MONTHLY STAFF REPORT - 10/25/2000

I. STATISTICS

¨ Our monthly statistics report is attached.

II. NORTHWEST COLORADO

¨ Northwest Colorado Oil and Gas Forum

The next meeting of the Forum will be held on Thursday, November 2nd from 10:00 a.m. until 1:00 p.m. at the Rifle City Hall. The Forum, which consists 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 is a newspaper article about a recent candidates forum held in Battlement Mesa.

¨ Barrett Resources Increased Well Density Application

The continuation of the Barrett Resources Public Issues Hearing on the Garfield County 20-acre density application is docketed for this month's hearing in Denver. Attached are newspaper articles (articles 1, 2-1, 2-2, 3) about the September 25-26 Public Issues Hearing on the matter.

III. NORTHEAST COLORADO

¨ Wellington Operating Update

Order No. 1-82 specifies that by September 1, 2000, Wellington Operating either implements a secondary oil recovery project, begins gas storage operations or submits an additional $5,000 of financial assurance for each inactive well. As of October 16, 2000, Wellington had not implemented a secondary oil recovery project or begun gas storage operations. Wellington has agreed to submit $5,000 in financial assurance by December 1, 2000 for each of the 15 inactive wells that they currently operate. Attached is the written report (pages 1, 2, 3, 4, 5) that is also required by Order No. 1-82.

¨ Patina Shut-in well agreement update

On August 13, 1997, you issued an order requiring the staff to update the Commission bi-annually on the status of the agreement between Patina and me. During the last six months, Patina has returned 20 wells to production and plugged and abandoned three wells. Patina has met their obligations to date under the agreement. There are 80 wells remaining on the shut-in well agreement list.

IV. SOUTHWEST COLORADO

¨ La Plata County Gas & Oil Regulatory Team (GORT)

The next GORT meeting is scheduled for November 16, 2000 from 8:30 to noon in the Lightner Room at the La Plata County Fairgrounds.

¨ La Plata County/San Juan Basin 3M Proposal – Update

The draft final ground water modeling report has been reviewed by COGCC, BLM and SUIT staff. The draft final reservoir modeling report should be received for review by October 27, 2000.

¨ La Plata County Drilling Survey

Order Nos. 112-156 and 112-157 which permitted the drilling of an additional Fruitland Coal well required me to survey operators regarding their drilling plans for the remainder of 2000 and for 2001. The results indicate there will be 102 wells permitted and 63 wells drilled in the last five months of the year 2000. In 2001 there will be 122 wells permitted and 112 wells drilled.

¨ La Plata County Onsite Inspections

Order Nos. 112-156 and 112-157 require onsite inspections if the proposed location is in an approved subdivision, is within two miles of the outcrop contact between the Fruitland and Pictured Cliffs Formations, or if the operator and the surface owner have not entered into a surface use agreement. As of October 16th, nine onsite inspections have been scheduled with eight of these having been completed.

V. SOUTHEAST COLORADO

¨ Raton Basin Project 2000 - 2002

Contracts have been signed with consultants for two phases of the Raton Basin Project, Phases I and V. Phase I is the investigation of methane seeps using infrared instruments capable of detecting gas at one part per million. Field work for Phase I will begin the week of October 23, 2000. Phase V is the identification of core and drill holes as well as underground mine workings. Work on Phase V will begin in November.

¨ Gas Seep Investigation, Las Animas County

A methane gas seep was reported north and south of Highway 12 at the east end of the Basin Mine, centered in Section 28, Township 33 South, Range 67 West, Las Animas County. Two shut-in gas wells downgradient were implicated as the possible source of the seep. Field investigation revealed methane in the bradenhead of the eastern well, the Picketwire 28-10; the bradenhead also had 20 pounds of pressure. No gas was found in the casing in the western well, the Picketwire 28-11. Investigation of the soil adjacent to the wells, using a Flame Ionization Device (FID), revealed no methane. Two monitor wells installed by Basin Mine consultants near the Picketwire 28-11 Well had high levels of methane. Stressed or dead vegetation is present at the seep. The areas of dead vegetation, the gas wells and the monitor wells were mapped using a Global Position System (GPS) instrument. The gas wells were drilled October, 1990. An infrared aerial photo dated August 26, 1990 was ordered from the EROS Data Center. An overlay of the GPS map was made and attached to the infrared photo, it shows the stressed and dead vegetation existed in almost the same spot before the gas wells were drilled.

VI. ENVIRONMENTAL ISSUES

¨ Rule Making Proposed to the Water Quality Control Commission (WQCC)

In an ongoing quest to resolve discrepancies between the EPA requirements for UIC programs and the WQCC standards and classifications for ground water, Randall Ferguson, Debbie Baldwin, and Ed DiMatteo continue to work with staff from both agencies. New rules have been proposed that would apply to the Lyons Sandstone in Weld County (proposed WQCC Rule 42.7.(46); the Parkman Sandstone in Weld County (proposed WQCC Rule 42.7.(47); the Sussex Sandstone in Weld County (proposed WQCC Rule 42.7.(48); and the D and J Sandstones in Adams, Arapahoe, Morgan, Washington, and Weld Counties (proposed WQCC Rule 42.7.(48).

Presentations on the proposed rules have been made to Arapahoe, Morgan, and Washington County governments; a presentation to Weld County is scheduled for October 30, 2000. The pre-hearing conference for the proposed rulemaking is scheduled for November 9, 2000.

COGCC staff will present the proposed rules to the WQCC at the WQCC December 12, 2000 hearing. The hearing begins at 11:00 a.m. in the Florence Sabin Conference Room of the Colorado Department of Public Health and Environment (CDPHE), 4300 Cherry Creek Drive South, Denver.

¨ Water Quality Control Commission/Division Quarterly Meeting/Annual Report

The quarterly meeting was held on October 24, 2000. WQCC Commissioner Lori Satterfield teleconferenced from her office in Glenwood Springs and COGCC Commissioner Bruce Johnson attended.

COGCC environmental staff will be making their annual presentation as an implementing agency of ground water standards and classifications to the WQCC during the WQCC hearing at 1 p.m on December 12th.

¨ Statewide Integrated Ground Water Quality Protection Program

Since Colorado's ground water protection responsibilities are dispersed over a number of agencies, the WQCD is taking the initiative in developing a Colorado Ground Water Protection Council (CGWPC), which consists of representatives of the six implementing agencies. CGWPC will provide a forum for discussion of ground water issues and facilitate the coordination of ground water protection activities within the State. Debbie Baldwin will represent the COGCC and Bob Chesson will serve as the alternate. The next meeting of the CGWPC will be held on November 30, 2000 from 9:00 to 11:00 a.m. in the COGCC conference room.

VII. ORGANIZATION

¨ Staff Organization

Our current organization chart is attached.

VIII. PLANNING/ADMINISTRATION/OTHER

¨ COGCC Oil and Gas Well Permitting Workshop for Operators

Due to firm commodity prices, the COGCC is experiencing an increasing level of oil and gas well permitting activity. To assist operators in the preparation of complete permit packets and to continue to provide timely processing of permits, we are offering this training to ensure that operators are aware of the latest rules and regulations that apply to well permitting. This is particularly important for operators who have not been actively permitting wells since the recent rule changes. COGCC well permitting staff will be conducting the workshop on Monday, November 13th, from 9 a.m. to 12 p.m. Please RSVP by 5:00 p.m., Monday, November 6, 2000 to Jeff Glossa at (303) 894-2100 x116 or jeff.glossa@state.co.us. Attached is an announcement for the workshop.

¨ Department of Natural Resources Oil and Gas Legislative Package

On December 6th, I accompanied DNR Executive Director Greg Walcher on a visit to Grand Junction and Durango where he announced to the press a legislative package to address conflicts facing oil and gas development in Colorado. The package of three bills will be introduced in the next legislative session.

The first component of the legislative package is a surface damage statute, which will require oil and gas operators to negotiate a contract with the surface owner and pay compensation for surface damages. If the parties can't agree, no drilling can occur until an independent appraisal process is initiated to determine the amount of damages to be paid to the surface owner.

The second component is a property owner notification statute, which requires title insurance companies to disclose to property buyers if there are severed minerals attached to the property, and that the mineral owner may have the right to enter and use the surface without permission.

The final component of the legislative package is a dormant oil and gas interest statute which will allow the surface owner to reclaim abandoned oil and gas interests that have been neither used, taxed nor recorded for a period of 20 consecutive years. Barring objection from a third party proving ownership, the oil and gas rights revert to the surface owner. The act will include a two year grace period to allow oil and gas owners to record or otherwise perfect their interests.

Attached is a more detailed overview of the DNR Oil and Gas Legislative Package and newspaper articles (articles 1, 2, 3) about the announcement of the legislative package.

¨ Well Log Imaging

The division's open hole well log electronic imaging project that was approved for the fiscal year 2000/2001 budget has been started. The goal of this project is to image all of the estimated 66,000 plus well logs and make them available to all COGCC data users. Ultimately, the log images will be accessible through the Internet. There will be more information about how the logs will be accessed in future staff reports.

The project has moved into the procurement stages with the actual scanning anticipated to begin in November. We are in the process of testing the scanning equipment to insure that the throughput will meet quality standards to provide industry and VAR (Value Added Re-salers) minimum requirements. Following successful testing, the scanning, which will be performed by the Colorado Division of Central Services, will take three to six months depending on the number of eight-hour work shifts that are employed to provide the scanning services.

¨ Colorado Oil and Gas Information System (COGIS)

The information system for COGCC has been named the Colorado Oil and Gas Information System (COGIS). COGIS is made up of the database management system, the Geographic Information System (GIS) and the document imaging system. All of these systems are available on the Internet, for use by staff and in the public room.

The database application consists of a forms processor that stores entered data for review by appropriate technical staff for quality control and compliance. Data access is provided by an online query application to view individual records on the computer screen. Reports are being developed to provide access to multiple record data sets.

