

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 14065
ORDER NO. 16340

IN THE MATTER OF A HEARING CALLED ON
A MOTION OF THE COMMISSION TO
CONSIDER THE APPLICATION OF BAYTEX
ENERGY USA LTD. FOR AN ORDER
AMENDING THE FIELD RULES FOR THE
AMBROSE-BAKKEN POOL TO CREATE AND
ESTABLISH THREE 1280-ACRE SPACING
UNITS COMPRISED OF SECTIONS 26 AND 35;
SECTIONS 27 AND 34, T.162N., R.99W.; AND
SECTIONS 30 AND 31, T.162N., R.98W., DIVIDE
COUNTY, ND, AUTHORIZING THE DRILLING
OF A TOTAL OF NOT MORE THAN THREE
WELLS ON EACH SPACING UNIT,
ELIMINATING ANY TOOL ERROR
REQUIREMENTS, AND SUCH OTHER RELIEF
AS IS APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

- (1) This cause came on for hearing at 9:00 a.m. on the 23rd day of February, 2011.
- (2) The geology and engineering witnesses for Baytex Energy USA Limited (Baytex) provided telephonic testimony in this matter pursuant to North Dakota Administrative Code (NDAC) Section 43-02-03-88.2. Telephonic Communication Affidavits were received on February 25, 2011; therefore, such testimony may be considered evidence.
- (3) Baytex made application to the Commission for an order amending the field rules for the Ambrose-Bakken Pool to create and establish three 1280-acre spacing units comprised of Sections 26 and 35; Sections 27 and 34, Township 162 North, Range 99 West (Sections 26, 35, 27, and 34); and Sections 30 and 31, Township 162 North, Range 98 West (Sections 30 and 31), Divide County, North Dakota, authorizing the drilling of a total of not more than three wells on each spacing unit, eliminating any tool error requirements, and such other relief as is appropriate.
- (4) Order No. 15537 entered in Case No. 13261, the most recent spacing order for the Ambrose-Bakken Pool, established proper spacing for the development of Zone I at one horizontal

well per 640 acres, Zone II at up to three horizontal wells per 640 acres, Zone III at one horizontal well per 1280 acres, and Zone IV at up to three horizontal wells per 1280 acres.

(5) Sections 26, 27, 34, 35, 30, and 31 are currently 640-acre spacing units in Zone I in the Ambrose-Bakken Pool.

(6) There are no wells currently permitted to or producing from the Bakken Pool in Sections 26, 27, 34, 35, 30, or 31.

(7) Baytex plans to develop the upper Three Forks Formation in the Bakken Pool underlying each proposed 1280-acre spacing unit described as Sections 26 and 35; Sections 27 and 34; and Sections 30 and 31 by drilling three single-lateral horizontal wells. The first horizontal well will be drilled approximately down the long axis of the spacing unit and the subsequent horizontal wells will be drilled at approximately 500 feet from the east and west spacing unit boundaries. Utilization of horizontal drilling technology as proposed would result in the wells being completed at a location or locations not in compliance with current applicable spacing orders for the Ambrose-Bakken Pool. The horizontal well designs proposed may be preliminary and could be changed for various reasons which is permissible as long as the horizontal well design still justifies the proposed spacing unit.

(8) There were no objections to this application.

(9) If Baytex's activities are successful, greater ultimate recovery of oil and gas from the pool will be achieved which will prevent waste and the drilling of unnecessary wells in a manner which will not have a detrimental effect on correlative rights.

IT IS THEREFORE ORDERED:

(1) Sections 26 and 35; Sections 27 and 34, Township 162 North, Range 99 West; and Sections 30 and 31, Township 162 North, Range 98 West, Divide County, North Dakota, are hereby established as 1280-acre spacing units for the exclusive purpose of drilling up to three horizontal wells within each said spacing unit within the Ambrose-Bakken Pool and Zone V is hereby created to include said spacing units. Existing and future vertical and directional wells drilled within the spacing units herein established shall not be subject to this order. Zone IV is redefined as Zone V.

(2) The Director is hereby authorized to exercise continuing jurisdiction in this matter to determine whether a horizontal well proposed or drilled upon the 1280-acre spacing units herein established has justified the creation of such unit, to require amendments or modifications to the permit to drill for such horizontal well, and to deny a permit to drill in the event a well is proposed to be drilled in a manner inconsistent with the evidence that justified such spacing unit.

(3) Provisions established herein for the Ambrose-Bakken Pool are for the exclusive purpose of drilling horizontal wells. Existing and future vertical and directional wells drilled within the area defined in paragraph (4) below shall not be subject to this order.

