

**FILED**

MAY 09 2007

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

**SECRETARY, BOARD OF  
OIL, GAS & MINING**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF PIONEER NATURAL RESOURCES USA, INC. FOR AN ORDER PARTIALLY VACATING THE BOARD'S ORDERS IN CAUSE NOS. 220-04 AND 220-05 AND INSTEAD ESTABLISHING TEMPORARY 320 ACRE DRILLING AND SPACING UNITS FOR THE PRODUCTION OF GAS (INCLUDING BUT NOT LIMITED TO COALBED METHANE) FROM THE BLACKHAWK FORMATION, COMPRISED OF THE W $\frac{1}{2}$  OF SECTION 16 AND THE E $\frac{1}{2}$  OF SECTION 18, RESPECTIVELY, OF TOWNSHIP 12 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH, AND AUTHORIZING THE DRILLING OF A HORIZONTAL WELL IN EACH SUCH UNIT SO ESTABLISHED

**SUPPLEMENTAL  
FINDINGS OF FACT,  
CONCLUSIONS OF LAW  
AND ORDER**

Docket No. 2005-006

Cause No. 220-06

This cause came on for supplemental hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, April 25, 2007, at 10:00 a.m. The following Board members were present and participated at the hearing: Chairman Douglas E. Johnson, Robert J. Bayer, Kent R. Petersen, Samuel C. Quigley, Jean Semborski and Ruland J. Gill, Jr. Board member Jake Y. Harouny was unable to attend. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Pioneer Natural Resources USA, Inc. ("Pioneer") were Sharon R. Logan - Staff Landman, and Lance O. Masoner, Sr. Staff Reservoir Engineer. Frederick M. MacDonald, Esq., of and for Pruitt Gushee, a Professional Corporation, appeared as attorney for Pioneer.

Testifying on behalf of the Division of Oil, Gas and Mining (the "Division") was Dustin K. Doucet, Petroleum Engineer. Jim Allen, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for modification of the Board's previous Order entered in this cause on May 18, 2005 in the manner ordered below.

At the conclusion of Pioneer's and the Division's presentations, Assad Raffoul, Petroleum Engineer, Utah State Office, Bureau of Land Management ("BLM"), expressed the BLM's support for modification of the Board's previous Order entered in this cause on May 18, 2005 in the manner ordered below.

No other party filed a response to Pioneer's Request to Provide Second Status Report filed April 4, 2007 ("Pioneer's Request") and no other party appeared or participated at the supplemental hearing.

The Board, having considered the pleadings filed and the testimony presented at the supplemental hearing, being fully advised, and for good cause, hereby makes the following supplemental findings of fact, conclusions of law and order.

#### **FINDINGS OF FACT**

1. By Order entered May 18, 2005 in this cause, the Board authorized Pioneer to horizontally drill a proposed well (the Jensen 2-18 Well) in the E<sup>1</sup>/<sub>2</sub> of captioned Section 18 with a lateral targeting the K2 (Kenilworth) coal seam, and to re-enter and horizontally drill the State 11-16 Well in the W<sup>1</sup>/<sub>2</sub> of captioned Section 16 with two laterals, one

targeting the A1 (Aberdeen) coal seam and the other targeting the K2 (Kenilworth) coal seam, of the Blackhawk formation, defined as follows:

the stratigraphic equivalent of 4,020 feet below the surface of the earth down to 5,300 feet as measured in the Cockrell Oil 1210-0806 #1 (a/k/a Anadarko Federal 6-8) well located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 8, Township 12 South, Range 10 East, SLM, Carbon County, Utah,

on a pilot program basis.

2. As a requisite for such authorization, the Board further ordered that:

a) The Board's Orders entered in Cause Nos. 220-04 and 220-05, which established 160-acre drilling units for the production of gas (including coalbed methane) from the Blackhawk formation (as so defined), be vacated insofar and only insofar as they pertain to the W $\frac{1}{2}$  of Section 16 and the E $\frac{1}{2}$  of Section 18;

b) In lieu thereof, temporary 320-acre drilling units, comprised of said W $\frac{1}{2}$  of Section 16 and E $\frac{1}{2}$  of Section 18, respectively, be established for the production of gas (including coalbed methane) from the Blackhawk formation (as so defined);

c) The respective horizontal well be deemed the authorized well for the respective temporary drilling unit so established; and

d) Pioneer was authorized to complete the Huber-Jensen 1-18 Well, located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 18, and to convert the Huber-State 4-16 Well, located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 16, to observation (pressure monitoring) wells, but that neither well was to thereafter produce without further authorization of the Board.

