

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION OF AXIA ENERGY, LLC FOR AN ORDER VACATING A DRILLING AND SPACING UNIT PREVIOUSLY ESTABLISHED FOR THE WILLIAMS FORK AND ILES FORMATION, ESTABLISHING AN APPROXIMATE 640-ACRE DRILLING AND SPACING UNIT FOR THE WILLIAMS FORK AND ILES FORMATION AND ESTABLISHING 10-ACRE DENSITY FOR THE DRILLING OF WILLIAMS FORK AND ILES FORMATION WELLS OF THE MESAVERDE GROUP FOR CERTAIN DESCRIBED LANDS IN THE BUZZARD FIELD, MESA COUNTY, COLORADO

CAUSE NO. 371

DOCKET NO. _____

VERIFIED APPLICATION

Axia Energy, LLC (“Applicant”), by and through its attorneys, Poulson, Odell & Peterson, LLC, respectfully submits this Application to the Colorado Oil and Gas Conservation Commission (“Commission”) for an order vacating a drilling and spacing unit previously established for the Williams Fork and Iles Formation, establishing an approximate 640-acre drilling and spacing unit for the Williams Fork and Iles Formation and establishing well location and setback rules applicable to the drilling and producing of wells from the Williams Fork and Iles Formations of the Mesaverde Group covering certain described lands in Mesa County and in support of its application states and alleges as follows:

1. Applicant is a corporation duly authorized to conduct business in the State of Colorado.
2. Applicant owns a leasehold interest in all or a substantial portion of following described lands (hereinafter “Application Lands”):

Township 9 South, Range 95 West, 6th P.M.
Section 2: All (an irregular governmental section)

Mesa County, Colorado.

(the “Application Lands”).

A reference map for this application is attached hereto as Exhibit B.

3. Under Commission Order No. 371-7, dated October 21, 2010, the E½ of the Application Lands was spaced as an approximate 320-acre drilling and spacing unit for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations. Order No. 371-7 further provided that Williams Fork Formation and Iles Formation wells in the Mesaverde Group shall be optionally drilled upon a 10-acre density basis. Each well is to be located downhole anywhere within the unit but no closer than 100 feet from the drilling and spacing unit boundary where immediately adjacent or cornering (“Contiguous”) lands have been approved by the Commission for 10-acre drilling density, and no closer than 200 feet from the drilling and spacing unit boundary where Contiguous lands have not been approved by the Commission for 10-acre density downhole drilling for Williams Fork and Iles Formation wells, unless an exception is granted by the Director of the Commission.” Last, Order No. 371-7 provided that any well drilled pursuant to this Order shall be drilled from the surface either vertically or directionally from no more than one pad located on a given quarter-quarter section (or lots or parcels approximately equivalent thereto) unless exception is granted by the Commission pursuant to application made for such exception.
4. There are no producing wells from the Mesaverde Group on the Application Lands.
5. Applicant requests that the 320-acre drilling and spacing unit covering the E½ of the Application Lands be vacated and replaced with an approximate 640-acre drilling and spacing units for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations. Applicant further requests that the well location and setback rules applicable to the E½ of the Application Lands be extended to the W½ of the Application Lands.

Vacation of Existing Spacing

6. Applicant asserts that the existing 320-acre drilling and spacing unit covering the E½ of the Application Lands should be replaced with an approximate 640-acre drilling and spacing unit for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

7. That Applicant now owns a leasehold interest covering all of Section 2 and, therefore, an approximate 640-acre drilling and spacing unit, which eliminates lease lines within Section 2, will permit Applicant to more effectively develop the Application Lands.

8. That vacation of the 320-acre drilling and spacing unit will enable efficient drainage and eliminate any potential for waste.

9. That there are significant access and topographic issues associated with the Application Lands. Vacation of the 320-acre drilling and spacing unit will enable Applicant to more efficiently address these issues.

Establishing New Spacing

10. Applicant asserts that the W½ of the Application Lands is unspaced and subject to Rule 318.a. which provides for a well to be drilled two thousand five hundred (2,500) feet or greater shall be located not less than six hundred (600) feet from any lease line, and shall be located not less than one thousand two hundred (1,200) feet from any other producible or drilling oil or gas well when drilling to the same common source of supply, unless authorized by order of the Commission upon hearing.

11. To promote efficient drainage within the Williams Fork and Iles Formations of the Application Lands, to protect correlative rights and to avoid waste, the Commission should establish a drilling and spacing unit of approximately 640 acres as more particularly described in Exhibit B attached hereto and incorporated herein by reference.

