

MONTHLY STAFF REPORT - March 25, 1999

I. STATISTICS

- Our monthly statistics report is attached.

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II. NORTHEAST COLORADO

- Rex Monahan Inactive Well Plan

In February of 1998 the Commission entered Order No. 1-75 which approved a plan to return wells to production in a timely manner, or plug and abandon such wells on an acceptable schedule. The order requires:

1. Implementation of a pilot tertiary oil recovery or a gas storage project or provide additional financial assurance for the wells in the Adena Unit by September 1, 1999.
2. Return to production, plug and abandon, or provide additional financial assurance for 50 wells outside the Adena Unit by May 31, 1999.
3. Return to production, plug and abandon, or provide additional financial assurance for 62 wells outside the Adena Unit by November 30, 2000.
4. Return to production, plug and abandon, or provide additional financial assurance for 7 gas wells by December 1, 1998.
5. Provide a written report detailing the status of the project by January 31, 1999.

Rex Monahan has transferred most of the wells covered in this order to Duncan Energy Company. Duncan is aware of the existing order and it is their intention to assume responsibility for Monahan's obligations for compliance with this order. Attached is a letter from Duncan outlining their position and the work they have accomplished. Duncan has drilled and cored a new well in the Adena Unit and has performed extensive tests on the core to determine appropriate flood fluids.

Rex Monahan now operates 73 wells in the state, seventeen of which are inactive. Rex Monahan has \$125,000 in financial assurance for the plugging and abandonment of his wells and is in compliance with Rule 707.

- Greater Wattenberg Area (GWA) Policy

The GWA Workgroup has held three meetings to discuss issues regarding the interpretation of Rule 318A. Minutes from the first two meetings were prepared, distributed and discussed at the subsequent meetings to ensure consensus from all participants. It was agreed that the final interpretation/clarification of Rule 318A. should be embodied in a policy for Commission consideration. Attached is the draft policy that will be reviewed a meeting of the GWA Workgroup and **any other interested parties** to be held in our conference room at 9:00 a.m. on Wednesday, April 21. We plan to present a final draft to you at the April 26th hearing and request your approval to notice it for policy adoption at the June hearing.

- Boxer "D" Sand North Unit

Order No. 204-8 issued by the Commission on May 17, 1993 rescinded the lands in the Boxer Unit and required the Commission to review Order No. 204-7, which unitized the Boxer North

Unit to determine whether it should be rescinded. Upon review, the staff recommends the Commission notice on its own motion its intent to rescind Order No. 204-7 for its April hearing. There are no producing wells in the one section comprising the Boxer North Unit and as such the unit agreement is no longer valid. Notice will be provided to the mineral owners and published in the relevant newspapers.

III. NORTHWEST COLORADO

- **Northwest Colorado Oil and Gas Forum**

The next meeting of the Forum is scheduled for Thursday, May 6, from 10:00 a.m. until 2:00 p.m. at the Rifle City Hall. Tentative agenda topics include a presentation of Severance Tax Energy and Mineral Impact Assistance Program by the local field representative of the Department of Local Affairs and an update presentation on the TransColorado Pipeline. 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 or brian.macke@state.co.us 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 study of impacts caused by oil and gas development on Garfield County roads. The COGCC was asked by the county to facilitate the gathering of necessary 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.

Garfield County is continuing to prepare an inventory of county roads used by the industry and a cost estimate for upgrading the roads to a level suitable for cost effective year around use. Options for funding the road upgrades that were outlined by the county staff and the industry representatives include:

- Prepayment of property taxes by the industry to be offset by future tax credits.
- Investigate possibilities for reform of the administrative guidelines for the Local Government Energy and Mineral Impact Assistance program to allow increased distribution of the county share of severance tax and federal mineral lease revenue for "tier one" road and bridge projects.
- Investigate possibilities of the use of any new Colorado Department of Transportation funds for county road projects.

Another meeting will be held in Garfield County within a few weeks to review the cost data and to continue to work on funding strategies. Garfield County officials have made a commitment to work with the industry to develop a solution that is reasonable and will fairly address impacts from all industries in the county. The county has asked the COGCC to continue to be involved in the process.

