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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 TEXACO
EXPLORATION AND PRODUCTION INC.
FOR AN ORDER ESTABLISHING 160 ACRE
(OR SUBSTANTIAL EQUIVALENT
THEREOF) DRILLING AND SPACING UNITS
FOR THE PRODUCTION OF GAS
(INCLUDING COALBED METHANE) FROM
THE FERRON FORMATION IN PORTIONS
OF TOWNSHIPS 17 AND 18 SOUTH,
RANGE 7 EAST, SLM, EMERY COUNTY,
UTAH

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

Docket No. 99-005

Cause No. 245-1

This cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, June 23, 1999, at the hour of 10:00 a.m. The following Board members were present and participated at the hearing:

Dave D. Lauriski
Thomas B. Faddies
Raymond Murray
Elise L. Erler
Allan Mashburn; and
Stephanie Cartwright

At the commencement of the hearing, Board member J. James Peacock, citing a potential conflict of interest, recused himself and did not participate. Attending and participating

on behalf of the Division of Oil, Gas and Mining (the "Division") was John R. Baza, Associate Director – Oil and Gas. The Board and the Division were represented by Philip C. Pugsley, Esq., and Patrick J. O'Hara, Esq., Assistant Attorneys General, respectively. Attending and participating on behalf of the Bureau of Land Management ("BLM") was Robert Hendricks, Chief-Branch of Fluid Minerals, Utah State Office. Attending and participating on behalf of the Utah School and Institutional Trust Lands Administration ("SITLA") was James D. Cooper, Mineral Resource Supervisor.

Testifying on behalf of Petitioner Texaco Exploration and Production Inc. ("TEXEP") were Chuck Snure – Land Representative, Robert Lamarre – Senior Geoscientist, and Joseph McHenry - Petroleum Engineer. Frederick M. MacDonald, Esq., Pruitt, Gushee & Bachtell, appeared as attorney on behalf of TEXEP.

The Division, the BLM and SITLA all expressed their support of the Request for Agency Action. No statements were made at the hearing in opposition of the Request for Agency Action and no other parties 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 appearing, hereby makes the following findings of fact, conclusions of law, and order.

FINDINGS OF FACT

1. The following Emery County lands (hereinafter referred to as the "Subject Lands") were, as of the date of the hearing, not subject to any spacing order:

Township 17 South, Range 7 East, SLM

Sec. 33:	All
Sec. 34:	All
Sec. 35:	All
Sec. 36:	All

(containing 2,560.00 acres, more or less)

Township 18 South, Range 7 East, SLM

Sec. 1:	Lots 1(46.36), 2(41.59), 3(41.75), 4(41.92), 5(44.66), 6(44.52) and 7(44.39), W $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ [All]
Sec. 2:	Lots 1(42.03), 2(42.12), 3(42.18) and 4(42.27), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Sec. 3:	Lots 1(43.83), 2(42.96), 3(43.34), 4(44.94), 5(41.16) and 6(41.33), SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ [All]
Sec. 4:	Lots 1(43.75), 2(43.69), 3(43.57) and 4(43.41), S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Sec. 5:	Lots 1(43.24), 2(43.14), 3(42.99) and 4(42.93) S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ [All]
Sec. 6:	Lots 1(43.20), 2(43.29), 3(47.70), 4(46.73), 5(32.69), 6(32.74) and 7(32.79), SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ [All]
Sec. 7:	Lots 1(32.93), 2(32.95), 3(32.96) and 4(32.98), E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ [All]
Sec. 8:	All
Sec. 9:	All
Sec. 10:	All

- Sec. 11: All
- Sec. 12: All
- Sec. 13: All
- Sec. 14: All
- Sec. 15: All
- Sec. 16: Lots 1(39.99), 2(40.00), 3(39.99) and 4(39.98),
NW¼, E½ [All]
- Sec. 17: Lots 1(43.22), 2(43.08), 3(42.83) and 4(42.69),
S½N½, SE¼
- Sec. 21: Lots 1(42.21), 2(43.07), 3(42.84), 4(42.61),
5(38.60), 6(38.35) and 7(38.24), S½NW¼,
SW¼NE¼, W½SE¼
- Sec. 22: All
- Sec. 23: Lots 1(41.45), 2(41.11), 3(41.66), 4(40.32),
5(40.79), 6(40.44), 7(40.32) and 8(42.09),
W½W½, NE¼ [All]
- Sec. 24: All
- Sec. 25: All
- Sec. 26: Lots 1 (41.94), 2(41.98), 3(42.02) and 4(42.06),
W½E½, W½ [All]
- Sec. 27: Lots 1(41.17), 2(41.52), 3(41.51) and 4(41.15),
NW¼, E½ [All]
- Sec. 34: Lots 1(37.92), 2(37.84), 3(37.75) and 4(37.66),
W½W½, E½ [All]
- Sec. 35: Lots 1(42.10), 2(42.12), 3(42.16) and 4(42.18),
W½E½, W½ [All]

(containing 16,407.99 acres, more or less),

being 18,967.99 aggregate acres.

