

MONTHLY STAFF REPORT - January 14, 1999

I. STATISTICS

- Our monthly statistics report is attached. Total 1998 drilling permits of 1157 exceeded the three previous years of 1002 permits by 15%. Wells were permitted in 29 counties throughout the state. Five counties accounted for over 75% of the total wells in the state as follows: Weld 392 wells (34%); Las Animas 195 wells (17%); Yuma 111 wells (10%); Garfield 95 wells (8%); and La Plata 82 wells (7%).

II. NORTHEAST COLORADO

- Beecher Island ERF Project

The bid to plug and abandon three wells located in Yuma County has been completed. The cost to abandon and reclaim the wells was \$28,000. There was no financial assurance to cover these wells and ERF funds were used to abandon them.

- Centennial Petroleum

During the February 1998 Hearing, Centennial Petroleum was found in violation of Rules 1004. and 1103. and was ordered to properly reclaim the Barnes No. 2-34 Well located in Weld County. The operator did not complete the work and staff made a claim on the financial assurance. The bond company elected to contract the completion of the work. The reclamation has been completed.

- Patina Shut-In Well Agreement

In accordance with the Shut-In Well Agreement between Patina and the COGCC, Patina has submitted their bi-annual report of the progress of their program. During 1998, Patina plugged nine wells and returned 38 wells to production for a total of 47 wells. As stated in the agreement, Patina has an obligation to remove 45 wells from their shut-in list per year. Patina has exceeded this goal by two wells. These two wells will count against their total obligation for 1999. The list has a total of 89 shut-in wells remaining.

III. NORTHWEST COLORADO

- Northwest Colorado Oil and Gas Forum

The next meeting of the forum is scheduled for Thursday, February 11 from 10:00 a.m. until 2:00 p.m. at the Rifle City Hall. The forum, which is made up of representatives from federal, state and local government, the oil and gas industry, and all interested citizens, is co-chaired by Brian Macke and Garfield County Commissioner Larry McCown. Please contact Brian Macke at 303-894-2100 x122 to submit agenda topics for the next meeting. Attached are recent Northwest Colorado newspaper articles.

- Garfield County/Industry Meeting to Discuss Road and Bridge Impact Fee Study

Garfield County officials and oil and gas industry representatives have been working on

a Garfield County road and bridge impact fee study. The COGCC was asked by the county to facilitate the gathering of data from the operators regarding the number, configuration and weight of all vehicles used in drilling, completion and production operations for wells in Garfield County.

Barrett Resources and Tom Brown, Inc. personnel supplied a great deal of time and effort towards developing a very comprehensive oil and gas vehicle traffic study for wells drilled under various scenarios of road use and water supply points. This data was supplied to the county in late December, and is being used by the county road and bridge department to calculate the number of traffic units attributable to individual wells. Garfield County officials working on the project held an internal meeting on January 7 to review the progress of the study and to develop a proposal that will be presented at a public meeting. This meeting is tentatively planned to be held at a time close to the Northwest Colorado Oil and Gas Forum meeting on February 11.

The primary goal of the study is to determine if there is a need for the county to assess a per well impact fee from the oil and gas industry that would be a pre-payment of the county share (a relatively small portion) of the property taxes paid for each well. Some of the information being compiled in the study includes:

- The amount of shortfall in tax revenues and State Highway Users Trust Fund (HUTF) moneys earmarked for upgrading and maintaining county roads and bridges.
- The predicted costs of upgrade and maintenance associated with impacts to county roads caused by the industry.

According to Garfield County officials, the benefits of the per well fee/property tax pre-payment concept are: (1) the county would be able to upgrade and maintain roads while the impacts were occurring, and (2) many of the road restrictions and shutdowns that affect the industry could be avoided.

At this time, the county is not contemplating any per well fee for existing wells. Garfield County officials have made a commitment to keep the industry fully informed about the results of the study prior to any County Commission action. The county asked the COGCC to continue to be involved in the process.