(4) The Ambrose Field is hereby redefined as the following described tracts of land in Divide County, North Dakota:

TOWNSHIP 163 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35 AND 36,

TOWNSHIP 163 NORTH, RANGE 98 WEST, 5TH PM

ALL OF SECTIONS 6, 7, 18, 19, 30 AND 31,

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 1 THROUGH 36, INCLUSIVE,

TOWNSHIP 162 NORTH, RANGE 98 WEST, 5TH PM

ALL OF SECTIONS 6, 7, 18, 19, 30 AND 31,

together with those additional sections or governmental lots corresponding thereto as may be proven productive by wells drilled on lands within one mile of the boundaries of the field as set forth above, provided further that such extensions of the field boundaries shall include only sufficient acreage to form a spacing unit for such wells, and any intervening lands.

(5) The Ambrose-Bakken Pool is hereby redefined as the following described tracts of land in Divide County, North Dakota:

ZONE I (640H)

TOWNSHIP 163 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 15, 22, 26, 27, 34 AND 35,

TOWNSHIP 163 NORTH, RANGE 98 WEST, 5TH PM

ALL OF SECTIONS 30 AND 31,

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 2, 3, 10, 11, 13, 14, 15, 22, 23, 24, 25 AND 36,

together with those additional sections or governmental lots corresponding thereto as may be proven productive by wells drilled on lands within one mile of the boundaries of the field as set forth above, provided further that such extensions of the field boundaries shall include only sufficient acreage to form a spacing unit for such wells, and any intervening lands.

ZONE II (3/640H)

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 4, 5, 8 AND 9.

ZONE III (1280H-STANDUP)

TOWNSHIP 163 NORTH, RANGE 99 WEST, 5TH PM

ALL OF SECTIONS 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 13, 14, 16, 17, 20, 21, 23, 24, 25, 28, 29, 30, 31, 32, 33 AND 36,

TOWNSHIP 163 NORTH, RANGE 98 WEST, 5TH PM
ALL OF SECTIONS 6, 7, 18 AND 19,

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM
ALL OF SECTIONS 1 AND 12,

TOWNSHIP 162 NORTH, RANGE 98 WEST, 5TH PM
ALL OF SECTIONS 6, 7, 18 AND 19.

ZONE IV (1280H-LAYDOWN-OVERLAPPING 640S)

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM
ALL OF SECTIONS 4 AND 5.

ZONE V (3/1280H-STANDUP)

TOWNSHIP 162 NORTH, RANGE 99 WEST, 5TH PM
ALL OF SECTIONS 6, 7, 16, 17, 18, 19, 20, 21, 26, 27, 28, 29, 30, 31, 32, 33, 34 AND 35,

TOWNSHIP 162 NORTH, RANGE 98 WEST, 5TH PM
ALL OF SECTIONS 30 AND 31.

(6) The Ambrose-Bakken Pool is hereby defined as that accumulation of oil and gas found in the interval from 50 feet above the top of the Bakken Formation to 50 feet below the top of the Three Forks Formation within the limits of the field as set forth above.

(7) The proper spacing for the development of Zone I in the Ambrose-Bakken Pool is hereby set at one horizontal well per 640-acre spacing unit.

(8) All portions of the well bore not isolated by cement of any horizontal well hereafter drilled in Zone I in the Ambrose-Bakken Pool shall be no closer than 500 feet to the boundary of the spacing unit the lateral is most nearly parallel to and 200 feet to the boundary of the spacing unit the lateral is most nearly perpendicular to. Measurement inaccuracies in the directional survey equipment need not be considered except when deemed necessary by the Director.

(9) Spacing units hereafter created in Zone I in the Ambrose-Bakken Pool shall consist of a governmental section.

(10) The proper spacing for the development of Zone II in the Ambrose-Bakken Pool is hereby set at up to three horizontal wells per 640-acre spacing unit.

(11) All portions of the well bore not isolated by cement of any horizontal well hereafter drilled in Zone II in the Ambrose-Bakken Pool shall be no closer than 500 feet to the boundary of the spacing unit the lateral is most nearly parallel to and 200 feet to the boundary of the spacing unit the lateral is most nearly perpendicular to. Measurement inaccuracies in the directional survey equipment when calculating the bottom hole location in a horizontal well need not be considered.

(12) Spacing units hereafter created in Zone II in the Ambrose-Bakken Pool shall consist of a governmental section.

(13) Sections 4 and 5, Township 162 North, Range 99 West, Divide County, North Dakota, are also designated a laydown 1280-acre spacing unit in Zone IV in the Ambrose-Bakken Pool.

(14) Zone II in the Ambrose-Bakken Pool shall not be extended except by further order of the Commission after due notice and hearing.

