

TO: COGCC Commissioners
FROM: Rich Griebing
DATE: January 5, 1998

cc: Jim Lochhead
Ron Cattany
Dan McAuliffe
Cindy McNeill
Doug Robotham
Kathy Kanda
Bob Poelstra
Sue Griswold
Joan Avery
Larry Shuford
Division Directors
OGCC Employees
MEGA Board Representatives
Monthly Report Mailing List

MONTHLY STAFF REPORT

I. STATISTICS

- ◆ Our monthly statistics report is attached. A total of 1002 drilling permits were approved for 1997 which was flat with the 1996 and 1995 annual totals.

II. NORTHEAST COLORADO

◆ 'J' Sand Infill Drilling in Wattenberg Field

Several of us met with four Wattenberg operators on December 18 to discuss the pending 'J' Sand Infill drilling program. Three of the operators have expanded earlier pilot programs and they now have plans to drill 109 additional 'J' Sand wells during 1998. We will review a land map depicting the locations of most of these wells during today's hearing. Industry is currently considering proposing rulemaking that could greatly improve the efficiency and cost effectiveness of developing the Cretaceous formations in the Wattenberg area. Timing of this potential rulemaking is not anticipated to occur before our April hearing.

Until such a rulemaking results in a new approach, operators will continue to submit perhaps 100 applications for an additional (third) 'J' Sand well per existing 320 acre drilling and spacing unit during this year. I am requesting your permission to allow any unprotested Wattenberg 'J' Sand applications for additional wells per spacing unit to be heard administratively through April of 1998. In considering production and pressure data to be required as conditions of approval for these applications, hearing officers may relax the requirements prescribed in some of the previous pilot projects while continuing to ensure that adequate production and pressure data is acquired in an appropriate distribution across the field.

◆ Amoco DJ Basin Properties Sale

HS Resources closed on the purchase of Amoco's DJ Basin properties on December 15, 1997. We look forward to working with HS as they implement plans to further develop these properties.

◆ Tipps Oil Company

Work has begun to plug and abandon five wells and reclaim 11 wells.

The estimated cost to complete this work is \$50,000. About \$18,000 of the cost to complete the work will be provided by the remaining portion of the \$30,000 blanket plugging bond. The ERF will provide funding for the remainder of the cost.

◆ Proposed Plan for Inactive Well Financial Assurance

Rex Monahan has requested modification to the \$5,000 financial assurance requirement for each excess inactive well as provided for in Rule 707.a. Mr. Monahan has submitted a plan for their inactive wells to be utilized for enhanced recovery or gas storage, plugged or abandoned, or returned to production in a timely manner. This plan is detailed in the attached draft order. Staff requests the Commission docket this item for the February hearing.

III. NORTHWEST COLORADO

◆ Northwest Colorado Oil and Gas Team

The next meeting of this team is scheduled for Thursday, January 8 from 10:00 a.m. until 2:00 p.m. at the Rifle Town Hall. This meeting will coincide with a regular meeting of the Associated Governments of Northwest Colorado. The team, co-chaired by Brian Macke and by Rio Blanco County Commissioner Don Davis, consists of representatives of federal, state and local government, the gas and oil industry, surface owners and citizens. A copy of tentative agenda topics for the next meeting is attached.

◆ Garfield County COGCC Local Response

The COGCC continues to implement a program in Garfield County where a COGCC hearing officer is available in a public place one day per month to address and respond to citizen concerns. Brian Macke was present at the Battlement Mesa Public Safety Building on the evening of December 18 and during the day on December 19. Brian responded to fifteen citizens from across Garfield County who asked questions, registered complaints and voiced concerns regarding numerous aspects of the accelerated gas well development in the area.

The primary questions and concerns were regarding:

- Unsafe oil and gas vehicle driving practices on county roads.
- Drill site access roads near town of Battlement Mesa.
- Pending increased drilling density applications in the area.
- Upcoming COGCC public forum process to address surface impacts.
- Gas well flaring and its effects on air quality.