3. In recognition of the pilot nature of the horizontal well authorization, the Board further ordered Pioneer, within one year of the respective dates of completion of the horizontal wells, or at such sooner time as deemed appropriate by the Division, to report to

the Board regarding the production from such wells such that the continued validity of the 320-acre drilling units so established can be evaluated.

4. In compliance with the Board's previous Order entered in this cause, Pioneer provided its first status report to the Board in conjunction with the hearing held in Cause No. 220-7 on May 24, 2006. On April 4, 2007, the Pioneer Request was filed, thus precipitating the supplemental hearing.

5. Since entry of the Board's previous Order entered in this cause, the following has occurred with respect to the four wells:

a) State 11-16 Well (re-named State 11-16H Well). This well was re-entered in January, 2006. A horizontal lateral was drilled to a depth of 5,574 feet, achieving 949 feet of lateral penetration in the K2 coal seam. Good gas shows were encountered but the horizontal lateral was lost due to sticking and caving. No lateral into the A1 seam was ever drilled. The well was suspended in September, 2006 and Pioneer no longer considers the well viable for horizontal drilling;

b) Huber-State 4-16 Well. This well was converted to a pressure monitoring well on March 30, 2006;

c) Jensen 2-18 Well. As a consequence of the difficulties encountered in the drilling of the State 11-16H Well, this well has never been drilled; and

d) Huber-Jensen 1-18 Well. With the Jensen 2-18 Well never having been drilled, and with the concurrence and authorization of the Division, this well, a conventional vertical well, was completed as a producing gas well with producing intervals in the Blackhawk formation, utilizing an experimental fracture stimulation. Its date of first production was November 16, 2006.

6. Even though the State 11-16H Well is no longer viable as a horizontal well, its drilling has confirmed that: a) drilling a lateral into the Blackhawk coals is possible; b) cleat/fracture swarms present yield regions of enhanced permeability but pose a drilling

risk; c) a liner should be installed to stabilize holes and coal fines; and d) drilling may require use of viscosified fluid, an artificial lift that can handle particulates effectively and a larger vertical hole to accommodate equipment for lateral drilling. Consequently, Pioneer believes further horizontal drilling is justified but, until a partner with the requisite expertise and capital is secured, has no current plans to do so. Until such plans have been finalized, Pioneer desires to continue producing the Huber-Jensen 1-18 Well and to convert the Huber-State 4-16 Well back to producing status.

7. Ownership of the gas and gas leasehold estates in the W $\frac{1}{2}$  of Section 16 remains uniform.

8. The Huber-Jensen 1-18 Well is not draining the entirety of the E $\frac{1}{2}$  of Section 18 and prior Board orders governing lands in the Castlegate field, including the Board's Order in Cause No. 220-4, have established that 160-acre drilling units are appropriate for Blackhawk formation gas production from conventional vertical wells.

9. In accordance with the Board's previous Order entered in this cause, Pioneer and the BLM executed a Communitization Agreement covering the E $\frac{1}{2}$  of Section 18 as to gas production from the Blackhawk formation approved on December 6, 2006, but effective as of November 1, 2006. However, execution of the Agreement was implicitly premised upon the drilling of the Jensen 2-18 Well, which has not occurred. Should the Board vacate the 320-acre drilling unit comprised of the E $\frac{1}{2}$  of Section 18 and reinstate the drilling units established under the Board's Order entered in Cause No. 220-4, Pioneer and

the BLM have agreed to terminate the existing Communitization Agreement and enter into a new communitization agreement covering only the SE¼ of Section 18 as to gas production from the Blackhawk formation retroactively effective as of November 16, 2006, being the date of first production from the Huber-Jensen 1-18 Well.

10. Although production has been achieved from the Huber-Jensen 1-18 Well, proceeds attributable thereto have been suspended from inception and not disbursed pending the outcome of the supplemental hearing in this cause.

11. A copy of Pioneer's Request was mailed, postage prepaid, to all royalty, overriding royalty and working interest owners within the entirety of captioned Sections 16 and 18 at their last addresses disclosed by the appropriate Federal, State and County realty records.

12. Notice of the filing of Pioneer's Request and of the hearing thereon was duly published in the Salt Lake Tribune, Deseret Morning News and Price Sun-Advocate on April 10, 2007.

13. The vote of the Board members present in the hearing and in this cause was unanimous in favor of modification of the Board's previous Order entered in this cause as outlined below.

#### CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the supplemental hearing was properly given to all parties whose legally protected interests are affected in

the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board retained and continues to have jurisdiction over the subject matter of this cause and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6(6).

