

MONTHLY STAFF REPORT - October 29, 2001

I. STATISTICS

Our monthly statistics report and newspaper articles about the current elevated level of oil and gas development activity are attached.

II. NORTHWEST COLORADO

Northwest Colorado Oil and Gas Forum

The next meeting of the Forum is scheduled for Thursday, November 15, 2001 from 10:00 a.m. until 2:00 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 are the newspaper articles about items of interest to northwest Colorado.

Williams Production Company ("Williams") Increased Well Density Application

COGCC staff continues to work with Williams (formerly Barrett Resources) to process Applications for Permit-to-Drill ("APDs") for new wells within lands subject to the Commission order adopted during the October 2000 hearing for 20-acre density in Garfield County. To date, the COGCC has received 42 APDs submitted by Williams for the increased well density area.

Since the August hearing, COGCC has received 6 new APDs for the newly adopted 20-acre infill area. All 6 wells are directional wells on existing well pad locations south of the Colorado River Specified Surface Wellsite Lands. Two are 1st wells on a 40-acre tract and the remaining wells are 2nd wells on a 40-acre tract. Of interest is the Bernklau RWF 41-5 Well which is a surface location on Specified Surface Wellsite Lands (Section 4, Township 7 South, Range 94 West); however, the bottom hole location is in the NE¼ NE¼ of Section 5 (Township 7 South, Range 94 West) and is located outside the Specified Wellsite Lands.

COGCC staff has been working closely with Williams' permitting staff and Garfield County to ensure that the requirements of the 20-acre density order are met in an efficient manner.

III. NORTHEAST COLORADO

Private Property/Oil and Gas Development Seminar

The Colorado Association of Soil Conservation Districts held a Private Property/Oil and Gas Development Seminar at the La Familia Restaurant in Ft. Lupton on October 4, 2001. The seminar was attended by approximately 100 people, including DJ Basin surface owners, representatives of the City of Ft. Lupton, and other interested citizens. Speakers at the seminar included Senator John Evans, who discussed legal issues affecting oil and gas development, Kerr-McGee Denver Basin Land Manager Jim

Wason who discussed their oil and gas development operations in the DJ Basin, COGCC Deputy Director Brian Macke who discussed COGCC reclamation, bonding, and other requirements, and a representative of the Colorado Association of Soil Conservation Districts who discussed various aspects of oil and gas development on lands in the area. COGCC Field Inspector Linda Pavelka also introduced herself to the attendees, described her role with the COGCC, and provided contact information to the group.

One of the primary topics of interest raised during the panel discussion was the concern by surface owners about potential conflicts on lands being developed for oil and gas that are also being considered for future residential subdivision development.

IV. SOUTHWEST COLORADO

La Plata County Gas & Oil Regulatory Team (GORT)

As mentioned in the last staff report, the industry has expressed an interest in reducing the number of GORT meetings from 4 to 2 a year due to a continuing lack of interest. Order Nos. 112-156 and 112-157 require quarterly GORT meetings. At the last GORT meeting on September 27th, staff proposed amendments to these orders that would require only 2 GORT meetings per year and specify additional meetings may occur if GORT members believe a meeting is appropriate. The GORT team members support the order amendments, which are attached. The next GORT meeting is scheduled for March 14, 2002.

Fruitland Coal Order Nos. 112-156 and 112-157 Proposed Amendments

Since the subject orders were approved on July 11, 2000, there have been 18 onsite inspections conducted by staff. Most of those inspections have been productive, but a few have not. Staff is proposing order amendments to insure the onsite inspections are appropriate.

Currently, the orders require an onsite inspection if a well is located within 2 miles of the outcrop contact between the Fruitland and Pictured Cliffs Formation. The industry and La Plata County have suggested that an onsite inspection should not be required if the conditions of approval can be agreed to in telephone conversations. In the proposed order amendments, an onsite inspection will be held if requested by the surface owner, Local Governmental Designee, operator, or the Director.

The orders also require an onsite inspection if the operator and the surface owner have not entered into a surface use agreement. Staff has conducted an onsite inspection where the surface owner and operator agreed on the well location, access road, and flowline location. Compensation for the surface owner was the only issue remaining to be resolved and staff did not address this issue. To prevent staff from involvement in compensation discussions, staff is proposing additional language that will specify when the Director shall require an onsite inspection.

These proposed amendments were discussed at the last GORT meeting and the GORT team members supported these amendments. The proposed order amendments are attached for your consideration.

V. SOUTHEAST COLORADO

Search for Southeast Colorado Field Inspector

Bob Van Sickle, the Southeast Colorado Field Inspector, resigned effective September 30th and is currently working for Evergreen Resources in Trinidad. Bob was a valued employee and it will be difficult to replace his experience and knowledge. A test for the position was given on October 17th and we should have a replacement hired by November 15th.

VI. ENVIRONMENTAL ISSUES

Quarterly WQCC / WQCD / COGCC Meeting

The last joint meeting of the Water Quality Control Commission, Water Quality Control Division, and COGCC was held on October 11, 2001 at 10:00 a.m. in the COGCC Conference Room. Future meetings will be held on a semi-annual basis. The next joint meeting is tentatively planned for March 11 or 12, 2002.