- Lack of adequate reclamation of well sites.
- Noxious weeds on well sites and access roads.
- Funding for county road and bridge damages caused by oil and gas vehicles.

Representative Russell George called to thank the COGCC for the outreach effort, and to inform us that he has been receiving very positive feedback about the Garfield County outreach program. Dates for the following months will be the third Friday of each month with the next visit on January 16 at the Battlement Mesa Public Safety Building. Continuation of this effort will be dependent upon the amount of public participation that is demonstrated during future dates.

◆ Garfield County Road Oil and Gas Vehicle Complaints

The most repeated complaint during the December 18 and 19 Garfield County outreach by almost all parties was that oil and gas operator and contractor vehicles were creating a dangerous nuisance on Garfield County roads due to speeding, running stop signs, and other discourteous driving behaviors. Discussions have been held with Garfield County Undersheriff Jim Sears about addressing this problem. Attached is a memo from me to Garfield County oil and gas operators and contractors regarding this situation. It is hoped that operators will work with their employees and contractors to improve this situation.

◆ EPA Enforcement at Rangely Field

Chevron hosted a field visit for EPA to the Rangely Field on November 19, to look at spill sites and discuss field operations. EPA has not responded or taken further action since that date.

◆ Garfield County Issues

Garfield County citizens, the Battlement Mesa Oil and Gas Committee, and the Grand Valley Citizen's Alliance continue to express interest in local oil and gas activity, including increased density drilling applications and the upcoming COGCC local forum process for addressing surface impacts. Attached are several local newspaper articles and editorials about oil and gas activity. Also attached are several articles about the Barrett Resources 20 acre increased density application and Barrett's presentation to the Garfield County Commissioners of their future plans for the area. A letter from me to Joan Savage regarding comments she is reported to have made in a recent Glenwood Post article is attached as well.

◆ Battlement Mesa and Project Rulison Vacinity Well Permitting

Tom Brown, Inc. has received COGCC APD approval and is preparing to drill the first well near the town of Battlement Mesa since the 40 acre increased density application was approved last year. The Clem #15-14 Well will be drilled approximately 2 miles east of the developed portion of Battlement Mesa, and is planned to be spudded by early February. Tom Brown, Inc. has been doing a model job of communicating with the local government and the Battlement Mesa Oil and Gas Committee to plan for the least impact on local residents. The Garfield County Road and Bridge Department is requiring that all heavy vehicles enter on the Battlement Parkway which is the primary entrance to the subdivision from I-70. Tom Brown staff are working with the Oil and Gas Committee to plan, to the greatest practical extent, to restrict heavy truck traffic to daylight hours and to post signs where needed to require low vehicle speed limits and no noisy "jake brake" use. Conversations with the Battlement Mesa

Oil and Gas Committee indicate that they are generally satisfied with Tom Brown's efforts to work cooperatively with them.

The Clem #15-14 is also the first well permitted in the vicinity of the Project Rulison site since the Department of Energy conducted its study last fall which concluded that gas wells drilled outside of the 40 acre parcel around Project Rulison could not be expected to encounter radionuclides in the gas. At that time, the COGCC had agreed to do the following:

- The COGCC will immediately inform the DOE of applications for permits to drill in the vicinity of the Project Rulison site.
- The DOE will review the drilling permit applications and will contact the operator to arrange sampling if deemed necessary by the DOE.
- New gas wells may be added to the EPA annual water sampling program for radionuclides if appropriate.
- Operators, the COGCC, and the BLM provided assurances that if radionuclides were ever detected in any of the sampling that the wells would not be allowed to produce.

The Tom Brown Inc. Clem #15-14 is approximately 3 miles northwest of the Project Rulison site, and near one of the producing wells which was tested by the DOE. The COGCC staff sent the Application for Permit to Drill to the DOE for their review.

♦ Garfield County Underground Blowout

Groundwater testing and monitoring of the aquifer impacted by the September 16 underground blowout of the Barrett Resources RMV 108-4 Well in the Rulison Field is continuing. Barrett had submitted a Rulison Area Ground Water Characterization Workplan to the COGCC in late November which was reviewed by the Environmental staff who approved it with some modifications. The workplan includes drilling and sampling from six ground water observation wells around the impacted Goad well and the continued sampling and monitoring of the original local residence's water wells in the area.

