

**STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
SUPERVISOR OF WELLS**

THE PETITION OF LAMBDA ENERGY RESOURCES,)
LLC FOR AN ORDER FROM THE SUPERVISOR OF)
WELLS APPROVING A PLAN OF UNITIZATION FOR)
RECOVERY OF OIL, GAS, AND RELATED) ORDER NO. 09-2018
HYDROCARBONS, AND ABROGATING EXISTING)
SPACING AND PRORATION ORDERS AND RULES)
IN BEAR LAKE TOWNSHIP, MANISTEE COUNTY,)
MICHIGAN.)

OPINION AND ORDER

This case involves the Petition of Lambda Energy Resources, LLC (Petitioner), requesting (i) approval of a unitized operation of the Bear Lake 33 Unit (proposed Unit Area), pursuant to Part 617, Unitization, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA); and (ii) approval to operate the proposed Unit Area as an exception to Special Order No. 1-73, the applicable spacing provisions of Part 615 of the NREPA, and its administrative rules. The proposed Unit Area consists of approximately 320 acres, and is described as:

Section 28: S/2 of NW/4 and SW/4

Section 32: NE/4 of NE/4

Section 33: NW/4 of NW/4

Township 23 North, Range 15 West

Bear Lake Township, Manistee County, Michigan

JURISDICTION

The development of oil and gas in this state is regulated under Part 615, Supervisor of Wells; and Part 617, Unitization; of the NREPA, MCL 324.61501, *et seq.* and MCL 324.61701, *et seq.* The purpose of Part 615 is to ensure the orderly development and production of the oil and gas resources of this state, with a view to the ultimate recovery of the maximum production of these natural resources. MCL 324.61502. To the end of maximizing recovery, the Supervisor of Wells (Supervisor) regulates the various methods for recovery of oil and gas, including unit operation of a

pool and the introduction of substances into producing formations for purposes of enhancing production. MCL 324.61506(i). A person proposing an order for the unit operation of a pool must file a verified petition with the Supervisor. MCL 324.61703. 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 December 11, 2018.

FINDINGS OF FACT

The Petitioner specifically requests that the Supervisor issue an Order authorizing unit operation of the Bear Lake 33 Field. Petitioner requests that the existing spacing and proration orders be abrogated and that a unit allowable for the Bear Lake 33 Unit be established at 1200 barrels of oil per day and/or 1800 thousand cubic feet (mcf) of gas per day. Petitioner initially plans to sidetrack the original wellbores with lateral drain holes drilled at the base of the oil column. A pump will be run down in the open hole lateral to produce the oil that drains into the lateral.

In support of its case, the Petitioner offered the testimony of Mr. Joseph F. Durio, Land Manager, and Mr. Jason Ewing, Chief Development Officer for Petitioner and Petroleum Engineer. Mr. Ewing was recognized as an expert in petroleum engineering.

The Administrative Law Judge determined the Notice of Hearing was properly served and published. One answer in support of the Petition was filed on behalf of Jordan Development Company, LLC, and no one appeared at the hearing in opposition to the Petition. The Supervisor designated the hearing to be an evidentiary hearing pursuant to R 324.1205(1)(b) and directed evidence be presented in the form of oral testimony.

I. Unitization

Mr. Durio testified that four Niagaran wells have been drilled on 80-acre drilling units within the Bear Lake 33 Unit, being the:

Gauthier *et al* 3-28 (Permit Number 30607)
Briske *et al* 1-28 (Permit Number 29883)
Ray & Briske 2-28 (Permit Number 30256)

Sedelmaier-O'Hagan 1-33 (Permit Number 29537)

These wells and their drilling units make up the proposed 320-acre Unit Area. Mr. Durio testified that the Plan of Unitization (Exhibit 2) constitutes a Plan of Unit operations that contains all of the statutory provisions as set forth in Section 61705(a)-(j) of Part 617.

Mr. Durio testified that Petitioner owns 100 percent of all working interest in all oil and gas leases in the Unitized Formation in the Unit Area and is qualified to be Unit Operator under Part 617, and that all owners of oil, gas and minerals in the proposed Unit Area are subject to valid and fully effective oil and gas leases. Mr. Durio testified that Petitioner has obtained ratifications of the Plan of Unitization in excess of the thresholds set out under MCL 324.61706 subsections (a), (b) and/or (c), and that the majority of the royalty owners who have not ratified are in Tracts 1 or 4, in the north and south of the Unit Area, which have no and minimal production, respectively.

I find that Petitioner is qualified to be named Unit Operator and has obtained sufficient approval to support entry of a final order approving the Plan of Unitization and approving unit operations pursuant to Part 617 of the NREPA.