Statewide Integrated Ground Water Quality Protection Program

The last meeting of the Colorado Ground Water Protection Council was held on October 18, 2001 from 9:00 to 11:00 a.m. in the COGCC conference room.

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

In an ongoing program to resolve discrepancies between the EPA requirements for UIC programs and the WQCC standards and classification for ground water, Bob Chesson, Debbie Baldwin, and Ed DiMatteo continue to work with staff from both agencies. A new rule has been proposed that would apply to the Morrison and Sundance Formations in Wilson Creek oil field in Rio Blanco County (proposed WQCC Rule 42.7 (50)).

COGCC staff will present the proposed rule to the WQCC at their December 10, 2001 hearing. The hearing is scheduled to begin at 1:30 p.m. in the Florence Sabin Conference Room of the Colorado Department of Public Health and Environment (CDPHE), 4300 Cherry Creek Drive South, Denver.

VII. ORGANIZATION

Staff Organization

Our current organization chart is attached. We welcomed Shannon Haliw as our new Administrative Assistant on September 10, 2001.

VIII. PLANNING/ADMINISTRATION/OTHER

NGPA Well Determination Process Resumed

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 for well determinations. FERC Form 121 is available in hard copy at the COGCC. The COGCC form is available on the website by clicking on "Natural Gas Category Determination". Additional information is available on the website including a list of tight formation area designations and a list of all previously approved well determinations provided by the FERC.

To date, 583 applications have been filed and processed, with 502 sent to FERC recommending approval. A regularly updated listing of all applications received and their status is available on our website at http://cogcc.state.co.us/info/NGPA/ngpa_determination.htm. 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. COGCC staff is working closely with State Central Collections to attempt more timely collections.

December Hearing Docket and 2002 Hearing Schedule

A preliminary docket for the December 3rd hearing has been provided. A proposed 2002 hearing schedule was provided for Commissioner review and will be finalized at today's hearing. Hearing dockets are updated on the COGCC website and can be accessed at <http://cogcc.state.co.us/2001HearingSchedule.htm>.

Well Log Imaging

The division's open hole well log electronic imaging project that was approved for the fiscal year 2000/2001 budget is close to completion. The goal of this project was to image all of the historically submitted well logs. The original estimate of 66,000 plus well logs has been revised to 100,700; the discrepancy was due to the fact that the length of the paper logs has increased over time. There are currently in excess of 60,000 log images accessible through the Internet.

The Division of Central Services has completed scanning all well logs and saved them to disk for transfer to the COGCC imaging system. The images are of a consistent high quality and resulted in a large image file. The scanning was completed in the second week of July. There are approximately 3,000 log images left to be imported into the imaging system; this should be completed in the next few weeks. The storage space estimated at this time is five hundred forty (540) giga-bytes.

Internet viewing of the logs follows the procedure outlined in the "Tiff Image Viewing Information" document on the COGIS main menu at <http://cogccweb.state.co.us/>. Additional information will be added to the document as we gain experience. Viewing the logs is very memory intensive; it may work best to save the document to your hard disk and then open it later.

The imaging system has been reconfigured to provide better access time and additional storage capacity. Service has been very intermittent during the last month as the system was upgraded and new equipment added. With all of the upgrades complete the system should stabilize and be available consistently.

Image Indexing and Data Cleanup

This is a new COGCC project for fiscal year 2001/2002. The goal of Image Indexing will be to go through all the imaged documents and identify the document type in the index information. This will greatly enhance the functionality and the time needed to select the desired document image. This project started slowly and ramped up as the processes and procedures were refined. Over 5,000 of the 63,000 well files have been fully indexed and rescanned where necessary.

The goal of the Data Cleanup is to review the well file records and verify and update all records in the new database supplying information that was not migrated or available in the old database system. This project will require multiple levels of temporary staff to insure that the data quality meets the desired outcome. The Data Cleanup will begin next month as tools, processes and procedures are refined.

Production Reporting by E-mail

There are currently more than 80 operators reporting electronically, accounting for 80.6% of the production reported in the month of October 2000. This is an increase of twenty operators, or 7.3 percent of production reports, since June of 2000. This significantly reduces the manual data entry volume. Thank you to all of the operators who are reporting electronically.

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 has prepared a document titled "Monthly Report of Operations, Form 7 Specifications". This document is available on the COGCC web site at <http://www.cogcc.state.co.us/documents/>, or from the COGCC office. Questions should be directed to Sharon Tansey at (303) 894-2100 x128.

Electronic Levy Reporting

Levy reporting was suspended for the first and second quarters of 2001. Reporting will begin in the third quarter of 2001. The new form and the electronic reporting format is available for download from the web <http://cogcc.state.co.us/forms.html> in the new reporting format. Please contact Sharon Tansey concerning any new format requirements 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.