The GIS is made up of two parts. The plat mapping tool spots wells, pits, and other associated facilities. The Internet available GIS tool is the Autodesk Mapguide application that displays statewide data including wells, pits, land ownership, spacing, surface water, surface geology, municipalities, roads, etc. Autodesk Mapguide allows for zooming, panning, printing and redirection to the database queries.

The document imaging system contains digital images of all paper records of the COGCC. The historical records have all been scanned including cement bond logs and oversize hearing exhibits. The images are available on the Internet.

The impact of these new systems substantially affects the processes that COGCC staff uses to complete its work. Work continues on program fixes (bugs), training, documentation, and modifications to the workflow to fit the new methods of data processing. As these issues are worked through, delays in form approvals and data distribution experienced by COGCC customers should be resolved. Data migration and cleanup continues, although this will be a long-term project. The results will be well worth the effort.

¨ Electronic Levy Reporting

There are several levy payors submitting their Conservation Levy reports electronically. These reports account for 2,522 of 17,222 total leases reported in a single quarter or fifteen percent (15%) of the total. While this is a big help it is a small amount of the total percentage and the data entry volume is very significant.

Sharon Tansey will be contacting Levy payors directly and urging them to submit their reports electronically. She will also be working on creating an Excel spreadsheet to help with the data format. The specifications are detailed in the document titled "Oil and Gas Conservation Levy, Form 8, Specifications" which can be found on the Internet under the same title at *http://www.cogcc.state.co.us/documents.html.* Electronic filing of levy data will help reduce the data input requirements and data entry errors thus enabling faster turnaround time of all documents. Electronic submission may be made by e-mail attachment to ogcc.eforms@state.co.us or by mailing 3.5-inch diskette or CD. Questions should be directed to Sharon Tansey at (303) 894-2100 x128.

¨ Production Reporting by E-mail

There are currently more than 60 operators reporting production electronically. These electronic reports account for 17,625 out of a total of 24,131 well completions reported or 73% of the total reported for June,2000. This significantly helps reduce the manual data entry volume.

Sharon Tansey has been distributing an Excel spreadsheet that lays out the electronic format for the production report. Electronic submission may be made by e-mail attachment to *ogcc.eforms@state.co.us* or by mailing a 3.5-inch diskette or CD. 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 Website at http://www.cogcc.state.co.us/documents.html, or from the COGCC office. Questions should be directed to Sharon Tansey at (303) 894-2100 x128.

¨ Data Entry

The volume of data entry has increased significantly over the past year. With the current oil and gas prices, we are seeing an increase in drilling and completion activities and the 1999 production reporting requirements significantly changed the number of lines of data submitted. In addition, the new COGIS database allows for storage of a more complete data set than the previous database for wells and other oil and gas operations. In order to facilitate faster turnaround time of approvals and earlier data access to submitted data, all operators are being encouraged to submit their production and levy reports electronically. The COGCC is exploring ways to make forms available for submission on the Internet so that all forms can be submitted electronically.

¨ COGCC on the Internet

The COGCC continues to expand its Internet presence. Access to the COGIS database is now available via the "Info Systems" button on the COGCC homepage. The GIS and Document Images are available via the same selection. The COGCC searchable orders are available from either the homepage or the Info Systems page.

The GIS has been modified to return the well data query when a well spot is double clicked to display the well data.

We continue to redesign our web pages to provide improved customer service. The public is invited to leave comments or suggestions for improvements of the COGCC Internet site. Our e-mail address is dnr.ogcc@state.co.us.

¨ Customer Feedback on Web Site

The comments we receive are encouraging and continue to deliver the message that we are on the right track to provide our customers with the right product. Our goal is to continue to improve the website and the data contained within. With the constructive and positive feedback that we continue to receive we hope to improve on the product.

¨ NGPA Well Determination Process Resumed

The COGCC and the Federal Energy Regulatory Commission ("FERC") held a workshop on September 19, 2000 for producers to discuss the FERC's July 14, 2000 approval of Order No. 616 which became effective on September 25, 2000. BLM Representatives were among the 27 attendees.

On October 1, 2000, the COGCC began accepting applications for determination of coal seam gas and tight formation gas for wells spudded after December 31, 1979 and before January 1, 1993 for which determinations were never requested. In addition, applications may be filed for determination for wells recompleted for coal seam gas and tight formation gas commenced after January 1, 1993, in wells drilled after December 31, 1979 and before January 1, 1993, for which determinations were never requested. Further, gas producers may wish to file applications with the COGCC seeking designation for new tight formation areas previously undesignated.

Operators must submit FERC Form 121 and the COGCC Form along with the required materials to the COGCC for processing. FERC Form 121 is available in hard copy at the COGCC. The COGCC form is available digitally on the web site by clicking on "Natural Gas Category Determination". Additional information is available on the web site including a list of tight formation area designations. The COGCC is trying to obtain a list of all previously approved well determinations from the FERC to post to the web site. For additional information, contact Tricia Beaver at (303) 894-2100 x115 or *tricia.beaver@state.co.us*.

¨ Penalties Status

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

¨ December Hearing Docket

A preliminary docket for December has been provided.

IX. VARIANCES

HS Resources, Inc. was granted a Rule 502.b. variance to COGCC Rule 1004.a., Final Reclamation of Well Sites and Associated Production Facilities requirements for the Lewis Blanda #1 Well in Weld County. The surface owner has requested that the lease road, cattle guard, gates and electric meter be left on site for his own personal use.

Patina Oil & Gas was granted a Rule 502.b. variance to lease line set back requirements established by Rule 318.A. for the 4-14 Kammerzell Well. This is to be a test of the Codell in the SESW of Section 4, Township 4 North, Range 66 West, a location within the Greater Wattenberg Area. This exception was requested for surface considerations and is approximately 177 feet west of the drilling window described by Rule 318.A.

Amoco was granted a Rule 502.b. variance to lease line set back requirements established by spacing order 112-157 for the Lemon Gas Unit F #2 Well. This is to be a test of the Fruitland Coal in the SW1/4 SE1/4 of Section 7, Township 34 North, Range 8 West. This exception has been requested to avoid a natural spring, steep terrain and to locate the well further from the closest residence. This location is approximately 80 feet west of the drilling window described by spacing Order No. 112-157.

Amoco was granted a Rule 502.b. variance to lease line set back requirements established by spacing Order No. 112-157 for the Lemon Gas Unit 2-17U #2 Well. This is to be a test of the Fruitland Coal in the NW1/4 SE1/4 of Section 17, Township 34 North, Range 8 West. This exception has been requested for topographic reasons and is approximately 87 feet west of the drilling window described by spacing Order No. 112-157.

Amoco was granted a Rule 502.b. variance to lease line set back requirements established by spacing Order No. 112-157 for the Lemon Gas Unit 1-17U #2 Well. This is to be a test of the Fruitland Coal in the NW1/4 NE1/4 of Section 17, Township 34 North, Range 8 West. This exception has been requested for topographic reasons and is approximately 104 feet west of the drilling window described by spacing Order No. 112-157.

Amoco was granted a Rule 502.b. variance to lease line set back requirements established by spacing Order No. 112-157 for the Phillips G. U. Pla-6 #2 Well. This is to be a test of the Fruitland Coal in the NE1/4 NE1/4 of Section 33, Township 34 North, Range 9 West. This exception was requested to avoid impacting irrigation operations and because of proximity to existing road and pipeline infrastructure. This location is approximately 340 feet east of the drilling window described by spacing Order No. 112-157.

H:Ginger/Misc/Staff Report/10-00

GRAND JUNCTION "DAILY SENTINEL"
OCTOBER 9 2000

Editorials

A sound prescription for region's gas pains

Surface property owners would be on decidedly firmer ground in dealing with gas-drilling companies if legislative proposals announced last week by Colorado Department of Natural Resources Director Greg Walcher are adopted.

Walcher announced his plans during a visit to The Daily Sentinel last Thursday. He was accompanied by Rich Griebling, director of the state Oil and Gas Conservation Commission and representatives of Gov. Bill Owens' staff.

Walcher said he is optimistic he won't face a vigorous fight from the oil-and-gas industry to get his measures passed. Here's hoping he's right. The legislative package he has proposed is a sensible approach to revamping century-old laws which tilt the legal scales heavily in favor of drilling companies and give virtually no legal standing to surface owners.

In Garfield County, the historic regulatory favoritism toward the industry has resulted in the current battle over whether to allow natural-gas-well spacing on private land every 20 acres, which Walcher said would make it the most dense gas field in the world.

And, as Walcher noted, it's not just environmental groups and newcomers who are complaining. Longtime ranching families are also upset about seeing their lands carved up by drilling operations, with little or no input from them.

Walcher's proposal attempts to deal with such situations by requiring mineral-rights owners to negotiate an agreement with property owners and pay for agreed-upon damages *before* drilling begins.

The proposal is modeled after a law already on the books in Oklahoma and Walcher said industry representatives have told him they prefer it to similar laws in other states.

In addition, Walcher's legislative package includes a requirement that title companies inform prospective real-estate purchasers whether they will own the mineral rights associated with the property. If not, the title companies must tell prospective buyers that gas firms could legally drill on their property without their permission.

Finally, the package would allow surface property owners to claim the mineral rights under their property if they have been dormant for 20 years or more.

The package put forth by Walcher and Griebling would go a long way toward alleviating the kinds of disputes that have been associated with gas drilling in Garfield and La Plata counties over the past couple of years. It deserves to be approved by the Legislature.

GRAND JCT. "DAILY SENTINEL"
OCT. 6, 2000 P.1

Changes proposed for oil, gas industry

By MARIJA B. VADER
The Daily Sentinel

Colorado Department of Natural Resources Director Greg Walcher has proposed sweeping changes in laws governing how oil and gas operators deal with landowners in Colorado.

Walcher announced on Thursday three proposed bills he hopes will be enacted into law after the Legislature opens in January.

