The Supervisor of Wells has jurisdiction over the subject matter and the persons interested therein. Due notice of the time, place, and purpose of the hearing was given as required by law and all interested persons were afforded the opportunity to be heard.

DETERMINATION AND ORDER

Based on the Findings of Fact and Conclusions of Law and in accordance with the recommendation of the Oil and Gas Advisory Committee, the Supervisor of Wells finds that an amendment to Order No. (A) 10-12-87 is necessary and desirable to prevent waste.

NOW, THEREFORE, IT IS ORDERED:

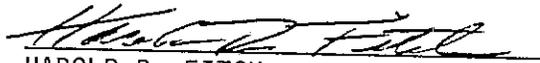
1. For purposes of this Order the rock interval subject to this Order shall be described by amending Section 1, Determination and Order, Order No. (A) 10-12-87 as follows:

1. The rock interval subject to this Order is the interval from the top of the Sunbury Shale Formation to the base of the Antrim Shale Formation and includes all formations correlative to that interval, excluding the Berea Sandstone Formation.

2. All other provisions of the original Order No. (A) 10-12-87 are reaffirmed.

3. The Supervisor of Wells retains jurisdiction and any amendments to the provisions of this Order shall be by Order of the Supervisor of Wells after notice to all interested parties.

Dated: 7-2-02



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