The six monitoring wells have been drilled. One of the wells was dry and consequently plugged, and the other wells were sampled. The results are not available yet, but preliminary indications are that benzene concentrations above action levels were found in a monitoring well about 500 feet west of the Goad well. All of the other local residence's water wells in the area were sampled in December, and the results are not yet available.

Because of the incident, the COGCC placed interim additional requirements on newly drilled Williams Fork Formation gas wells in Garfield County. Meanwhile, an investigation is being performed to determine adequate surface casing depths for that type of well in various area fields. The requirements have been amended in the attached December 29 Notice to Operators. It requires 1,100 feet of surface casing in the Rulison Field Overpressured Area and a minimum of 10% of total well depth for surface casing in other fields. There are also requirements for surface casing leak off tests and reporting to the COGCC field office regarding lost circulation, kicks and when total depth is reached so that cementing may be witnessed. This policy is expected to continue to be data driven as more information is provided by operators.

♦ Naval Oil Shale Reserves (NOSR) I and III, Garfield County

BLM is in the early phases of planning prior to leasing the 6000 acre developed area of NOSR III which was prescribed for leasing this year by recent legislation that transferred management from DOE to BLM. Attached is a recent newspaper article regarding the transfer.

- Piceance Basin Well Reclamation Survey

A memo from Loren Avis regarding the Piceance Basin reclamation survey he performed in November and my related memo to area operators are attached.

IV. SOUTHWEST COLORADO

- ♦ La Plata County Cooperative Agreement

A COGCC hearing officer maintains office hours at the La Plata County Courthouse the third Friday of each month to meet with concerned residents. During the December 19 session, no residents came in to meet with COGCC hearing officer Dave Dillon. During the last two months, only one resident met with the COGCC representative. On the positive side, this may indicate that local COGCC field inspector Mark Weems and local operators' representatives are effectively addressing residents' concerns in the field. If the lack of visitation continues during the January COGCC hearing officer monthly visit, we will propose a modification to the Cooperative Agreement.

- ♦ La Plata County Rules Clarification

During the past year, our staff has been working with an operator to produce, MIT, or abandon the Ute B #1 Well, located in the SW/4 of the SW/4 of Section 7, T32N, R9W in La Plata County. The operator had decided to plug and abandon the well, but discovered access was restricted due to new buildings which the County permitted to be built less than our 150' minimum safety set back from the well.

My attached letter of December 5 to La Plata County Commissioner Joswick requests clarification of the County's rules for the location of buildings near oil and gas wells and asks for his assistance in resolving this matter.

- ♦ La Plata County Gas and Oil Regulatory Team (GORT)

The next GORT meeting is scheduled for March 19, 1998, at La Plata County Fairgrounds from 8:00 am to noon.

- ♦ Pressure Falloff Test, Simon Land & Cattle Disposal Well #1 Well

In order to acquire data that could resolve concerns of potential impacts to an Entrada Formation water seep several miles away, Amoco has indicated it plans a mid-January falloff test of the referenced well.

V. SOUTHEAST COLORADO

VI. ENVIRONMENTAL ISSUES

♦ The New 900 Series Rules

The 900 Series Rules were adopted at the November commission hearing and became effective 12/30/97. The new rules are available to operators through e-mail, the web page and by mailing copies on request. A memo to a partial list of operators was sent by fax modem, which describes operators' obligations for managing pits before and after the deadline.

♦ CDPHE-Air Quality Control Division - H₂S Rulemaking

The Hydrogen Sulfide Workgroup will be presenting findings to the Air Quality Control Commission at the February hearing. The findings show that concentrations of H₂S found near industrial sources may be a nuisance, but probably not at levels that are harmful to humans. The most significant concentrations of H₂S were found near natural hot springs.

♦ Water Quality Control Commission/Division Quarterly Meeting

The next quarterly meeting with WQCC is scheduled for 1:00 p.m. March 26, 1998 at our offices.

