

MONTHLY STAFF REPORT - April, 26, 1999

I. STATISTICS

- Our monthly statistics report is attached.

II. NORTHEAST COLORADO

- Lightning Incident Illustrates Effectiveness of Spill Prevention and Containment

On April 13th HS Resources experienced a lightning strike at a well near Ft. Lupton. Although the strike ignited the oil in both 300 bbl stock tanks, blowing the tank tops off and burning all the oil in them, there were no spills or releases, no environmental damage, injuries or other property damage. This incident illustrates that properly constructed and maintained tank batteries and berms are effective in preventing and containing potential spills even in the face of catastrophic events. The Ft. Lupton Fire Department responded and the fire was out in 30 minutes.

- Greater Wattenberg Area (GWA) Policy

A consensus draft of the GWA Policy will be presented to you today for your consideration to adopt. This draft contains language suggested by the GWA Workgroup and comments received at the April 21st meeting. Four meetings of the GWA Workgroup have been held to discuss issues regarding the interpretation of Rule 318A. Minutes were prepared, distributed and discussed at the subsequent meetings to ensure consensus from all participants. It was agreed that the interpretation/clarification of Rule 318A. should be embodied in a Commission policy.

- Boxer "D" Sand North Unit

No protests were received on the Commission's notice to rescind Order No. 204-7 that you agreed at the March hearing to docket for today and a proposed order has been provided for your consideration. Order No. 204-8 issued by the Commission on May 17, 1993 rescinded the lands in the Boxer Unit and required the Commission to review Order No. 204-7, which unitized the Boxer North Unit, to determine whether it should be rescinded. Staff recommends the Commission enter an order rescinding Order No. 204-7, as there are no producing wells in the one section comprising the Boxer North Unit and therefore the unit agreement is no longer valid.

- Yuma County Local Public Forum

In response to a request from Yuma County, we held a Rule 508. local public forum on April 8, 1999 from 5:00 p.m. to 7:00 p.m. in Wray to receive comment on J-W Operating Company 's application for increased well density on the 6 sections comprising the Buffalo Grass Field. There were approximately 23 industry, county and citizen representatives in attendance. Copies of the videotape and the Local Public Forum Summary have been provided to the Commissioners, the county and the applicant.

- Upcoming Yuma County Local Public Forum

We will hold a Rule 508. Local Public Forum on May 20, 1999 at 5:00 p.m. in Wray to receive comment on Plains Petroleum Operating Company's applications for increased well density for a total of 7 $\frac{3}{4}$ sections in the Shout, Whisper, Vernon and BuckBoard Fields. This is in response to a request from Yuma County.

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; an update presentation on the TransColorado Pipeline; and a discussion by BLM Glenwood Springs Resource Area staff about items of local interest. 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.

- 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. 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-round 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 fairly addresses 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

The COGCC has been asked to include a regular article about Garfield County Sheriff's issues in the Staff Report. The Garfield County Undersheriff, Jim Sears, reported that there have been no oil and gas related complaints since the last report. A committee consisting of Garfield County Sheriff Dalessandri, oil and gas industry representatives, and COGCC Northwest Colorado Engineer Jaime Adkins has been formed to work cooperatively on oil and gas related issues.

- Battlement Mesa and Project Rulison Vicinity Issues

Tom Brown, Inc. has submitted a Notice to the BLM of its intent to drill up to seven wells in 1999 and possibly nine 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 in March for a 30-day review period that ended on April 15. 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. The next step in the process will be the issuance of a Record of Decision on the EA by the BLM.

- BLM Roan Cliffs Field Inventories

The Glenwood Springs Resource Area office of the BLM will be conducting three different field inventories on the 56,000 acre Roan Plateau (formerly known as the Naval Oil Shale Reserve) northwest of Rifle beginning in early summer of this year. Jurisdiction over these lands was transferred to the BLM from the Department of Energy in 1997 legislation. The inventories are being performed to satisfy the requirement in the legislation that the lands be managed in accordance with laws applicable to public land, including the Federal Land Policy and Management Act (FLPMA). The inventories include a Land Health Assessment, a Roadless/Wilderness Review and a Travel/Transportation Assessment.