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- Battlement Mesa and Project Rulison Vicinity Issues

Tom Brown, Inc. has submitted a Notice to the BLM of its intent to drill up to 7 wells in 1999 and possibly 9 wells in 2000 in the area south of Battlement Mesa on federal and immediately adjacent non-federal leasehold. This action has triggered the preparation of a BLM Environmental Assessment that is currently being finalized and is expected to be issued by the first week of February for a thirty-day public comment period.

- BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement

The public comment period for the BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement (SEIS) was extended from September 17 to November 23. The time period was extended to allow the BLM additional time to provide new information concerning air quality for public review and to address the numerous public comments that have been submitted in order to make appropriate

changes in the final SEIS. The extension of the comment period will extend the lease sale of the Naval Oil Shale Reserves (NOSR) lands originally scheduled for November 1998 to March 1999.

The Draft SEIS focuses on the area's high oil and gas potential, primarily in the area along the I-70 corridor between Silt and Parachute. The purposes of the SEIS are:

- To provide public disclosure of the impacts of higher than expected rates of gas well development in the 1991 Final Environmental Impact Analysis.
- To provide an improved information base for managing gas development impacts.
- To prepare a set of standard operating procedures that could be used to manage future oil and gas development.
- To permit the review and modification of lease stipulations that could be applied to future leases or used as Conditions of Approval on existing leases.
- To develop mitigation measures to be applied to new leases in the NOSR.

The Final SEIS, which will include an analysis of issues that have been raised during the public comment period, is planned to be issued by the end of January, 1999. This will be followed by a thirty-day protest period before the BLM issues the Record of Decision (ROD) on the SEIS.

- Oil and Gas Vehicle Traffic on Garfield County Roads

COGCC Northwest Colorado Inspector Jaime Adkins met with Garfield County Sheriff Tom Dalessandri on December 7 to discuss concerns that the Sheriff had recently expressed about oil and gas activity in Garfield County. The focus of the meeting was on building cooperation and improving communications between the COGCC and the Sheriff's office to address oil and gas related problems and complaints as they arise. Each agency has committed to communicate with the other regarding issues outside of their respective authorities. The meeting also included a discussion about how Garfield County could improve their own internal communication regarding well flaring notification from operators and Local Governmental Designee information sent from the COGCC. Sheriff Dalessandri has expressed an interest in participating in the Northwest Colorado Oil and Gas Forum as another way to improve communication between his office, the COGCC and the industry.

- TransColorado Pipeline Project

Construction on the second phase of TransColorado Pipeline has been delayed by bad weather, unanticipated archeological finds and delays in getting final approval from government agencies. The mechanical construction is now in its final stages on all four of the pipeline spreads, and the tie in to the Phase I section at the southern end is expected to take place during January. The compressor stations are expected to be completed by mid February, after which gas can begin to be transported. This 280 mile long natural gas pipeline project has been designed to transport natural gas from underutilized supplies in western Colorado to consumers in California and Midwest markets. The route of the project traverses through nine counties in western Colorado. It will extend from 25 miles east of Rangely to Farmington, New Mexico and have a capacity of up to 300 MMCFD. The economic impact of long-term permanent employment, state and federal taxes, and royalties from production are expected to amount to more than \$50 million per year for the nine Colorado counties and one New Mexico county where the pipeline is constructed. Attached is a newspaper article about

the TransColorado Project.

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

BLM continues to prepare for leasing approximately 7,700 acres of the developed area of NOSR III referred to as the NOSR Production Area. These lands were prescribed for leasing by recent legislation that transferred management from DOE to BLM. The extension of the comment period for the BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement (SEIS) will extend the lease sale of the NOSR lands originally scheduled for November 1998 to March 1999. The lease stipulations that are developed in the Glenwood Springs Resource Area SEIS will apply to the new leases in the NOSR Production Area.

