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JUN 16 2006

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 PIONEER NATURAL RESOURCES USA, INC. FOR AN ORDER MODIFYING THE ORDERS ENTERED IN CAUSE NOS. 220-2 AND 220-4 TO PROVIDE FOR THE DRILLING OF ADDITIONAL WELLS TO ACHIEVE THE EQUIVALENT OF AN APPROXIMATE 80-ACRE WELL DENSITY PATTERN FOR THE PRODUCTION OF GAS (INCLUDING BUT NOT LIMITED TO COALBED METHANE) FROM THE BLACKHAWK FORMATION IN THE S $\frac{1}{2}$ OF SECTION 9, THE N $\frac{1}{2}$ OF SECTIONS 10 AND 11, AND THE NW $\frac{1}{4}$ OF SECTION 12, TOWNSHIP 12 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH

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

Docket No. 2006-006

Cause No. 220-07

This cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, May 24, 2006, at 10:00 a.m. The following Board members were present and participated at the hearing: Chairman J. James Peacock, Robert J. Bayer, Douglas E. Johnson, Kent R. Petersen, Samuel C. Quigley and Jean Semborski. 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, Todd A. Dallegge – Sr. Geologist, Western Division, 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 Michael Hebertson, Hearings Manager. Keli Beard, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for the granting of the Request for Agency Action at the conclusion of its presentation.

At the conclusion of Pioneer's and the Division's presentations, Assad Raffoul, Petroleum Engineer, Utah State Office of the Bureau of Land Management, made an appearance and expressed his Agency's support for the granting of the Request for Agency Action. No other party filed a response to Pioneer's Request for Agency Action and no other party appeared or participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, being fully advised, and for good cause, hereby makes the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. Pioneer is a Delaware corporation in good standing, with its principal places of business in Irving, Texas and Denver, Colorado. Pioneer is duly qualified to conduct business in the State of Utah and is fully bonded with all appropriate Federal and State agencies.

2. By Order entered July 9, 1993 in Cause No. 220-2 (the "220-2 Order"), the Board established 160-acre drilling units for the production of methane gas from the Cretaceous Mesaverde/Blackhawk formation, defined therein as follows:

the stratigraphic equivalent of 3,582 feet below the surface of the earth down to 4,500 feet as measured in the Shimmin Trust #4 Well located in the SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, Township 12 South, Range 10 East, SLM,

including the SE $\frac{1}{4}$ of Section 9 and the NW $\frac{1}{4}$ of Section 10 of the captioned township. Under the 220-2 Order, only one well may currently produce on each such unit so established. No set-off limitations were contained in said order, evidently due to the fact wells already had been drilled and were producing on said units.

3. By Order entered April 30, 2002 in Cause No. 220-4 (the "220-4 Order"), the Board established 160-acre (or substantial equivalent) drilling and spacing units for the production of gas (including coalbed methane) from the Blackhawk formation, defined instead as follows:

[T]he 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 (also known as 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, S.L.M., Carbon County, Utah,

(hereinafter the "Spaced Formation") including the following described lands within the captioned township:

Section 9: SW $\frac{1}{4}$
 Section 10: NE $\frac{1}{4}$
 Section 11: NE $\frac{1}{4}$
 Section 11: NW $\frac{1}{4}$
 Section 12: NW $\frac{1}{4}$

Under the 220-4 Order, one well on each unit producing in said interval is currently allowed.

The Board further ordered that the permitted well for each such unit shall be located no closer than 660 feet from the outer boundary of each such unit and no closer than 1,320 feet from other wells completed and producing from the Spaced Formation unless otherwise permitted by administrative action approved by the Division in compliance with Utah Admin. Code Rule R649-3-3. Finally, the Board ordered modification of the 220-2 Order to conform the stratigraphic definition of the Blackhawk formation to that of the Spaced Formation.

