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

IN THE MATTER OF: THE PETITION OF SAVOY ENERGY, L.P., FOR AN ORDER FROM THE SUPERVISOR OF WELLS FORMING A 200-ACRE TRENTON/BLACK RIVER FORMATION DRILLING UNIT AND FOR THE STATUTORILY POOLING OF ALL INTERESTS INTO THE DRILLING UNIT IN ATHENS TOWNSHIP, CALHOUN COUNTY, MICHIGAN.	)	ORDER NO. 14-2023

OPINION AND ORDER

This case involves the Petition of Savoy Energy, L.P. (Petitioner), to drill and complete the proposed Palmiter 3-27 HD2 well within the Trenton-Black River formation. The Petitioner is requesting a 200-acre drilling unit for the Palmiter 3-27 HD2 as an exception to the 40-acre drilling unit size established by Order No. 18-2007, as amended. The proposed unit is more particularly described as consisting of the SW/4 NE/4, S/2 SE/4 NW/4, NW/4 SE/4, E/2 SW/4 of Section 27, and N/2 NE/4 NW/4, of Section 34, T4S, R8W in Athens Township, Calhoun County, Michigan. Since not all mineral owners within the proposed unit have agreed to voluntarily pool their interests, the Petitioner also seeks an Order of the Supervisor of Wells (Supervisor) designating the Petitioner as Operator of the proposed unit and requiring statutory pooling of all tracts and interests within the proposed unit of those parties who have not already agreed upon a plan of development by voluntarily pooling their interests in the proposed unit.

Jurisdiction

The development of oil and gas in Michigan is regulated under Part 615 of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, Michigan Compiled Laws 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, MCL 324.61513 authorizes the Supervisor to pool the mineral interests of property owners within a drilling unit who do not voluntarily pool their interests. The formation of drilling units by statutory pooling of mineral interests can only occur after an evidentiary hearing. 2015 AACS, R 324.302 and R 324.304. 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 AACS, R 324.1203. The evidentiary hearing on the Petition was set for February 21, 2024.

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 Order No. 18-2007, as amended, by establishing a 200± acre drilling unit for the proposed Palmiter 3-27 HD2 well consisting of the SW/4 NE/4, S/2 SE/4 NW/4, NW/4 SE/4, E/2 SW/4 of Section 27, and N/2 NE/4 NW/4, of Section 34, T4S, R8W in Athens Township, Calhoun County, Michigan.

2. Requires statutory pooling of all tracts and mineral interests within the proposed Trenton-Black River Formation drilling unit which have not consented to voluntary pooling.

3. Names the Petitioner as Operator of the Palmiter 3-27 HD2 well.

4. Authorizes the Petitioner to recover certain costs and other additional compensation from the parties subject to the statutory pooling order.

5. Requests that this Order apply to the Palmiter 3-27 HD2 well and to any wells directionally redrilled therefrom, and to any later infill wells drilled within the same drilling unit.

The Supervisor determined that the Notice of Hearing was properly served and published. No timely answers to the Petition were filed. 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 pursuant to R 324.1205(2). In support of its case, the Petitioner offered the verified statements of Joshua Kirschner, Exploration and Production Manager for the Petitioner, and Mathew Maritz, Land Manager for the Petitioner.

I. Drilling Unit

The spacing of wells targeting the Trenton-Black River Formation in the geographic area identified by the Petition is governed by Order No. 18-2007, as amended. The Order establishes drilling units of 40± acres. Under Order No. 18-2007, as amended, it is presumed that one well will efficiently and economically drain the 40-acre drilling unit of hydrocarbons. The Petitioner has submitted an application to drill in compliance with Order No. 18-2007 for the 200± acre area described as SW/4 NE/4, S/2 SE/4 NW/4, NW/4 SE/4, E/2 SW/4 of Section 27, and N/2 NE/4 NW/4, of Section 34, T4S, R8W in Athens Township, Calhoun County, Michigan. The Petitioner proposes to drill and complete the Palmiter 3-27 HD2 well in the Trenton-Black River Formation.

Mr. Kirschner sponsored Exhibit C-I showing the proposed unit, and the proposed Palmiter 3-27 HD2 wellbore course and distance. He sponsored Exhibit C-II, a Compensated Neutron Log from an offsetting well to demonstrate the geologic zone targeted in this proposed well and drilling unit.

Mr. Maritz testified that based on proprietary geological and geophysical interpretations by Savoy's geological experts, that a substantial portion of the proposed 200-acre drilling unit is underlain by a reservoir, making drilling in said unit economically viable. He further testified that the well proposed by the Petition is located in such area that it will be capable of draining the reservoir underling the proposed 200-acre drilling unit. In Mr. Maritz's testimony, the Petitioner believes the proposed well will prevent waste. Mr. Kirschner testified that he has reviewed the geological and geophysical (seismic) data associated with the proposed well and indicated that sidetracking to a different bottom hole location in the proposed drilling unit is a possibility.