IV. SOUTHWEST COLORADO

- COGCC La Plata County Oil & Gas Development Project

After discussions during last month's hearing we have revised the attached Development Projection description. I will be requesting your approval to proceed with this project at today's hearing.

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

The last meeting was held on December 10 and was attended by approximately 25 people. Items on the meeting agenda included:

- 3M Project
- Discussion of COGCC Staff Recommendations Regarding Modifications to Amoco's Monitoring Network at Pine River Ranches
- La Plata County Oil and Gas Development Plan
- JM Huber Development Plan
- Outcrop Study Update
- Fruitland Coal Methane Seep Monitoring Update

The next GORT meeting is scheduled for March 11, 1999 from 8:30 a.m. to noon at the La Plata County Fairgrounds. Morris Bell chairs the team, which is made up of representatives from La Plata County government, US BLM, the oil and gas industry, and the COGCC. Please contact Morris Bell at 303-894-2100 ext. 105 or morris.bell@state.co.us to submit agenda topics for the next meeting. The newspaper article about the last meeting is attached.

- Pressure Falloff Test, Simon Land & Cattle Disposal Well

We have issued a Notice of Alleged Violation to Amoco regarding this well following our discussion with you during the September hearing. The NOAV specified an abatement date of November 1, 1998 to shut-in the disposal well.

A meeting was held on October 22 and attended by representatives of Amoco, the EPA and the COGCC. Amoco presented a proposal to gather more information on the well and requested an extension of the abatement date deadline. Both the EPA and the COGCC extended the deadline to shut-in the well.

Amoco performed a step rate test, a temperature survey and a tracer survey and performed another pressure falloff test. The temperature survey indicated the injection water was breaking out of zone below the Entrada.

Amoco submitted a workover procedure to temporarily abandon the Entrada Formation and complete the Bluff Formation for an injection zone. Injection into the Entrada Formation will cease by January 15, 1999.

- Point Lookout Plugging Project

The bid to plug and abandon 19 wells located in Montezuma County has been awarded and the work has begun. The cost estimate to abandon the wells is \$73,000. The COGCC will utilize the \$30,000 financial assurance and \$43,000 of ERF funds to abandon these wells.

- La Plata County – Fruitland Outcrop Temperature Survey

Recently, Warren Holland, La Plata County, and Jeff Olson, US BLM, performed a temperature survey along the Fruitland Formation outcrop north of the SUI Reservation. The survey covered all of the areas included in the ongoing methane gas monitoring program, i.e. Basin Creek, Carbon Junction, Florida River, South Fork Texas Creek, and the Pine River Ranches.

Measurements were made in the Fruitland Formation or overlying alluvium at depths of approximately 18 inches and 36 inches below the ground surface. Ambient air temperatures ranged from 39° F to 64° F and the ground temperatures in various coal seams ranged from 40° F to 49° F. Elevated ground temperatures were not detected at any of the locations. A measurement also was made in an old coal waste pile near the former Schutz Coal Mine in the Pine River Ranches Subdivision. The temperature in the pile was 77° F.

w La Plata County/San Juan Basin 3M Proposal

During our December 7, 1998 Joint Budget Committee (JBC) Hearing I briefly described our Supplemental Budget Request which asks for \$138,000 in FY 98-99 and \$807,230 in FY 99-00 in Severance Tax Funds for the monitoring, mapping and modeling program "3M Proposal". The JBC has received our formal paperwork submittals and is reviewing them. We are making preparations to move ahead as soon as funding is approved.

V. SOUTHEAST COLORADO

- Las Animas County Hearing

After participating in numerous public meetings and holding one local public forum, our first Las Animas County Hearing is scheduled for Tuesday, February 23, 1999 in Trinidad.

- Las Animas County Orphan Wells

The COGCC will plug and abandon eight orphan wells located in Las Animas County. This work should begin in February. The cost estimate to abandon these wells is

\$34,000. ERF funds will be utilized to abandon these wells.

