

**FILED**

BEFORE THE BOARD OF OIL, GAS AND MINING DEC 02 1999

DEPARTMENT OF NATURAL RESOURCES

STATE OF UTAH

SECRETARY, BOARD OF  
OIL, GAS & MINING

IN THE MATTER OF THE REQUEST )  
FOR AGENCY ACTION OF )  
COASTAL OIL & GAS )  
CORPORATION FOR AN ORDER )  
SUSPENDING R649-2-3 AND ANY )  
AND ALL EXISTING ORDERS )  
AFFECTING SPACING AND WELL )  
SITING AND LOCATION INSOFAR )  
AS THEY APPLY TO THE NATURAL )  
BUTTES UNIT AREA LOCATED IN )  
TOWNSHIPS 9 & 10 SOUTH, )  
RANGES 20, 21, & 22 EAST, S.L.M. )  
UINTAH COUNTY, UTAH )

**FINDINGS OF FACT  
AND  
CONCLUSIONS OF LAW**

Docket No. 99-008

Cause No. 173-14

IN THE MATTER OF THE REQUEST )  
FOR AGENCY ACTION OF )  
COASTAL OIL & GAS )  
CORPORATION FOR AN ORDER )  
MODIFYING THE ORDERS IN )  
CAUSE NOS. 173-1 AND 173-2 TO )  
CREATE A 480-ACRE EXCEPTION )  
DRILLING UNIT IN SECTION 1, )  
TOWNSHIP 9 SOUTH, RANGE 21 )  
EAST, S.L.M., AND TO EXTEND THE )  
ORDER IN CAUSE NO. 173-13 TO )  
THE SECTION 1 LANDS, )  
PROVIDING FOR THE DRILLING )  
OF ADDITIONAL WELLS TO )  
ACHIEVE A WELL DENSITY )  
EQUIVALENT OF 40-ACRE WELL )  
SPACING FOR PRODUCTION OF )  
GAS AND ASSOCIATED )  
HYDROCARBONS FROM THE )  
WASATCH-MESAVERDE )  
FORMATION IN THE OURAY FIELD )  
OF UINTAH COUNTY, UTAH )

**FINDINGS OF FACT  
AND  
CONCLUSIONS OF LAW**

Docket No. 99-010

Cause No. 173-15

**CONSOLIDATED ORDER**

Docket No. 99-008

Cause No. 173-14

Docket No. 99-010

Cause No. 173-15

These causes came on regularly for hearing before the Board of Oil, Gas and Mining (the "**Board**") on Wednesday, August 25, 1999, at 10:00 a.m., in the Hearing Room of the Utah Department of Natural Resources at 1594 West North Temple Street, in Salt Lake City, Utah.

The following Board members present and participating in the hearing were: Chairman Dave D. Lauriski, Raymond Murray, Thomas B. Faddies, Elise L. Erler, W. Allan Mashburn, and James Peacock. John R. Baza, Associate Director for Oil and Gas of the Division of Oil, Gas and Mining (the "**Division**") was present at and participated in the hearing.

Phillip Wm. Lear, Esq., of Snell & Wilmer L.L.P. appeared on behalf of Coastal Oil & Gas Corporation ("**Coastal**"), and Donald H. Spicer, Robert J. La Rocque, and Howard W. Musgrove appeared as witnesses for Coastal.

Thomas W. Bachtell, Esq., of Pruitt, Gushee & Bachtell appeared on behalf of Enron Oil & Gas Company ("**Enron**"). Enron appeared in support of Coastal's Request for Agency Action, subject to the modifications identified herein.

Thomas A. Mitchell, Esq., Assistant Attorney General, represented the Board; and Patrick J. O'Hara, Esq., Assistant Attorney General, represented the Division. John R. Baza of the Division appeared to present the Staff Memoranda to the Board dated August 16, 1999, and the Division's recommendations.

Robert Henricks and Assad Rafoul, Petroleum Engineers, Branch of Fluid Minerals (Utah State Office), and Jerry Kenczka, Petroleum Engineer (Vernal District Office), appeared for the United States Department of the Interior, Bureau of Land Management.

Charles W. Cameron, Petroleum Engineer, Uintah & Ouray Agency, appeared on behalf of the Bureau of Indian Affairs. Ferron Secakaku, Ute Indian Tribe, Department of Minerals, appeared on behalf of the Ute Indian Tribe.

James D. Cooper appeared on behalf of the Utah School and Institutional Trust Lands Administration.