- **Oil and Gas Vehicle Traffic on Garfield County Roads**

On February 11, the Northwest Chapter of the Colorado Oil and Gas Association and Garfield County Sheriff Tom Dalessandri met to discuss issues regarding oil and gas activity and vehicle traffic in the county. At the meeting the COGCC was asked to include a regular article about Garfield County Sheriff's issues in the Staff Report. Sheriff Dalessandri reported that there have

been no oil and gas related complaints reported to the Sheriff's office since the last report. The Sheriff recently met with industry representatives to form a committee to work cooperatively on oil and gas issues that will include COGCC Northwest Colorado Engineer Jaime Adkins. The Sheriff expressed appreciation for cooperation from the COGCC and industry. Attached is a newspaper article about the cooperative effort between the Garfield County Sheriff's office and the oil and gas industry.

- 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. Although the operator has dramatically reduced their 1999 drilling plans, the action triggered the preparation of a BLM Environmental Assessment (EA) that was released on March 12 for a 30-day review period. The EA covers a 10 square mile area south of Battlement Mesa, and contains an analysis of the environmental impacts associated with the proposed development and associated mitigation to lessen the impacts. Attached is a press release about the Parachute/Battlement Mesa EA.

- BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement

The BLM Glenwood Springs Resource Area issued the Final Supplemental Environmental Impact Statement for Oil and Gas Leasing and Development on January 29. Following a protest period that ended on March 1, the BLM has been working to resolve the protests that have been filed so that an official Record of Decision may be issued. These steps are required to occur before the lease sale of the Naval Oil Shale Reserves (NOSR) lands which was originally scheduled for November 1998 and is now scheduled for March 25, 1999.

The Preferred Alternative in the SEIS includes No Surface Occupancy stipulations within the outer edge of riparian vegetation areas, on slopes greater than 50%, on slopes over 30% with high visual sensitivity in the I-70 viewshed, within 14 wildlife seclusion areas, and within other sensitive areas. The Preferred Alternative allows for exceptions to these stipulations if an operator can provide adequate engineering and reclamation plans and other protective measures. The Preferred alternative also includes Timing Limitations for wildlife, Controlled Surface Use stipulations and Lease Notices. Those wishing to obtain further information about the Final SEIS should contact Steve Moore, BLM Glenwood Springs Resource Area SEIS Team Leader at (970) 947-2800. Attached are newspaper articles about the release of the Final SEIS.

- TransColorado Pipeline Project

The construction of Phase Two of the TransColorado Pipeline is nearing completion. The pipeline construction has been completed, and the line is being pressurized. Final completion of the last compressor station is expected to be in the very near future. The TransColorado Pipeline is expected to begin long haul service by April 1. 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

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

The BLM Colorado State Office in Lakewood will accept oral bids at a lease auction for 8,389 acres in the Naval Oil Shale Reserve No. 3 property in the central Piceance Basin on March 25. The sale will be held on that date provided that the Record of Decision on the Glenwood Springs Resource Supplemental Environmental Impact Statement and Resource Management Plan Amendment is approved and signed and that any protests on the Plan Amendment are resolved. Attached is the front page for the Notice of Lease Sale, the remainder of which can be viewed on the Internet at www.co.blm.gov/oilandgas/nosrsale.htm. These lands were prescribed for leasing by 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) extended 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.

- American Resources Project

A contractor has been selected to plug and abandon the Pierce-Govt. 20-2X Well located in Rio Blanco County and work is scheduled to begin in the next 30 days. The cost estimate to abandon and reclaim this well is \$4,950. The COGCC will utilize the \$30,000 financial assurance claim for this work and reclaim the Gasaway Unit 10-3 Well. The Gasaway Unit 10-3 Well will be reclaimed at a later date due to accessibility problems.

- Joe Doyle Project

The COGCC will put out a bid this month to plug and abandon the Coalmont 1 Well located in Jackson County. The cost estimate to abandon and reclaim this well is \$8,160. The COGCC will utilize the \$5,000 financial assurance and any ERF funds necessary to complete this work.

- Willow Creek Project

A contractor has been selected to plug and abandon the Willow Creek 2 Well located in Rio Blanco County and work is scheduled to begin in the next 30 days. The cost estimate to abandon and reclaim this well is \$4,950. The COGCC will utilize ERF Funds for this project.

IV. SOUTHWEST COLORADO

- COGCC La Plata County Oil & Gas Development Project

We are continuing our planning for this project which is scheduled to be completed December 31, 1999.