3. Given the uniform ownership in the W $\frac{1}{2}$  of Section 16, the correlative rights of the parties therein will not be affected if the 320-acre drilling unit comprised thereof and established under the Board's previous Order entered in this cause remains in place.

4. The correlative rights of the parties in the E $\frac{1}{2}$  of Section 18 are not adequately protected by leaving in place the 320-acre drilling unit comprised thereof and established under the Board's previous Order entered in this cause. Therefore, reinstatement of 160-acre drilling units for those lands established under and in accordance with the Board's Order entered in Cause No. 220-4, retroactive to November 16, 2006 (being the date of first production of the Huber-Jensen 1-18 Well), is appropriate, just and protective of said correlative rights.

5. Authorization for Pioneer to continue to produce the Huber-Jensen 1-18 Well and to convert the Huber-State 4-16 well back to producing status, unless and until further horizontal drilling upon those lands is undertaken, is justified and reasonable under the circumstances and will not constitute waste.

6. The relief granted hereby will result in the orderly development and greatest recovery of gas from the Blackhawk formation as to the W $\frac{1}{2}$  of Section 16 and the E $\frac{1}{2}$  of Section 18, prevent waste and adequately protect the correlative rights of all affected parties.

### ORDER

Based upon the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The 320-acre drilling unit comprised of the E $\frac{1}{2}$  of Section 18, T.12 S., R.10 E., SLM, for the production of gas (including coalbed methane) from the Blackhawk formation, defined as:

the stratigraphic equivalent of 4,020 feet below the surface of the earth down to 5,300 feet as measured in the Cockrell Oil 1210-0806 #1 (a/k/a Anadarko Federal 6-8) well located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 8, Township 12 South, Range 10 East, SLM, Carbon County, Utah,

is hereby vacated retroactively effective as of November 16, 2006.

2. The Board's Order entered in Cause No. 220-4 is hereby reinstated as applicable to the E $\frac{1}{2}$  of Section 18, T.12 S., R.10 E., SLM, retroactively effective as of November 16, 2006.

3. Pioneer is authorized to continue producing the Huber-Jensen 1-18 Well and to convert the Huber-State 4-16 Well back to producing status for production of gas (including coalbed methane) from the Blackhawk formation.

4. The Huber-Jensen 1-18 Well shall be the authorized well for the drilling unit comprised of the SE $\frac{1}{4}$  of Section 18 pursuant to the Board's Order entered in Cause No. 220-4 reinstated hereby.

5. The Huber-State 4-16 Well shall be the authorized well for the drilling unit comprised of the W $\frac{1}{2}$  of Section 16 established under the Board's prior order in this cause. The State 11-16H Well shall not produce from the Blackhawk formation without further authorization of the Board.

6. Subject to approval of a conforming application for permit to drill by the Division, Pioneer may drill a horizontal well within the W $\frac{1}{2}$  of Section 16 for the production of gas from the Blackhawk formation without the need for further authorization from the Board; provided, however, that prior to establishing production from said horizontal well, the Huber-State 4-16 Well must be again converted to an observation (pressure monitoring) well and thereafter no longer produce without further authorization from the Board. The horizontal well shall be then deemed the authorized well for said 320-acre drilling unit. If Pioneer seeks to drill a horizontal well in the E $\frac{1}{2}$  of Section 18, it may again file a Request for Agency Action with the Board seeking similar relief as granted in the Board's previous Order entered in this cause.

7. Except as modified or is otherwise inconsistent with the provisions herein, the Board's previous Order entered in this cause is confirmed.

8. Pursuant to Utah Admin. Code Rule R641 and Utah Code Ann. § 63-46b-6 to 10, the Board has considered and decided this matter as a formal adjudication.

9. This Supplemental Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63-46b-10 and Utah Administrative Code Rule R641-109.

10. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63-46b-10(e) to - 10(g), the Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order issued. Utah Code Ann. § 63-46b-14(3)(a) and - 16. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63-46b-13, entitled, "Agency Review - Reconsideration," states:

(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.

*Id.* The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, "Rehearing and Modification of Existing Orders," states:

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 the month.

*Id.* See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63-46b-13 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that 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 party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

11. The Board retains continuing jurisdiction over all the parties and over the subject matter of this cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

12. For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 9 day of May, 2007.

**STATE OF UTAH  
BOARD OF OIL, GAS AND MINING**

By: *Douglas E. Johnson*  
Douglas E. Johnson, Chairman

**CERTIFICATE OF SERVICE**

I hereby certify that I caused a true and correct copy of the foregoing "Supplemental Findings of Fact, Conclusions of Law and Order" in this Cause to be mailed, postage prepaid, on May 16, 2007, to the following:

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