

**STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENT, GREAT LAKES, AND ENERGY
ORDER OF THE SUPERVISOR OF WELLS**

IN THE MATTER OF

THE PETITION OF LAMBDA ENERGY)
RESOURCES, LLC, FOR AN ORDER FROM THE)
SUPERVISOR OF WELLS FORMING A 1,320-)
ACRE GLENWOOD/PRAIRIE DU CHIEN DRILLING) CAUSE NO. 07-2022
UNIT AS AN EXCEPTION TO SPECIAL ORDER 1-)
86, FOR LANDS IN CHESTER TOWNSHIP,)
OTSEGO COUNTY, MICHIGAN.)

OPINION AND ORDER

This case involves the Petition of Lambda Energy Resources, LLC (Petitioner), requesting an order from the Supervisor of Wells forming a 1,320-acre Glenwood/Prairie du Chien drilling unit as an exception to Special Order 1-86. The drilling unit consists of the E/2 SE/4 of Section 9; the S/2 of Section 10, except NE/4 SE/4; the SW/4 SW/4 of Section 11; the W/2 of Section 14, except SE/4 SW/4; all of Section 15, except S/2 SW/4; and the E/2 NE/4 of Section 16, all in T29N, R2W, South Chester Township, Otsego County, Michigan.

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 in this state. MCL 324.61502. To that end, the Supervisor may establish drilling units. MCL 324.61513(2). However, the formation of drilling units as an exception to general rule spacing or established spacing orders can only be effectuated after an evidentiary hearing. 2015 AACRS, R

324.302. 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 AACCS, R 324.1203. The evidentiary hearing in this matter was set for August 31, 2022.

FINDINGS OF FACT

The Petitioner specifically requests that the Supervisor issue an Order that:

1. Grants an exception to the drilling unit size established by Special Order No. 1-86, by establishing a 1,320-acre drilling unit for the proposed State Chester (Deep) 1-15 well.
2. Names the Petitioner as Operator of the proposed State Chester (Deep) 1-15 well.
3. Authorizes the drilling of up to three wells on the proposed unit with no wells having a bottom hole location less than 990' from the unit boundary.

The Supervisor determined that the Notice of Hearing was properly served and published. No answers to the Petition were filed. 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 evidence be presented in the form of verified statements. In support of its case, the Petitioner offered the verified statements of Jason Ewing, Professional Engineer for Petitioner, and Rodney Schoolcraft, Land Manager for Petitioner.

Drilling Unit

The spacing of wells in Otsego County targeting formations below the top of the Glenwood Member of the Black River 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. Under Special Order No. 1-86, it is presumed that one well will efficiently and economically drain hydrocarbons beneath the entire drilling unit.

Mr. Ewing sponsored Exhibit 1 to present the proposed unit and well location. He indicated the prospect was developed using two-dimensional (2D) seismic, and that the proposed unit lies partly below the South Chester 15 gas storage field operated by ANR Pipeline Company. Both Mr. Ewing and Mr. Schoolcraft stated that the planned well will not be drilled through the gas storage field, the planned surface hole location is located 185 feet north of the unit boundary, and that the anticipated path of the State Chester (Deep) 1-15 wellbore will be at least 650 feet from the north edge of the gas storage formation. Mr. Ewing stated, based on the Petitioner's investigations, that the interpreted structure to be developed with the State Chester (Deep) 1-15 well underlies the entire proposed unit and has not yet been developed. He also stated that the interpreted structure to be tested underlies each quarter-quarter section comprising the proposed unit. He sponsored Exhibit 3 as a structural contour map of the unit. In Mr. Ewing's opinion, the balance of Sections 9, 10, 11, 14, 15, and 16 are interpreted as not being underlain by potentially productive reservoir, and therefore are outside the proposed unit.

Mr. Ewing further stated the proposed unit will prevent waste by recovering natural gas that is not currently being produced. The proposed unit will protect the correlative rights of all owners within the proposed unit because the unit overlies the entire interpreted formation, and the proposed unit will enable the owners therein to receive and recover their fair share of the gas within the unit.

Mr. Ewing testified that Petitioner anticipates that after analysis of the State Chester (Deep) 1-15 Well, up to two (2) additional wells may be necessary to efficiently drain the proposed unit. He clarified that no wells will be drilled at a bottom hole location closer than 990 feet from the unit boundary.

I find that formation of the proposed 1,320-acre drilling unit, as an exception to Special Order 1-86, will prevent waste and protect correlative rights, and, as such, is approved for the State Chester (Deep) 1-15 well and up to two infill wells if deemed necessary to develop the unit.

Drilling Unit Operator

Mr. Schoolcraft testified that Petitioner owns the State Chester (Deep) 1-15 well and owns or controls 100% of oil and gas leases in the drilling unit as to the targeted formations. He stated that production from the proposed State Chester (Deep) 1-15 well, and any additional wells completed in the proposed unit, will be allocated based upon each owner's net mineral acre ownership within the proposed unit, which is just and equitable. Given this, the Petitioner seeks to be designated as the Operator for the State Chester (Deep) 1-15 well. I find, as a Matter of Fact, the Petitioner is eligible to be the designated Operator for the State Chester (Deep) 1-15 well, and that utilizing net mineral 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.

CONCLUSIONS OF LAW

Based on the Findings of Fact, I conclude, as a matter of law:

1. Spacing for wells drilled in Otsego County to the formations below the top of the Glenwood Member of the Black River Group is set at 640-acres by S.O. 1-86.

Exceptions to S.O. 1-86 may be granted by the Supervisor after a 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. 2015 AACS, R 324.1204.

DETERMINATION AND ORDER

Based on the Findings of Fact and the Conclusions of Law, the Supervisor determines that formation of a 1,320-acre drilling unit as an exception to Special Order No. 1-86, applicable to all formations below the top of the Glenwood Member of the Black River Group Formation is necessary to protect correlative rights and prevent waste by the drilling of unnecessary wells.

NOW, THEREFORE, IT IS ORDERED:

1. A 1,320-acre drilling unit applicable to all formations below the top of the Glenwood Member of the Black River Group Formation is established for the State Chester (Deep) 1-15 well comprised of: the E/2 SE/4 of Section 9; the S/2 of Section 10, except NE/4 SE/4; the SW/4 SW/4 of Section 11; the W/2 of Section 14, except SE/4 SW/4; all of Section 15, except S/2 SW/4; and the E/2 NE/4 of Section 16, all in T29N, R2W, South Chester Township, Otsego County, Michigan.

2. The Petitioner is named as Operator of the State Chester (Deep) 1-15 well.

3. If the State Chester (Deep) 1-15 well is found to not effectively drain the drilling unit described in paragraph 1 above, the Operator may seek to drill up to 2 additional wells, provided the proposed wells are not drilled with bottom hole locations

closer than 990 feet to the unit boundary.

4. All other provisions of Special Order No. 1-86 shall remain in effect.
5. This Order shall terminate immediately after the State Chester (Deep) 1-15 well, and any infill wells drilled on the drilling unit, have been plugged and abandoned.
6. The Supervisor retains jurisdiction in this matter.
7. This Order shall be effective immediately.



Dated: 27 September 2022

Adam W. Wygant
ASSISTANT SUPERVISOR OF WELLS
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