2. TEXEP is a Delaware corporation in good standing in the State of Utah. TEXEP owns working interests in approximately 98% of the Subject Lands. It has already drilled and completed 37 wells which produce, and intends to drill, complete and

operate additional wells for the production of, gas (primarily coalbed methane) from the Ferron formation underlying the Subject Lands.

3. The Ferron formation is uniform throughout the Subject Lands and constitutes one gas pool. It is defined for purposes of this cause as follows:

the stratigraphic equivalent of the interval from 3,255 feet to 3,496 feet as shown on the Bulk Density Log of the Federal "P" 10-42 well located in the NW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 10, Township 18 South, Range 7 East, SLM.

One well will effectively and economically drain approximately 160 acres in that pool.

4. The establishment of approximate 160 acre drilling and spacing units for the Ferron formation underlying the Subject Lands will allow for orderly development, prevent waste by drilling unnecessary wells, adequately protect the correlative rights of all affected parties, result in the greatest recovery of hydrocarbon substances, and is just and reasonable under the circumstances.

5. Each such unit should be comprised of a governmental quarter section, *e.g.* NE $\frac{1}{4}$, or lots and quarter-quarter sections substantially comprising the same.

6. The permitted well for each such unit should be located no closer than 460 feet from the outer boundary of said unit and no closer than 920 feet from other wells completed and producing from the Ferron formation, except as may otherwise be permitted by administrative action for topographical or geologic reasons or other good cause shown.

7. In recognition of TEXEP's drilling and operation of the following wells (including the distribution of production proceeds) on the basis of 160 acre spacing, it is just and reasonable to establish the following drilling units hereunder retroactive to the following dates (which are the dates of first production for the wells):

<u>Well</u>	<u>Lands (all SLM)</u>	<u>Effective Date</u>
Federal "D" #34-12	<u>T17S, R7E</u> Sec. 34: SE $\frac{1}{4}$	May 5, 1997
Federal "D" #35-13	<u>T17S, R7E</u> Sec. 35: SW $\frac{1}{4}$	May 15, 1997
Federal "D" #35-14	<u>T17S, R7E</u> Sec. 35: NW $\frac{1}{4}$	May 8, 1997
Federal "D" #35-15	<u>T17S, R7E</u> Sec. 35: SE $\frac{1}{4}$	May 1, 1997
Utah "U" #2-48	<u>T18S, R7E</u> Sec. 2: Lots 1 and 2, S $\frac{1}{2}$ NE $\frac{1}{4}$ [NE $\frac{1}{4}$]	June 17, 1997
Utah "U" #2-49	<u>T18S, R7E</u> Sec. 2: SE $\frac{1}{4}$	November 2, 1997
Utah "U" #2-50	<u>T18S, R7E</u> Sec. 2: SW $\frac{1}{4}$	November 13, 1997

Utah "U" #2-11	<u>T18S, R7E</u> Sec. 2: Lots 3 and 4, S½NW¼ [NW¼]	March 13, 1997
Federal "Q" #4-44	<u>T18S, R7E</u> Sec. 4: SE¼	August 13, 1997
Peacock Trust #7-64	<u>T18S, R7E</u> Sec. 7: NE¼	August 30, 1997
Federal "S" #8-46	<u>T18S, R7E</u> Sec. 8: SW¼	October 2, 1997
Peacock Trust #8-61	<u>T18S, R7 E</u> Sec. 8: SE¼	October 20, 1997
P&K Peacock #8-62	<u>T18S, R7E</u> Sec. 8: NE¼	August 30, 1997
Peacock Trust #8-63	<u>T18S, R7E</u> Sec. 8: NW¼	August 19, 1997
Federal "R" #9-45	<u>T18S, R7E</u> Sec. 9: NE¼	August 16, 1997
D&A Jones #9-59	<u>T18S, R7E</u> Sec. 9: SE¼	October 21, 1997
Peacock Trust #9-60	<u>T18S, R7E</u> Sec. 9: SW¼	October 20, 1997
Federal "P" #10-42	<u>T18S, R7E</u> Sec. 10: NE¼	August 1, 1997
Federal "P" #10-43	<u>T18S, R7E</u> Sec. 10: SE¼	August 31, 1997

