

**STATE OF NEW YORK
DEPARTMENT OF ENVIRONMENTAL CONSERVATION**

In the Matter of the Integration of Interests Pursuant
to Environmental Conservation Law (“ECL”) § 23-
0901(3) within an Individual Spacing Unit Known as

Well Name: Kienzle 1A (the “Well”)
API Number: 31-015-22880-01-00
Well Operator: Talisman Energy USA Inc.

DEC Order No.
DMN 02-03B

Whereas:

1. The Department of Environmental Conservation (“Department”) entered into an October 9, 2002, stipulation (“Stipulation”) with well operator Fairman Drilling Company providing for field-wide spacing rules and the compulsory integration of mineral interests in the Black River natural gas formation within a field known as the Terry Hill South Field (the “Field”) located in Chemung and Schuyler Counties, New York. Well operator Talisman Energy USA Inc. (“Talisman” or “well operator”) is the successor in interest to Fairman Drilling Company.

2. Among the natural gas wells located in the Field is the Kienzle 1A natural gas well (the “Well”). Talisman is the present owner and operator of the Kienzle 1A well.

3. Department staff referred the matter to the Department’s Office of Hearings and Mediation Services for the conduct of adjudicatory proceedings pursuant 6 NYCRR part 624. During those proceedings, several uncontrolled mineral interest owners in the proposed spacing units for the Field (“Petitioners”) filed petitions raising objections to the proposed spacing units and the terms of integration proposed in the Stipulation.

4. In a first interim decision dated December 21, 2004, the Commissioner rejected the challenges to the proposed spacing units in the Field, and directed issuance of an order pursuant to ECL former 23-0501¹ establishing the Field boundaries and spacing units for the Terry Hill South Field proposed in the Stipulation. The Commissioner also directed that the order provide for the release of royalties to non-objecting uncontrolled owners in the Field other than Petitioners pending further proceedings concerning the compulsory integration of mineral interests within the Field.

¹ Effective August 2, 2005, ECL 23-0501 and ECL 23-0901 were significantly amended (*see* L 2005, ch 386). Because the well permit and spacing order for the Kienzle 1A well were issued prior to August 2, 2005, the compulsory integration of mineral interests within the Well are governed by the Stipulation, and the practices and procedures in effect prior to the 2005 amendments (*see* L 2005, ch 386, § 10).

5. The Commissioner subsequently issued an interim order dated January 13, 2005, establishing spacing units in the Field, including the Kienzle 1A spacing unit, and directing the release of royalties for uncontrolled owners other than Petitioners. Attached to this Order as Exhibit A is a map of the spacing unit for the Well, and a tabulation of tracts therein is attached as Exhibit B.

6. In a second interim decision dated June 7, 2007, among other things, the Assistant Commissioner joined for adjudication issues concerning the terms of integration within the Kienzle 1A unit, and remanded the matter to Administrative Law Judge (“ALJ”) Maria E. Villa for further proceedings consistent with the second interim decision.

7. Upon remand, Petitioners within the Kienzle 1A unit reached a negotiated settlement, and now appear as controlled owners in the ownership tabulation for the unit (see Exhibit B). Pursuant to Stipulation ¶ VII, because no factual issues remain in dispute, this integration Order may be issued without any further adjudication.

8. In Matter of Western Land Services, Inc. v Department of Environmental Conservation, the Appellate Division, Third Department, held in part that the Department may, as a part of a compulsory integration order, use its discretion under ECL former 23-0901 to integrate unleased interest owners in a spacing unit as one-eighth royalty owners (see 26 AD3d 15 [2005], lv denied 6 NY3d 713 [2006]). Accordingly, in the exercise of discretion, the remaining uncontrolled owners are integrated as one-eighth royalty owners pursuant to Stipulation ¶ VII.F.

FINAL ORDER OF INTEGRATION:

NOW, THEREFORE, having found that all substantive and significant issues have been resolved; and that the compulsory integration of interests in the spacing unit is necessary to satisfy the policy provisions of ECL 23-0301, it is hereby ORDERED that:

I. Only those separately owned tracts or parts thereof listed on the attached Exhibit B tabulation are integrated by this Order.

II. Production from the Kienzle 1A well shall be allocated to each parcel within the Kienzle 1A spacing unit based on the acreage of the parcel within the unit as a percentage of the total acreage in the spacing unit.

III. Talisman Energy USA Inc. is the operator of the Kienzle 1A unit and is entitled to the working interest share of the production from the Kienzle 1A well.

IV. As the only operator of record within the Kienzle 1A unit, Talisman is responsible for costs and expenses of drilling, producing, and plugging the Kienzle 1A well.

V. Parcels not under lease within the Kienzle 1A unit are compulsorily integrated into the Kienzle 1A unit on a non-surface entry basis, and owners of such parcels shall receive

royalty payments equal to the lowest royalty fraction, but no less than one-eighth, contained in any oil and gas lease within the Kienzle 1A unit.

VI. Effective as of the date of this Order, all operations including, but not limited to, the commencement, drilling, or operation of the Kienzle 1A well upon any portion of the Kienzle 1A unit so integrated shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in the Kienzle 1A unit by the owner or several owners thereof.

VII. That portion of the production allocated to each tract included in the integrated Kienzle 1A unit shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.

VIII. Talisman, as the unit operator, shall file a copy of this Order with the Chemung County Clerk against all parcels in the Kienzle 1A unit, and shall submit proof of such filing to the Director, Bureau of Oil and Gas Permitting and Management, in the Department's Division of Mineral Resources, within 90 days after the date of this order. The unit operator shall also file, in the same manner, any updates to Exhibit C which result after the date of this Order from ownership changes, tax map revisions or corrections, resolution of title disputes and/or other revisions to property and ownership descriptions, provided that the unit boundary as shown on Exhibit A has not changed. The unit operator must provide a copy of any such update to the Department, by certified mail, post-marked on the same date that such is filed in the office of the County Clerk. The updated Exhibit C shall be accepted and deemed incorporated into this Order; no further order of the Department shall be required.

IX. Within 30 days of the date of this Order, Talisman is directed to release any escrowed royalty payments for the Kienzle 1A unit.

X. Written communications required by this Order shall be transmitted by United States Postal Service, private courier service or hand-delivered as follows.

A. Communication from integrated owners, the well operator and other interested persons to the Department shall be made to:

Director, Bureau of Oil and Gas Permitting and Management
New York State Department of Environmental Conservation
Division of Mineral Resources
625 Broadway, 3rd Floor
Albany, NY 12233-6500
Phone: (518) 402-8056

B. Communication from integrated owners and the Department to the well operator shall be made as stated below, unless the well operator has informed the integrated owners and the Department of a change in writing in accordance with this Section.

Delena McConville
Talisman Energy USA, Inc.

50 Pennwood Place
Warrendale, PA 15086
Phone: (724) 814-5300

C. Communication from the well operator and the Department to integrated owners shall be made to the addresses listed on Exhibit C, unless the integrated owners have informed the well operator and the Department of address changes in writing in accordance with this Section.

XI. This Order is effective on the date it is signed, and is final and binding upon the well operator, all integrated owners and their heirs, successors and assigns.

NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL
CONSERVATION

by: _____/s/
Joseph J. Martens
Commissioner

Dated: September 24, 2012
Albany, New York

TO: Director, Bureau of Oil & Gas Permitting and Management, Division of Mineral
Resources, NYSDEC
Mineral Resources Program Attorney, Office of General Counsel, NYSDEC
Well Operator
Integrated Owners Listed on Exhibit C