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

The last GORT meeting was held on March 11 at the La Plata County Fairgrounds. Topics of discussion were an update of the 3M Project, the La Plata Oil and Gas Development Plan, a discussion on technology to minimize surface impacts, the JM Huber Development Plan, Fruitland Coal outcrop study and seep monitoring update, hot spring update, and Simon Land and Cattle Disposal Well update. The next meeting is scheduled for June 10, 1999 at the La Plata County Fairgrounds. Please contact Morris Bell at 303-894-2100 extension 105 or at morris.bell@state.co.us to submit agenda topics for the next meeting.

- Simon Land & Cattle Disposal 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 Formation.

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 ceased on January 15, 1999.

Amoco received approval from the EPA and the COGCC to inject into the Bluff Formation in the well and injection into the Bluff Formation began at the end of January.

By the end of the month, Amoco will perform another series of surveys to ensure the injection fluids are going into the newly completed Bluff Formation.

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- Point Lookout Plugging Project

The project to plug and abandon 16 wells and reclaim four well sites in Montezuma County was completed January 19, 1999. This includes three additional wells, which were found during the course of the project. The project cost to plug and reclaim these wells has been completed at \$97,000. The COGCC utilized the \$30,000 financial assurance and \$67,000 of ERF funds.

- La Plata County Site Clean up and Reclamation

A contractor has been selected to clean up and reclaim two abandoned well sites in La Plata County. This work will be completed this month. The cost estimate to reclaim these sites is \$4,782. ERF funds will be utilized to reclaim these sites.

w La Plata County/San Juan Basin 3M Proposal

The General Assembly has approved our Supplemental Budget Request for the FY 98-99 portion of \$138,000 in Severance Tax funding for the proposed study of the Fruitland Formation known as the 3M Project. Our request for \$807,230 in FY 99-00 is still being considered. The Southern Ute Indian Tribe (SUIT) will be matching state funding for the computer modeling portions of the project and the BLM San Juan Field Office is hoping to provide financial as well as technical support to the project.

We are moving ahead since funding has been approved. The technical peer review team geologic sub-committee met on February 22, 1999 in Denver to discuss stratigraphic nomenclature and basin-wide coal zone correlations.

V. SOUTHEAST COLORADO

- Meeting with Las Animas County Planning Commission and Homeowners from Widow Woman, Long and Madrid Canyons

We are coordinating a meeting on Tuesday, March 30 in Trinidad to further investigate alternative water supplies for homeowners in these areas.

- Las Animas County Meeting with People for the USA

A public meeting was held with the People of the USA in Trinidad on March 3, 1999.

Loren Avis gave a workshop regarding studies conducted by the COGCC on water in the Raton Basin. Topics included the quality of well water, surface water and produced water and methods of disposal of produced waters. The whole effluent toxicity (WET) test was discussed, including the options given by the EPA for substituting different vertebrates and invertebrates for the test. Water rights and beneficial use were discussed briefly. Loren Avis answered questions concerning the above topics.

The group People for the USA is in support of strong communities, vigorous economies and healthy environments. They plan to have future workshops given by the Colorado Department of Health and Environment (CDPHE) and the State Engineer. There were approximately 30 people in attendance at their meeting in Trinidad.

- **Graham Project**

A contractor has been selected to plug and abandon eight orphan wells located in Las Animas County. This work is scheduled to begin this month. The cost estimate to abandon these wells is \$42,120. ERF funds will be utilized to abandon these wells.

- **Florence-Cañon City Projects**

Contractors have been selected to plug and abandon approximately 35 orphaned wells in the Florence-Cañon City Area. This work will be completed on an individual well basis as time allows due to weather conditions, urban development and problems of access. The work began this month and will continue into next year and possibly beyond. The cost estimate to abandon and reclaim each well ranges from \$1,500 to \$4,500 per well. The COGCC will utilize ERF Funds for these projects.

VI. ENVIRONMENTAL ISSUES

- **Water Quality Control Commission/Division Quarterly Meeting**

On March 17, 1999 we held our quarterly meeting with the Water Quality Control Commission (WQCC) and the Water Quality Control Division (WQCD). Bruce Johnson and Kala Green continue to represent the COGCC and the WQCC, respectively. Topics discussed included:

- the La Plata County 3M Project
- methods to streamline discharge permit processing by WQCD staff for coalbed methane produced water when the concentration of total dissolved solids is low
- the next WQCC rulemaking that COGCC staff will propose for UIC injection zones in Yuma, Jackson, and Larimer Counties

The next quarterly meeting will be scheduled for mid June 1999.