They would:

■ Require drilling operators to assess all potential damage and pay the landowner for damage done to the land before any drilling takes place.

The proposal would require the landowner and oil and gas company to agree on the conditions of drilling before the drill platform is even placed.

■ Require title companies to tell people buying homes whether they are also buying the minerals. If the homeowner is not buying the minerals, the title companies will be required to disclose that a mineral owner may enter the property without the surface owner's permission.

This proposal also requires surface owners to notify mineral owners when a land subdivision is being planned.

■ Allow surface owners to lay claim to dormant mineral rights.

"We said, 'Let's get to the heart of the real issues,'" Walcher said. "This would change the whole game."

The natural resources chief consulted with landowners, citizens' rights advocates and oil and gas interests before creating and announcing his plans.

Shirley Willis of the Grand Valley Citizens Alliance hailed the proposals.

It's only right that gas companies pay for damage, because landowners pay property taxes on the land, "whether they can use it or not,"

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CHANGES: Industry 'terrified' of initiatives, resources chief says

➤ Continued from **Page One**

Willis said.

Every well takes between three and five acres of land, property that surface owners still pay taxes on, Willis said.

"They're all pretty good rules," she said. "They just have to be enforced."

Walcher said he realizes he faces an uphill battle fighting the cash-rich interests of oil and gas officials, but the alternative "terrifies" them, he said.

"The industry is terrified of ballot initiatives that could be worse than these," he said. "I believe we've arrived at a package everyone can live with."

Most oil and gas problems arise because the surface of the land and the minerals beneath are often owned by different people.

The federal government split the mineral rights from the surface rights in the early 1900s when it encouraged people to move to the West.

Often, as landowners sold their properties, they retained the mineral rights, then passed those mineral rights on to their heirs.

In some properties today, Walcher said, many people may own mineral rights to a single tract of land.

That division has manifested into huge problems, Walcher said.

"We've evolved almost to the point where the surface owner has no rights," Walcher said.

The most important bill would require oil and gas operators to pay landowners for damage done to the land during drilling, Walcher said.

Currently, oil and gas operators are not required to pay landowners for most damage caused by drilling.

Also, agreements with surface owners on where to build roads, where to drill and where to lay gas lines are not mandatory now.

Walcher pointed to problems experienced by Garfield County landowner Arnold Mackley.

Mackley entered into an agreement with an oil and gas company in 1964 for his property when gas drilling density was at one well for every 320 acres.

The agreement was never updated, and now Barrett Resources wants to drill one well for every 20 acres.

The state commission governing well-drilling will decide on Barrett's request Oct. 31.

■

Marija B. Vader can be reached via e-mail at mvader@gjds.com.

DENVER POST OCTOBER 11, 2000

Stage set for battle over oil, gas drilling reforms

By Theo Stein
Denver Post Environment Writer

The head of the state Department of Natural Resources is proposing a package of oil and gas reforms, including a requirement that companies compensate owners of surface land for drilling damage prior to the start of operations.

Two other bills proposed by Greg Walcher, executive director of the Natural Resources Department, would make prospective buyers aware of mineral-rights issues involving the land, and give surface owners a process for buying back dormant gas and oil rights.

Walcher, former head of the pro-development Club 20, said the state's current mineral laws are antiquated and fail to protect the interests of surface landowners.

"The bottom-line issue is an issue of balance," said Walcher. "Clearly there is an imbalance between mineral owners and surface owners.

"The industry has operated under a series of laws that are more than 100 years old," he added. "The idea that you can drill for gas without any concern whatsoever for the surface landowner, for property values, for property rights, or the environment, doesn't make sense in the modern world."

The proposals set up yet another battle in the state legislature over the oil and gas industry, which is an important economic engine in the state but has drawn increasing opposition from Western Slope communities concerned about impacts on recreation, tourism and hard-to-define quality of life.

The issue has stayed in the news this year as two high-density Western Slope wellfield proposals worked their way through the permitting process. One of the proposals, in La Plata County, has been approved, and the other, affecting an area near Rifle, is still being considered.

Greg Schnacke, executive vice president of the Colorado Oil and Gas Association, said the industry supports the property owner notification bill, but has concerns about the other two.

"In our view, Colorado is the most heavily regulated state in the Rocky Mountains," said Schnacke.

Schnacke said the Oil and Gas Association is opposed to the surface-owner compensation proposal, which would require companies to negotiate a compensation package, or select three appraisers to evaluate the impact of drilling before drilling starts.

Under current law, firms are not required to reimburse surface owners for most kinds of drilling damage. And landowners must prove damages are "unreasonable" before they can receive compensation.

The law would encourage oil and gas firms to minimize their impacts, since they would bear the cost, said Walcher.

The notification bill would require title insurance companies to disclose that mineral-rights owners may enter the property and use the surface without permission. It would also require surface owners to notify mineral-rights owners of impending land-use changes, so the latter can be involved in zoning and planning discussions.

The third proposal would allow surface owners to buy back unused mineral rights beneath their land. Currently, there is nothing that requires oil and gas owners to record their title, often making it impossible to get a clear picture of who owns what underground.

Overview of Colorado Department of Natural Resources
Oil and Gas Legislative Package

A. The Problem. Oil and gas production is a vital part of Colorado's economy, creating jobs and providing a valuable resource that we all use. But in light of increasing conflicts between surface and mineral development, it is clear that reform is needed. Recent reform efforts, which have focused on the Oil and Gas Conservation Commission and its rules, have failed to resolve these conflicts. We believe that, in order to have a chance at successful reform, we must address the most fundamental problem under current law: the imbalance between the rights of landowners, the environment and the rights of oil and gas operators.

Most conflicts involving oil and gas drilling are rooted in the "severance" of land title. In Colorado, as in many western states, property is divided into the "surface estate" and the "mineral estate", each of which can be owned by different parties. In many cases, surface owners are unaware that another person owns rights to the minerals underneath their property. Even surface owners who are aware of severance may not realize that the mineral owner has a legal right to enter the property, build roads, drill wells, install flow lines and maintain operations – all without permission from the surface owner or compensation for most damages caused by drilling. From the perspective of surface owners, the current system is not a level playing field.

B. Bill #1: Surface Damage Statute. A Surface Damage statute will be a significant step towards striking a more sensible balance between surface owners, mineral owners and the environment.

Under current law, oil and gas operators are not required to compensate surface owners for most damages caused by drilling. A Surface Damage statute will require oil and gas operators to negotiate a contract with the surface owner governing surface use and payment of compensation for surface damages (a "surface use agreement"). If the parties can't agree, the operator may not enter the site to drill until he or she has initiated appraisal proceedings. Under appraisal proceedings, the surface owner and the operator select appraisers, and these two appraisers select a third. The panel of three appraisers determines the amount of damages (including diminution of property value) to be paid to the surface owner.

This approach is similar to the judicial "accommodation doctrine", but there are two key differences. First, under the accommodation doctrine a surface owner can only collect compensation after drilling has already occurred. Under the Surface Damage statute, however, compensation must be negotiated or the appraisal process initiated prior to drilling. Second, under the accommodation doctrine, the surface owner bears the burden of showing that damages are "unreasonable" before he or she can receive compensation. This is not necessary under the Surface Damage statute, since compensation is required for all damages to a surface owner's property.
Nine states have adopted Surface Damage Statutes. Surface Damage Statutes give oil and gas operators an incentive to minimize surface damages, since they will bear the costs. They also create an incentive to accommodate surface uses and minimize environmental impacts through negotiation of surface use agreements. In practice, most operators and surface owners are able to reach voluntary agreement, preventing excessive involvement by courts or state regulators.

C. Bill #2: Property Owner Notification Statute. A Property Owner Notification statute will facilitate the flow of information between surface owners and mineral owners, reducing the potential for future conflicts. The notice statute has two elements:
First, it requires title insurance companies to disclose to property buyers (1) that there are severed minerals attached to the property (if applicable), and (2) if there is a severance, a clear statement

that the mineral owner may have the legal right to enter and use the surface without permission. Many newcomers to Colorado are unfamiliar with the concept of severed estates. Even though real estate sale contracts are required to disclose the possibility that another party may own mineral rights, this hypothetical point does not adequately convey the reality that drilling may indeed occur on that particular property. As a result, many surface owners do not even consider the possibility of drilling until it is too late.

Second, it requires surface developers to notify mineral owners of impending surface development above their property (such as zoning changes or subdivisions) prior to public hearing, thereby enabling mineral owners to participate in the hearing and anticipate future conflicts. In an era of intense surface development, many potential controversies can be avoided if mineral owners are included in the subdivision and zoning planning process.

D. Bill #3: Dormant Oil and Gas Interests Statute. A Dormant Oil and Gas Interests statute will encourage recording oil and gas rights and allow surface owners to gain clear title of abandoned oil and gas interests.

Under Colorado law, there is no legal requirement that oil and gas owners record their interests, often making it impossible to get a clear picture of oil and gas ownership under a given piece of land. This becomes a problem for surface owners when oil and gas owners have abandoned their oil and gas rights. Since an oil and gas interest includes the right to enter and use the surface, this creates uncertainty about surface use and potentially impairs marketability of the land. Abandoned oil and gas interests also lead to problems for anyone interested in exploring, because it may be difficult or impossible to locate fractional owners of mineral rights. As a result, an exploration company may be liable to these missing or unknown owners when exploration proceeds.

Under the Dormant Oil and Gas Interests statute, a surface owner may take action to terminate oil and gas interests that have been neither used, taxed nor recorded for a period of 20 consecutive years. Following such an action, and barring any objection by a third party who can prove ownership, the oil and gas rights revert to the surface owner. The oil and gas owner can preserve its property by using, recording or paying taxes on the oil and gas interest within the 20 years prior to the action. The statute will include a two-year grace period to allow oil and gas owners to record or otherwise perfect their interests. Approximately 20 states have adopted some version of this law.