II. Unit Area

Mr. Ewing offered Exhibit 5, a structure map of the reservoir showing contours on the top of the Brown Niagaran formation, based on well control. Mr. Ewing indicated the oil water contact is at -3886' subsea true vertical depth. The Sedelmaier-O'Hagan 1-33 is the well that is the highest on the structure with the top of the Brown Niagaran at -3559' subsea true vertical depth. Mr. Ewing offered Exhibit 6, a Porosity-Height Map, which represents the pore space above the original oil water contact. Mr. Ewing's Exhibit 5 and 6 were used to compute the tract factors attributed to each tract in the Unit Area.

The Petitioner plans to conduct unitized operations within a Unitized Formation described as the stratigraphic equivalent of that portion of the Brown Niagaran formation encountered in the interval from 4302 measured depth (MD) to 4755 MD in the Sedelmaier-O'Hagan 1-33 well (Permit Number 29537) located in the

NE 1/4 of NE 1/4 of Section 32 and NW 1/4 of NW 1/4 of Section 33, T23N, R15W, Bear Lake Township, Manistee County, Michigan.

I find the Unitized Formation as proposed by the Petitioner is reasonable and appropriate and should be approved. I find the Petitioner's characterization of the outline and contours of the reservoir to be reasonable. Review of the evidence submitted indicates portions of the reservoir underlie each tract within the proposed Unit Area and the Unit Area. Therefore, I find the boundaries of the proposed Unit Area as proposed by the Petitioner are appropriate.

III. Unit Operations

Mr. Ewing testified that five wells have been drilled into the Bear Lake 33 Field, and that four of the wells are in the Unit Area proposed by Petitioner. These four wells are either producing or accessible for sidetrack or workover. The fifth well drilled in the Bear Lake 33 Field is the Watson 11-29 well (Permit Number 41726) operated by Jordan Development. Prior to the hearing, Jordan submitted a letter indicating that Jordan supported the Petition of Lambda Energy Resources, LLC.

Total primary recovery from the field has been 4,736 thousand barrels of oil (MBO) and 11,718 million cubic feet (MMCF) of natural gas (Exhibit 8). Petitioner calculated original oil in place to be 14.8 MMBO (Exhibit 13) and believes significantly more oil will be recovered as a result of drilling three lateral drain holes by sidetracking existing wellbores. Mr. Ewing testified that Petitioner plans to inject gas into the top of the reservoir at some point in development of the Unit.

Mr. Ewing testified that in the absence of further development, the decline curve analysis indicates that the estimated ultimate recovery from the reef is anticipated to be 4,784 MBO, with only 47 MBO of economic oil potential left to be recovered (Exhibit 10). Mr. Ewing testified that the Bear Lake 33 project will recover approximately 634 MBO of recoverable oil, and that the proposed sidetracking of wells in 2019 will increase production by seven-fold (Exhibit 11). Based on Petitioner's analysis, there is evidence of significant amounts of oil remaining in the reservoir.

I find the testimony indicates the proposed Unit Area contains an accumulation of hydrocarbons that will not be recovered without drilling the wells proposed by Petitioner. I find the unitization requested is reasonably necessary to substantially increase the ultimate recovery of oil and gas from the Unit Area as required by MCL 324.61704(4)(a). I further find that Petitioner's plans for drilling three lateral drain holes by sidetracking existing wellbores are feasible, will prevent waste, and protect correlative rights as required by MCL 324.61704(4)(b).

Mr. Ewing testified that in calculating the allocation of production, he reviewed Porosity-Height maps, well files, and production data. Petitioner's tract factors, as set forth in Exhibit A of the Plan of Unitization (Exhibit 2) are weighted as follows (Exhibit 14):

- 1) Fifty percent on original hydrocarbon pore volume under the tract;
- 2) Thirty percent on gross lease revenue from the tract;
- 3) Twenty percent on available well bores to sidetrack from the tract.

Mr. Ewing's testimony indicates that the Ray & Briske 2-28 well produces at a rate of 24 barrels of oil per day, that two other wells in the proposed Unit are shut in, and the fourth well makes an average of one barrel per day. The evidence also indicates that all but three of the 46 unratified owners own interests in unit wells other than the Ray & Briske 2-28 well which is currently producing.

A change in the allocation of production for a well on primary production through a Plan of Unitization will be closely examined by the Supervisor. Petitioner's proposed allocation of production based on the factors discussed above meets the requirement of Part 617 which provides that the allocation be fair, reasonable and equitable. There are no absolute factors that must be used to determine the relative value each tract contributes, but the factors used by Petitioner are of sufficient relevance that a participation formula using such factors is found to be reasonable. In addition, no objections to Petitioner's proposed allocation of production were filed. I find that the percentages of ratifications obtained by Petitioner, along with the high percentage of ratifications in the lands presently productive, support the allocation of

production provided for in the Plan. Therefore, I find that the allocation of production set out in the Plan of Unitization is fair, reasonable, and equitable as required by Section 61705 of Part 617.

