

STATE OF SOUTH DAKOTA
DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES
BOARD OF MINERALS AND ENVIRONMENT

IN THE MATTER OF THE PETITION OF LUFF)
EXPLORATION COMPANY, DENVER, CO.,)
FOR AN ORDER APPROVING THE)
OPERATION OF A PORTION OF THE EAST)
HARDING SPRINGS FIELD CONSISTING OF)
THE S/2 OF SECTION 27 AND ALL OF)
SECTION 34, TOWNSHIP 23 NORTH, RANGE)
5 EAST, HARDING COUNTY, SOUTH)
DAKOTA AS THE EAGLE’S NEST RED)
RIVER UNIT; PROVIDING FOR THE)
RECOVERY OF RISK COMPENSATION)
FROM OWNERS WHO ELECT TO HAVE)
THEIR SHARE OF UNIT EXPENSES)
CARRIED; APPROVING THE UNIT)
AGREEMENT AND UNIT OPERATING)
AGREEMENT FOR THE UNIT;)
DESIGNATING LUFF EXPLORATION)
COMPANY AS UNIT OPERATOR; AND)
GRANT SUCH OTHER RELIEF AS THE)
BOARD DEEMS APPROPRIATE.)

PETITION

Case No. 1-2018

COMES NOW the petitioner, Luff Exploration Company (“Luff”), and respectfully alleges as follows:

1. Luff represents the owners of interests in the oil and gas leasehold estate underlying all or portions of the South Half of Section 27 and all of Section 34, Township 23 North, Range 5 East of the Black Hills Meridian, Harding County, South Dakota.

2. Said lands (the “Unit Area”) consist of 960 acres, more or less. The Unit Area is included within the East Harding Springs Field.

3. Pursuant to Order No. 1-77 and 3-77a, the Unit Area was included in the East Harding Springs Field. The Red River “B” zone underlying Sections 27 and 34 was separately spaced on a 640-acre basis pursuant to Order No. 16-1997. Finally, in Order No. 4-2010, the Unit Area was established as a 960-acre spacing unit for the Red River “B” zone.

4. Two producing wells have been drilled in the Unit Area, both operated by Luff. The 1-34 Foust well was drilled as a vertical well in 1977 and was plugged in 1986. The 1-34 Foust wellbore was reentered in 1995 and a vertical completion was attempted, but no production

was established. The Foust J-34H was drilled as a horizontal Red River "B" well in 2010, and continues to produce.

5. Luff operates a number of Red River "B" secondary recovery units in Harding County, South Dakota and Bowman County, North Dakota, including another unit within the East Harding Springs Field. Based on Luff's experience with other Red River "B" wells and units, Luff believes that unitization of the Unit Area and implementation of a secondary recovery project consisting of a water flood will substantially increase the recovery of oil and gas from the Red River "B" formation underlying the Unit Area. At the hearing in this matter, or at an earlier date if a hearing is not held, Luff will submit exhibits addressing, among other things, the matters set forth in ARSD 74:12:06:01, including the costs of the proposed water flood and the value of the additional hydrocarbons Luff expects to produce as a result of the secondary recovery operation.

6. At the present time, Luff anticipates drilling two additional horizontal wells in the Unit Area, on either side of the Foust J-34H well, and then converting the Foust J-34H well to water injection service. Luff will obtain approval pursuant to ARSD Chapter 74:12:07 prior to commencing injection in this well or any other well.

7. Because the proposed secondary recovery operation will take place entirely within the existing spacing unit for the Foust J-34H well with no additional tracts included in the Unit Area, Luff believes that a one-phase, one parameter formula for the allocation for production from the Unit Area, on the basis of surface acres (100%), will protect the correlative rights of all owners of interests within these lands. At the hearing in this matter, or at an earlier date if a hearing is not held, Luff will submit a proposed plan for unit operations consisting of a unit agreement and unit operating agreement addressing, among other things, the matters set forth in Section 45-9-39 of the South Dakota Codified Laws.

8. Luff proposes that the name of the proposed unit be the "Eagle's Nest Red River Unit" and that it be designated as unit operator.

9. Luff requests that the Board authorize the inclusion in the unit operating agreement of a provision allowing the recovery of risk compensation in accordance with ARSD Chapter

74:12:10 from interest owners who elect not to participate in the risk and cost of unit operations after being afforded a reasonable opportunity to do so.

10. The establishment of a secondary recovery unit and implementation of a secondary recovery program is reasonably necessary to increase substantially the ultimate recovery of oil and gas from the lands.

11. The value of the estimated additional recovery of oil and gas exceeds the estimated additional cost incident to conducting such operation.

12. The proposed unit area is of such size and shape as may be reasonably required for the conduct of the unit operations and the conduct of such operation will have no adverse effect upon other portions of the pool.

13. The Board has authority to hear and decide this matter pursuant to, and the subject of this petition involves, SDCL Sections 45-9-37 through 45-9-49 and ARSD 74:12:06:01.

WHEREFORE, applicant respectfully requests that the Board issue its notice of opportunity for hearing and, if any interested party intervenes in accordance with said notice, set this matter for hearing at the regularly scheduled hearings in March 2017, or such other date as may be established by the Board, and that the Board enter its order granting the relief requested.

Dated this 26th day of January, 2018.

LUFF EXPLORATION COMPANY

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