

MONTHLY STAFF REPORT - July 12, 1999

I. STATISTICS

- Our monthly statistics report is attached.

II. NORTHEAST COLORADO

- Accident in Weld County

On Friday, June 25 an accident occurred at a well in Weld County which resulted in a fatality. A well operation was being performed on the Heinze-Herber #1 Well located in Section 20, Township 1 North, Range 67 West. The workover rig fell over resulting in the fatality. The Occupational Safety and Health Administration (OSHA) is investigating the incident and will release their report in 8 weeks. Staff will report the findings of the report when they are released.

The accident was reported to OGCC staff on June 25 in accordance with Rule 602.b.

III. NORTHWEST COLORADO

- Northwest Colorado Oil and Gas Forum

The next meeting of the Forum will be Thursday, August 5th 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 or brian.macke@state.co.us to submit agenda topics for the next meeting.

- Garfield County/Industry Meeting to Discuss the 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 continue to be a subject for further study. The road and bridge impact study has been temporarily put on hold pending further discussion by the Garfield County Board of Commissioners.

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 Sheriff has not reported any oil and gas related complaints since the last staff 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.

- Rifle / Battlement Mesa / Parachute Vicinity Issues

Attached are newspaper articles about the June COGCC hearing and field tour in Rifle, the recently approved City of Rifle watershed permit for natural gas well development, and other topics of interest for the area.

- BLM Roan Cliffs Field Inventories

The Glenwood Springs Resource Area office of the BLM has begun the process of conducting three different field inventories on the 56,000 acre Roan Plateau (formerly known as the Naval Oil Shale Reserve) northwest of Rifle. 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 a newspaper article about a recent open house in Rifle to gather information about potential wilderness values for the area.

IV. SOUTHWEST COLORADO

- La Plata County Commissioners' Interest in Drilling Moratorium

Attached are La Plata County Commissioners' letter of May 28 and my response of June 9 on this topic.

- J.M. Huber Development Plan Activity

As required by the approved Development Plan, Huber will be conducting another soil gas survey along the outcrop of the Fruitland Formation during July, 1999. The area surveyed will be the same as the area survey last year. Copies of the access agreements sent to the landowners have been submitted to the COGCC.

- COGCC La Plata County Oil & Gas Development Project

We began work on this project which is scheduled to be completed December 31, 1999.

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

The next GORT meeting has been rescheduled for 8:30 am, September 2, 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 and COGCC will be participating. 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 has been submitted to the DOE. 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.

w La Plata County/San Juan Basin 3M Proposal – June 24, 1999 Update

The General Assembly previously approved our Supplemental Budget Request for the FY 98-99 portion of \$88,000 in Severance Tax funding for monitor well access costs and initial phases of computer modeling. Our request for \$707,230 in FY 99-00 was also approved. 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 was approved by the Tribal Council. The contract has been signed and approved by the State Controller. Computer modeling has begun.
- 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. Site inspections have been made with the US Forest Service (FS) personnel of the 2 locations proposed on FS land. The FS surface use permits are being prepared.
- FS personnel are evaluating whether a Risk Assessment relative to the States insurance/indemnification is necessary for this project. State's coverage is limited to \$150,000 per person per accident up to \$600,000. If this is not adequate, then COGCC will need to purchase additional insurance coverage for this project.
- San Juan Citizens Alliance has formally requested to be involved in the decision on permitting the monitoring wells on FS land. This necessitates the FS to initiate formal scoping, including a public announcement and a month-long comment period before any decision on approvals can be made. In addition, once the decision is rendered it may be appealed. This would further delay the issuance of a permit.
- The Manager of Acquisitions of CDOP/GS – Division of Real Estate has prepared the access and surface use agreements that will be used for private property. The AG's office has been asked to review these documents.
- The State Land Board has issued an access permit to COGCC for the wells that will be located in Section 16, Township 35 North, Range 8 West, which is a state section.

- The archaeology and threatened and endangered species surveys, as required, have been conducted. Reports have been prepared for the FS regarding the 2 locations proposed on FS land.
- The land surveying company has been selected and the contract has been signed and approved by the State Controller.
- Preparation of the bid document for drilling and installing the monitoring wells is complete. The legal notice was published in the Daily Journal, Durango Herald, and the Farmington NM Daily Times on June 18 and 25, 1999. The pre-bid meeting and site inspection was held on June 30, 1999. Three prospective contractors attended the meeting. The bids are due to EDO – Purchasing on July 19, 1999 by 1:00 p.m.
- The Colorado Geological Survey request for \$150,000 was approved. Laura Wray will manage the geological mapping, subsurface work, and publication of final deliverables for their portion of the 3M project. Mapping and measuring sections has begun.
- The Geo-subcommittee of the Technical Peer Review Team met on April 26, 1999 at 9:00 a.m. at the offices of the Colorado Geological Survey to continue discussion of basin-wide correlation of the coal seams of the Fruitland Formation and other related items.

The next meeting is scheduled for July 22, 1999 at the CGS office.

V. SOUTHEAST COLORADO

- Las Animas County Alternative Water Supply Feasibility Study

Dave Dillon and Loren Avis are working with Las Animas County representatives to define the project area southwest of Trinidad.

VI. ENVIRONMENTAL ISSUES

- Water Quality Control Commission/Division Quarterly Meeting

The quarterly meeting of the WQCC/WQCD and COGCC was held on July 1, 1999. Kala Green, WQCC commissioner, and Bruce Johnson, COGCC commissioner, were in attendance. Matters discussed included the 3M Project, the WQCC rulemaking that will be proposed by COGCC at their November hearing, regarding classification of various formations as limited use and quality, and the RFP for evaluating alternative sources of household water in the Raton Basin.