- **IOGCC-Sponsored Waste Management Training Courses**

IOGCC is sponsoring E&P waste training courses to be given April 29 & 30 at the Executive Tower Inn in Denver. The courses cover general management of E&P waste on April 29 and E&P waste minimization on April 30. EPA and DOE partially contributed to the funding for development of the courses. Industry attendees will be charged a nominal fee of \$75 per course. Attached is a course description and application form. For further information, contact Robin Reade at robin.reade@state.co.us or x112.

- SPE/EPA 1999 Exploration and Production Environmental Conference

Brian Macke represented the COGCC at this year's conference in Austin Texas. The travel was funded by a DOE grant available through the IOGCC. The conference also included a separate Regulator's Workshop and an IOGCC Training Sub-Committee meeting.

VII. ORGANIZATION

- New Commissioner Appointment

We welcome the three newly appointed Commissioner Mike Klish, Abe Phillips and Dan Skrabacz. Governor Owens' press release, biographical sketches and a matrix of qualifications for COGCC Commissioners are attached.

- Our current organization chart is attached.

VIII. PLANNING/ADMINISTRATION/OTHER

- Legislation to Change Commission Make-Up and Statutory Changes

Representative Bill Kaufman (R-Loveland) has introduced legislation changing the Commission's make up and its statutory charge. Attached is House Bill 99-1343 that was introduced on March 19 and has been assigned to the House Judiciary Committee.

- Environmental Response Fund Budget

Attached are an updated ERF Environmental Project Budget spreadsheet for FY 98-99 and an updated P&A and Reclamation Project for FY 98-99 and the next two fiscal years. Note that the P&A and Reclamation listing does not include costs for the Allen Routt County properties which may be substantial. We will proceed consistent with these spreadsheets unless you direct otherwise.

- Engineering Testimony Policy

Unless directed otherwise, we plan to notice the recently adopted policy requiring engineering testimony in adjudicatory matters to be provided by professional engineers registered in Colorado for further discussion and potential revision or clarification at the April 26th hearing. Attached is a March 23 draft with proposed language.

- 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. The deadline is rapidly approaching, and everyone is encouraged to provide their nominations as soon as possible.

- COGCC Letter to Colorado Real Estate Commission (CREC)

The CREC has adopted the new contract to buy or sell language we requested, but they did not emphasize it with bold font. The new language is underlined on the

attached portion of the new form.

- Meeting with Texas Railroad Commission to Discuss Information Management

While in Austin, Texas attending the SPE/EPA E&P Environmental Conference, Brian Macke requested a meeting with Dr. Susan Cisco, Assistant TRRC Director, Information Management Services and staff member Mr. Mike Partridge. The discussion was focused primarily on the \$1.4 Million Railroad Commission Electronic Compliance and Approval Process Project, half of which will be funded by a Department of Energy Grant. The grant funding for this project was secured through a coordinated effort by the Chairman of the Railroad Commission and the Industry Trade Associations to market the grant concept to the DOE.

Both the Texas Railroad Commission and the COGCC have been working to use modern technology to streamline regulatory processes and provide improved access to information that is critical to the health of the oil and gas industry. Both agencies have been involved in projects to modernize their data systems, to implement Geographic Information Systems, and establish Internet accessibility. The TRRC has also just recently awarded a contract for Document Imaging for its well files and other documents, similar to the current COGCC project.

- COGCC Computer System Overhaul

Dan Newsome, a Visual Basic programmer, is now working with COGCC on the computer system overhaul. He will be creating the programs which will move data from the forms to the temporary database and then to the final database at the end of the form workflow process. He is currently working on the Form 2, Application for Permit to Drill. The next form to be converted will be the Form 8, Conservation Levy.

Form 7, Monthly Report of Operations, is being entered into the new system. Data is being accepted as paper copy, Jet Form form files and comma separated ASCII files. Some filing extensions have been granted but most operators have been able to file at this time.

A program has been developed to provide the production data on a daily basis to service companies who wish to maintain current data sets. The procedures will be developed to either deliver the data to them on a daily basis or store it in a location so they may pick it up at their discretion.