I find that formation of the proposed 200-acre drilling unit, as an exception to Order No. 18-2007, will prevent waste and protect correlative rights, and as such, is approved for the proposed Palmiter 3-27 HD2 well, and if deemed necessary, any directional redrill(s) thereof or later drilled infill wells.

II. Drilling Unit Operator

Mr. Maritz sponsored Exhibit D-I showing the 200-acre proposed drilling unit and the unleased tracts within the drilling unit. He testified that neither the proposed well nor any associated production equipment will be located on the land owned by the unleased owners identified. His testimony states that the Petitioner holds or controls oil and gas leases covering approximately 197.625 acres in the proposed 200-acre drilling unit. Given this, the Petitioner seeks to be designated as the Operator of the Palmiter 3-27 HD2 well.

I find, as a Matter of Fact, the Petitioner is eligible to be designated Operator of the Palmiter 3-27 HD2 well.

III. Statutory Pooling

The Petitioner was unable to obtain the agreement of all mineral owners to gain full control of the Proposed Unit. The Petitioner may not produce a well on the drilling unit without first obtaining control of all the oil and gas interests. In cases like this, it is necessary for the Petitioner to request statutory pooling from the Supervisor. As discussed, a mineral owner who does not agree to voluntarily pool his or her interest in a drilling unit may be subject to statutory pooling. 2015 AACS, R 324.304. The statutory pooling of an interest must be effectuated in a manner that ensures "each owner . . . is afforded the opportunity to receive his or her just and equitable share of the production of the unit." *Id.* In addition to protecting correlative rights, the statutory pooling must prevent waste. MCL 324.61502. An Operator must first seek voluntary pooling of mineral interests within a proposed drilling unit before seeking statutory pooling through an Order of the Supervisor.

Mr. Maritz's verified statement states that the Petitioner controls or holds oil and gas leases covering approximately 98.8% of the Proposed Unit, equal to 197.625 acres of the 200± acres within the Proposed Unit. The owners of the unleased oil and gas interests are as follows:

Name	**Net approximate mineral acreage**	**Tract**
Jay Liebrandt	0.375	No. 21
Deborah Miller	2.0	No. 22

Mr. Maritz sponsored Exhibit D-I showing the 200-acre proposed drilling unit and the unleased tracts within the drilling unit. He testified that neither the proposed well nor any associated production equipment will be located on the land owned by the unleased owners identified above. Mr. Maritz's verified statement states that the Petitioner has made several attempts to obtain an oil and gas lease from the two unleased owners. Mr. Maritz stated the lease offers were equal to the best offers made to those parties who did execute leases with the Petitioner covering other acreage located within the proposed unit, being fair, reasonable, and appropriate. No unleased owners filed an answer in this case.

I find the proposed unit will help assure that all owners in the unit receive their just and equitable share of any oil and gas and that a fair and reasonable order should not unduly or unnecessarily hamper the opportunity of those owners who have leased to have their natural resources developed. I find that the proposed bottom hole location of the Palmiter 3-27 HD2 well is reasonable to prevent waste or the potential for waste to occur, and therefore, should be approved.

Based on the foregoing, I find, as a Matter of Fact:

1. The Petitioner was able to voluntarily pool all of the mineral interests in the proposed 200-acre drilling unit except for the acreage described above.

2. Statutory pooling is necessary to form a full drilling unit, to protect correlative rights of unpooled mineral owners, and to prevent waste by preventing the drilling of unnecessary wells.

Now that it has been determined that statutory pooling is necessary and proper in this case, the terms of such pooling must be addressed. When pooling is ordered, the owner of the statutorily pooled lands (Pooled Owner) is provided an election on how it wishes to share in the costs of the project. 2015 AACS, R 324.1206(4). A Pooled Owner may participate in the project or, in the alternative, be "carried" by the Operator. If the Pooled Owner elects to participate, it assumes the economic risks of the project, specifically, by paying its proportionate share of the costs or giving bond for the payment. Whether the well drilled is ultimately a producer or dry hole is immaterial to this obligation. Conversely, if a Pooled Owner elects not to participate, the Pooled Owner is, from an economic perspective, "carried" by the Operator. Under this option, if the well is a dry hole, the Pooled Owner has no financial obligation because it did not assume any risk. If the well is a producer, the Supervisor considers the risks associated with the proposal and designates the Operator additional compensation, out of production, for assuming all of the economic risks.