Federal "P" #10-47	<u>T18S, R7E</u> Sec. 10: NW ¼	July 10, 1997
L&M Curtis #10-58	<u>T18S, R7E</u> Sec. 10: SW ¼	October 21, 1997
R.G. Norris #14-40	<u>T18S, R7E</u> Sec. 14: SW ¼	March 3, 1998
UP&L #14-53	<u>T18S, R7E</u> Sec. 14: SE ¼	March 4, 1998
D&D Curtis #14-54	<u>T18S, R7E</u> Sec. 14: NE ¼	August 20, 1998
UP&L #14-55	<u>T18S, R7E</u> Sec. 14: NW ¼	August 28, 1997
L&M Curtis #15-67	<u>T18S, R7E</u> Sec. 15: NE ¼	November 22, 1997
D&A Jones #15-68	<u>T18S, R7E</u> Sec. 15: NW ¼	September 6, 1997
Utah "X" #16-65	<u>T18S, R7E</u> Sec. 16: NE ¼	October 22, 1997
Utah "X" #16-66	<u>T18S, R7E</u> Sec. 16: NW ¼	November 1, 1997

UP&L #23-51	<u>T18S, R7E</u> Sec. 23: NE $\frac{1}{4}$	September 19, 1998
Federal "C" #23-8	<u>T18S, R7E</u> Sec. 23: Lots 1 and 2, W $\frac{1}{2}$ NW $\frac{1}{4}$ [NW $\frac{1}{4}$]	July 15, 1996
UP&L #24-57	<u>T18S, R7E</u> Sec. 24: NW $\frac{1}{4}$	October 3, 1997
Federal "A" #26-2	<u>T18S, R7E</u> Sec. 26: SW $\frac{1}{4}$	July 1, 1996
Federal "A" #26-4	<u>T18S, R7E</u> Sec. 26: Lots 3 and 4, W $\frac{1}{2}$ SE $\frac{1}{4}$ [SE $\frac{1}{4}$]	July 2, 1996
Federal "A" #34-7	<u>T18S, R7E</u> Sec. 34: NE $\frac{1}{4}$	June 19, 1996
Federal "A" #35-5	<u>T18S, R7E</u> Sec. 35: Lots 1 and 2, W $\frac{1}{2}$ NE $\frac{1}{4}$ [NE $\frac{1}{4}$]	July 6, 1996
Federal "A" #35-6	<u>T18S, R7E</u> Sec. 35: NW $\frac{1}{4}$	July 6, 1996,

with each of the identified wells constituting the permitted well for each respective unit.

8. A copy of the Request for Agency Action was mailed to the royalty, overriding royalty, working interest and other production interest owners, and operators within the Subject Lands disclosed by the appropriate Federal, State and County realty records.

9. Notice was duly published as required by Utah Admin. Code Rule R641-106-100.

10. 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 interest parties 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 matters covered by the Request for Agency Action and all interest parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Anno. §§ 40-6-5(3)(b) and 40-6-6.

3. The Request for Agency Action satisfies all statutory and regulatory requirements for the relief sought therein and should be granted.

ORDER

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

1. The Request for Agency Action in this cause is granted.
2. 160 acre drilling and spacing units are hereby established for the Subject Lands (as defined herein) for the production of gas, including but not limited to coalbed

methane, from the Ferron formation (as defined herein) including all coals and surrounding sands.

3. Each such unit shall be comprised of a governmental quarter section, *e.g.* NE¼, or lots and quarter-quarter section substantially comprising the same.

4. The permitted well for each such unit shall be located no closer than 460 feet from the outer boundary of said unit and no closer than 920 feet from other wells completed and producing from the Ferron formation (as defined herein) unless otherwise permitted by administrative action approved by the Division in compliance with Utah Admin. Code Rule R649-3-3 (rule governing "Exception to Location and Siting of Wells").

5. As to the drilling units identified in Paragraph 7 of the Findings of Fact above, this Order shall be deemed retroactively effective to the dates identified in said Paragraph 7 relating to each such unit. Each well identified in said Paragraph 7 shall constitute the permitted well for each respective unit identified therein.

6. 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.

7. This Findings of Fact, Conclusion of Law and Order ("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.

8. 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.

JUL-06-99 MON 03:34 PM

OF OIL GAS MINING

FAX NO. 35939

P. 15/15

9. 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.

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

ISSUED this 2nd day of July, 1999.

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

By: 
Dave D. Lauriski, 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. 99-005, Cause No. 245-1 to be mailed, postage prepaid, this 12 day of July, 1999, to the following:

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