

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: Soderblom 1 (the “Well”)
API Number: 31-015-23134-00-00
Well Operator: Talisman Energy USA Inc.

DEC Order No.
DMN 08-33

Whereas:

1. The Department of Environmental Conservation (“Department”) entered into a November 1, 2001, stipulation (“Stipulation”) with well operator Pennsylvania General Energy Corp. (“PGE”) 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 Quackenbush Hill Field (the “Field”) located in Chemung and Steuben Counties, New York. Well operator Talisman Energy USA Inc. (“Talisman” or “well operator”) is the successor in interest to PGE.

2. In Matter of Quackenbush Hill Field, Commissioner Decision and Order, Jan. 23, 2002, the Commissioner incorporated the Stipulation into the order, established spacing units for four existing wells in the Field, and established procedures for future well spacing and compulsory integration in the Field. In Matter of Quackenbush Hill Field, Commissioner Decision and Order, Dec. 30, 2002, the Commissioner incorporated the Stipulation into the order, established a spacing unit for an additional existing well in the field, and established procedures for future well spacing and compulsory integration in the Field.

3. Pursuant to the Commissioner’s orders, on June 9, 2004, Department staff issued a permit to drill the Soderblom 1 natural gas well (the “Well”) as an extension well in the Quackenbush Field. Talisman is the present owner and operator of the Soderblom 1 well.

4. Pursuant to the Commissioner’s orders and the Stipulation incorporated therein, the Director of the Division of Mineral Resources issued an Interim Order, dated July 29, 2005, establishing a spacing unit for the Soderblom 1 well and directing the release of royalties to unleased owners in the unit. 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.¹

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 Soderblom 1 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 Director's interim order also provided that if necessary, compulsory integration of mineral interests in the unit would be addressed by further proceedings as provided by the Stipulation, and in accordance with former title 9 of ECL article 23. In those further proceedings, unleased owners in the unit ("Objectors") raised objections to the terms of their compulsory integration into the unit. Accordingly, 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.

6. A legislative hearing and issues conference were duly noticed and conducted before Chief Administrative Law Judge James T. McClymonds on June 23, 2008. After the issues conference, the Chief ALJ issued a ruling on issues and party status on September 15, 2008, identifying several issues for adjudication based upon the parties' stipulations (see Matter of Chemung SRA 1, et al., Ruling of the Chief ALJ on Issues and Party Status, Sept. 15, 2008).

7. The Well Operator and Objectors subsequently resolved their disputes without the need for adjudication. 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 Soderblom 1 well shall be allocated to each parcel within the Soderblom 1 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 Soderblom 1 unit and is entitled to the working interest share of the production from the Soderblom 1 well.

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

V. Parcels not under lease within the Soderblom 1 unit are compulsorily integrated into the Soderblom 1 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 Soderblom 1 unit.

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

VII. That portion of the production allocated to each tract included in the integrated Soderblom 1 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 Soderblom 1 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 Soderblom 1 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.