Gas well spacing continues to draw controversy

By Mike McKibbin

DENVER - For the third time, a staff analysis by Colorado Oil and Gas Conservation Director Rich Griebling was strongly objected to by Barrett Resources Corp. attorneys at Monday's continued public issues hearing. Two earlier analyses of the company's 20-acre natural gas well spacing application had also been vigorously opposed by the company.

The first of two more days of testimony, cross examination and questioning related to issues of public health, safety, welfare and the environment caused by 20-acre density on more than 8,760 acres of land between Parachute and Rulison ended early, after six and a half hours.

On Tuesday after closing arguments the Commission decided to discuss conditions to mitigate the environmental public health safety and welfare issues.

Barrett sought the closer spacing to more effectively drain the natural gas reservoirs in the Rulison, Grand Valley and Parachute fields of the West Fork formation. It was approved in a February hearing on technical merits, but the commission stayed its order when three parties intervened - Garfield County, the Grand Valley Citizens Alliance and a group of Rulison-area landowners, the Mackley/Savage group.

Attorneys were scheduled to give closing arguments and rebuttals Tuesday morning. A possible supplemental staff analysis was to close the public issues hearing. The Commission was to then consider placing conditions on Barrett's application to mitigate concerns expressed by the three intervenors.

Barrett attorney William Keefe cross-examined Griebling on several proposed conditions. One key issue was directional drilling, which Barrett has staunchly opposed. Griebling suggested a plan that identified how new wells could be drilled from existing well pads.

"The potential for additional cost savings from multi-well sites to offset incremental directional drilling costs as demonstrated by Ballard [Petroleum, L.L.C.]'s experience could be realized through the development scenario" Griebling wrote in his analysis. "This could make directional drilling economically competitive with vertical drilling even at lower gas prices." Ballard has drilled many directional wells from common well pads and single locations in the Mamm Creek field. The company claimed it saved money over vertical wells.

"I don't believe Barrett's prices [for directional drilling] are in touch with reality for the oil and gas market today," Griebling said in response to Keefe's questions.

Griebling also wrote that "we cannot carry out our statutory charges (to promote development consistent with protection of public health, safety and welfare or to prevent and mitigate significant adverse environmental impacts . . . taking into consideration cost effectiveness and technical feasibility) without performing an independent, professional and credible economic analysis."

"I think there is clearly a need for directional drilling," Griebling said during the hearing.

> ***"The potential for additional cost savings from multi-well sites to offset incremental directional drilling costs as demonstrated by Ballard [Petroleum, L.L.C.]'s experience could be realized through the development scenario"***
>
> ***Rich Griebling***

Jack McCartney conducted an economic analysis of directional drilling for the Mackley/Savage group. He said while that group's directional drilling plan would cost Barrett about $3 million more than the company's 20-acre plan, Barrett's rate of return would more than offset the extra cost. His analysis found Barrett would have to pay an estimated $1.1 million to drill a directional well.

"With a return of more than 37 percent and pay out in two and a half years, their rate of return on that investment would be three or four to one," McCartney said. He credited current high natural gas prices for helping to make directional drilling economically attractive.

McCartney added if Barrett drills the 76 wells they have planned in their application area, the company will earn more than $200 million in gross profits.

"Even with the Mackley plan's extra $3 million, that's about 1.5 percent of that gross profit," McCartney pointed out.

Griebling also defended his recommendation to conduct on site inspections for any drilling permit application that met certain conditions. Those were that the permit would result in more than one surface well site per 40 acres, the well would be within 500 feet of the outer edge of riparian or wetlands vegetation, whenever the operator and surface owner failed to reach an agreement regarding the proposed site and access road, and if the well site is within any county-approved subdivision. The county local governmental designee can already request an on site inspection.

Griebling said he was unsure how many on site inspections he might have to make, "but it may not be very many at all. I think it would be an incentive to the operators to work through the issues with the surface owners and plan well."

Commissioner Abe Phillips also sharply questioned Griebling and said it was "absolutely wrong" to base the economics of directional drilling on individual wells.

"Economics doesn't start with a snapshot of one well or field," Philips said. "It's how much time has been put into developing wells and it starts when the company begins" production work. "I think there has been a bias by you that 20 acre spacing is bad."

"That's not what we've written," Griebling responded. But Phillips countered that Griebling's analysis, and previous ones in February and August, "puts this commission in a posi like an election Yugoslavia."

Cross examination previous expert witnes who testified at ear hearings followed Griebli questioning.

Barrett official Ted Br said of ten direction drilled wells the comp drilled in the Grand Va field, one failed.

"The Rulison field [wh covers much of application area] has m problems than anywhere in the Piceance Basin," Br added. He said natural pressures, soft formations other geologic factors m the Rulison field "tot different" and unattractive directional drilling.

Brown also said Bar needs a "substantial" rat return per well.

"It's been a contin struggle the past 17 year the Piceance basin to do th he added. "It is a margi play for us to be here, but will continue to develop as learn more about getting resource out of the grou He called the return vertical wells "acceptab but extremely low directional drilling.

A Barrett reclamat witness, David Chenow took issue with a requirem for 12 inches of topsoil amended soils to ens adequate reclamation "for areas."

Dr. Ed Redente recommended the top soil amended soils to help w adequate reclamation pinyon juniper trees. He s reclaimed well sites should fenced to keep all wildlife and allow the woody spec to grow.

"A major problem in Rulison area is a h [reclamation] failure ra Redente added. "That's wh feel 12 inches of a g growth medium is critical. not clear to me that Barret willing to adopt these steps.

Redente also said whate reclamation efforts are m should include the wishes the surface owner "but I h everyone realizes importance of taking th steps, from a wildlife erosion point of view."

Glenwood INDEPENDENT.COM

Thursday, September 28, 2000

All on commish agree 20-acre gas spacing would hurt land

But how to regulate it?

By Heather McGregor
Staff Writer

Members of the Colorado Oil and Gas Conservation Commission agreed that 20-acre gas well spacing would ramp up negative impacts on the western Garfield County environment.

But the seven-member commission could not reach agreement by late Tuesday on how to regulate the doubled rate of gas drilling sought by Barrett Resources Inc.

The matter was continued until the commission's next regular meeting, at 1:30 p.m. on Tuesday, Oct. 31, in Denver.

Barrett Resources has already won the commission's approval for 20-acre downhole well spacing for 9,000 acres of private land in the Rulison and Parachute area.

At issue now, in a second formal public hearing process that began in August and continued Monday and Tuesday, are the surface impacts of such drilling.

The 20-acre spacing would be the densest in the state, and the Garfield County Commissioners, Grand Valley Citizens Alliance and a group of Rulison landowners are protesting it.

In a draft list of findings, the seven-member Oil and Gas Commission agreed that 20-acre surface well spacing would create a list of adverse impacts on the environment and on public health, safety and welfare.

Erosion, dust, noise, odors, water pollution, weeds, landscape scars, traffic, more roads and impacts to wildlife would result from 20-acre surface spacing, they said.

Moreover, the commission found that its current rules and regulations are insufficient to properly deal with these adverse impacts, and a more stringent list of permit conditions is needed for Barrett to move forward on its drilling program.

The protesters argue that Barrett should be required to use directional drilling from existing well pads to reach the new downhole well sites.

Oil and Gas Commission director Rich Griebling also offered a strong endorsement of directional drilling, arguing that other gas drillers are drilling multiple wells from one pad for nearly the same price as clearing a new well pad to drill vertically.

Barrett has objected to the technique, arguing that it's too costly.

Directional drilling isn't explicitly called for in the draft order that resulted from the commission's hearing.

The draft order, a result of numerous straw polls taken during eight hours of deliberations on Tuesday, includes detailed requirements for reclamation of well pads and pipeline routes, water well sampling, air pollution control and emergency preparedness. It also opens the door for the Colorado Division of Wildlife to comment on drilling plans.

"The problem I see arising is that when they condense all this, it's going to end up being a reclamation issue," said Mary Ellen Denomy, business manager for protester Joan Savage. "You can't use reclamation to resolve truck traffic, hazardous wastes, land use and water pollution."

Protesters like Savage are worried about the impacts they'll feel during and after drilling.

Directional drilling would solve some of those problems by limiting environmental impacts to already-disturbed sites. But the commotion of drilling would occur all over again at those sites.

While the Oil and Gas Commission agreed on some points, others remain under debate, said Brian Macke, assistant director for the Oil and Gas Commission. He said the draft order will likely change before it's finally adopted, and he expects more lively debate on Oct. 31.

A copy of the draft order was to be posted on the Oil and Gas Commission's Web site by today. It's at www.oil-gas.state.co.us.

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RIFLE "CITIZEN TELEGRAM" OCT. 4, 2000

Barrett to be granted 20-acre spacing on 7,440 acres

By Mike McKibbin

DENVER - Twenty-acre spacing of natural gas wells in western Garfield County "may result in significant adverse environmental impacts on air, water, soil and biological resources," read a draft order the Colorado Oil and Gas Conservation Commission considered at the end of a two-day hearing Sept. 26.

The proposed order and finding, scheduled to be adopted at the Commission's Oct. 31 hearing, would prevent Barrett Resources Corp. from drilling all but four new wells on 1,320 acres south of the Colorado River near Rulison. The company would be granted 20-acre spacing on the remaining 7,440 acres north of the Colorado River, with landowner surface use agreements. Those wells could also be subject to conditions and on site inspections.

Barrett was granted permission in March to double the current 40-acre density on more than 8,760 acres of land between Parachute and Rulison. However, that order was stayed when Garfield County, the Grand Valley Citizens Alliance and ten Rulison-area landowners, lead by former County Commissioner Arnold Mackley and Joan Savage, intervened.

They claimed the spacing - the closest in Colorado - would have serious environmental, public health, safety and welfare affects. After a local public forum and public issues hearings, the COGCC basically agreed with the intervenors.