12. That the approximate 640-acre proposed drilling and spacing unit will allow efficient drainage of the Williams Fork and Iles Formations; will prevent waste; will not adversely affect correlative rights and will assure the greatest ultimate recovery of gas and associated hydrocarbon substances from the reservoirs. Drilling and spacing units of the size and shape specified above are not smaller than the maximum area that can be economically and efficiently drained by the proposed wells in each such drilling and spacing unit.

Establishing Well Location And Setback Rules

13. Applicant asserts that multiple wells have been drilled upon lands in close proximity to the Application Lands with the result that geological and engineering evidence indicates that Williams Fork and Iles Formation wells in the Mesaverde Group on the Application Lands now should be allowed to be drilled on a ten (10) acre density basis. With respect to the Iles Formation, Applicant further asserts that the Commission should allow ten (10) acre density for the Iles Formation because the option to complete a well to the Iles Formation is economic and efficient when completed within a Williams Fork wellbore. Applicant asserts that the Iles Formation would not be exploited or developed without this option.

14. Applicant requests that this Commission, as to the whole of the above described Application Lands, allow Williams Fork and Iles Formation wells in the Mesaverde Group to be optionally drilled upon a ten (10) acre density basis with each such well to be located downhole anywhere within the unit provided no such wells shall be located downhole any closer than one hundred (100) feet from the boundary of the unit unless such boundary abuts or corners lands in respect of which the Commission has not at the time of the drilling permit application granted the right to drill ten (10) acre density Williams Fork and Iles wells, in which event Williams Fork and Iles Formation wells to be drilled upon the given drilling and spacing unit shall be drilled downhole no closer than two hundred (200) feet from that portion of the unit boundary which so abuts or corners the lands in respect of which ten (10) acre density downhole drilling for Williams Fork and Iles Formation wells has not been ordered by the Commission.

15. Applicant requests that this Commission allow wells drilled under this Application to be drilled from the surface either vertically or directionally from no more than one (1) pad located on a given quarter quarter section (or lots or parcels approximately equivalent thereto) unless exception is granted by the Colorado Oil and Gas Conservation Commission pursuant to application made for such exception.

Conclusion

16. The above-proposed spacing and well location rules will allow development of the Williams Fork and Iles formations to occur, will not promote waste, will not violate correlative rights, and will assure the greatest ultimate recovery of gas and associated hydrocarbon substances from the reservoir.

17. That the names and addresses of the interested parties according to the information and belief of the Applicant are set forth in Exhibit A, attached hereto and made a part hereof.

WHEREFORE, Applicant respectfully requests that this matter be set for hearing at the next regular hearing date; that notice be given as required by law and that upon such hearing this Commission enter its order:

A. Vacating a drilling and spacing unit previously established upon the Application Lands;

B. Establishing an approximate 640-acre drilling and spacing unit for the Application Lands;

C. Allowing Williams Fork and Iles Formation wells in the Mesaverde Group on the Application Lands to be optionally drilled upon a ten (10) acre density basis with each such well to be located downhole anywhere within the unit provided no such wells shall be located downhole any closer than one hundred (100) feet from the boundary of the unit unless such boundary abuts or corners lands in respect of which the Commission has not at the time of the drilling permit application granted the right to drill ten (10) acre density Williams Fork and Iles wells, in which event Williams Fork and Iles Formation wells to be drilled upon the given drilling and spacing unit shall be drilled downhole no closer than two hundred (200) feet from that portion of the unit boundary which so abuts or corners the lands in respect of which ten (10) acre density downhole drilling for Williams Fork and Iles Formation wells has not been ordered by the Commission;

D. Allowing Williams Fork and Iles Formation wells in the Mesaverde Group on the Application Lands to be drilled from the surface either vertically or directionally from no more than one (1) pad located on a given quarter quarter section (or lots or parcels approximately equivalent thereto) unless exception is granted by the Colorado Oil and Gas Conservation Commission pursuant to application made for such exception; and

E. Granting any other relief necessary to prevent waste and protect correlative rights of the owners.

Dated this 23rd day of December, 2010.

Respectfully submitted,

AXIA ENERGY, LLC

By: _____

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Jeremy I. Ferrin, Esq., No. 39053

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VERIFICATION

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Adam C. Sayers, Executive Vice-President, of Axia Energy, LLC, upon oath deposes and says that he has read the foregoing Application and that the statements contained therein are true to the best of his knowledge, information, and belief.

Adam C. Sayers
Executive Vice-President

Subscribed and sworn to before this ____ day of December, 2010.

Witness my hand and official seal.