**NOW THEREFORE**, the Board, having fully considered the testimony adduced and the exhibits received at the hearings, and being fully advised in the premises, makes and enters its Findings of Fact, Conclusions of Law, and Consolidated Order in these matters, as follows:

**PART I**  
**(Cause No. 99-008 Docket No. 173-14)**

**FINDINGS OF FACT**

1. The Board mailed notices of the July 28, 1999 hearing to interested parties on July 11, 1999, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on July 7, 1999, and in the *Vernal Express* on July 7, 1999. By Order dated July 20, 1999, the Board continued the hearing to August 25, 1999.

2. Coastal mailed photocopies of the Request for Agency Action and the Amended Request for Agency Action to the last known address of all owners having legally protected interests in the Natural Buttes Unit by certified mail, return receipt requested.

3. Coastal is a Delaware corporation in good standing, having its principal place of business in Houston, Texas. Coastal is licensed to do business in Utah.

4. Coastal owns working interests in the lands which are the subject matter of this Request for Agency Action, as amended, and is operator of the Natural Buttes Unit.

5. The lands affected by this Request for Agency Action, as amended, are public domain lands of the United States of America administered by the Bureau of Land Management (the "BLM"); lands of the State of Utah administered by the State Institutional Trust Lands Administration; and private lands.

6. The lands committed to the Natural Buttes Unit are generally described as follows:

**Township 9 South, Range 20 East, S.L.M.**

Sections 12 through 15: All  
Sections 20 through 22: All  
Section 23: N $\frac{1}{2}$ , SW $\frac{1}{4}$   
Section 24: N $\frac{1}{2}$ N $\frac{1}{2}$ , SW $\frac{1}{4}$ NW $\frac{1}{4}$ ,  
W $\frac{1}{2}$ SW $\frac{1}{4}$ , E $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 25: W $\frac{1}{2}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ SE $\frac{1}{4}$ ,  
S $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 26: N $\frac{1}{2}$ , SE $\frac{1}{4}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$ ,  
SE $\frac{1}{4}$ SW $\frac{1}{4}$   
Section 27: NW $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ NW $\frac{1}{4}$ ,  
NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 28: N $\frac{1}{2}$ , SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 29: All  
Section 32: N $\frac{1}{2}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 33: NW $\frac{1}{4}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$   
Section 35: E $\frac{1}{2}$ , E $\frac{1}{2}$ W $\frac{1}{2}$   
Section 36: N $\frac{1}{2}$

**Township 9 South, Range 21 East, S.L.M.**

Section 1: S $\frac{1}{2}$ S $\frac{1}{2}$   
Section 2: S $\frac{1}{2}$   
Section 3: S $\frac{1}{2}$   
Section 4: S $\frac{1}{2}$ S $\frac{1}{2}$   
Sections 7 through 31: All  
Section 32: N $\frac{1}{2}$   
Sections 33 through 35: All

**Township 9 South, Range 22 East, S.L.M.**

Section 7: S $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$   
Section 17: W $\frac{1}{2}$ SW $\frac{1}{4}$   
Section 18: W $\frac{1}{2}$ , SE $\frac{1}{4}$ , W $\frac{1}{2}$ NE $\frac{1}{4}$   
Section 19: All  
Section 20: W $\frac{1}{2}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$   
Section 29 through 36: All

**Township 10 South, Range 20 East, S.L.M.**

Sections 1, 12, 13, and 24: All  
Section 25: N $\frac{1}{2}$ , SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 26: All  
Section 35: NE $\frac{1}{4}$ NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$

**Township 10 South, Range 21 East, S.L.M.**

Sections 1 through 22: All  
Section 23: W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$ , NE $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 24: N $\frac{1}{2}$ N $\frac{1}{2}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 25: N $\frac{1}{2}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$ , NW $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 26: N $\frac{1}{2}$ , SE $\frac{1}{4}$   
Section 27: All  
Section 28: N $\frac{1}{2}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$   
Sections 29 and 30: All  
Section 31: N $\frac{1}{2}$ NE $\frac{1}{4}$   
Section 32: NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$

**Township 10 South, Range 22 East, S.L.M.**

Sections 1 through 14: All (excepting  
a 27.94-acre parcel of land identified  
as Tract 110 in Exhibit "B" to the  
Natural Buttes Unit Agreement)  
Section 15: N $\frac{1}{2}$ N $\frac{1}{2}$ , S $\frac{1}{2}$ S $\frac{1}{2}$   
Sections 16 through 23: All  
Section 24: W $\frac{1}{2}$ , SE $\frac{1}{4}$ , W $\frac{1}{2}$ NE $\frac{1}{4}$   
Section 25: N $\frac{1}{2}$ , SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 26: All  
Section 27: NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$ ,  
NW $\frac{1}{4}$ SW $\frac{1}{4}$ , S $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 28: N $\frac{1}{2}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$