The draft order also found 20-acre spacing would create excessive erosion of steep cuts and fills, dust, noise, fumes and odors; decrease surface and ground water quality; cause unacceptable land damage and scarring; lead to an invasion of noxious weeds; disturb wildlife and increase traffic and road damage.

Rules and regulations of the COGCC were also found "insufficient to completely and adequately address significant adverse impacts to the environment and public health, safety and welfare raised by this application." As a result, the draft order stated it was necessary to attach conditions to the order to try to mitigate those effects.

However, county attorney Martha Rudolph told the COGCC she was still disappointed.

"The county is disappointed you're not protecting to the greatest extent possible all the lands south of the Colorado River," she explained. "We would prefer directional drilling be required over the entire application area."

That method utilizes existing well pads to drill as many as four new wells in a diagonal direction instead of new well pads and vertically drilled wells. Barrett strongly opposed directional drilling due to what it claimed were higher costs compared to vertical drilling.

COGCC Director Rich Griebling would be allowed to impose site-specific directional drilling as a condition following an on site inspection of new wells that fall under certain conditions. The company could appeal that or any other condition to the COGCC.

Barrett attorney William Keefe said the company was "exceedingly disappointed" the COGCC did not delete a section of the order. It would give the county and surface owners authority to allow new wells other

See WELLS on page 19

Well spacing to be kept at 40-acre spacing at four proposed locations

WELLS from page 18

than the four allowed in the draft order south of the river, on lands identified as specified surface well site lands in the order.

"You've gone back to basically dictating directional drilling, and that is just not acceptable," Keefe told the Commissioners. "That is by far the most important objection we have."

Commissioner Brian Cree of Littleton argued at length for the removal of the county from that provision, but lost on a 5-2 vote.

"The county could say 'no, it might look bad.' even if the landowner and operator reach a surface agreement that says 'this is where we want the well and this is how reclamation will be done'," Cree explained. "I don't think the county should have the authority to step in and deny that project."

Rudolph added the county was also concerned on site inspections by Griebling would not consider cumulative impacts of new wells. She also said other provisions would require "a big cut" and much more reclamation than desired to decrease the slope ratio to three to one, and wanted more than seven days for the county to decide if it in the draft order.

"I have a really big problem with the language in the specified well site part," said Tom Ann Casey of Durango. "I know we agreed to include that in principle, but we didn't discuss the details. Why just four sites and why choose where they should go? I'm not sure that's fair to the applicants [Barrett]."

The four identified sites - three on Savage's property and one on Mackley's - were chosen after on site inspections by COGCC staff and surface owners and are mainly cropland, said Deputy Director Brian Macke.

"We also looked at the lands to see which ones don't already have a well pad on a 40-acre parcel," he added. "These don't."

Mackley praised the COGCC for trying to tackle a tough task.

"I think they took a thorough and thoughtful approach to this," he said. "I'm happy." However, he later expressed concern that comments such as Casey's might indicate some "back tracking" when the Commission meets again in October.

The draft order could be amended to include some proposed conditions submitted by the intervenors. Barrett agreed or partially agreed to 89 and did not agree to 17 of to the COGCC. However, it appeared the Commission had not seen them before Sept. 26.

After a quick review, Griebling said he would not likely recommend any of the conditions be included in the order. However, he said he would be willing to sit down, listen to the parties and explain his reasons why the conditions would not be recommended.

"I think all of them are either already addressed in the draft order, or in our rules and regulations," Griebling explained. "Or they could fall under the jurisdiction of other agencies or more appropriately in the emergency preparedness plan" required to be prepared in the draft order.

Commission Chairman Steven Sonnenberg of Denver doubted a positive outcome would result from such efforts.

"You all have had a long time to come together on this and you haven't yet," he said. "That's why we're here."

"The parties worked hard to present those conditions to you," Rudolph said. "I'm concerned that the Commission seems to be disregarding them based on just a short review by Mr. Griebling. I hope you allow the groups to meet with him. They may have all been taken care of as he said, but we would like a chance to go through them with him."

Candidates: COGCC should change, gas spacing too close

GVCA listens to support from County Commissioner, State Senate, Representative candidates

By Mike McKibbin

BATTLEMENT MESA - All candidates for state and local office who took part in an Oct. 5 forum said they would support changes in the makeup of the Colorado Oil and Gas Conservation Commission. They would also oppose 20-acre natural gas well spacing such as that planned by Barrett Resources Corp. in the Rulison area.

The Grand Valley Citizens Alliance, a non-profit group formed in 1997 in response to increased natural gas activity, sponsored the forum. Around 70 people attended. The GVCA was one of three intervenors - Garfield County was another - to Barrett's application before the COGCC.

The group has also tried to get state lawmakers to pass a bill that would change the makeup of that commission by not allowing members with economic ties to the industry from serving.

Democratic Garfield County Commissioner candidate Bill Evans called supporting such a change "a no brainer.

"It's prima facie evidence that there is a conflict of interest when you have a self-regulating industry," he said. "Even if there's an appearance of a conflict, that's a conflict. I'm sure the Commissioners are good people, but like my grandmother said, 'you have to get the hogs out of the creek to get the water to clean up'."

Republican County Commissioner John Martin also expressed support for such a bill and noted last year's bill, which failed to pass the House by one vote, included an oath of office to preclude anyone employed or who economically benefited from the industry from serving. Currently, five of the seven appointed members have such ties.

Mike McKibbin/Citizen Telegram

Candidates for Colorado State Senate and Garfield County Commissioners squared off Oct. 5 in a forum sponsored by the Grand Valley Citizens Alliance at the Battlement Mesa Activities Center. Around 70 people listened to Paul Ohri, Democratic candidate for State Senate; Jack Taylor, his Republican opponent; Bill Evans, Democratic candidate for County Commissioner; and Republican Incumbent John Martin address issues and answer questions.

Republican State Senate District 8 candidate Jack Taylor said he did support the conflict of interest bill as the 56th House District State Representative and would again, "if it were similarly worded."

His Democratic opponent, Paul Ohri, would also support such a bill.

"I think you should make sure you have a good balance on all boards that can affect people," he said. "And you also need to look at it the other way to make sure that balance doesn't go too far."

Interim 57th House District State Rep. Gregg Rippy, R-Glenwood Springs, simply answered "yes" about his support for a conflict of interest bill.

Rippy was recently appointed to finish the last few months of Russell George's term after George resigned to become director of the Colorado Division of Wildlife. Rippy is running for a full two-year term against Libertarian candidate Brent Shroyer, who was not at the debate.

When asked if he would support hiring a full-time local governmental designee, who reviews and comments for the county on drilling permit applications submitted to the COGCC, Evans said he would be willing to take on that responsibility himself.

"Garfield County is eight years behind in asserting their land use authority with the oil and gas commission," he said. "I know La Plata County has a very aggressive approach. I have no other commitment, no business ties, so I would be willing to serve as a quasi-LGD if needed. I'm not sure the county can afford to hire a full time LGD, but we should be much stronger in that area."

Evans added he did not mean to criticize the current LGD, building and planning director Mark Bean. He said Bean has many other more important duties.

Martin noted the county would likely have to do something more permanent with the LGD position, since the proposed OGCC order on Barrett's application would require the county to comment within seven days on all new drilling permits submitted by the company.

That order left Evans unsure what the county gained through its intervention.

"I would rather see no 20-acre spacing anywhere," he said. The OGCC decided last month to allow 20-acre vertically-drilled wells on more than 7,000 acres north of the Colorado River, but not on some 1,300 acres south of the river in the Rulison area. They are to formally decide further conditions Oct. 31.

"I'm sensitive to the rights of landowners like Mr. [Bill] Clough [who owns the lands north of the Colorado River], but I find it intolerable when families have to close their windows all the time to try to keep the noise, dust and fumes outside," Evans said. He also noted longtime industry supporters Arnold Mackley and Joan Savage lead a group of Rulison-area landowners as a third intervenor in Barrett's application.

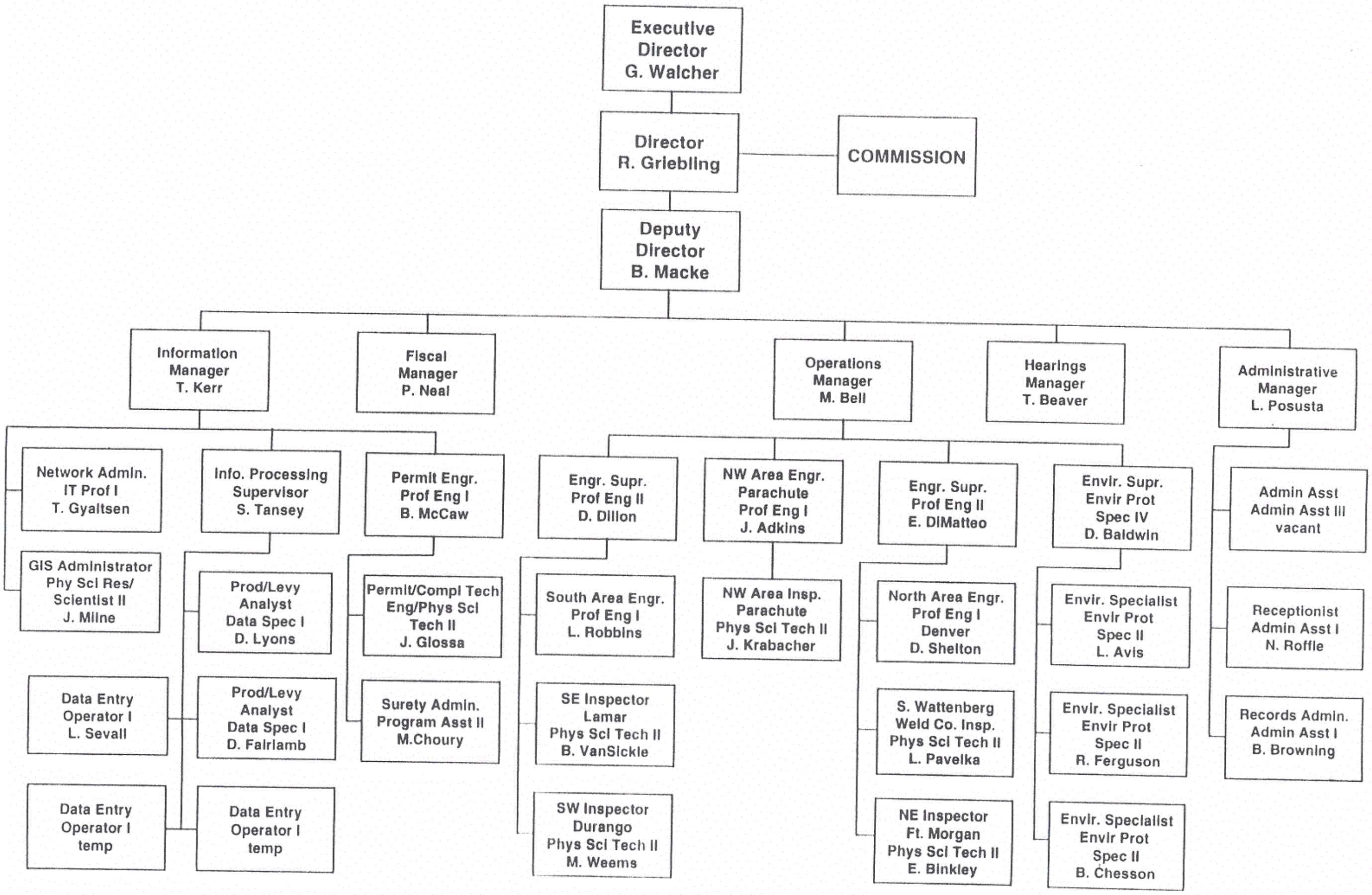
"I think this is a frightening scenario," Evans continued, "and I don't like the precedent this could set. We need to continue to be much more aggressive with the OGCC and take back our land use authority that is now in Denver."

