

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

FILED

APR 30 2001

SECRETARY, BOARD OF
OIL, GAS & MINING

IN THE MATTER OF THE REQUEST
FOR AGENCY ACTION OF QUINEX
ENERGY CORPORATION FOR AN
ORDER MODIFYING THE ORDER IN
CAUSE NO. 139-42 PROVIDING FOR
THE DRILLING OF ADDITIONAL
WELLS TO ALLOW UP TO FOUR
WELLS PER 640-DRILLING UNIT
FOR PRODUCTION OF OIL, GAS
AND ASSOCIATED HYDROCARBONS
FROM THE LOWER GREEN RIVER
AND WASATCH FORMATIONS IN
THE BLUEBELL FIELD OF
DUCHESNE COUNTY, UTAH

FINDINGS OF FACT, CONCLUSIONS
OF LAW, AND ORDER

Docket No. 2001-010

Cause No. 131-120

This cause came on regularly for hearing before the Board of Oil, Gas and Mining (the "Board") on Wednesday, March 28, 2001 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, Elise L. Erler, W. Allan Mashburn, Stephanie Cartwright, James Peacock, Kent R. Petersen, and Robert J. Bayer. John R. Baza, Associate Director for Oil and Gas of the Division of Oil, Gas and Mining (the "Division"), was present and participated in the hearing.

Phillip Wm. Lear of Snell & Wilmer LLP. appeared on behalf of Quinex Energy Corporation ("Quinex"), and Dr. DeForrest Smouse appeared as witnesses for Quinex.

Frederick M. MacDonald, of Pruitt, Gushee & Bachtell appeared on behalf of Devon Energy Corporation (“**Devon**”). A. Paul Baclawski and Steven M. Renke appeared as witnesses for Devon. Devon filed its response to the proposed spacing modifications, protesting the setback and well-spacing proposals and urging the standardization of economic feasibility.

Kurt E. Seel, Esq., Assistant Attorney General, represented the Board; and Thomas A. Mitchell, Assistant Attorney General, represented the Division.

Robert Henricks, Petroleum Engineer, Branch of Fluid Minerals (Utah State Office), and Gerald N. Kenczka, Petroleum Engineer (Vernal Field Office), appeared for the United States Department of the Interior, Bureau of Land Management.

Charles H. Cameron appeared for the United States Department of the Interior, Bureau of Indian Affairs, Fort Duchesne Agency of the Uintah & Ouray Reservation.

Ferron Secakuku, Ute Indian Tribe, Department of Minerals, appeared on behalf of the Ute Indian Tribe.

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

FINDINGS OF FACT

1. The Board mailed notice of the March 28, 2001 hearing to interested parties on March 8, 2001, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on March 11, 2001, and in the *Uintah Basin Standard* on March 13, 2001.

2. Quinex 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. Quinex is a Utah corporation in good standing having its principal place of business in Bountiful, Utah.

4. Quinex is the operator of the existing wells producing from the lands which are the subject matter of this Request for Agency Action.

5. Quinex owns interests in the leases and wells which are the subject of this hearing and independently invests in and bears its pro-rata share of the risk of drilling, completing, equipping, and operating the drilling unit wells.

6. The lands pertaining to the proposed spacing modification are situated in Duchesne County, Utah, and are more particularly described, as follows:

Township 1 South, Range 2 West, U.S.M.

Section 6: Lots 1, 2, 3, 4, 5, 6, 7,
SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$,
S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ (All)

(containing 661.06 acres, more or less)

Township 1 South, Range 3 West, U.S.M.

Section 12: All

(containing 640 acres, more or less)

(hereinafter "**Subject Lands**").

7. The Subject Lands comprise lands of the Ute Indian Tribe, also known as the Northern Ute Indian Tribe, held in trust by the United States of America.

8. John D. Chasel is the lessee of record of Ute Indian Tribe Oil and Gas Exploration and Development Lease No. 14-20-H62-4652 affecting Section 6 of the Subject Lands and of Ute Indian Tribal Oil and Gas Exploration and Development Lease No. 14-20-H62-4887 affecting Section 12 of the Subject Lands. Chasel is a director of Quinex and participates in the drilling of wells on the Subject Lands.

9. The Subject Lands are part of the Bluebell Field, a designated field known for the production of oil, gas, and associated hydrocarbons from the Lower Green River and Wasatch formations.

10. By orders in Cause Nos. 131-1 and 131-2 the Board established 640-acre drilling units or their equivalent public land survey subdivisions, for production of oil, gas, and associated hydrocarbons from the spaced interval from the Subject Lands and other lands. The Order authorized one well in each drilling unit for production from the common source of supply.