Data migration from COGIMS to the new system has taken place for the well data. COGIMS will continue to be updated for the time being while the migrated data is converted to reflect the correct wellbore sidetrack codes and formation completion codes.

- Production Reporting by E-mail

All operators are encouraged to submit their production reports via e-mail to: ogcc.eforms@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. Production reporting by well and by formation is going into effect for the January 1999 production, which was due on March 17. 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.

- Department of Natural Resources Imaging Project

The day forward imaging system is in place and configured. Training for users has taken place on the Windows version of the users interface. The end user interface through the Intranet query screens will occur when the database migration is completed.

Colorado Division of Central Services has set up the system for conversion of the historic documents with document scanning starting this week. They are beginning with scanning well files, which is expected to take several months to complete.

As the historic well files are converted, the routing of files through the office will be discontinued. Procedures are being developed to integrate the imaging system and the automated forms processing as the programs are completed.

- Geographic Information Systems

Steve Hick, University of Denver GIS Program Head, has been hired as a consultant to facilitate the implementation of the GIS system. He will help determine the most efficient software and procedures to maintain the OGCC GIS.

Farragut Systems has been retained to develop the Intranet map display and query tools. They have completed the requirements analysis and the scope of the project has been determined. Development of the GIS system will begin this week. This application should make all map data available on every employees desktop. These maps will contain well spots and spacing orders, water wells, roads, municipal boundaries, and other data as available.

- Minerals, Energy, Geology Advisory (MEGA) Board

The next meeting is scheduled for Thursday, May 13, at 9:00 a.m. at 1313 Sherman Street.

- COGCC on the Internet

The COGCC continues to expand its Internet presence. The newest additions to the website include the monthly Commission hearing dockets, which reflect the status of hearing matters (orders issued, matters continued, etc.), and calendar information. We continue to redesign our Web pages to provide improved customer service. The public is invited to leave comments or suggestions for improvements at the COGCC Internet site at cogcc.state.co.us/. Our e-mail address is dnr.ogcc@state.co.us.

- IPAMS/PTTC Shut-In Well Panel Discussion

Attached are two handouts I used at the referenced panel discussion which summarize how our rules apply to shut-in and temporarily abandoned wells. A review of this topic revealed that another rule, 319.b.3. is used only to enforce plugging of wells without valid leases and should be considered for future clean-up rulemaking.

- June Hearing Rulemaking to Eliminate Fees and Reduce Levy

With your approval we will notice rulemaking for the June hearing to eliminate remaining fees and to further reduce the mill levy. Specific recommendations at that hearing will reflect our updated revenue budget forecast and assessment of available severance tax funding to offset the reductions.

- Funding for Third Party Review of COGCC Rules

Although we haven't seen the long bill language, it is our understanding that at the request of COGA the JBC has included a provision for \$75,000 of severance tax funding for a third party review of COGCC rules. With your approval we will notice this topic for discussion at the April 26th hearing to clarify the objectives, criteria and focus of the project before we begin the procurement process.

- Penalties Status

Attached is a revised table showing the status of penalties paid and penalties pending collection. All penalties pending collection have been referred to State Collections so they can attempt to collect these penalties

- April Hearing Docket

A preliminary docket for April is attached for your review.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

- IOGCC Quarterly Meeting

I attended the IOGCC quarterly meeting February 27 to March 2 in Washington D.C. During that time I met with staff at each of our eight Colorado Delegation offices and provided information about oil and gas resource development in Colorado.

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

I have granted a variance to Rule 1004.a. for Patina Oil & Gas Corporation for the Petrikin A Nol 34-05 and the Miller F No. 21-03 Wells located in Weld County. Surface

owners at both locations will use the wellsite access road for their surface operations.

303.j.1 Exception Request to Rule 305.1 23 March 1999

JW Operating Company

Kelly 1-25

Section 25 T2S R45W

Yuma County

I approved an APD submitted by J-W Operating Company (J-W) in accordance with Rule 303.j.1 which provides special circumstances for permit issuance without notice and consultation. The circumstances are described below:

- The lease J-W desires to drill is due to expire March 28, 1999.
- On February 2, 1999 J-W requested a lease extension from the mineral owner and J-W understood the extension would be granted.
- On March 12, 1999 J-W first learned this lease had been top-leased which precludes J-W acquiring the requested lease extension.

This is the first time I have approved an APD under Rule 303.j.1.

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