Martin said he was not satisfied with the proposed order "because of the devastation on the environment and the neighbors to these wells. I'm sorry to say we didn't include the entire [8,760 acres] in our intervention, but we supported the GVCA and worked closely with them. I think it was money well spent. We did get some movement and understanding." Martin also noted affected parties should not forget the many people who make their living working for and with natural gas developers like Barrett.

Taylor and Ohri both said they could support a ballot initiative to limit natural gas well spacing to one every 40 acres, the current standard in Colorado. However, Rippy said he could not.

"I think we're way too free and loose with [constitutional] amendments," he explained.

COLORADO OIL & GAS CONSERVATION COMMISSION ORGANIZATION



HEARING DOCKET: December, 2000

Preliminary
Page 1 10/26/2000

No.	Cause	Applicant/Attorney or Representative	Date Rec'd	Field Formation County	Matter	Remarks
0012-AW-14	133	Texaco Exploration & Production Inc./William Keefe	10/16/2000	Hiawatha West Fort Union-Lance-Lewis & Mesaverde Moffat	Request to allow up to 3 wells to be drilled in the 320-acre spacing area in the N1/2 of Section 35, Township 12 North, Range 101 West, 6th P.M.	
0012-AW-15	133	Texaco Exploration & Production Inc./William Keefe	10/16/2000	Hiawatha West Fort Union-Lance-Lewis & Mesaverde Moffat	Request to allow up to 4 wells to be drilled in the 320-acre spacing area in the S1/2 of Section 24, Township 12 North, Range 101 West, 6th P.M.	
0012-EX-02	112	Amoco Production Co./Brad McKim	10/18/2000	Ignacio-Blanco Fruitland Coal La Plata	Request that an exception location be granted for the Ford Gas Unit F1A located in the NE1/4 NE1/4 of Section 3, Township 33 North, Range 8 West, N.M.P.M.	
0012-GA-08	1	Staff Recommendation	10/12/2000	Statewide	Request to increase the financial assurance required of KP Kauffman due to an excessive number of non-producing and uneconomic wells	
0012-GA-09	1	Top Operating Co./Erika Enger	10/18/2000	Wattenberg Weld	Request to withdraw the conditions placed administratively on 7 drilling permits issued by COGCC staff for wells in Sections 7 & 8, Township 2 North, Range 68 West, 6th P.M.	
0012-GA-10	1	Staff Recommendation	10/19/2000	Ignacio-Blanco Entrada & Bluff La Plata	Request that Amoco Production Company be ordered to permanently cease injection into and plug and abandon the Sitton #1 Well located in the SW1/4 SW1/4 of Section 15, Township 34 North, Range 7 West, 6th P.M.	
0010-GA-04	1	Plenergy Development Ltd./Bobby Baker	04/10/2000	Adams	Request to amend Order Nos. 1V-192, 1V-193, and 1V-194 to eliminate the $12,000 fine for the delayed plugging and abandonment of the Ehler #7, #12 and #18 wells	
0010-GA-06	1	Evergreen Operating Corporation/John Buckley	06/14/2000	Dakota/Purgatoire Las Animas	Request for an aquifer exemption and for approval to inject produced water into the Bearden #24-15 WD water disposal well in Section 15, Township 32 South, Range 65 West, 6th P.M.	Protested by Southern Colorado Livestock Assoc., Spanish Peaks-Purgatoire River Soil Conservation District & Charles Wilkinson Jr.
0010-GA-07	1	Evergreen Operating Corporation/John Buckley	06/14/2000	Dakota/Purgatoire Las Animas	Request for an aquifer exemption and for approval to inject produced water into the Long Canyon #43-12 WD water disposal well in the NE1/4 SE1/4 of Section 12, Township 34 South, Range 65 West, 6th P.M.	Protested by Spanish Peaks-Purgatoire River Soil Conservation District
0010-OV-10	1	Staff Recommendation	06/19/2000	Adams	OFV-Rules 319.b.(3) and 326.b.-Texas Tea LLC	Cont. from October
0010-OV-13	1	Staff Recommendation	09/08/2000	Moffat	OFV-Rules 317.f. and 317.g. - Reed Operating Company	Cont. from October
0010-OV-14	1	Staff Recommendation	08/18/2000	Routt	OFV-Rule 326.b. - Robert Ziegler	Cont. from October
0010-OV-15	1	Staff Recommendation	09/18/2000	Moffat	OFV-Rules 326.b., 904., 905., 324.A.a., 906.b.,(1), 906.e.(1) and 907.c.(2) - Allen Oil & Gas LLC	Cont. from October
0003-UP-02	511	L.R. Thompson & Julia Casement Campbell/Keith Crouch	02/03/2000	Cliff "D" Sand Unit Logan	Request to terminate Order No. 511 which created the Cliff "D" Sand Unit for certain lands in Townships 11 & 12 North, Range 54 West, 6th P.M.	Protested by Rex Monahan
0001-AW-01	112	Petrogulf/Stephen Sullivan	11/22/1999	Ignacio-Blanco Fruitland Coal La Plata	Request to drill an optional well in the SW1/4 of Section 21, Township 33 North, Range 10 West due to an alleged correlative rights violation	Protested by Vastar

$ Amount of Penalties Paid	Number of Orders Waived	$ Amount of Penalties Waived	Number of Orders Paid Through Collections
$32,300	0	$0	n/a
$0	0	$0	n/a
$6,500	0	$0	n/a
$105,000	0	$0	n/a
$21,805	4	$139,000	n/a
$154,000	3	$20,750	n/a
$29,500	0	$0	n/a
$74,750	0	$0	n/a
$46,500	1	$13,000	n/a
$59,460	0	$3,000	2
$6,000	0	$0	0

Violating Entity	Penalty Assessed	Violations	Status	Central Collections
Gear Drilling Company	$2,000	Rule 305, 319.a.(2)		Yes
Western Oil Company	$2,500	Rule 317.a.8.	Work completed per order	Yes
Joseph V. Dodge	$14,000	Rules 210.b., 305., 307., 317.b.(3), 604.a.(4)	Bond forfeited	Yes
Kana Resources, Inc.	$3,500	Rules 303.a., 306., 317.b.1.	AOC negotiated	Yes
Mr. Jim Snyder	$10,000	Rules 308., 317.i., APD	District Court decision entered/$10,000 bond claimed 12/96/	Yes
McCormick Oil & Gas Co.	$32,000	Rule 317.g.	Cash bond to be posted by 9/1/97/in litigation-secured by deed of trust.	Yes
Nerdlihc Company Inc.	$9,000	Rules 326.b.1., 319.b., 210.b.	Fine not paid	Yes
Pacific Midland Production	$1,000	Rule 326.b.	Bond to be claimed.	Yes
Allen Oil & Gas, LLC	$12,000	Rules 904, 905, 603.g.,906, 909.b.(2) &(5), 910	Work to be completed by July 1, 1999.	Yes
J. Magness, Inc.	$9,000	Rules 207.b., and 326.b.	Bond to be claimed if work not completed.	Yes
McCormick Oil & Gas Co.	$18,000	Rules 1004, 319.b.(3), 326.b., 206., 309.	McCormick in Bankruptcy.	Yes
Faith Energy Exploration, Inc.	$3,500	Rules 308A., 308B., 326.b.	Pull Plugging Bond.	Yes
Gopher Drilling Company	$2,000	Order No. 1C-3	Bond to be claimed if work not completed.	Yes
Cascade Oil	$1,000	Rule 326.b.(1)	Bond to be claimed if work not completed	Yes
Plenergy Development Ltd.	$4,000	Rules 319.b.(3) and 326.b.	Bond to be claimed if work not completed/Hearing Oct 2000	No
Plenergy Development Ltd.	$4,000	Rules 319.b.(3) and 326.b.	Bond to be claimed if work not completed/Hearing Oct 2000	No
Plenergy Development Ltd.	$4,000	Rules 319.b.(3) and 326.b.	Bond to be claimed if work not completed/Hearing Oct 2000	No
Texas Tea	$2,500	Rule 324.a.		No
Rex Monahan	$2,000	Rules 906.b.(1), 906.b.(2), 906.d.(1), 906.d.(2), 909.c.(2), 909.e.(1) and 910.b.(3).A.		No
	$136,000			