My commission expires:

[SEAL] _____
Notary Public

**EXHIBIT A
INTERESTED PARTIES**

Colorado Division of Wildlife
Attn: Kim Kaal
6060 Broadway
Denver, CO 80216

Colorado Department of Public Health & Environment
Attn: Kent Kuster
4300 Cherry Creek Drive South
Denver, CO 80246-1530

Mesa County Planning & Eco. Development
Attn: Randy Price
750 Main Street
Grand Junction, CO 81501

Bureau of Land Management
12815 H Road
Grand Junction, CO 81506

Axia Energy, LLC
1430 Larimer Street
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Denver, CO 80202

Encana Oil & Gas (USA) Inc.
Attn: Helen Capps
370 17TH Street, Suite 1700
Denver, CO 80202

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Collbran, CO 81624-9619

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Grand Junction, CO 81507-4206

Margaret E. Whaley
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Grand Junction, CO 81505

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Poulson, Odell & Peterson LLC
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Denver, CO 80203-4319

EXHIBIT B
REFERENCE MAP

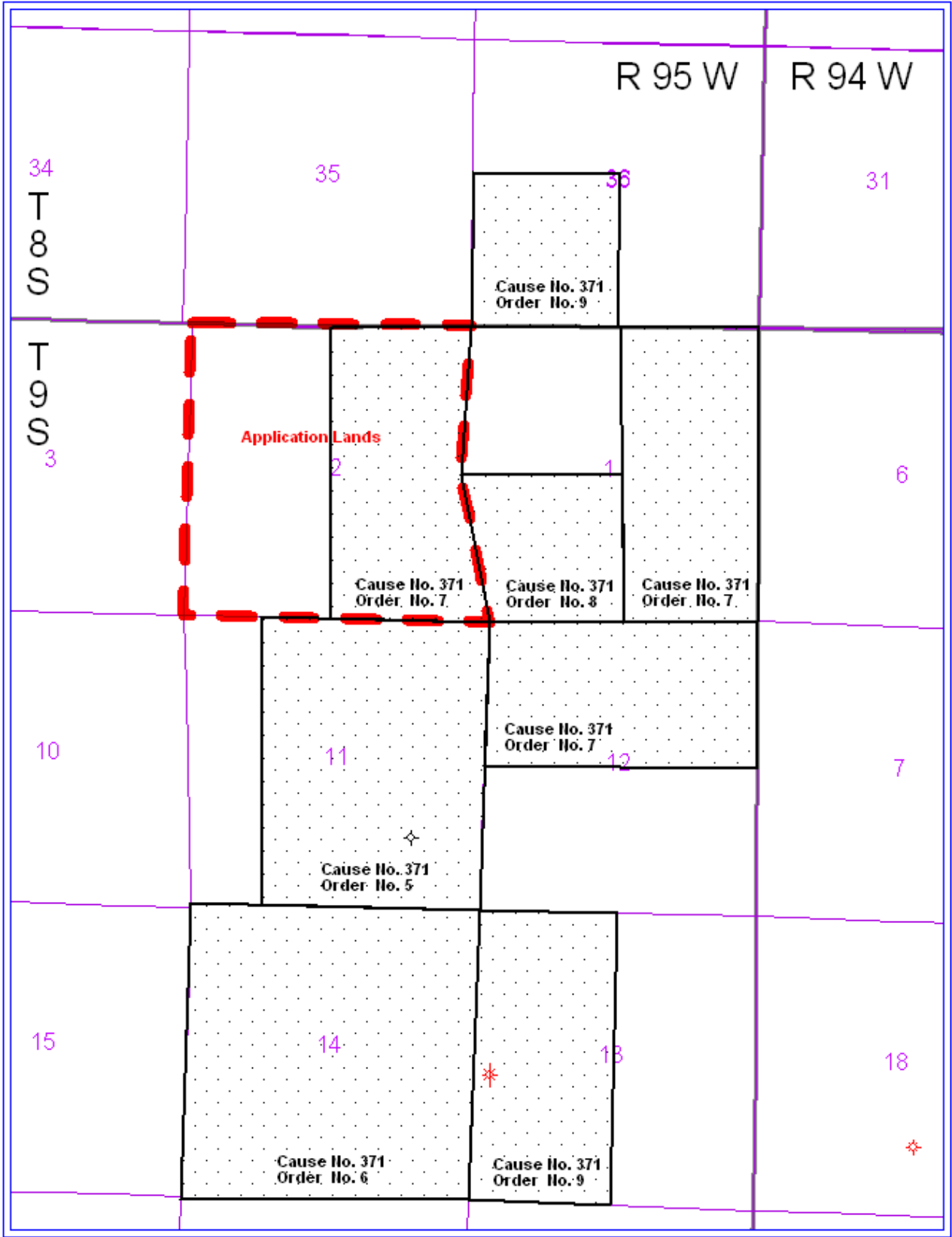


Exhibit B

Applicant: Axia Energy, LLC

Cause No. 371

Docket Nos. _____

Type of Exhibit: Application Lands

ALL Section 2-T9S-R95W

Mesa County, Colorado