Section 29: NE<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub>, SW<sup>1</sup>/<sub>4</sub>, W<sup>1</sup>/<sub>2</sub>SE<sup>1</sup>/<sub>4</sub>  
Section 30: N<sup>1</sup>/<sub>2</sub>, SE<sup>1</sup>/<sub>4</sub>, N<sup>1</sup>/<sub>2</sub>SW<sup>1</sup>/<sub>4</sub>,  
SE<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub>  
Section 31: N<sup>1</sup>/<sub>2</sub>NE<sup>1</sup>/<sub>4</sub>, SE<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub>  
Section 32: NW<sup>1</sup>/<sub>4</sub>, W<sup>1</sup>/<sub>2</sub>NE<sup>1</sup>/<sub>4</sub>  
Section 33: SE<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub>, E<sup>1</sup>/<sub>2</sub>SE<sup>1</sup>/<sub>4</sub>  
Section 34: All  
Section 35: N<sup>1</sup>/<sub>2</sub>, SW<sup>1</sup>/<sub>4</sub>, N<sup>1</sup>/<sub>2</sub>SE<sup>1</sup>/<sub>4</sub>,  
SW<sup>1</sup>/<sub>4</sub>SE<sup>1</sup>/<sub>4</sub>

(hereinafter “**Unit Lands**”).

7. The Natural Buttes Unit is a federal exploratory unit administered by the BLM and unitizes the zones and intervals comprising the Wasatch and Mesaverde formations, generally described as being from the base of the Green River formation down to the top of the Mancos formation.

8. The base of the Green River formation is identified in the Natural Buttes Unit Agreement as:

[T]he stratigraphic equivalent of the correlation point established at the depth of 4,822 feet below K.B. (Kelly Bushing) in the Ute Trail # 10 Well drilled by DeKalb Petroleum Company in the NE<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub> of Section 34 in Township 9 South, Range 21 East, SLM, Uintah County, Utah.

9. The top of the Mancos formation is identified in the Natural Buttes Unit Agreement as:

[T]he stratigraphic equivalent of the correlation point established at the depth of 9,732 feet below K.B. (Kelly Bushing) in the Chapita Wells Unit # 5 Well drilled by Belco Petroleum Corporation in the NE<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub> of Section 22 in Township 9 South, Range 22 East, SLM, Uintah County, Utah.

The interval from the base of the Green River formation down to the top of the Mancos formation in the Unit Lands is referred to as the “**Unitized Interval.**” The Unitized Interval is a commonly

occurring section known throughout the Uinta Basin as a source of natural gas produced from channel sandstones.

10. The Unit Lands currently comprise public domain lands of the United States (71.45%), lands of the State of Utah (28.32%), allotted Indian lands (0.03%), and patented (fee) lands (0.20%).

11. There are lands within the Natural Buttes Unit Area boundaries that are not committed to the Unit Agreement. Those lands are situated in Uintah County and are described as follows:

**Township 9 South, Range 20 East, S.L.M.**

Section 23: SE $\frac{1}{4}$   
Section 24: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ ,  
E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 25: E $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ ,  
NW $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 36: S $\frac{1}{2}$

**Township 9 South, Range 21 East, S.L.M.**

Section 32: S $\frac{1}{2}$   
Section 36: All

**Township 10 South, Range 21 East, S.L.M.**

Section 23: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SE $\frac{1}{4}$   
Section 24: SW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NW $\frac{1}{4}$ ,  
SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{2}$

**Township 10 South, Range 22 East, S.L.M.**

Sections 2 & 11: A 27.94-acre parcel  
of land identified as Tract 110 in  
Exhibit "B" to the Natural Buttes Unit  
Agreement

Section 15: S $\frac{1}{2}$ N $\frac{1}{2}$ , N $\frac{1}{2}$ S $\frac{1}{2}$

The foregoing lands are not Unit Lands and are not affected by the Board's action in this matter. All remaining Unit Lands, leases, and interests therein have been committed to the Natural Buttes Unit.

12. By Order dated September 29, 1955, the Board promulgated its Rule A-3 of the General Rules and Regulations and Rules of Practice and Procedure providing for the global suspension of certain operating rules, including its well location and siting rules, as to all lands committed to unit agreements approved by the Secretary of the Interior. The Board promulgated Rule A-3 pursuant to the then Utah Code Ann. § 40-6-11 which empowered the Board to suspend the operation of the Oil and Gas Conservation Act of 1955 as to lands committed to federally supervised unit agreements.