The BLM is currently taking nominations for a multidisciplinary stakeholder team to work on the inventory process. Those wishing to provide nominations for participants on the stakeholder team should contact Kay Hopkins with the BLM in Glenwood Springs at (970) 947-2812. Attached is an announcement about the Roan Plateau inventories.

- BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement

The BLM Glenwood Springs Resource Area has issued the Final Record of Decision on the Supplemental Environmental Impact Statement for Oil and Gas Leasing and Development. Following a protest period that ended on March 1, the BLM worked to resolve the protests that had been filed so that the Record of Decision could be issued. These steps were required to occur before the lease sale of the Naval Oil Shale Reserves (NOSR) lands that took place on March 25, 1999.

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.

- TransColorado Pipeline Project

The TransColorado Pipeline began long haul service on 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 held the lease auction for 8,389 acres in the Naval Oil Shale Reserve No. 3 property in the central Piceance Basin on March 25. Barrett Resources has acquired the four tracts. The tracts include government interests in 57 producing gas wells and associated pipelines.

- American Resources Project

The Pierce-Govt. 20-2X Well located in Rio Blanco County and was plugged and abandoned this month. The cost to abandon and reclaim this well was \$4,950. The Gasaway Unit 10-3 Well will be reclaimed at a later date due to accessibility problems. The COGCC will utilize the \$30,000 financial assurance claim for this work and reclamation.

- Joe Doyle Project

Work on this project has been postponed until the next fiscal year due to ERF fund availability. The COGCC will put out a bid to plug and abandon the Coalmont 1 Well located in Jackson County at that time. 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

The Willow Creek 2 Well located in Rio Blanco County was plugged and abandoned this month. The cost to abandon and reclaim this well is \$4,950. The COGCC utilized 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 next GORT meeting is scheduled for June 10, 1999 at the La Plata County Fairgrounds.

- Proposed DOE Funded Paradox Basin Study

The Department of Energy (DOE) may fund a project in the Paradox Basin to revisit Class II Oil Shallow Shelf Carbonates. The project will focus on characterizing the reservoirs of the Ismay mound trend and northern Desert Creek mound/beach trend for horizontal well drilling. Although the Utah Geological Survey (UGS) will assume the lead role in applying for this DOE funded project, the Colorado Geological Survey (CGS) also will be actively involved. If DOE funding is approved then a Technical Advisory Board, consisting of geologists, engineers, and other representatives of the

operators or stakeholders of the fields in the Ismay and Desert Creek trends, will be established this summer.

After reservoir characterization has been completed, a field or fields operated by an advisory board member(s) or industry partner(s) will be selected for the horizontal drilling demonstration(s). DOE will fund approximately 35% of the drilling cost(s) through the UGS. The partner(s) will then be expected to monitor the results of the drilling project with approximately 10% funding from DOE.

The proposal must be submitted to the DOE in mid-May. Prior to this date, the UGS will be soliciting interested parties to participate in this project.

If you have any questions about this project, then please contact Laura Wray, geologist with the CGS at 303-866-3519 or at laura.wray@state.co.us.

- 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.

On April 7 staff met with the EPA concerning the evaluation of surveys run on the well. The EPA will require Amoco to perform another series of surveys in six months and to limit the volume of water injected into the well. The injection volume limitation will be determined by the amount of water that will fill up a half-mile radius around the well.