The next quarterly meeting will be scheduled for late September or early October at the WQCC offices.

VII. ORGANIZATION

- Erika Enger has been assigned as Assistant Attorney General to COGCC. She is taking on the projects that Cindy Bargell has been handling under contract to the AG's office.
- Tim Pollard has been hired as Assistant Director in the Department of Natural Resources to cover COGCC and other minerals-related agencies.
- Paul Lehnertz has been hired by the Governor's office of State Planning and Budgeting to cover COGCC and several other agencies.
- Our current organization chart is attached.

VIII. PLANNING/ADMINISTRATION/OTHER

- Budget "Change Request" Items

Attached are explanations of changes we will be seeking your approval on for our FY 00-01 budget request.

- Production Value Information

Attached is our 1998 production value calculation that will be used to determine if the "safety net" formula will transfer severance tax revenue from state to local accounts.

- September Hearing – Potential Date Change

We are planning this year's Southwest Colorado Hearing in Durango September 20 and 21. The Legislative Interim Committee has scheduled their Garfield County field trip at that time. I will be asking you to change our September hearing dates to avoid conflict.

- Legislative Interim Committee

Representative Mark Larson will chair the committee that includes Senator Gigi Dennis, Senator Ed Perlmutter, Senator John Evans, Representative Matt Smith and Representative Stephanie Takis. Representative Larson describes the committee's charge as determining if the COGCC has implemented its statutory charge and deciding if that charge should be changed. The first session is being scheduled at the Capitol on August 3. Tours are set for Weld County on August 4, La Plata County on September 8 and 9, Garfield County on September 20 and 21 and Las Animas County on October 5 and 6. Attached are a county comparison bar chart and statistics we have provided committee staff.

- COGCC Computer System Overhaul

First quarter 1999 Conservation Levy, is being input and edited via the Form 8 input form. The complaint and spill forms are being rolled out to the staff. The well completion forms 5 and 5A are in testing. Forms 2 and 6 are in development and should be completed and in use by mid-August. The deployment of these forms will finalize the migration from the old COGIMS system.

An Intranet, a network deployment using Internet tools, site has been set up and the COGCC staff is using the database query tools, maps and online orders. Feedback has been positive and the tools were released for use in the public room the first week in July.

- Production Reporting by E-mail

All operators are encouraged to submit their production reports as attachments via e-mail to ogcc.eforms@state.co.us. Attachments must meet the same guidelines required for diskette submission. Questions should be directed to Sharon Tansey at (303) 894-2100 x128.

- Production Reporting by Well and by Formation

During the July 1998 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 complete. There are over 1,300,000 images in the database to date. Central Services continues to image approximately 20,000 images per day.

- Geographic Information Systems

The Autodesk Mapguide GIS application development has been completed and is accessible to staff. The layers available are counties, sections, townships, cities, roads, railroads, airports, rivers, lakes, water wells, public lands surface ownership, oil and gas wells, pits, downstream gas facilities, spacing orders and COGCC staff responsible areas.

The wells and other facilities are currently being cleaned up for spotting from the new database. This process may take a few weeks as the idiosyncrasies of the multiple survey systems get standardized and the data corrected. The spacing orders are a work in process; their priority is right behind the wells. It will take a while to complete them as each order will be reviewed to insure the correct area and formations are identified.

It is planned to have the GIS on the Internet by the end of August 1999.

- Minerals, Energy, Geology Advisory (MEGA) Board

Brian Macke will be standing in for me at the next MEGA Board meeting which is scheduled for Thursday, July 15 and 16 in Craig.

- COGCC on the Internet

The COGCC continues to expand its Internet presence. OGCC staff contact information, The Greater Wattenberg Area Policy, Production Value information by county and COGCC Monthly Production & Sales by County 1998 has been added to the web site COGCC. 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 <http://cogcc.state.co.us>. Our e-mail address is dnr.ogcc@state.co.us.

- FY 99 ERF-Plugging Fund/Bond Claim Fund Summary

During FY 99, \$306,257 was spent with ERF and bond claim monies. Of this amount, ERF Fund expenditures totaled \$218,475 and bond claim expenditures totaled \$87,782. Thirty-nine wells

were plugged and reclaimed and seventeen additional sites had some type of reclamation work.

- June Hearing Rulemaking to Eliminate Fees and Reduce Levy

The new fee schedule is attached.

- 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.

- August Hearing Docket

A preliminary docket for August is attached for your review.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

- IOGCC Midyear Meeting

Commissioner Abe Phillips attended 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 1004.a. for H & R Well Services Inc. for the Lauridson-Western #29-1, #29-2, #29-3, #29-4, #29-5 wells, Lauridson-Western #8 Well, and Vessels-Lauridson #1 Well located in Adams County. The surface owners requested the various gates accessing the property be retained to serve as security against trespass.
- I have granted a variance to Rule 1004.a. for Pozo Resources Inc. for the Hazlet #21-29 well located in Adams County. The surface owner has requested that the cattle guard accessing the wellsite be regarded as his property and left in place.
- I have granted a 502.b. variance to Rule 603.b. for Patina Oil & Gas Corp. for the Appel-Heirs W 32-5 Di, (SW¼ NW¼ Section 32 Township 2 North Range 66 West). The well location is within a legal 318A drilling window but is 322' from the nearest Building Unit, less than the 350' set by this rule. Patina requested a variance to the minimum setback based on the following:
 - The owner of the Building Unit in question will not grant a waiver.
 - The Building Unit in question is used for industrial purposes
 - Patina has waivers from all other affected parties.
 - By moving this well a distance greater than 350' from the Building Unit in question, Patina would need to obtain additional consents from offsetting owners and would incur significant additional expense in site construction.