13. The Secretary of the Interior, through his authorized representative, approved the Natural Buttes Unit effective January 5, 1968.

14. Rule A-3 was in effect at the formation and approval of the Natural Buttes Unit.

15. In 1983, the Utah legislature repealed the Oil and Gas Conservation Act of 1955, as amended, and enacted a new Oil and Gas Conservation Act (the "Act"). See 1983 Utah L., ch. 205, § 1.

16. By Order in Cause No. 190-7 dated January 3, 1986, but effective December 2, 1985, the Board promulgated new rules, including Rule R649-2-3, providing that the Board may suspend certain Board orders and operating rules within federally supervised units. The rule states, as follows:

The board may suspend the application of the general rules or orders or any part thereof, with regard to any unit agreement approved by a duly authorized officer of the appropriate federal agency, so long as the conservation of oil or gas and the prevention of waste is accomplished thereby, but such suspension shall not

relieve any operator from making the reports as are otherwise required by the general rules or orders, or as may reasonably be requested by the board or the division in order to keep the board and the division fully informed as to operations under such unit agreements.

Utah Admin. Code R649-2-3 (1998).

17. The Rule A-3 suspension allowed the unit operator and other working interest owners to drill wells to and produce from the Unitized Interval in the Unit Lands pursuant to Plans of Unit Development approved by the BLM, without regard to lease and public land survey section line set-back requirements.

18. The Rule A-3 suspension and the Rule R649-2-3 suspension are hereinafter sometimes collectively referred to the “**Suspension.**”

19. Well location and density patterns within the Natural Buttes Unit are determined in accordance with the terms of the Natural Buttes Unit Agreement and the Unit Operating Agreement for the Natural Buttes Unit and the annual plans of unit development approved by the BLM. Drilling applications are approved by both the BLM and the Division.

20. During the period of the Rule A-3 suspension from January 5, 1968, the date the Natural Buttes Unit was approved to December 2, 1985, the effective date of R649-2-3, the Board entered its orders in Cause Nos. 173-1 and 173-2, establishing 320-acre lay-down drilling units for the Wasatch and Mesaverde formations in the Ouray Field. Notwithstanding Rule A-3, the Board Orders in Cause Nos. 173-1 and 173-2 overlapped the following Unit Lands:

**Township 9 South, Range 21 East, S.L.M.**

Section 1: S $\frac{1}{2}$ S $\frac{1}{2}$

Section 4: S $\frac{1}{2}$ S $\frac{1}{2}$

21. The Orders in Cause Nos. 173-1 and 173-2 were modified by the Order in Cause No. 173-9-S, dated August 1, 1991, as to the overlapped portions of the Unit Lands in Sections 1 and 4, and other lands in the Ouray Field, to provide for the drilling of additional wells in the drilling units.

22. No spacing or other orders of the Board affect the Unitized Interval in the Unit Lands except orders in the Cause Nos. 173 series pertaining to the spacing of the Ouray Field.

23. Since inception of the Natural Buttes Unit, Coastal, its predecessor operators, and other working interest owners committed to the Natural Buttes Unit have drilled in excess of 600 wells to the Unitized Interval in the Unit Lands.

24. A set-back requirement of 460 feet from the boundary of the Unit Lands should be required for all wells drilled to the Unitized Interval in the Unit Lands after entry of this order.

25. The Suspension under Rule A-3 and R649-2-3 provides the greatest flexibility for orderly development of the Unitized Interval in the Unit Lands considering topographical, archeological, geological, and environmental restrictions within the Unit Area.

26. The parties to this hearing stipulated that Coastal has proceeded under the authority of Rule A-3 until the date Rule A-3 was superseded by the new Rule R-649-2-3; and from that day forward, Coastal was proceeding under the authority of the new rule (R649-2-3) on a *nunc pro tunc* basis. This stipulation applies equally to Coastal, its predecessor operators, and other working interest owners.

### CONCLUSIONS OF LAW

27. The Board has jurisdiction of the parties and of the subject matter of this Request for Agency Action, as amended, pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated*.

28. Coastal properly served all owners having a legally protected interest in the subject matter of this hearing.

29. The Division gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

30. Unitization of the lands of the United States was accomplished pursuant to the Mineral Leasing Act of 1920 (30 U.S.C.A. §§ 181, *et seq.*) and regulations issued pursuant thereto.