- Evergreen Operating Corporation

Evergreen has a produced water discharge permit with the Colorado Department of Public Health and Environment (CDPHE), but has failed to meet some discharge requirements for produced water under the permit. Loren Avis suggested that Evergreen contract with SeaCrest Lab to determine the cause of the failures. As a result of SeaCrest's testing it was determined that the failure was due to total dissolved solids (TDS), not to any toxins. The whole effluent toxicity (WET) test can now be passed using a different species of Ceriodaphnia. With these test results, Evergreen made application with CDPHE to amend their original discharge application.

Southern Colorado CURE, through their attorney Paul Zogg, filed comments with CDPHE opposing the amendment of the Evergreen discharge permit. CDPHE reviewed the CURE comments, but no action was taken on their objections.

CDPHE approved Evergreen's amended permit application. The amended permit will become effective January 23, 1999.

- Petroglyph Operating Co., INC.

Petroglyph Operating has installed two monitor wells adjacent to two of their largest produced water pits. Loren Avis requested the monitor wells be installed to determine the presence of ground water, and any potential impacts if ground water is present.

Petroglyph has also applied for a discharge permit from the Colorado Department of Public Health and Environment (CDPHE). Petroglyph's produced water has low total dissolved solids (TDS) and has passed the whole effluent toxicity (WET) test required by CDPHE. Once the discharge permit is approved, Petroglyph plans to pipe water to several large pits and discharge the produced water to tributaries of the Cucharas River.

VI. ENVIRONMENTAL ISSUES

- 1998 Outstanding Oil & Gas Operations Awards

Attached is our 1998 Outstanding Operations Award nomination form. We are soliciting nominations for awards by March 31, 1999.

- Water Quality Control Commission/Division Quarterly Meeting

The next quarterly meeting with WQCC is being scheduled for early 1999.

w Water Well Conference – Colorado Division of Water Resources and Colorado Water Well Contractors Association

Dave Dillion and Debbie Baldwin were asked to participate in the annual water well conference sponsored by the DWR and CWWCA, which was held on December 11, 1998 in Pueblo. They were asked to discuss coalbed methane (CBM) production in the Raton Basin, potential impacts to water wells, CBM produced water quality, and regulations related to the disposal, discharge, or reuse of produced water. Most of the 125 people in attendance were realtors.

VII. ORGANIZATION

- Our current organization chart is attached.

We would like to welcome Paula Neal, who accepted an offer for the position of Fiscal Manager. Paula brings with her a strong background in working with budgeting and accounting matters in a State government environment.

VIII. PLANNING/ADMINISTRATION/OTHER

- Low Oil Price Crisis

Attached is a copy of my letter of December 8, 1998 soliciting input from COGA as to how we can assist operators in coping with the current historically low oil price environment, similar letters were sent to IPAMS and RMOGA. Also attached is a December 22 Rocky Mountain News article and my January 11, 1999 memorandum listing staff recommendations in this area.

- Contingency Planning for Low Revenues

We will continue to reforecast revenues as prices change and payments are received. As referenced in December 8, 1998 letter to COGA, our fund balances for this fiscal year and next fiscal year are projected to remain positive. If prices deteriorate further, we would submit a supplemental budget request for a funding source change from levy to severance tax. The severance tax operational account balance is projected to provide a potential cushion for contingency needs.

- COGCC Letter to Colorado Real Estate Commission (CREC)

The CREC has referred to their forms committee our draft language for the "Contract to Buy or Sell Form" that advises buyers to inquire about and understand the impacts that title to oil, gas or other mineral interests may have on their ownership rights. Final action on the new forms is anticipated next month.

- Professional Engineering Registration Requirements Relating to COGCC Testimony

At your direction we have prepared and noticed a draft policy for discussion at today's hearing.

- COGCC Computer System Overhaul

The database model is complete and is being implemented in SQL Server 6.5. The Data Dictionary is being updated to reflect the model revisions. This should allow total system testing of each form as it is completed as well as migration of data. The Form 7, Monthly Report of Operations will be completely tested and in user review the week of the hearing with the Form 8, Oil and Gas Conservation Levy, being tested next.