- La Plata County Site Clean up and Reclamation

Reclamation was completed this month on the Royal 1 and Barr 1, two abandoned well sites in La Plata County. The cost to reclaim these sites was \$4,782. ERF funds were 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 contract between the SUIT and the COGCC has been finalized and is awaiting approval by the Tribal Council.
- The consultant that will be providing landman services has been selected, has visited all of the proposed monitoring well locations, and has begun work necessary to obtain access and surface use agreements for the proposed monitoring wells.
- The consultants that will be conducting archaeology and threatened and endangered species surveys, as required, have been selected.
- The bid document for land surveying services has been prepared and circulated. The proposals from interested surveying companies have been received, evaluated, the contractor has been selected and the contract is being prepared.
- Preparation of the bid document for drilling and installing the monitoring wells continues. A draft of this document should be complete and ready for review before the end of April, 1999.
- The Colorado Geological Survey has assigned geologist Laura Wray to manage the geological mapping, subsurface work, and publication of final deliverables for their portion of the 3M project.
- The Geo-subcommittee of the Technical Peer Review Team will be meeting on April 26, 1999 at 9:00 a.m. at the offices of the Colorado Geological Survey to continue discussion of basin-wide correlations of the coal seams of the Fruitland Formation and other related items.
- The next 3M Technical Peer Review Team meeting is being planned for the beginning of May 1999.

V. SOUTHEAST COLORADO

- Costilla County

Morris Bell met with and addressed several concerns from representatives of Costilla County on April 16th related to the proposed drilling of an exploratory well south of San Luis. This will be only the third well to be drilled in the county. The operator is planning to spud the well by the end of April.

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

A meeting was held at the Trinidad Junior College on Tuesday, March 30 regarding funding a study for alternative water supplies for individuals whose water wells might be completed in the same aquifer/reservoir as coalbed methane wells. Rich Griebing, Dave Dillon and Loren Avis, officers of Evergreen Resources, and local residents attended the meeting. An agreement was made to make an application to the Department of Local Affairs Energy and Mineral Impact Assistance Program for \$45,000. Additional funding of \$5,000 from the COGCC, \$5,000 in cash and \$5000 in "in-kind" contributions from Evergreen would raise the dollar amount available for the study to \$55,000. The application was submitted April 1, 1999 to the DOLA group administering the energy impact funding.

- Las Animas County Meeting with People for the USA

A public meeting was held with the People of the USA in Trinidad on April 14, 1999. This is an ongoing series of workshops being given to inform the residents about issues associated with coalbed methane gas well drilling. Dick Wolfe with the State Engineer gave a workshop at the Best Western in Trinidad.

The group People for the USA is in support of strong communities, vigorous economies and healthy environments. They plan to have future workshop given by the Colorado Department of Health and Environment (CDPHE).

- **Graham Project**

The Graham Project to plug and abandon eight orphan wells located in Las Animas County was completed this month. The cost to abandon these wells was \$41,185. ERF funds were utilized to abandon these wells.

- **Florence-Cañon City Project**

Work has been completed on the initial phase to plug and abandon 35 orphaned wells in the Florence-Cañon City Field. Seven (7) wells were plugged and abandoned and restored. One (1) additional wellbore was backfilled where the surface casing had been removed and washed out into a 15 feet wide by 30 feet deep hole. This was considered a top priority since it posed a safety hazard to the general public. The cost to complete this work was \$27,075 and was funded using the ERF Fund. The next phase will commence this upcoming fiscal year (July 99) provided sufficient ERF funding is available.

VI. ENVIRONMENTAL ISSUES

- Water Quality Control Commission/Division Quarterly Meeting

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.

VII. ORGANIZATION

- Our current organization chart is attached.
- Updated biographical sketches for all Commissioners are also attached.

VIII. PLANNING/ADMINISTRATION/OTHER

- Legislation to Change Commission Make-Up and Statutory Changes

House Bill 99-1343 was amended and came out of the House Judiciary Committee before failing during the second reading House vote on April 16th.

- Press Releases for COGCC Hearings

Attached is the first routine press release we have begun issuing prior to COGCC hearings. Please pass on any suggestions you may have for improvement to Laura Posusta at x113 or laura.posusta@state.co.us.

- Engineering Testimony Policy

Representatives of the State Board of Registration for Professional Engineers and Land Surveyors will be present at today's hearing to respond to any questions you may have regarding the draft policy.