31. Unitization of the State of Utah lands was accomplished pursuant to chapter 1945 Utah Laws, chapter 127.

32. The Unitized Interval in the Unit Lands is deemed to be committed to the Natural Buttes Unit Agreement.

33. Coastal, its predecessor operators, and other working interest owners, lawfully proceeded under the authority of Rule A-3 until the date Rule A-3 was superseded by the new Rule R-649-2-3; and from that day forward, Coastal, its predecessor operators, and other working interest owners, have lawfully proceeded under the authority of the new rule (R649-2-3) on a *nunc pro tunc* basis.

34. By virtue of the Suspension, the Board's orders in the Cause No. 173 series of orders did not, and currently do not, apply to the Unitized Interval in the Unit Lands, notwithstanding express language to the contrary.

35. Because 40 acres constitute an area no smaller than the maximum area drained by one well in the Unitized Interval in south half of the south half of said Sections 1 and 4 of the Unit Lands or in the Ouray Field (*see* Findings of Fact and Conclusions of Law in Cause No. 173-15), no

correlative rights of parties owning interests in the south half of Sections 1 and 4 in Township 9 South, Range 21 East, S.L.M., have been violated.

36. Unitization of the Unitized Interval in the Unit Lands has since the inception of the Natural Buttes Unit accomplished, and currently accomplishes, the policies and purposes of the Act and its predecessor acts as to State of Utah lands and other Unit Lands, namely, to prevent waste, obtain the greater ultimate recovery of unitized substances, and protect correlative rights of all owners.

37. Coastal, its predecessor operators, and other working interest owners have complied with the tenets of the Act and its predecessor acts in the location and siting of wells, the protection of correlative rights, and the prevention of waste in the Unitized Interval in the Unit Lands.

38. The Suspension applies to all lands currently part of the Unit Lands and any lands added to the Natural Buttes Unit by expansion. Upon elimination of Unit Lands from the Natural Buttes Unit by contraction, termination of the unit, or otherwise, the existing operating rules and Board orders, as applicable, shall apply.

39. An order confirming the Suspension of the Act and its predecessor acts and operating rules as to the Unitized Interval in the Unit Lands within the Natural Buttes Unit pursuant to former Rule A-3 and current Rule R649-2-3 will promote the public interest, increase ultimate recovery, prevent waste, and protect correlative rights of all owners.

**PART II**  
**(Cause No. 99-010 Docket No. 173-15)**

**FINDINGS OF FACT**

1. The Board mailed notices of the August 25, 1999 hearing to interested parties on August 4, 1999, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on August 8, 1999, and in the *Vernal Express* on August 4, 1999.

2. Coastal mailed photocopies of the Request for Agency Action to the last known address of all owners having interests in the spaced area to be modified by certified mail, return receipt requested.

3. Coastal owns working interests in the lands which are the subject matter of this Request for Agency Action.

4. The lands affected by this spacing modification are situated in Uintah County, Utah, and are more particularly described, as follows:

**Township 9 South, Range 21 East, S.L.M.**

Section 1: Lot 1,2,3,4, S $\frac{1}{2}$ N $\frac{1}{2}$ ,  
N $\frac{1}{2}$ S $\frac{1}{2}$

(containing 491.59 acres, more or less)

(hereinafter "**Section 1 Lands**").

5. The Section 1 Lands are part of the Ouray Field, a designated field known for the production of gas from the Wasatch and Mesaverde formations.

6. By orders in Cause Nos. 173-1 and 173-2, the Board established lay-down, 320-acre drilling units comprising the north half and the south half of public land survey sections, or their equivalent lots, for production of gas and associated hydrocarbons from the Wasatch and Mesaverde

formations from lands in the Ouray Field, including the portions of the Section 1 Lands in the north half and in the north half of the south half of said Section 1. Those orders authorized one well in each drilling unit for production from the common source of supply. By order in Cause No. 173-9-S, the Board modified its original orders and authorized an additional well to be drilled in each drilling unit.

7. The orders in Cause Nos. 173-1 and 173-2 included the south half of the south half of said Section 1. Those lands are part of the Natural Buttes Unit for which the former statutes, operating rules, and regulations were, and have been, suspended pursuant to former Rule A-3 and current Rule R649-2-3.

8. By virtue of the Suspension, the north half of the south half of the said Section 1 is not part of an effective drilling unit for which wells may be drilled to the common source of supply, because it does not conform to a 320-acre drilling unit established for the Ouray Field.