♦ Proposed Changes to WQCC Rules

In our ongoing process of resolving discrepancies between the EPA requirements for UIC programs and WQCC Standards and Classifications for ground water, Debbie Baldwin and Ed DiMatteo have continued to work with staff from both agencies. A proposed rule change which would apply to the Weber Formation and Navajo Sandstone in the Rangely Field area has been submitted to the WQCC for consideration at their April 13, 1998 hearing. A copy of the proposed rule change, including the statement of basis and purpose, is attached.

VII. ORGANIZATION

Our current organization chart is attached.

VIII. PLANNING/ADMINISTRATION/OTHER

♦ Welcome to New COGCC Commissioner Sonnenberg

On November 20 Governor Romer appointed Stephen A. Sonnenberg as Commissioner from Congressional District 6 to fill the vacancy created by the resignation of Logan MacMillan. Governor Romer is expected to appoint a replacement to fill the vacancy created by the resignation of Marla Williams. We welcome and look forward to working with Commissioner Sonnenberg and are grateful to have his considerable geologic expertise on the Commission.

♦ Estimated 1997 Colorado Production Value Index

Our preliminary estimate of 1997 Colorado Production Value Index is \$1.8 Billion. This the highest value for the six years we have maintained the index. It represents a 20% increase of the 1996 value of \$1.5 Billion and a 50% increase in the 1995 value of \$1.2 Billion. Final exact numbers based on complete production and price data will be released by July in keeping with HB 95-1108.

♦ Public Forums Regarding Rulemaking to Address Surface Impact and Well Spacing Issues

Attached is a notice we have distributed to announce the referenced public forums as you directed during the special Commission Meeting of December 10. Also attached is my memo of November 24 on this topic. Assistant Attorney General McNeill and I met with COGA representatives to discuss the varying proposals relating to these issues. Since then, industry proposals have continued to evolve to address unresolved issues. I am optimistic that some of the conflicts between staff and industry drafts can be resolved before they are distributed for public forum purposes.

♦ Budget

Last week we completed an informal reforecast of revenues to determine if we have adequate funding to support the Patina application for fee elimination of change of operator fees. As I have indicated in the past, I am supportive of the Patina request as long as we have the revenues to meet the projections we've given to the Joint Budget Committee. Our latest look shows that the recent softening in oil and gas prices would decrease projected levy revenue by roughly \$50,000 for FY97/98. Other revenues are expected to be roughly \$50,000 higher than originally projected without the proposed fee reduction. Approving the Patina request would result in a shortfall of up to \$75,000 for FY97/98 depending upon effective date. Projected Conservation Fund Balance at year end is just under \$200,000 without the fee reduction, and I am not comfortable with a lower fund balance in view of potential price swings. We simply don't have the projected revenue at this point to eliminate change of operator fees unless we raise other fees or levy. If the Patina application is withdrawn or denied, I will continue to attempt to incorporate fee elimination in future budget requests as revenues allow.

♦ Procedures for Commission Chair, Vice Chair, etc. Election

Unless you advise otherwise, we will assume that the procedures you discussed at the November hearing have been adopted.

♦ Potential Royalty Owner Information and Payment of Proceeds Legislation

As discussed during the December 10 meeting, Senator Bishop has asked us to facilitate a discussion between some of his constituents and industry representatives regarding the referenced potential legislation. It is unclear if Senator Bishop will introduce legislation of this nature this session. A working draft is being reviewed but has not been endorsed. A copy of the latest version will be distributed to you at today's hearing.

♦ Plugging and Abandoning Orphaned Wells on Federal Lands

The draft BLM/COGCC agreement continues to be revised and reviewed by both parties.

◆ State-Local Oil and Gas Regulatory Jurisdictional Issues

This process has been terminated upon the mutual agreement of the local government and industry representatives. A draft letter to the House and Senate Committees on Agriculture summarizing the process is being prepared for your review.