4. The gas ownership in and the leasehold status of the Spaced Formation within the lands specifically described in Findings of Fact Paragraphs 3 and 4 above (hereinafter the "Existing Units") is as follows:

<u>Owner(s)</u>	<u>Lease(s)</u>	<u>Lands</u>
Fee (Jensen and Moynier Families)	1. Jensen - dated 10/30/98; recorded 2/5/99 in Book 428, Page 572; and	Sec. 9: S $\frac{1}{2}$
	2. Moynier - dated 10/30/98; recorded 2/5/99 in Book 428, Page 556	Sec. 10: SW $\frac{1}{4}$ NW $\frac{1}{4}$

United States

UTU-65948

Sec. 10: NW¹/₄NW¹/₄,
SE¹/₄NW¹/₄, NE¹/₄

Sec. 11: N¹/₂

Sec. 12: NW¹/₄

State of Utah
(in trust for the benefit
of its schools and
institutions)

ML-48352-OBA

Sec. 10: NE¹/₄NW¹/₄

Pioneer owns all of the working interest/operating rights in said leases as to said lands and the Spaced Formation. The Existing Units in part comprise what is commonly referred to as the Castlegate Field.

5. In accordance with the 220-2 and 220-4 Orders, Pioneer's predecessors in title drilled several conventional vertical wells which have been completed and produce gas from the Spaced Formation, including upon the Existing Units, but said wells have operated sub-economically due to the low gas rates per well. The low gas rates result from a combination of low permeability (0.02-5 md), limited areal coal seam continuity, water production from adjacent and abutting sands, and possible completion practices limiting the ability to depressure the coals. Reducing the pressure in the coals is needed to release the adsorbed gas content.

6. The Board, in its Order entered May 18, 2005 in Cause No. 220-6, authorized Pioneer to drill two horizontal wells, one with a single lateral and one with two laterals, in the W¹/₂ of Section 16 and the E¹/₂ of Section 18 of the captioned township on a pilot basis to

in part address the development issues identified in Findings of Fact Paragraph 5 above. The well located in Section 16 has been drilled and was completed on May 10, 2006, and very preliminary results indicate that the well should be effective in de-pressuring the selected coals targeted, but that vertical coal seams too thin to be accessed by horizontal lateral due to drilling and economic limitations may be by-passed.

7. One well on each Existing Unit is not effectively and economically draining and de-watering each such Unit. In-fill drilling to achieve the equivalent of an 80-acre density pattern is required to assist in de-watering and to intersect the thinner coal seams that cannot be efficiently and economically intersected by a horizontal lateral and/or the discontinuous seams not currently intersected by the existing vertical wells located on the Existing Unit. Without in-fill drilling, there is a high probability that gas will be left in the ground as unrecoverable.

8. Based on Pioneer's modeling and engineering analysis, an 80-acre density pattern will provide the highest rate of return but with an equivalent optimum recovery factor when compared to 40-acre and the existing 160-acre density patterns.

9. In-fill drilling to create the equivalent of an 80-acre well density pattern has previously been authorized by the Board in its Orders entered in Cause Nos. 220-2, 220-3 and 220-5 for other areas of the Castlegate Field.

10. There are topographical, sage grouse and other environmental, as well as geological and reservoir, concerns which support a modification of the existing off-limitations from 660 feet to 460 feet as to Existing Unit boundaries and from 1,320 feet to 920 feet as between wells producing from the Spaced Formation, without the necessity of exception location approval.

11. There is an existing approved communitization agreement covering the NW¼ of Section 10.

12. A copy of the Request for Agency Action was mailed, certified mail-return receipt, to all royalty, overriding royalty and working interest owners within the Existing Units and to all unleased owners and working interest owners and operators in each of the drilling and spacing units adjacent to the Existing Units, at their last addresses disclosed by the appropriate Federal, State and County realty records.

13. Notice of the filing of Pioneer's Request for Agency Action and of the hearing thereon was duly published in the Salt Lake Tribune and Deseret Morning News on May 7, 2006, and in the Price Sun-Advocate on May 2, 2006.

14. The vote of the Board members present in the hearing and in this cause was unanimous in favor of granting the Request for Agency Action.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request for Agency Action in the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board has jurisdiction over all matter covered by the Request for Agency Action 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. One well completed in the Spaced Formation on the Existing Units is not effectively and economically de-watering and draining the respective Unit.