(15) The proper spacing for the development of Zone III in the Ambrose-Bakken Pool is hereby set at one horizontal well per standup 1280-acre spacing unit.

(16) All portions of the well bore not isolated by cement of any horizontal well hereafter drilled in Zone III in the Ambrose-Bakken Pool shall be no closer than 500 feet to the east or west boundary and 200 feet to the north or south boundary of the spacing unit. Measurement inaccuracies in the directional survey equipment need not be considered except when deemed necessary by the Director.

(17) Sections 1 and 12; Sections 2 and 11; Sections 3 and 10; Sections 4 and 9; Sections 5 and 8; Sections 13 and 24; Sections 14 and 23; Sections 16 and 21; Sections 17 and 20; Sections 25 and 36; Sections 28 and 33; Sections 29 and 32; Sections 30 and 31, Township 163 North, Range 99 West; Sections 6 and 7; Sections 18 and 19, Township 163 North, Range 98 West; Sections 1 and 12, Township 162 North, Range 99 West; Sections 6 and 7; and Sections 18 and 19, Township 162 North, Range 98 West, Divide County, North Dakota, are hereby designated standup 1280-acre spacing units in Zone III in the Ambrose-Bakken Pool.

(18) Spacing units hereafter created in Zone III in the Ambrose-Bakken Pool shall be standup spacing units consisting of two adjacent governmental sections.

(19) Zone III in the Ambrose-Bakken Pool shall not be extended except by further order of the Commission after due notice and hearing.

(20) The proper spacing for the development of Zone IV in the Ambrose-Bakken Pool is hereby set at one horizontal well per laydown 1280-acre spacing unit.

(21) All portions of the well bore not isolated by cement of any horizontal well hereafter drilled in Zone IV in the Ambrose-Bakken Pool shall be no closer than 500 feet to the east or west boundary and 200 feet to the north or south boundary of the spacing unit. Measurement inaccuracies in the directional survey equipment need not be considered except when deemed necessary by the Director.

(22) Sections 4 and 5, Township 162 North, Range 99 West, Divide County, North Dakota, are hereby designated a laydown 1280-acre spacing unit in Zone IV in the Ambrose-Bakken Pool.

(23) Spacing units hereafter created in Zone IV in the Ambrose-Bakken Pool shall be laydown spacing units consisting of two adjacent governmental sections which overlap 640-acre spacing units.

(24) Section 4; and Section 5, Township 162 North, Range 99 West, Divide County, North Dakota, are also designated 640-acre spacing units in Zone II in the Ambrose-Bakken Pool.

(25) Zone IV in the Ambrose-Bakken Pool shall not be extended except by further order of the Commission after due notice and hearing.

(26) The proper spacing for the development of Zone V in the Ambrose-Bakken Pool is hereby set at up to three horizontal wells per standup 1280-acre spacing unit.

(27) All portions of the well bore not isolated by cement of any horizontal well hereafter drilled in Zone V in the Ambrose-Bakken Pool shall be no closer than 500 feet to the east or west boundary and 200 feet to the north or south boundary of the spacing unit. Measurement inaccuracies in the directional survey equipment when calculating the bottom hole location in a horizontal well need not be considered.

(28) Sections 6 and 7; Sections 16 and 21; Sections 17 and 20; Sections 18 and 19; Sections 26 and 35; Sections 27 and 34; Sections 28 and 33; Sections 29 and 32; Sections 30 and 31, Township 162 North, Range 99 West; and Sections 30 and 31, Township 162 North, Range 98 West, Divide County, North Dakota, are hereby designated standup 1280-acre spacing units in Zone V in the Ambrose-Bakken Pool.

(29) Spacing units hereafter created in Zone V in the Ambrose-Bakken Pool shall be standup spacing units consisting of two adjacent governmental sections.

(30) Zone V in the Ambrose-Bakken Pool shall not be extended except by further order of the Commission after due notice and hearing.

(31) The operator of any horizontally drilled well in the Ambrose-Bakken Pool shall cause to be made a directional survey of the well bore. The directional survey contractor shall file a certified survey with the Commission within 30 days after completion of the well in accordance with NDAC Section 43-02-03-25. The survey shall be of sufficient quality to enable the Commission to determine the entire completion location of the well and its terminus.

(32) The Director is hereby authorized to exercise continuing jurisdiction to determine whether any well proposed or drilled upon any spacing unit herein established has justified the creation of such unit, to require amendments or modifications to the permit to drill for such well, and to deny a permit to drill in the event a well is proposed to be drilled in a manner inconsistent with the evidence that justified the spacing requirements in the Ambrose-Bakken Pool.