In order for a Pooled Owner to decide whether it will "participate" in the well or be "carried" by the Operator, it is necessary to provide reliable cost estimates. In this regard, the Petitioner must present proofs on the estimated costs involved in drilling, completing, and equipping the proposed well. Mr. Kirschner sponsored Exhibit C-IV, the Petitioner's Authorization for Expenditure (AFE) for the Palmiter 3-27 HD2 well, which itemizes the estimated costs to be incurred in drilling, testing, and completing the well. The estimated costs are $645,010 for drilling, $586,990 for completion, and $718,278 for equipping the Palmiter 3-27 HD2 well. The total estimated producing well cost for the Palmiter 3-27 HD2 well is $1,950,278. There is no evidence on this record refuting these estimated costs.

I find, as a Matter of Fact, the estimated costs in Exhibit C-IV are reasonable for the purpose of providing the pooled owner a basis on which to elect to participate or be carried. However, I find actual costs shall be used in determining the final share of costs and additional compensation assessed against a Pooled Owner.

The next issue is the allocation of these costs. Part 615 requires the allocation be just and equitable. MCL 324.61513(4). It is Mr. Maritz's opinion that a 200-acre drilling unit is necessary to provide equitable treatment to all mineral owners within the unit. The Petitioner requests the actual well costs and production from the well be allocated based upon the ratio of the number of surface acres in the tracts of the various owners to the total number of surface acres in the drilling unit. Established practices and industry standards suggest this to be a fair and equitable method of allocation of production and costs. Therefore, I find, as a Matter of Fact, utilizing net surface 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. I find that an owner's share in production and costs should be in proportion to their net surface acreage.

The final issue is the additional compensation for risk to be assessed against a Pooled Owner who elects to be carried. The Administrative Rules under Part 615 provide for the Supervisor to assess appropriate compensation for the risks associated with drilling a dry hole and the mechanical and engineering risks associated with the completion and equipping of wells. 2015 AACS, R 324.1206(4)(b). The Petitioner proposes that if a statutorily pooled owner elects not to participate in the well, the Petitioner, as the well operator, should be permitted to recover the actual costs of drilling, completion, and equipping costs, plus an additional 300% of drilling costs, 200% of the completion costs, and 150% of the equipping costs expended for the Palmiter 3-27 HD2 well.

Mr. Kirschner testified that the risk associated with drilling the proposed well is significant due to several other dry holes nearby and the nature of the Trenton/Black River production being from discontinuous and irregular fracture reservoirs that are not always present in direct offsets of producing wells. The proposed well is considered exploratory, and he stated there are many mechanical and engineering risks associated with completing and equipping the well, in addition to the risk of the well not being economically successful to recover the costs involved. In Mr. Kirschner's professional opinion, these penalties are reasonable given the unique geological challenges of the Trenton-Black Formation and the unpredictable and intangible costs of production.

I find, as a Matter of Fact, the risk of the Palmiter 3-27 HD2 well-being a dry hole does support additional compensation from the Pooled Owner of 300 percent of the actual drilling costs incurred, 200 percent of the actual completing costs, and only 100 percent of the actual equipping costs. Operating costs are not subject to additional compensation for risk.

CONCLUSIONS OF LAW

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

1. The Petitioner was unable to voluntarily pool all mineral interests within the proposed drilling unit. The Supervisor may statutorily pool interests when pooling cannot be completed voluntarily. Statutory pooling is necessary to prevent waste and protect the correlative rights of the Pooled Owners in the proposed drilling unit. MCL 324.61513(4).

2. This Order is necessary to provide for conditions under which each mineral owner who has not voluntarily agreed to pool all of their interest in the pooled unit may share in the working interest share of production. 2015 AACS, R 324.1206(4).

3. The Petitioner is an owner within the drilling unit, and therefore, is eligible to drill and operate the Palmiter 3-27 HD2 Well. 2015 AACS, R 324.1206(4).

4. The Petitioner is authorized to take from each nonparticipating interest owner's share of production, the cost of drilling, completing, equipping, and operating the

well, plus an additional percentage of the costs as the Supervisor considers appropriate for the risks associated with drilling a dry hole, and the mechanical and engineering risks associated with the completion and equipping of the well. 2015 AACS, R 324.1206(4).

5. Spacing for wells drilled in Calhoun County to the Trenton/Black River Formation is 40 acres as set by Order No. 18-2007, as amended. Exceptions to Order No. 18-2007 may be granted by the Supervisor after a hearing.

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

7. 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 statutory pooling to form a 200-acre Trenton/Black River Formation drilling unit is necessary to protect correlative rights and prevent waste by the drilling of unnecessary wells.