Violating Entity	Penalty Assessed	Violations	Status
The Meyer Oil Company	$1,500	Rule 329, 323, 604	Penalty included in Order 1-186
Richmond Petroleum Inc.	$47,608	Rules 317.r., 902.g.1., 908.b., Order #112-85	District Court entered judgement. Referred to State Central Collections who recommends write-off
The Meyer Oil Company	$18,247	Rules 317.a.8., 305., 308., Order #1-132 & 178	No Action Taken/Penalty discharged in bankruptcy
Tipps Drilling Co.	$60,000	Rules 604.a.4., 902.e.&f	$30,000 bond claimed 11/96/penalty unpaid/No assets. State Central Collections recommends write-off
Planet Associates, Inc.	$4,000	Rules 319.b., 326.b.	$10,000 bond claimed 5/97/ penalty unpaid/Company no longer exists
Point Lookout Drilling	$28,750	Rules 210., 308., 312… et al	$30,000 bond claimed 9/97. State Central Collections recommends write-off
Eros, Inc.	$24,000	Rules 319.b., 326.b.	$30,000 bond claimed 5/98/penalty unpaid/Company no longer exists
Centennial Petroleum Inc.	$2,000	Rules 1004., 1103.	$30,000 bond claim commenced 3/98. Bonding co. did work/ State Central Collections recommends write-off
Black Thunder Marketing, Inc.	$2,000	Rule 326.b.	Bond claim underway. State Central Collections recommends write-off
	$160,105.00		

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OCT 16 00

OIL OPERATOR

WELLINGTON OPERATING COMPANY

October 11, 2000

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(303) 220-5399
Facsimile
(303) 220 8929

6065 S. Quebec St. #201
Englewood, Colorado 80111
USA
EMAIL pomeco@msn.com

COLORADO OIL AND GAS CONSERVATION COMMISSION

RE: ORDER NO. 1-82

"...Wellington Operating Co. Shall submit to the COGCC a written report detailing the Status of this project..."

REPORT TO THE COMMISSION

Bradley A. Pomeroy

President, Wellington Operating Company

October 15, 2000

RECEIV

INTRODUCTION, BACKGROUND AND HISTORY OF THE WELLINGTON MSSU

The Wellington Field is located 90 miles due north of Denver, Colorado in Sections 30 & 31, T10N - R68W and Sections 6, 7, 18, 19 & 30, T9N - R68W, in Larimer County. This six mile long anticline, situated about 30 miles south of Cheyenne, Wyoming, parallels the Front Range of the Rocky Mountains on the extreme western edge of the Denver-Julesburg basin.

The production in the Wellington field comes from a structural closure in the Upper Member of the Dakota Group. This particular sand is known locally as the "Muddy" Sandstone along the Front Range north into Wyoming and regionally referred to as the "J" sand further east in the DJ Basin. The Wellington anticline is partially delineated at the surface by the eroded traces of the upper four units of the Cretaceous aged Hygiene Group. Surface mapping of these truncated units led to field discovery by Union Oil Company and indicates that this structure trends north-south, is asymmetric in shape, that the west flank dip varies from 13-23° and the eastern flank dips ranges from 7-12°. Total vertical closure exceeds 750' and the hydrocarbon trap in the Muddy sand encompasses some 180,000 acre feet. Virtually no seismic data has been acquired over the structure.

The 4689 acre Muddy Sandstone Unit was formed by the Colorado Oil and Gas Commission on 1/1/76 for the purpose of recovering remaining reserves via secondary water injection. To date, secondary recovery has not been implemented at Wellington.

The Wellington Field has produced, oil, gas and almost fresh water continuously since its discovery in November, 1923. Original oil in place (OOIP) has been calculated at from 80,000,000 to 90,000,000 barrels of oil. Cumulative production to date is about 8,900,000 barrels, or about 10% of OOIP. Remaining recoverable reserves have been estimated at from 9,000,000 to 36,000,000 barrels of oil, making this field one of the largest oil assets in the state.

The current working interest owners acquired this field in September, 1992 and Wellington Operating Company (WOC) has been the operator of the field since then. WOC was approved as operator by COGCC under a $30,000 blanket surety bond #9003204 and by BLM under a $10,000 surety bond #CO-1065. The wells presently operated by WOC and their status are attached.

GAS STORAGE AND SECONDARY OIL RECOVERY

The Wellington Muddy Sandstone Unit ("Unit") enjoys a superior location, both geographically and geologically, for utility as a gas storage facility and pipeline hub.

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COGCC

STORAGE ATTRIBUTES:

Location:

- Front range of the Rocky Mountains (Pueblo, CO. - Cheyenne, WY. corridor, which includes Denver, Ft. Collins and Colorado Springs, CO) is one of the fastest growing areas of the nation. This potential gas storage facility will service the expanding gas and electric energy consumption markets of both industrial and residential end users, providing both peaking and seasonal storage.
- Five major interstate gas transmission pipelines are located within eighteen miles of the field. All pipelines converge near Rockport - Chalk Bluffs crossing, making Wellington a logical hubbing storage reservoir.
- The Rawhide Power Plant, with access to the regional power grid, is located 2 miles north of the field, is adding 46 KW peaking capacity and building a pipeline directly to its facility.
- The oil field is situated in a rural/agricultural area, which will allow development with minimal impact.

Geology:

- Fractured reservoir provides high deliverability for gas injection and withdrawl.
- Relatively shallow depth (4250' - 4900') of reservoir translates into lower development and operation costs.
- Effective top and bottom shale seal combined with > 750' of vertical closure provides storage trap integrity.
- Significant potential recoverable oil reserves lowers capital cost of preparing field for storage activities. Recent reservoir study estimated up to 5,000 barrels per day production potential with cap repressurized for storage operations.

Miscellaneous:

- The field is unitized and working interest owned by a single entity. The unit covers 4689 acres and will allow considerable flexibility for storage activities and exploitation of oil reserves.

The tremendous early loss of reservoir energy which occurred during blow out at discovery and as a result of the aggressive extraction of the both the gas cap and the solution gas in this reservoir has drastically reduced the "push" available to move oil out of the structure. The continued use of conventional, primary production methods will result in much lower production rates than would be possible if the reservoir energy (natural gas injection, CO_2 repressurization and/or waterflood) is augmented by recovery secondary methods.

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PRESENT ACTIVITY & DEVELOPMENT PLANS

There are presently 35 wells (table attached) in the field that have not been plugged. Of these, 25 are "active" - either producing fluid or disposing of water. Production ranges from 50 - 60 bopd. As cash flow allows, inactive wells are returned to "active" status. All inactive wells, to the best of my knowledge, in compliance with MIT requirements.

An investor committed to develop storage and secondary recovery in July of 1999 and the field's working interest owners ceased efforts to locate a partner. The COGCC agreed to waive the obligation for additional surety, based on that commitment.

In January of 2000, the investor, due to circumstances and issues not related to the merits development project, failed to meet its obligations and lost all rights to exclusively pursue storage development at Wellington. And, although interest in this opportunity continues to be strong, it takes considerable time for 3rd parties to get up to speed on the many aspects of a project of this magnitude, both technical and legal. We will continue to aggressively seek the partnership needed to realize the potential of the Wellington Anticline.

CONCLUSION

Wellington Operating Company acknowledges the requirement of the COGCC to have additional surety in place by December 1, 2000 and will comply. We thank the commission for its flexibility and latitude it has given us in this matter.

This six-mile long oil field is not the tired, old water factory it appears to be. The forces that uplifted the Rocky Mountains wrinkled Wellington into a hydrocarbon trap that is unique along the Front Range. Its future use may dwarf its historic contribution to oil and gas production in Colorado. There remains exciting potential in this 77 year old structure.

Respectfully Submitted to the Commission this eleventh day of October, 2000.

Bradley A. Pomeroy

Bradley A. Pomeroy
President, Wellington Operating Company

10/11/00

COLORADO OIL AND GAS CONSERVATION COMMISSION

LIST AND STATUS OF OPERATED WELLS

Wellington Operating Co

RECEIVED

Address: 6065 S. Quebec St. #201 COGCC# 95233
Englewood, CO. 80111
Phone: (303) 220-5399
Fax: (303) 220-8929

API#	Fm	Location: QQ	SEC
Well name & #	Status	TWP	RANGE
069 0611100	NBRR	SWSW	23
UP RED RNCH 14-23	PR	8N	68W
069 05132	LYNS	NENE	18
COMMUNITY 3	PR	8N	68W
069 06137	MDDY	NWNW	17
COMMUNITY 6	TA	8N	68W
069 05113	DKTA	SWSW	19
MEYER 1	TA	8N	68W
069 05114	NBRR	SWSW	19
MEYER 3	PR	8N	68W
069 0518200	MDDY	SWNE	6
MITCHEL 14-1	PR	9N	68W
069 0518300	MDDY	NENE	6
MITCHEL 14-2	PR	9N	68W
069 0600400	MDDY	NWSE	6
SCOTT 17-6	TA	9N	68W
069 0600800	MDDY	NENW	6
FLEMMING 13-2	TA	9N	68W
069 0601500	MDDY	SESE	6
SCOTT 17-7	PR	9N	68W
069 0606100	MDDY	SWSE	6
SCOTT 17-8	TA	9N	68W
069 0610000	MDDY	NESW	6
SCOTT 17-9	TA	9N	68W
069 6003900	MDDY	SENW	6
FLEMMING 13-1	TA	9N	68W
069 0516100	MDDY	SWSE	7
D. COOK 26-1	PR	9N	68W
069 0516800	MDDY	SWNE	7
GAULT P 20-3	TA	9N	68W
069 0528400	MDDY	NESW	7
UNIT 25-1	TA	9N	68W
069 0600200	MDDY	NWSE	7
GAULT P 20-2A	PR	9N	68W
069 0600600	MDDY	SENE	7
YOCKEY 23-1A	IJ	9N	68W
069 0600900	MDDY	NENE	7
D'MENT 21-1A	TA	9N	68W
069 0603900	ENRD	SENE	7
UNIT 27-3	IJ	9N	68W