(33) The Commission shall have continuing jurisdiction in this matter and specifically reserves the authority, upon its own motion or the motion of any interested party, to: (1) review the spacing requirements for the Ambrose-Bakken Pool; (2) determine whether the separate zones of spacing established herein are warranted; and (3) make such further amendments or modifications to the spacing requirements for the Ambrose-Bakken Pool as the Commission deems appropriate.

(34) No well shall be drilled or produced in the Ambrose-Bakken Pool, as defined herein, except in conformity with the regulations above without special order of the Commission after due notice and hearing.

(35) The following rules concerning the casing, tubing and equipping of wells shall apply to the subsequent drilling and operation of wells in the Ambrose-Bakken Pool:

- (a) The surface casing shall consist of new or reconditioned pipe that has been previously tested to 1000 pounds per square inch. The casing shall be set and cemented at a point not less than 50 feet below the base of the Fox Hills Formation. Sufficient cement shall be used to fill the annular space outside the pipe to the surface of the ground, or the bottom of the cellar, and sufficient scratchers and centralizers shall be used to assure a good cement job. Cement shall be allowed to stand a minimum of 12 hours before drilling the plug or initiating tests. The quality of cement shall conform to the standards provided under NDAC Section 43-02-03-21;
- (b) The producing or oil string shall consist of new or reconditioned pipe that has been previously tested to 2000 pounds per square inch. Casing shall be set and cemented at a point not higher than the top of the producing formation, or at a point approved by the Director. Sufficient cement shall be used and applied in such a manner as to protect and isolate all formations containing oil and/or gas, protect the pipe through salt sections encountered, and isolate the Dakota-Lakota Series. The cement shall be allowed to stand a minimum of 15 hours before drilling the plug or initiating tests. The quality of cement shall conform to the standards provided under NDAC Section 43-02-03-21. After cementing, the casing shall be tested by application of pump pressure of at least 1500 pounds per square inch. If, at the end of 30 minutes this pressure has dropped 150 pounds per square inch or more, the casing shall be repaired. Thereafter, the casing shall again be tested in the same manner. Further work shall not proceed until a satisfactory test has been obtained;
- (c) All well-head fittings and connections shall have a working pressure in excess of that to which they are expected to be subjected; and,
- (d) All wells shall be equipped with tubing; a tubing packer must also be utilized in flowing wells unless a waiver is obtained from the Director after demonstrating the casing will not be subjected to excessive pressure or corrosion; all tubing shall be of sufficient internal diameter to allow the passage of a bottom hole pressure gauge for the purpose of obtaining bottom hole pressure measurements.

(36) The gas-oil ratio of all wells not connected to a gas gathering system shall be measured annually during the month of May. The reservoir pressure shall be measured in any well completed in the Ambrose-Bakken Pool if deemed necessary by the Director. Drill stem test pressures are acceptable for determining reservoir pressure. Pressure measurements shall be made at or adjusted to a subsea datum of 5740 feet. All gas-oil ratio and reservoir pressure determinations shall be made by methods approved by the Director and reported to the Director within 15 days following the end of the month in which they are determined. The Director is

authorized to waive these requirements if the necessity therefore can be demonstrated to his satisfaction. All additional gas-oil ratio and reservoir pressure determinations conducted on any well, but not specially required herein, shall be reported to the Director within 15 days following the end of the month in which they are determined.

(37) No salt water, drilling mud, crude oil, or waste oil shall be stored in pits in this field, except in an emergency, and approved by the Director.

(38) All wells in the Ambrose-Bakken Pool shall be allowed to produce at a maximum efficient rate for a period of 60 days commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run; after that, oil production from such wells shall not exceed an average of 200 barrels per day for a period of 60 days; after that, oil production from such wells shall not exceed an average of 150 barrels per day for a period of 60 days, thereafter, oil production from such wells shall not exceed an average of 100 barrels of oil per day; if and when such wells are connected to a gas gathering and processing facility the foregoing restrictions shall be removed, and the wells shall be allowed to produce at a maximum efficient rate. The Director is authorized to issue an administrative order allowing unrestricted production at a maximum efficient rate for a period not to exceed 120 days, commencing on the first day oil is produced through well-head equipment into tanks from the ultimate producing interval after casing has been run, if the necessity therefor can be demonstrated to his satisfaction.

(39) If the flaring of gas produced with crude oil from the Ambrose-Bakken Pool causes, or threatens to cause, degradation of ambient air quality, production from the pool shall be further restricted.

(40) This order shall cover all of the Ambrose-Bakken Pool, common source of supply of crude oil and/or natural gas as herein defined, and continues in full force and effect until further order of the Commission or until the last well in the pool has been plugged and abandoned.

Dated this 29th day of April, 2011.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

By the Director, on behalf of the Commission

/s/ Lynn D. Helms, Director