

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

IN THE MATTER OF ALLEGED VIOLATIONS OF THE RULES AND)	CAUSE NO. 1V
REGULATIONS OF THE COLORADO OIL AND GAS)	
CONSERVATION COMMISSION BY PIONEER NATURAL)	DOCKET NO. 1101-OV-02
RESOURCES USA, INC. , LAS ANIMAS COUNTY, COLORADO)	

NOTICE OF ADMINISTRATIVE ORDER BY CONSENT HEARING

On June 11, 2004, a domestic water well was constructed for Ms. Gopa KA-Ross ("Ms. Ross") under Colorado Division of Water Resources Permit No. 256909. The well hereinafter referred to as the "Ross water well" is located in the NE¼ SE¼ of Section 35, Township 32 South, Range 68 West, 6th P.M.

On June 30, 2006, the Colorado Oil and Gas Conservation Commission ("COGCC" or "Commission") approved an Application for Permit-to-Drill the Molokai #13-36TR Well. The permit required Pioneer Natural Resources USA Inc. ("Pioneer") to drill a borehole to 1,050 feet, install surface casing, and cement that casing back to surface before drilling the well to a total depth of 2,250 feet. The Molokai #13-36 TR Well (API #05-071-08837) is located in the NW¼ SW¼ of Section 36, Township 32 South, Range 68 West, 6th P.M. and is located approximately 1,300 feet east-northeast of the Ross water well.

On July 18, 2006, a contractor hired by Pioneer began drilling the borehole for the surface casing of the Molokai #13-36 TR Well. At approximately 6:45 p.m., while drilling the borehole for the surface casing with air and drill foam, a mechanical problem occurred with the main air compressor used at the Molokai #13-36 TR Well site. The air compressor shut down due to the mechanical problem and the drill bit became stuck in the uncased hole at 355 feet below surface elevation. Using a back-up compressor, the drilling contractor pressurized the drill pipe to 600 pounds per square inch in an attempt to break the drill bit free. This was not successful. At 7:00 p.m., the pressure was bled off the drill pipe and the operation shut down to wait on tools.

On Wednesday July 19, 2006, the COGCC Staff received a complaint from Ms. Marilyn Dolores, the adjacent property owner, stating that her water well had been impacted by activities at the Molokai #13-36 TR Well site, which became the subject of a different Administrative Order by Consent ("AOC"), referred to by Order No. 1V-345.

Ms. Ross submitted numerous complaints dating from July 20, 2006 for various issues which involved water quality. On July 20, 2006, COGCC Staff visited the site of the Ross water well and collected water samples from the well. A local Pioneer representative in charge of its Raton Basin operations also visited the site and talked to COGCC Staff. Pioneer suspended all operations on the Molokai #13-36 TR Well, per COGCC instructions to suspend operations.

On July 21, 2006, Pioneer plugged and abandoned the borehole for the surface casing of the initial Molokai #13-36 TR Well, as required by COGCC Staff.

On July 31, 2006, COGCC Staff issued Notice of Alleged Violation ("NOAV") #1393100 to Pioneer citing violations of the following COGCC rules:

a. Rule 324A.a., which requires an operator to take precautions to prevent significant adverse environmental impacts to water to the extent necessary to protect human health, safety and welfare by using cost effective and technically feasible measures to protect environmental quality and to prevent the unauthorized discharge of oil, gas, chemical substances, or exploration and production waste; and

b. Rule 324A.b., which prohibits an operator from performing any act or practice in the conduct of oil and gas operations that constitutes a violation of water quality standards or classifications established by the WQCC for waters of the state.

The NOAV required Pioneer to develop a Site Investigation Remediation Plan ("Plan"), to address water quality impacts, to develop metrics to be used to monitor and measure effectiveness of the Plan, and to develop secondary goals and objectives if initial objectives could not be reached. The NOAV also required Pioneer to complete and submit an investigative report ("Report") on the cause of the upset drilling conditions and identification of standard operating practices that could be implemented to reduce potential for additional upsets.

COGCC Staff alleges that the drilling of the borehole for the surface casing of the initial Molokai #13-36 TR Well resulted in impacts to the water quality of the Ross water well.