9. The north half of the south half of the said Section 1 has not been pooled or communitized with other lands for development from the common source of supply. No wells have been drilled on the north half of the south half of the Section 1 Lands.

10. Combining the north half with the north half of the south half of said Section 1 to create an exception size, 480-acre drilling unit would allow the north half of the south half to develop the common source of supply it could not otherwise develop.

11. By order in Cause No. 173-13, the Board modified its orders in Cause Nos. 173-1, 173-2, and other orders in the Cause No. 173 series of orders affecting the Ouray Field, to provide for the drilling of additional wells in the established drilling units so as to allow up to eight wells per drilling unit and thereby creating *de facto* 40-acre spacing. The order in Cause No. 173-13 affected

the north half of the said Section 1, but did not modify the spacing in the north half of the south half of said Section 1.

12. The interval spaced in the orders in the Cause No. 173 series is the Wasatch-Mesaverde formation, more particularly described in the underlying orders as:

That interval below the stratigraphic equivalent of 4,772 feet down to and including the stratigraphic equivalent of 9,740 feet, as shown on the induction electrical log of the Chapita Wells Unit Well No. 5 located 1,908 feet from the south line and 2,360 feet from the west line of the NE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 22, Township 9 South, Range 22 East, S.L.M., Uintah County, Utah.

(hereinafter "**Spaced Interval**"). The Wasatch and Mesaverde formations are commonly occurring formations throughout the Uinta Basin.

13. The Cause Nos. 173 series of orders provide for permitted wells to be located no fewer than 920 feet from any other wells producing from the Spaced Interval and no closer than 460 feet from the exterior boundaries or lease lines as to the north half of said Section 1, and within a drilling window having a radius of 660 feet from the center of the quarter section and no fewer than 2,040 feet from any other wells producing from the Spaced Interval as to the south half of said Section 1.

14. The Section 1 Lands comprise public domain lands of the United States, allotted Indian lands, and patented (fee) lands.

15. Geologic and engineering data obtained from existing gas wells on the Section 1 Lands and other drilling and development operations in the Ouray Field and surrounding areas have determined that 40 acres constitute an area no smaller than the maximum area drainable by one well in the Spaced Interval and support the extension of the order in Cause No. 173-13 to the north half

of the south half of said Section 1, providing for well density equivalent to 40-acre well spacing for the development of the Spaced Interval underlying those lands.

16. The permitted wells are to be located no fewer than 920 feet from other wells completed and producing from the Wasatch-Mesaverde formation and no closer than 460 feet from the exterior boundary of the 480-acre, exception size drilling unit, or such other location on the Section 1 Lands as may be granted administratively by the Board pursuant to *Utah Administrative Code R649-3-3*.

17. Creating an exception size drilling unit comprising the north half and the north half of the south half of said Section 1, protects the correlative rights of all parties in said Section 1 without violating the correlative rights of any parties.

18. Extending the order in Cause No. 173-13 to embrace the entirety of the exception size, 480-acre drilling unit comprising the north half and the north half of the south half of said Section 1, protects the correlative rights of all parties in Section 1 without violating the correlative rights of any parties.

19. The parties to this hearing stipulated that Coastal has proceeded under the authority of Rule A-3 until the date Rule A-3 was superseded by the new Rule R-649-2-3; and from that day forward, Coastal was proceeding under the authority of the new rule (R649-2-3) on a *nunc pro tunc* basis. This stipulation applies equally to Coastal, its predecessor operators, and other working interest owners.

#### **CONCLUSIONS OF LAW**

20. The Board has jurisdiction of the parties and of the subject matter of this Amended Request for Agency Action pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated*.

21. Coastal properly served all owners having a legally protected interest in the subject matter of this hearing, including persons in the immediately adjoining and diagonally off-setting drilling units and in the Natural Buttes Unit lands abutting the exception drilling unit.

22. The Division gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

23. An order establishing an exception size, 480-acre drilling unit comprising the Section 1 Lands will promote the public interest, increase ultimate recovery, prevent waste, and protect correlative rights of all owners.

24. An order extending the Board's order in Cause No. 173-13 providing for additional wells to be drilled in the entire exception size, 480-acre drilling unit; establishing a well density equivalent to 40-acre spacing; and authorizing up to 12 wells to be drilled to and produced from the Spaced Interval will promote the public interest, increase ultimate recovery, prevent waste, and protect correlative rights of all owners.