API#	Fm	Location: QQ	SEC
Well name & #	Status	TWP	RANGE
069 0606200	MDDY	SENE	7
UNIT 23-2	PR	9N	68W
069 0609200	MDDY	SWSE	7
UNIT 26-2	TA	9N	68W
069 4000100	MDDY	NWNE	7
GAULT P 20-4	PR	9N	68W
069 0528600	MDDY	SWSE	18
COLO C 38-1	PR	9N	68W
069 0528700	MDDY	NWSE	18
ELDER 35-3	PR	9N	68W
069 0528800	MDDY	SESE	18
COLO C 38-2	TA	9N	68W
069 0604000	MDDY	NWSE	18
ELDER 32-3	PR	9N	68W
069 0606900	MDDY	NESE	18
UNIT 35-4	TA	9N	68W
069 0609100	MDDY	NWNE	18
ELDER 32-4	PR	9N	68W
069 4000000	MDDY	SWNE	18
ELDER 32-2	PR	9N	68W
069 0529000	MDDY	SENE	19
N POUDRE 40-1	TA	9N	68W
069 0609900	MDDY	NENE	19
N POUDRE 40-2	PR	9N	68W
069 0609800	MDDY	SESW	30
UNIT 5-3	IJ	10N	68W
069 0518900	MDDY	SESW	31
BUCKEYE 9-9	TA	10N	68W
069 0519500	MDDY	SWNE	31
UNIT 9-2	PR	10N	68W
069 0519800	MDDY	NWNE	31
BUCKEYE 9-6	PR	10N	68W
069 0602900	MDDY	SESE	31
CHAMPLIN 8-1	PR	10N	68W
069 0605200	MDDY	SENE	31
BUCKEYE 9-10	PR	10N	68W
069 0606300	MDDY	NENE	31
BUCKEYE 9-11	PR	10N	68W
069 0604200	MDDY	NWNW	32
UNIT 10-1	IJ	10N	68W

Active producing and injecting:	25
Inactive:	15
Total:	40

OPERATOR WORKSHOP
OIL AND GAS WELL PERMITTING

Time: **Monday, November 13, 2000**
9:00 A.M. – 12:00 P.M.

Location: COGCC Office Conference Room
1120 Lincoln Street, Suite 801
Denver, Colorado

RSVP : **Please RSVP by 5:00 P.M., Monday, November 6, 2000**
To Jeff Glossa (303) 894-2100 x116
jeff.glossa@state.co.us

Purpose: **Due to firm commodity prices, the COGCC is experiencing an increasing level of oil and gas well permitting activity. To assist operators in the preparation of complete permit packets and to continue to provide timely processing of permits, we are offering this training to ensure that operators are aware of the latest rules and regulations that apply to well permitting. This is particularly important for operators who have not been actively permitting wells since the recent rule changes.**

COGCC well permitting staff will be conducting the workshop.

Workshop Agenda:

- **Review of the preparation and processing of the Form 2, Application for Permit to Drill packet, including attachments**
  (Examples of permit packages and on-line information will be used).

  - **Review of rules regarding oil and gas well permitting**
  - **Operator Registration and Bonding**
  - **Drilling New Wells**
  - **Deepenings**
  - **Re-entrys**

  - **Recompletions**
  - **Re-filings**

- **Question and Answer Session**

Colorado Oil & Gas Conservation Con

Monthly Breakout of Drilling and Recomple

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' ULOOLQJ						
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1 RYII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
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0 D\II	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
-XQII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
-XOII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
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5 HFRP SOHWLRQ						
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-XOII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
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6 HSII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
2 FWII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
7 RWDO						
2 FWII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1 RYII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
' HFII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
-DQII	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
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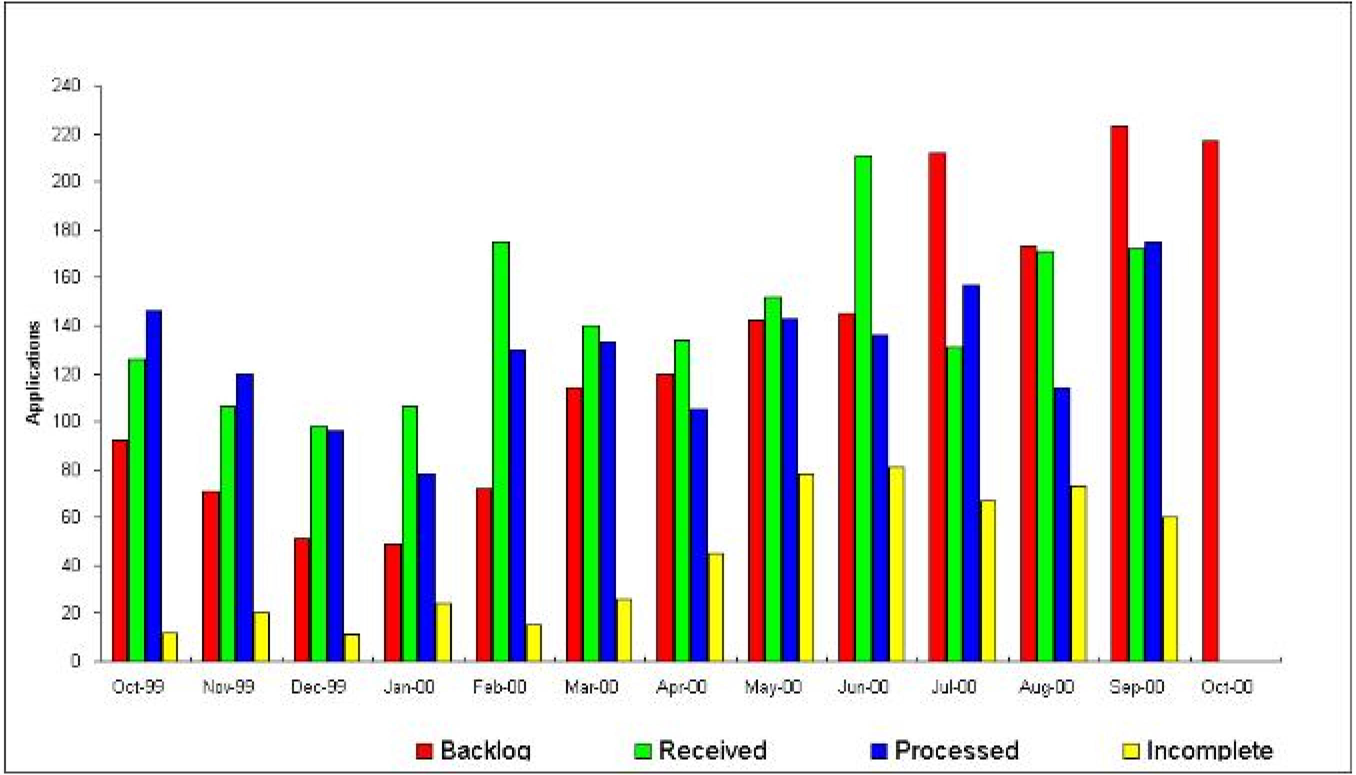
Colorado Oil & Gas Conservation Commission

Monthly Breakout of Drilling and Recompletion Permits

	Backlog	Received	Processed	Withdrawn	Rejected	Incomplete	In-Process	Remaining
Drilling								
Oct-99	84	110	133	0	1	11	49	60
Nov-99	60	90	96	6	0	19	29	48
Dec-99	48	90	87	4	0	11	36	47
Jan-00	47	99	71	5	0	24	46	70
Feb-00	70	153	114	4	0	15	90	105
Mar-00	106	128	116	1	0	26	91	117
Apr-00	117	131	103	5	0	45	95	140
May-00	140	135	129	6	0	78	62	140
Jun-00	140	191	122	8	0	81	120	201
Jul-00	201	125	148	13	0	67	98	165
Aug-00	165	155	107	6	0	73	134	207
Sep-00	207	138	138	1	0	60	146	206
Oct-00	206	0	0	0	0	0	0	206
Recompletion								
Oct-99	8	16	13	0	0	1	10	11
Nov-99	11	16	24	0	0	1	2	3
Dec-99	3	8	9	0	0	0	2	2
Jan-00	2	7	7	0	0	0	2	2
Feb-00	2	22	16	0	0	0	8	8
Mar-00	8	12	17	0	0	0	3	3
Apr-00	3	3	2	2	0	0	2	2
May-00	2	17	14	0	0	0	5	5
Jun-00	5	20	14	0	0	0	11	11
Jul-00	11	6	9	0	0	0	8	8
Aug-00	8	16	7	1	0	0	16	16
Sep-00	16	34	37	2	0	0	11	11
Oct-00	11	0	0	0	0	0	0	11
Total								
Oct-99	92	126	146	0	1	12	59	71
Nov-99	71	106	120	6	0	20	31	51
Dec-99	51	98	96	4	0	11	38	49
Jan-00	49	106	78	5	0	24	48	72
Feb-00	72	175	130	4	0	15	98	113
Mar-00	114	140	133	1	0	26	94	120
Apr-00	120	134	105	7	0	45	97	142
May-00	142	152	143	6	0	78	67	145
Jun-00	145	211	136	8	0	81	131	212
Jul-00	212	131	157	13	0	67	106	173
Aug-00	173	171	114	7	0	73	150	223
Sep-00	223	172	175	3	0	60	157	217
Oct-00	217	0	0	0	0	0	0	217

Incomplete are permits that have missing or inaccurate data and cannot be approved.



Backlog = Incomplete + In-process = Remaining permits from previous month