4. Modification of the 220-2 and 220-4 Orders to allow the equivalent of an 80-acre density pattern and with the requested set-off limitations will be in furtherance of the public policies of this State to promote greater recovery of gas without waste and with protection of the correlative rights of all affected owners, will allow for the orderly development of the Existing Units, is consistent with other orders of the Board relating to the Castlegate Field, and is just and reasonable under the circumstances.

5. In-fill drilling authorization, rather than vacating and downspacing, is protective of correlative rights and is necessary to avoid impacting the contractual rights of

the parties to the existing communitization agreement, and is consistent with the prior actions of the Board relating to the Castlegate Field.

6. The declaration that the existing wells on the Existing Units above to be at lawful locations, notwithstanding the consequences of the relief granted herein, is just and reasonable under the circumstances.

7. Pioneer has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of its Request for Agency Action.

ORDER

Based upon the Request for Agency Action, testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The Request for Agency Action in this cause is granted.
2. The Orders entered in Cause Nos. 220-2 and 220-4 are hereby modified to allow the drilling of additional wells on each of the following drilling and spacing units established thereunder:

Township 12 South, Range 10 East, SLM

Sec. 9: SE $\frac{1}{4}$
Sec. 9: SW $\frac{1}{4}$
Sec. 10: NE $\frac{1}{4}$
Sec. 10: NW $\frac{1}{4}$
Sec. 11: NE $\frac{1}{4}$
Sec. 11: NW $\frac{1}{4}$
Sec. 12: NW $\frac{1}{4}$,

to achieve the equivalent of an approximate 80-acre well density pattern for the production of gas (including, but not limited to coalbed methane) from the Blackhawk Formation defined as follows:

[T]he 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 (also known as 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, S.L.M., Carbon County, Utah.

3. The additional wells so authorized may be located no closer than 920 feet from an existing well producing from said formation and no closer than 460 feet from the exterior boundary of each unit; provided, however, that administrative approval by the Division may be granted in accordance with Utah Admin. Code Rule R649-3-3 for exception well locations for topographical, geological, 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.

4. All existing wells located on the units described in Order Paragraph 2 above are hereby declared as authorized and deemed to be located at lawful locations, notwithstanding the consequences of the relief granted hereby.

5. 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.

6. This 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.

7. 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.

8. 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.

9. 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 16th day of JUNE, 2006.

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

By: 
J. James Peacock, Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Findings of Fact, Conclusions of Law and Order" for Docket No. 2006-006, Cause No. 220-07 to be mailed with postage prepaid, this 19th day of June, 2006, to the following:

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Pioneer Natural Resources USA, Inc.
Attention: Sharon Logan, Landman
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1. Royalty and Overriding Royalty Owners within Subject Area:

Douglas F. Cook
Chief-Branch of Fluid Minerals
U.S. Bureau of Land Management
Utah State Office
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Utah School & Institutional
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The Overriding Royalty Trust
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P.O. Box 2995
Salt Lake City, UT 84110-2995

RFJ Enterprises LLC
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Price, UT 84501

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Houston, TX 77002

Ernest H. Cockrell Texas Trust
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Houston, TX 77002-6307

Clint W & Camille Turner,
joint tenants
8438 S. 1275 E.
Sandy, UT 84094

Bernard E. Weichman
22528 Magnolia Hills Dr.
Magnolia, TX 77354

2. "Owners" and "Operators" in Drilling and Spacing Units Adjacent to Subject Area:

U.S. Bureau of Land Management
(see address above)

John Lowe
(no address disclosed)

Utah School and Institutional
Trust Lands Administration
(see address above)

Steven Lowe
(no address disclosed)

Cohort Energy Company
P.O. Box 226406
Dallas, TX 75222

Robert Lowe
(no address disclosed)

Wells Fargo Bank (f/k/a First
Security Bank of Utah), N.A.,
Trustee of the Family Trust and/or
Children's Trust Under the Will of
Ralph J. Lowe, deceased
c/o Trust Dept.
P.O. Box 9936
Ogden, UT 84409

Fiscal Dynamics Limited
Partnership
c/o Law Office of Travis L. Brown
P.O. Box 11637
Salt Lake City, UT 84147-0637

David Lowe
(no address disclosed)

George H. Lowe III
(no address disclosed)

Alta Kay Lowe
(no address disclosed)

3. Other Interested Parties:

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Moab Field Office
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