The conversion utilities will be re-evaluated to insure that they work with any changes in the data model. Portions of the existing database may begin to be migrated to the new database, especially those that are currently in Access databases.

Import format for the Form 7, Monthly Report of Operations will be ready for testing as soon as the user review of the edit and update system is completed. We will be

contacting some of the commercial software vendors for some sample data sets for testing.

- 1999 Hearing Schedule

A copy of our current 1999 hearing schedule is attached. The February hearing will be held in Trinidad and the June hearing will be held in Rifle.

- Production Reporting by E-mail

All operators are encouraged to submit their production reports via e-mail to: *dianne.lyons@state.co.us*. Attachments must meet the same guidelines required for diskette submission. Questions should be directed to Dianne Lyons at (303) 894-2100 x129.

- Production Reporting by Well and by Formation

During the July hearing the Commission adopted the new Form 7 "Monthly Report of Operations" to allow the industry as much time as possible to prepare for the production reporting change. It will go into effect for the January 1999 production. Because the new computer system is being developed, it was critical that the decision was made regarding how production will be reported. A notice has been sent to all operators of oil and gas injection wells in Colorado, along with a list of all API numbers for each operator's wells. It is important to note that production and injection reporting for wells in gas storage fields will not be done using the Form 7, Monthly Report of Operations, but will continue to be reported annually under the current practice.

To assist operators in understanding the new production reporting form, the codes used on the form, and the data format for reporting electronically, COGCC staff have prepared a document titled "Monthly Report of Operations, Form 7 Specifications". This document is available on the COGCC Web Site at <http://cogcc.state.co.us/documents.html>, or from the COGCC office on request. Attached is a letter from a software developer about the new form 7 format.

- Department of Natural Resources Imaging Project

The project officially kicked off on Monday January 11, 1999 for the day forward imaging system. It is expected to be completed and in testing by the end of February. We are currently involved in a needs assessment review to insure that we are deploying the correct hardware and software combinations.

Central Services has agreed to perform the conversion of the historic documents (backfile). They are expected to begin concurrently with the system testing to insure a thorough system test. The COGCC backfile is expected to take six months.

- Geographic Information Systems

Jim Milne and Thom Kerr have been coordinating with Mike Whatley, the former Department GIS Coordinator, on GIS user needs and system requirements. We have met with different software designers and vendors to determine the best cost approach to the upgrade of the plat mapping information system from the old computer system.

It may be more cost effective to utilize newer technologies with existing software rather than try to upgrade the old system.

- Minerals, Energy, Geology Advisory (MEGA) Board

The Board voted unanimously to support our 3M Proposal funding for La Plata County. The next MEGA Board meeting is scheduled for 9:00 a.m. February 5, 1999 at 1313 Sherman St.

- COGCC on the Internet

The COGCC continues to expand its Internet presence. The newest additions to the website include the monthly Commission hearing dockets reflecting the status of hearing matters (orders issued, matters continued, etc.). The COGCC continues to redesign 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 cogcc.state.co.us/. The COGCC's general e-mail address is dnr.ogcc@state.co.us.

- Penalties Status

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

- February Hearing Docket

A preliminary docket for February will be provided for your review at today's hearing.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

- IOGCC Annual Meeting

Brian Macke stood in for me at the Annual IOGCC meeting in Salt Lake City December 5 – 8 due to schedule conflicts with our Legislative Joint Budget Committee hearing on December 7. At the business meeting, the IOGCC passed several resolutions, including the following:

- The IOGCC recognizes the seriousness of the current national crisis in domestic crude oil production and recommends: 1.) That the federal government focus national attention on the precipitous decline in domestic oil prices and oil production, 2.) That the federal government purchase \$420 million of domestic crude oil for the Strategic Petroleum Reserve and establish mechanisms to enhance market stability within the oil and gas industry; 3.) immediately enact legislation to provide tax fairness in the form of credits, incentives, and deductions to stimulate investment in the domestic oil and gas industry; and, 4.) take immediate action to eliminate duplicative and unnecessary federal regulation of oil and gas exploration and production operations.
- The IOGCC will continue to publish an annual report on U.S. marginal well production that includes credible information about the economic benefits of marginal well production.
- The IOGCC designated the chairman of the Energy Resources, Research, and Technology Committee as the IOGCC representative on the Petroleum Technology

Transfer Council board of directors.