25. Because 40 acres constitute an area no smaller than the maximum area drained by one well in the Unitized Interval in the Unit Lands or in the Spaced Interval in the Ouray Field, no correlative rights of parties in the south half of Section 1 of Township 9 South, Range 21 East, S.L.M., have been violated by the Suspension of the Board's rules and orders affecting the Unit Lands.

26. With regard to the south half of Section 1 of Township 9 South, Range 21 East, S.L.M., Coastal, its predecessor operators, and other working interest owners, lawfully proceeded under the authority of Rule A-3 until the date Rule A-3 was superseded by the new Rule R-649-2-3;

and from that day forward, Coastal, its predecessor operators, and other working interest owners, have lawfully proceeded under the authority of the new rule (R649-2-3) on a *nunc pro tunc* basis.

### CONSOLIDATED ORDER

**IT IS THEREFORE ORDERED** that in order to promote the public interest, to increase the ultimate recovery of the resource, to prevent physical waste of gas and associated hydrocarbons, and to protect the correlative rights of all owners:

A. Coastal's Request for Agency Action in Cause No. 173-14, as amended, and as further amended at the hearing, is granted.

B. Suspension of the Board's operating rules and orders as to the Unitized Interval in the Unit Lands pursuant to former Rule A-3 and current Rule 649-2-3 is hereby confirmed from inception of the Natural Buttes Unit to current date.

C. The Suspension has applied and shall apply to all lands committed to the Natural Buttes Unit until such time as the lands are eliminated from the unit by contraction or termination of the unit. Further, the Suspension shall automatically apply to the Unitized Interval in all lands brought within the Natural Buttes Unit by expansion approved by the appropriate federal and State of Utah regulatory authorities, effective upon approval of said expansion.

D. The Board's orders in the Cause Nos. 173 series of orders have not during the period of Suspension applied, and currently do not apply, to the Unitized Interval in the Unit Lands, except to the extent the owners having legally protected interests in the affected lands have expressly agreed in writing, including, but not limited to the Communitization Agreement affecting the south half of Section 4 in Township 9 South, Range 21 East, S.L.M.

E. Wells drilled to the Unitized Interval in the Unit Lands shall be no closer than 460 feet from the unit boundary line including interior boundaries formed by uncommitted windows of lands within the Natural Buttes Unit.

F. All wells drilled to date and producing for which are capable of producing from the Unitized Interval in the Unit Lands pursuant to the approved Unit Plans of Development are hereby deemed to have been drilled in compliance with those Unit Plans of Development and with accepted conservation principles.

G. Coastal's Request for Agency Action in Cause No. 173-15, as amended at the hearing, is granted.

H. The orders in Cause Nos. 173-1, 173-2, 173-9-S, 173-12(A), and 173-13 are hereby amended to expand the drilling unit for the north half of Section 1, Township 9 South, Range 21 East, S.L.M., to include the north half of the south half of said Section 1 and shall constitute an exception size, 480-acre drilling units comprising 12 quarter-quarter sections or equivalent lots pursuant to the public land survey for that said Section 1.

I. The Board's order in Cause No. 173-13 is hereby amended to extend to and include said north half of the south half of said Section 1, providing for the drilling of up to twelve wells in the exception size, 480-acre drilling unit for the production of gas and associated hydrocarbons from the Spaced Interval, resulting in a *de facto* 40-acre patterns for production from the Spaced Interval. The permitted wells shall be located no fewer than 920 feet from other wells completed and producing from the Spaced Interval and no closer than 460 feet from the exterior boundary of the 480-acre drilling unit, or such other location on the Section 1 Lands as may be granted administratively by the Board pursuant to *Utah Administrative Code* R649-3-3.

J. The Board's orders in the Cause Nos. 173 series of orders as to the south half of the south half of Section 1 in Township 9 South, Range 21 East, S.L.M., are hereby vacated in order to effectuate the creation of the exception size, 480-acre drilling unit on the Section 1 Lands.

K. Administrative approval may be granted for exception well locations within the exception-size, 480-acre drilling unit for topographic, environmental, and archaeological considerations and when "no surface occupancy" stipulations imposed by the landowners (lessors) prohibit drilling at a legal location, without the necessity of a full hearing before the Board.

L. The Board has considered and decided these matters as formal adjudications, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63-46b-6 through -10 (1993), and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641 (1998).

M. These Findings of Fact, Conclusions of Law, and Consolidated Order ("**Order**") are based exclusively upon evidence of record in these proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63-46b-10 (1993), and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109 (1998); and constitutes final agency actions as defined in the Utah Administrative Procedures Act and Board rules.

N. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** The Board hereby notifies all parties to these proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63-46b-10(f) (1993).

O. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to these proceedings that they may apply for reconsideration of this Order. Utah Code Ann. § 63-46b-10(e) (1993). The Utah Administrative Procedures Act provides:

(1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63-46b-12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Utah Code Ann. § 63-46b-13 (1993).

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled “Rehearing and Modification of Existing Orders” state:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Utah Admin. Code R641-110-100 (1998).

The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board

of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

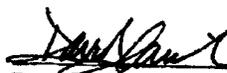
P. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

Q. The Chairman's signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

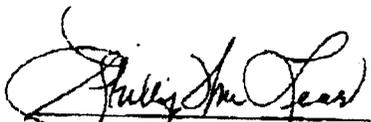
R. Due to the complexity of the issues involved in these matters, the parties have been granted additional time to prepare and approve this Order.

Issued this 3<sup>rd</sup> day of ~~November~~ <sup>December (1999)</sup>, 1999.

STATE OF UTAH  
BOARD OF OIL, GAS AND MINING

  
\_\_\_\_\_  
Dave D. Lauriski, Chairman

Approved as to Form:

  
\_\_\_\_\_  
Phillip Wm. Lear, Esq  
Attorney for Coastal Oil &  
Gas Corporation

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R. Due to the complexity of the issues involved in these matters, the parties have been granted additional time to prepare and approve this Order.

Issued this \_\_\_ day of November, 1999.

STATE OF UTAH  
BOARD OF OIL, GAS AND MINING

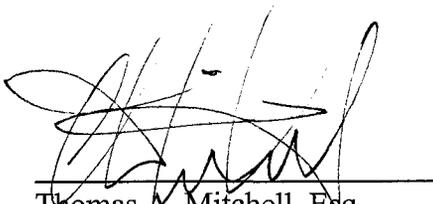
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Dave D. Lauriski, Chairman

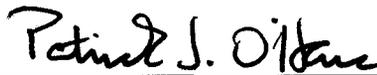
Approved as to Form:



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Attorney for Coastal Oil &  
Gas Corporation



Thomas A. Mitchell, Esq.  
Assistant Attorney General  
Attorney for the Board



Patrick J. O'Hara  
Assistant Attorney General  
Attorney for the Division



Thomas W. Bachtell, Esq.  
Attorney for Enron Oil & Gas Company

## CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing Findings of Fact, Conclusions of Law, and Consolidated Order for Docket No. 99-008, Cause No. 173-14 and for Docket No. 99-010, Cause No. 173-15 to be mailed with postage prepaid, this 6th day of December, 1999, to the following:

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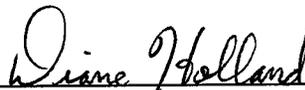
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Earl Gritton  
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Posse Petroleum Ltd.  
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Houston, TX 77002

  
\_\_\_\_\_

**FILED**

JUL 21 1999

SECRETARY, BOARD OF  
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

IN THE MATTER OF THE REQUEST )  
FOR AGENCY ACTION OF )  
COASTAL OIL & GAS )  
CORPORATION FOR AN ORDER )  
SUSPENDING R649-3-2 AND ANY )  
AND ALL EXISTING ORDERS )  
AFFECTING SPACING AND WELL )  
SITING AND LOCATION INSOFAR )  
AS THEY APPLY TO THE NATURAL )  
BUTTES UNIT AREA LOCATED IN )  
TOWNSHIPS 9 & 10 SOUTH, )  
RANGES 20, 21, & 22 EAST, S.L.M. )  
UINTAH COUNTY, UTAH )

**ORDER GRANTING CONTINUANCE**

Docket No. 99-008

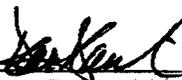
Cause No. 173-14

The **BOARD OF OIL, GAS & MINING** having considered the motion of **COASTAL OIL & GAS CORPORATION**, Petitioner in this matter, for an order continuing the hearing in this matter to the regularly scheduled hearing date in August 1999, and being fully advised in the premises;

IT IS HEREBY ORDERED that the Motion for Continuance is granted and the above-captioned case continued to the regularly scheduled hearing on August 25, 1999.

DATED this 20th day of July, 1999.

BOARD OF OIL, GAS AND MINING

By:   
Dave D. Lauriski  
Chairman

**CERTIFICATE OF SERVICE**

I hereby certify that I caused a true and correct copy of the foregoing ORDER GRANTING CONTINUANCE for Docket No. 99-008, Cause No. 173-14 to be mailed, postage prepaid, this 22 day of July, 1999, to the following:

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