11. The interval spaced is the Lower Green River and Wasatch formations, more particularly described in the underlying orders as:

That interval below the stratigraphic equivalent of 9600 feet depth in the "E" log of the Carter #2 Bluebell well located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$, Section 3, Township 1 South, Range 2 West, U.S.M. (which equivalence is the depth 9530 feet of the SP curve, Dual Induction Log, run March 15, 1968, in the Chevron #1 Blanchard well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of said Section 3,)] down to and including the stratigraphic equivalent of 1000 feet below the 12,733 foot drilled depth in the Chevron-Mobil Ute Tribal Unit #1 well located in the SW $\frac{1}{4}$, Section 7, Township 1 South, Range 2 West, U.S.M.

(hereinafter "**Spaced Interval**"). The Spaced Interval comprises commonly occurring

formations throughout the Uinta Basin.

12. By Order dated April 17, 1985, in Cause Nos. 139-42, the Board modified its orders in the Cause No. 131 series of orders affecting the Greater Altamont-Bluebell Field and Cedar Rim-Sink Draw Field to provide for the drilling of additional wells in the established drilling units so as to allow up to two wells per 640-acre or equivalent drilling unit for production of oil, gas, and associated hydrocarbons from the Spaced Interval, including the Subject Lands and other lands.

13. The Spaced Interval is a highly complex series of isolated and discontinuous beds of productive rock, randomly distributed vertically over a several thousand-foot thick interval, comprising channel sand and off-shore lucustrian sandbar reservoirs embedded in mudstones (shales).

14. Geologic and engineering data obtained from existing wells producing oil, gas, and associated hydrocarbons from the Spaced Interval in the Subject Lands support the modification of the orders in the Cause No. 131 series of orders and the Board's order in Cause No. 139-42 as they affect the Subject Lands, to authorize up to four wells per 640-acre drilling unit (*de facto* 160-acre spacing patterns) for the efficient and economical production of oil, gas, and associated hydrocarbons from Spaced Interval in the Subject Lands.

15. The maximum area that can be efficiently and economically drained by one well from the Spaced Interval underlying the Subject Lands is 160 acres. Additional wells up to a total of four wells are required to efficiently and economically develop the drilling unit. Permitted wells should be located no closer than 660 feet from the drilling unit boundary line and

no closer than 1320 feet from any existing well producing from the Spaced Interval. Quinex and Devon stipulated regarding the appropriateness of the 660-foot set back from the drilling unit boundary line and 1320 between wells, and the Request for Agency Action was conformed accordingly.

16. An order modifying the existing spacing in the Spaced Interval in the Subject Lands to authorize additional wells, up to four wells to be drilled in the existing 640-acre drilling units for the production of oil, gas, and associated hydrocarbons from the Spaced Interval in the Subject Lands will promote the public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners.

CONCLUSIONS OF LAW

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

2. The Board 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.

3. Quinex properly served all owners entitled to notice of spacing modifications by mailing copies of the Request for Agency Action to those owners having legally protected interests.

4. The Subject Lands are currently spaced on 640-acre drilling units, authorizing the drilling of two wells for production from the Spaced Interval.

5. One hundred sixty-acre drainage patterns are not smaller than the maximum area in the Spaced Interval in the Subject Lands that can be efficiently and economically drained by one production well.

6. One hundred sixty-acre drainage patterns within the existing 640-acre drilling units are of a uniform size and shape for the Spaced Interval in the Subject Lands.

7. The terms and conditions sought by Quinex's Request for Agency Action, as orally amended, modified, and conformed by stipulation with Devon and at the hearing, are just and reasonable.

8. An order authorizing the drilling of additional wells, up to four wells in a 640-acre drilling unit, for the production of oil, gas, and associated hydrocarbons from the Spaced Interval in the Subject Lands will promote the public interest, increase ultimate recovery, prevent waste, and protect correlative rights of all owners.

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. Quinex's Request for Agency Action, as orally amended and modified and as conformed by written stipulation with Devon at the hearing, is granted.

B. The existing spacing orders as they affect the Subject Lands are hereby modified to authorize the drilling of additional wells up to a total of four wells in the 640-acre drilling units or their public land survey subdivision equivalents for the production of oil, gas, and associated hydrocarbons from the Spaced Interval.

C. The permitted wells shall be no closer than 660 feet from either the drilling unit boundary lines with not less than 1320 feet between wells producing from the Spaced Interval.

D. Administrative approval in accordance with Rule R649-3-3 of the Utah Administrative Code may be granted for exception well locations 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.

E. The Board has considered and decided this matter as a formal adjudication, 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 (2000).

F. This Findings of Fact, Conclusions of Law, and Order (“**Order**”) is based exclusively upon evidence of record in this 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 a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

G. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** The Board hereby notifies all parties to this 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).

H. **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 this proceeding 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.

I. 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.

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

ENTERED this 30th day of April 2001.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING



Dave D. Lauriski, Chairman

CERTIFICATE OF MAILING

I hereby certify that I caused a true and correct copy of the foregoing FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER in Docket No. 2001-010, Cause No. 131-120 to be mailed with postage prepaid, this 30 day of April, 2001, to the following:

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