◆ COGCC Computer System Overhaul

The COGCC Computer System Overhaul project is progressing. Attached is a list of completed tasks for the project. The contract data modeler, Matt Townsend and contract requirements analyst, Barbara Katz are continuing to work with team members to design the new system. The data modeler is working on the model for all of the COGCC data elements, which involves organizing the data elements into subject areas and determining how they relate to other data elements. The requirements analyst is going through the previously prepared RFP and other documents to compile a detailed list of all of the requirements for the system. These requirements will be plugged into a computer program that will provide a mechanism for ensuring that all requirements are addressed.

Consulting Workflow Analyst Gretchen Winters will start on January 21 to construct the workflow for the form routing and the business rules for the data elements. This will be used to construct the workflow plan and automated data editor. This portion of the project is expected to create time savings and efficiency for the COGCC.

The Information Management Commission has recently released \$500K of the project funds based on project milestones achieved to date. These funds will be used for hardware and software procurement and consulting services.

The Project Team will begin to procure the major hardware and software components after the buildout for the new COGCC secured and temperature controlled server room is completed in late January. The planned completion of the project is December 1998.

◆ Production Reporting by Well and by Formation

The COGCC staff presented a revised form at the November hearing showing the proposed data elements for production reporting by well and by formation, as directed by you at the August 1997 hearing. The proposed forms have been distributed to the oil and gas industry trade associations and the environmental community for comments. Because the new computer system is beginning to be developed, it is critical that decisions be made regarding how production will be reported.

The staff has received several comments on the proposed form, which range from cosmetic suggestions about the proposed form to complaints about operators being required to report production by well and by formation and the operational and in-house computer software problems that will be created for the operators. The staff plans to hold another workshop with Industry and other interest parties in the near future to finalize the form and data elements. Those with comments may provide them to Brian Macke at 894-2100 x122.

- ◆ Department of Natural Resources Imaging Project

The COGCC is working with the Division of Water Resources and the COGCC to help prepare an imaging needs assessment document for the divisions and a Request for Proposal (RFP) for contractor bidding on the document imaging project. The Division of Water Resources is preparing to begin the project this fiscal year, and the COGCC is requesting Severance Tax funding for a document imaging project beginning in FY98-99. One of the goals of the project is to make COGCC document images accessible by the oil and gas industry and the public in remote locations. Those wishing to provide input into the project should contact Brian Macke (x122).

- ◆ Minerals, Energy, Geology Advisory (MEGA) Board

The next meeting is scheduled for February 13 in Denver at which time the board will present a wish list of FY 99-00 projects to the divisions. Our preliminary FY 99-00 budget request will be presented to the board for their review at the May 8 meeting in Denver.

- ◆ COGCC on the Internet

The COGCC continues to expand its Internet presence. Our stakeholders are accelerating their use of the COGCC Website to find current information about the COGCC and to download up to date versions of documents such as COGCC Rules and Regulations and rulemaking drafts. Our Long Range Plan, the severance tax/ad valorem tax tables, the list of orphaned wells and sites and the revised hearing schedule are now available. The newest additions to the Website are the recently adopted 900 Series Rules and downloadable ASCII files containing the Colorado Oil and Gas Operator Name and Address list and the COGCC County, Geological Formation and Oil and Gas Field computer codes. The Monthly Staff Report will be available in the very near future. The COGCC is in the process of redesigning its Web pages to provide improved customer service. The public is invited to leave comments or suggestions for improvements at the COGCC Internet site. The address is <http://www.dnr.state.co.us/oil-gas/>. The COGCC also has a "general mail box" for e-mail at dnr.ogcc@state.co.us.

- ◆ Penalties Status

Attached is a revised table showing the status of penalties paid and penalties pending collection.

- ◆ Hearing Applications with Increased Well Density for February Hearing

'J' Sand infill applications were addressed in the Northeast Colorado Section of this report. There are no other applications of this nature for the February hearing at this time. Today is the application deadline.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

- ◆ IOGCC Annual Meeting, December 6-9, Santa Fe

My report to Governor Romer from the referenced meeting is attached.

X. VARIANCES GRANTED BY THE DIRECTOR UNDER RULE 502.b.

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