Economics

Mr. Ewing testified the Bear Lake 33 project is economic with a net present value at a 10 percent discount rate of \$2.5 million (Exhibit 12). Mr. Ewing testified that the project will meet the Section 61704(4)(c) requirement that the cost of the project will not exceed the value of oil recovered.

I find the estimated additional cost of unitized operations will not exceed the value of the additional oil recovered, and therefore, Section 61704(4)(c) of Part 617 has been met.

Abrogation of Spacing

Mr. Durio and Mr. Ewing testified that drilling lateral wells across the existing 80-acre unit boundaries was necessary and critical to produce the oil that would not otherwise be recovered from the existing wells.

I find an exception to the spacing, well location, and proration requirements of Special Order No. 1 73 is necessary to implement the Plan of Unitization and the unitized operations, except that no well shall be completed in the Unitized Formation at a location closer than 330 feet from the outside boundary of the proposed Unit Area.

I find the competent, material, and substantial evidence on the record as a whole, in this case, supports the request of Petitioner and satisfies the Part 617 prerequisites.

CONCLUSIONS OF LAW

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

1. The applicable spacing, well location, and proration requirements for the proposed Unit Area are established by Special Order No. 1-73. Exceptions to this order may be granted by the Supervisor.

2. The Supervisor shall issue an order providing for the unit operation of a Unit Area if he or she finds all of the following:

- a. That the unitization requested is reasonably necessary to substantially increase the ultimate recovery of oil and gas from the Unit Area.
- b. That the type of operations contemplated by the plan are feasible, will prevent waste, and will protect correlative rights.
- c. That the estimated additional cost of conducting such operations will not exceed the value of the additional oil and gas so recovered. MCL 324.61704(4).

3. The Supervisor's Order may be declared effective if the Plan of Unitization has been approved, in writing, by one of the methods specified in MCL 324.61706.

4. A person desiring to request an order for the unit operation of a pool, or parts of a pool, may file a Petition for hearing. MCL 324.61703.

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

6. 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 the proposed unitization for unit operations will prevent waste and maximize the recovery of hydrocarbons from the proposed Unit Area.

NOW, THEREFORE, IT IS ORDERED:

1. The Petition of Lambda Energy Resources, LLC is granted, and the proposed Unit Area is created in accordance with and subject to this Order and the provisions of the Plan of Unitization, which is hereby incorporated by reference. The proposed Unit Area shall hereafter be known as the Bear Lake 33 Unit.

2. Lambda Energy Resources, LLC is appointed Unit Operator.

3. The Bear Lake 33 Unit is described as:

Section 28: S/2 of NW/4 and SW/4

Section 32: NE/4 of NE/4

Section 33: NW/4 of NW/4

Township 23 North, Range 15 West,

Bear Lake Township, Manistee County, Michigan

4. The Unitized Formation is described as:

All formations lying between the stratigraphic equivalent of that portion of the Guelph Dolomite/Ruff formation (formerly referred to as the Salina and Niagaran Groups) encountered in the interval from 4302' MD to 4755' MD in the Schlumberger Litho Density Compensated Neutron/Gamma Ray log run on December 24, 1973 in the Sedelmaier-O'Hagan 1-33 well (Permit Number 29537), for a total interval of 453 feet, or the correlative equivalent of that interval.

5. Each tract within the Bear Lake 33 Unit shall participate in the unit production and other benefits and burdens of unit operations in accordance with the Plan of Unitization.

6. Operation of the Bear Lake 33 Unit shall be conducted exclusive of and as an exception to Special Order No. 1-73, except no well may be completed in the Unitized Formation at a location closer than 330 feet from the outside boundaries of the Bear Lake 33 Unit Area. Lambda Energy Resources, LLC is authorized to produce wells in the Unit Area at a unit allowable of 1200 barrels of oil per day and/or 1800 mcf of gas per day.

7. The Plan of Unitization, which constitutes the plan for unit operations, is hereby approved. Unit operations thereunder may be commenced as of the effective date determined by the Unit Operator consistent with the Plan of Unitization. Cessation of the unit operations shall be in accordance with the Plan of Unitization, and with the written approval of the Supervisor.

8. The Supervisor retains continuing jurisdiction over the Bear Lake 33 Unit in order that the Supervisor may exercise such administrative control as is consistent with the powers and duties of the Supervisor, as established by Part 615 and Part 617 of the NREPA.

9. This order is effective immediately.

Dated: Jan. 10, 2019



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