- 1998 Outstanding Oil & Gas Operations Awards

The Commission will be reviewing the nominations for the 1998 Outstanding Operator Awards within the next few weeks. The awards will be presented during a ceremony at the COGA Rocky Mountain Natural Gas Strategy Conference and Marketing Fair in Denver in August.

- COGCC Letter to Colorado Real Estate Commission (CREC)

Attached is the DNR press release on this topic.

- COGCC Computer System Overhaul

In an effort to deliver a common vehicle to OGCC staff and Internet customers and to provide a standalone application for operators, the JetForm forms platform had been pursued. However, it has been necessary to abandon this approach because of numerous problems. The first difficulty that was encountered was that the forms would not directly interface with multiple related database tables. A programmatic solution through the JetForms Intempo workflow program was pursued to resolve the relational communication problem. During final testing it was discovered that the completed forms required more user RAM than most OGCC user computers were configured with. Another difficulty with the approach was that the error handling mechanisms in Intempo did not allow for diagnostic resolution between data problems and programming errors. Considering the need to complete the project and the uncertainty of the cost to complete the programming of the JetForm interface, the JetForm forms development has been discontinued.

Visual Basic forms are to be deployed on the OGCC staff computers. While this is a pure programmatic approach it allows for certainty of the programming and the ability to return data errors to the user. The greatest shortfall in this approach is that a different interface will be required with Internet and standalone customer systems. We will need to evaluate solutions to these requirements at a later date.

The Form 7, Monthly Report of Operations, has been completed and data is being entered into the new system. Data is being accepted as paper copy and comma separated ASCII files. The Data Specialists are working with operators to resolve data format and discrepancy problems. For the customers who purchased the JetForm Form Filler program we have yet to determine if we can process their form submittals.

The Form 2, Application for Permit to Drill, is now being tested and the Form 5, Drilling Completion Report, is now being developed. A second programmer is developing the Form 8, Conservation Levy, in a parallel effort.

Data migration from COGIMS to the new system has taken place for the well and operator 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 was 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

Colorado Division of Central Services backfile conversion of the well files is proceeding well. There are over 400,000 images in the database to date and approximately 29% of the well files have been imaged. It is apparent that Central Services will be able to deliver the minimum 15,000 images per day, as the contract requires.

Day forward documents are now being added to the imaging system. Production documents have been added to provide the Production Analysts the ability to validate the date entry without searching for the paper records.

- Geographic Information Systems

The Autodesk Mapguide GIS program has been selected for the desktop map display and query tool. A pilot project is now underway to test this program to make sure that it will deliver the functionality and performance required. We are currently evaluating solutions to calculating well spot locations and how to configure data files in a method that will allow for efficient storage and retrieval.

- 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 have noticed 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.

- Bonding of Domestic Gas Wells

With your approval we will begin enforcement procedures requiring plugging bonds from owners of domestic gas wells. These enforcement procedures could require the COGCC to enter private lands and plug wells without the owners' consent. We would like to discuss this topic with you at today's hearing.

- Third Party Review of COGCC Rules - \$75,000 Long Bill Appropriation

With your approval we noticed this topic for discussion at today's 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.

- June Hearing Docket

A preliminary docket for June is attached for your review.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

- IOGCC Midyear Meeting

I will be attending the June 6-8 IOGCC midyear meeting in Jackson, Wyoming.

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

I have granted a variance to Rule 317.i. for EXXON for the Love Ranch No. 2 Well located in

Rio Blanco County. This variance will allow the well to be cemented with cement that under lab conditions does not meet the minimum compressive strength requirements of the rule. Under wellbore conditions the cement is expected to reach the minimum compressive strengths specified in Rule 317.i. The well will be cemented with a lightweight cement slurry which will allow the production casing to be cemented in a single stage and allow for the casing to be rotated and reciprocated.

- 502.b. Variances

No 502.b. variances for drilling applications have been granted since last reported.

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