Brian Macke and Thom Kerr attended the State Statisticians Meeting on December 5 sponsored by the IOGCC and the DOE to discuss the progress being made among the various member states in their development of new oil and gas databases, geographic information systems (GIS) and Internet Web Sites.

- IOGCC 1999 Chairman's Stewardship Award Nominations

The IOGCC will be presenting two awards at the June, 1999 Midyear Meeting in Jackson Hole, Wyoming for outstanding projects that demonstrate compatibility between oil and gas resource development and ecosystem conservation or enhancement. Two awards will be granted one to a major or large oil and gas company and one to a smaller independent or individual. Last year Tom Brown, Inc. received an award for a wildlife habitat improvement project near their operations in the Grand Valley area in Garfield County. The deadline for nomination entries is February 15, 1999. Attached is a letter describing the award and an application form. Please contact Brian make at the COGCC or Barbara Skelton at the IOGCC at (405)525-3556 x107 for further information.

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

October 23, 1998 Bataa Oil- Zarlengo 14-4 Well (SW $\frac{1}{4}$ SW $\frac{1}{4}$ S4-T1S-R67W)

The well location is within a legal drilling window; however the well is not twinned with an existing well within the same window. Bataa requested a variance based on the following:

- Bataa does not own the offset well;
- The staked location is the optimal location from a reservoir drainage perspective;
- It would be an economic hardship to drill the well directionally from a twinned location; and
- The surface owner has provided a waiver to Bataa.

October 28, 1998 Renegade O&G- Eastlake State 36-2 Well (NW $\frac{1}{4}$ NW $\frac{1}{4}$ S36-T1S-R68W)

The well location is not within a legal drilling window and is not greater than 150 feet from an adjacent property boundary. The operator moved the location outside of a drilling window because a surface agreement was obtained at the staked location. This location is small and is very close to a nature trail in Thornton and moving the well to a spot that would allow for the 150-foot setback would require the removal of some trees along the nature trail. I approved the exception location (Rule 318.c.) and approved the 502.b. variance request to allow the well to be drilled 110 feet from a property boundary without the affected property owner's consent.

November 24, 1998 Thomas L. Spring Wollert B#2 Well (NE $\frac{1}{4}$ NE $\frac{1}{4}$ S14-T21S-R48W)

The proposed drilling location is outside the legal drilling window and the operator initially filed for hearing to obtain an exception location. No protests were received prior to the protest date, and the operator was able to secure mineral waivers from most of

the encroached parties. However, one party (Mr. Schuster) had not responded after a reasonable period of time had gone by. Therefore, the Director granted a 502.b. variance for the missing mineral waiver, and approved the exception location by Rule 318.c.

January 11, 1999 Patina Oil & Gas Corp. Pace Connelly U 26-12Ji Well (NW¼SW¼ S26-T2N R66W)

The well location is within a legal 318A drilling window; however the well is not twinned with an existing well within the same window and is 70 feet south of a surface property line. Patina requested a variance based on the following:

- Patina does not own the offset well.
- The surface owner of the parcel containing the existing well is adamant about avoiding another well location on that parcel due to its use as mobile home sales yard
- Patina has agreed to locate the well on the adjoining south property however the location can be no more than 70 feet from the property line to remain within the drilling window. The north property owner has refused (absent a substantial payment) to waive provision 603.a.(2).
- The owner of the south parcel on which the well is proposed does not object to that location.