Rule 523. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rules 324A.a. and 324A.b. Rule 523.a.(3) specifies that "the maximum penalty for any single violation shall not exceed Ten Thousand dollars (\$10,000) regardless of the number of days of such violation," unless the violation results in significant waste of oil and gas resources, damage to correlative rights, or a significant adverse impact on public health, safety or welfare or the environment.

Pioneer should be found in violation of Rule 324A.a. because it failed to take precautions to prevent significant adverse environmental impacts to water resources to the extent necessary to protect public health, safety and welfare. COGCC Staff believes that, despite drilling with air, Pioneer and its contractor did not exercise due care in the protection of water-bearing formations while drilling the surface casing borehole. Pioneer

failed to take precautions to prevent significant adverse impacts to water resources from July 18, 2006 to July 21, 2006 for three days of violation of Rule 324A.a. at the Molokai #13-36 TR Well. Pioneer spudded the Molokai #13-36 TR Well on July 18, 2006 and had mechanical problems the same day. Pioneer plugged and abandoned the Molokai #13-36 TR Well on July 21, 2006. A base fine of Three Thousand dollars (\$3,000) has been calculated for the violation of Rule 324A.a.

Pioneer should be found in violation of Rule 324A.b. because it performed an act or practice that affected a water well in such a way that the water within the water well temporarily exceeded WQCC water quality standards. Between July 20, 2006 and August 14, 2006, State of Colorado Water Quality Standards were exceeded in the Ross water well in a total of six samples taken on five days in violation of Rule 324A.b. These exceedances were not continuous, and, in between the samples that showed some exceedance, there were samples that showed no exceedance. No exceedances were found in samples taken after August 14, 2007. Laboratory pH is not used as pH can change in the course of transport to the lab; for this reason only the pH noted in the field at the time of sampling is used. A base fine of Ten Thousand dollars (\$10,000) has been calculated for the violation of Rule 324A.b.

In accordance with Rule 523.d., the total fine can be reduced if there are mitigating factors. The mitigating factors in this matter are as follows: (1) Pioneer demonstrated prompt response to the violations; (2) Pioneer cooperated with the COGCC with respect to the violations; (3) there was no economic benefit associated with the violations and Pioneer incurred significant cost in correcting the violations and in drilling a new water well for Ms. Ross; (4) the water met WQCC standards after August 14, 2007; (5) in general the exceedances noted were only slightly above (< 0.01 mg/L) the WQCC standards and in some cases may have been due to natural variability. The total base fine of Thirteen Thousand dollars (\$13,000) should be reduced because of the mitigating factors, resulting in a recommended adjusted fine of Ten Thousand dollars (\$10,000).

NOTICE IS HEREBY GIVEN, that the Oil and Gas Conservation Commission of the State of Colorado, pursuant to the above, has scheduled the above-entitled matter for hearing on:

Date: Thursday, January 13, 2011
Friday, January 14, 2011

Time: 9:00 a.m.

Place: Suite 801, The Chancery Building
1120 Lincoln Street
Denver, Colorado 80203

In accordance with the Americans with Disabilities Act, if any party requires special accommodations as a result of a disability for this hearing, please contact Margaret Humecki at (303) 894-2100 ext. 5139, prior to the hearing and arrangements will be made.

Pursuant to said hearing in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter such orders as it deems appropriate to protect the health, safety and welfare of the public and to prevent the waste of oil and gas, either or both, in the operations of said field, and to carry out the purposes of the statute.

In accordance with Rule 509., any interested party desiring to protest the granting of the application or to intervene on the application should file with the Commission a written protest or intervention no later than December 30, 2010, briefly stating the basis of the protest or intervention. Such interested party shall, at the same time, serve a copy of the protest or intervention to the person filing the application. An original and 13 copies shall be filed with the Commission. **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of January 3, 2011.** If the matter is uncontested, the matter may be placed before the Commission for its review and approval.

IN THE NAME OF THE STATE OF COLORADO

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By _____
Robert A. Willis, Acting Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
December 7, 2010

Pioneer Attorney Address of Record:
Douglas P. Wall
Associate General Counsel
Pioneer Natural Resources USA, Inc.
1401 17th Street, Suite 1200
Denver, CO 80202