NOW, THEREFORE, IT IS ORDERED:

1. A 200± acre Trenton-Black River Formation drilling unit is established, as an exception to Order No. 18-2007, for the Palmiter 3-27 HD2 well, comprising the SW/4 NE/4, S/2 SE/4 NW/4, NW/4 SE/4, E/2 SW/4 of Section 27, and N/2 NE/4 NW/4, of Section 34, T4S, R8W Athens Township, Calhoun County, Michigan. All properties, parts of properties, and interests in this area are pooled into the drilling unit, including those interests which could not be voluntarily pooled (each, a “Pooled Owner”). This pooling is for the purpose of forming a drilling unit only.

2. Each Pooled Owner shall share in production and costs in the proportion that their net surface acreage in the drilling unit bears to the total acreage in the drilling unit.

3. The Petitioner is named Operator of the Palmiter 3-27 HD2 well. The Operator shall commence the drilling of the Palmiter 3-27 HD2 well within 12 months of the effective date of this Order, or the statutory pooling authorized in this Order shall be

null and void as to all parties and interests. This Order applies to the drilling of the Palmiter 3-27 HD2 well and any directional redrills from that well.

4. A Pooled Owner shall be treated as a working interest owner to the extent of 100 percent of the interest owned in the drilling unit. The Pooled Owner is considered to hold a proportional 1/8 royalty interest, which shall be free of any charge for costs of drilling, competing, or equipping the well, or for compensation for the risks of the well or operating the proposed well including post-production costs.

5. A Pooled Owner shall have ten (10) days from the effective date of this Order to select one of the following alternatives and advise the Supervisor and the Petitioner, in writing, accordingly:

a. To participate, then within ten (10) days of making the election (or within a later date as approved by the Supervisor), pay to the Operator the Pooled Owner's share of the estimated costs for drilling, completing, and equipping the well, or give bond to the operator for the payment of the Pooled Owner's share of such cost promptly upon completion; and authorize the Operator to take from the Pooled Owner's remaining 7/8 share of production, the Pooled Owner's share of the actual costs of operating the well; or

b. To be carried, then if the well is put on production, authorize the Operator to take from the Pooled Owner's remaining 7/8 share of production:

(i) The Pooled Owner's share of the actual cost of drilling, completing, and equipping the well.

(ii) An additional 300% of the actual drilling costs, 200% of the actual completion costs, and 100% of the actual equipping costs attributable to the Pooled Owner's share of production, as compensation to the Operator for the risk of a dry hole.

(iii) The Pooled Owner's share of the actual cost of operating the well.

6. In the event the Pooled Owner does not notify the Supervisor, in writing, of the decision within ten (10) days from the effective date of this Order, the Pooled Owner will be deemed to have elected the alternative described in Paragraph 5(b). If a Pooled

Owner who elects the alternative in Paragraph 5(a) does not, within ten (10) days of making their election (or within any alternate date approved by the Supervisor), pay their proportionate share of costs or give bond for the payment of such share of such costs, the Pooled Owner shall be deemed to have elected the alternative described in Paragraph 5(b), and the Operator may proceed to withhold and allocate proceeds for costs from the Pooled Owner's 7/8 share of production as described in Paragraph 5(b)(i), (ii) and (iii).

7. For purposes of the Pooled Owner electing an alternative, the amounts of $645,010 for estimated drilling costs; $586,990 for estimated completion costs; and $718,278 for estimated equipping costs are fixed as well costs. Actual costs shall be used in determining the Pooled Owner's final share of well costs. If a Pooled Owner has elected the alternative in Paragraph 5(a) and the actual cost exceeds the estimated cost, the Operator may recover the additional cost from the Pooled Owner's 7/8 share of production. Within sixty (60) days after commencing drilling of the well, and every thirty (30) days thereafter until all costs of drilling, completing, and equipping the well are accounted for, the Operator shall provide to the Pooled Owner a detailed statement of actual costs incurred as of the date of the statement and all costs and production proceeds allocated to that Pooled Owner.

8. The Operator shall certify to the Supervisor that the following information was supplied to each Pooled Owner no later than the effective date of the Order:

a. The Order;

b. The Authorization for Expenditure ("AFE");

c. Each Pooled Owner's percent of charges from the AFE if the Pooled Owner were to choose option "a" in Paragraph 5, above. Failure to provide the information above, by the effective date of this Order will result in the nullification of this Order, thereby rendering the statutory pooling null and void as to all parties.

9. A Pooled Owner shall remain a Pooled Owner only until such time as a lease or operating agreement is entered into with the Operator. At that time, terms of the lease or operating agreement shall prevail over terms of this Order.

10. This Order shall terminate immediately after the Palmiter 3-27 HD2, and all directional redrill(s) therefrom, have been plugged and abandoned.

11. The Supervisor retains jurisdiction in this matter.

12. The effective date of this Order is April 5, 2024.

Dated: 3/25/2024

Adam W. Wygant
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