The COGCC, with the State's Pueblo Data Entry Center (PDEC), has created a version of the COGCC Form 7, Operator's Monthly Report of Operations that will allow for Optical Character Recognition (OCR) conversion of the imaged data into digital character data. The COGCC will scan the production reports and transfer the images to PDEC. PDEC will run the OCR application on the imaged files, review the converted data and correct any improperly converted characters. In order to implement this, there will be a requirement to use a form that is just like the current form except the form has reference blocks in the corners used for automated sizing and alignment, and a barcode that is used as a unique form identifier. In addition, there will be a request for operators who are generating paper reports from their computers to submit the data electronically. While the project is complicated, initial testing indicates that it will be successful.

Colorado Oil and Gas Information System (COGIS)

The COGCC information system 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 and in the public room.

The database application consists of a form processor that stores entered data for review by appropriate technical staff for quality control and compliance. Data access is provided by an online query 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, including well logs and oversize hearing exhibits, 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.

Geographic Information Systems (GIS)

The current GIS project involves inputting spacing orders to show the cause number, unit size and well density of any given area, accurate to the section level. This will enable the reviewer to know which orders should be consulted for further detail. This is a large project that will take quite a while to complete. The data will begin showing up on the Internet as each spaced area is finished, beginning in southwest Colorado and working clockwise around the state.

A new tool has been made available that allows a user to draw a radius from a chosen point and select all the wells within that radius. After selection a report can be generated showing the completed intervals and their status for the wells within the radius.

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.

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 in providing our customers with the right product. Our goal is to continue to improve the website and the data contained within.

COGCC FY 02-03 Budget Change Requests

The COGCC has prepared three requests for changes to the base budget for FY 02-03 that have been reviewed by the Department of Natural Resources and have been placed on the Department's change request priority list. The following are the FY 02-03 COGCC budget change requests:

- Permit Coordinator / Conflicts Ombudsman

\$128,704, 1.0 FTE

This request is for funds from the Severance Tax Operational Account for the following two purposes: 1) to provide funding for a Conflicts Ombudsman, using an existing FTE, to address and resolve conflicts that have arisen between oil and gas developers, surface users, and local governments, and to respond to inquiries from the media that have increased substantially with the dramatic increase in the number of drilling permit applications over the past two years, and 2) to provide a new FTE and funding for a Permitting Coordinator to address the increasing well permitting workload.

- Data Clean-up Project, Year 2

\$126,415, 0 FTE

This request is for funds from the Severance Tax Operational Account to review, verify and correct data files migrated from COGCC's old computer system to the new computer system, COGIS (Colorado Oil and Gas Information System). These files include 12,000 of the 22,000 active and recently plugged oil and gas wells

and 34,000 older historic plugged and abandoned wells. The first year (FY 02) portion of this project was approved by the legislature last year.

- Remote Staff Decision Support

\$112,134, 0 FTE

This request is for funds from the Severance Tax Operational Account to provide 14 field workstations for COGCC field engineers, inspectors and environmental protection specialists. These workstations will provide a state of the art system that will allow the COGCC field staff to make better informed decisions more rapidly on location at oil and gas operation sites. The workstations will consist of portable laptop computers equipped with database and office software, modems for communication via either land or cellular phone lines, printers, digital cameras, and global positioning systems (GPS). The workstations will increase efficiency and data accuracy of the field staff by allowing field inspectors to enter inspection data on location, as well as allowing field staff immediate access to current information on oil and gas operations while on site. This access to current information will recover time currently being lost by both the field staff and Operations Section office staff in retrieving data needed in the field via telephone conversations. This time recovery is urgently needed to address the workload associated with the increasing amount of oil and gas development activity in Colorado.

The MEGA Board reviewed the budget change requests during their June meeting. The change requests have been approved by the Information Management Commission, and are still under final review by the State Office of Planning and Budgeting.

Local Government Information

The new local government program is now available on the COGCC website. Letters (approximately 300) were sent to all Colorado counties, cities, towns, municipalities and special districts advising them of the site, along with a new Local Governmental Designee form for those local governments who wish to participate under Rule 214. To date, 111 forms have been returned with 92 wishing to participate as Local Governmental Designees. To access the Local Government Information, go to the COGCC website at www.cogcc.state.co.us and click on the Local Government button. At the Local Government Search screen a local government name may be entered and searched for approved permits, pending permits, operator changes and plugged wells. In addition, statewide searches for the same information may also be conducted from this screen. There are links to the hearing schedule, COGIS and the current list of participating local governmental designees.

Commission Policy for Plugged and Abandoned Wells and Exploration and Production Waste Encountered By Surface Development Projects

As residential and commercial development has accelerated along the Front Range and other areas in Colorado, it is becoming more common for surface developers to encounter previously plugged and abandoned wells in the same areas where they plan to construct homes and other buildings. Usually the previously plugged and abandoned wells are required to be cut off below grade and re-abandoned. To date, the COGCC has not had an established protocol for who would be responsible for the re-abandonment of the well, and what procedure would be followed for the re-abandonment operation. Staff has concluded that these re-abandonment operations and the remediation of exploration and production waste are "oil and gas operations"

as defined in the Oil and Gas Conservation Act and in the COGCC Rules and Regulations, and are required to be conducted by a registered operator who has provided financial assurance to ensure that the wells are properly plugged and abandoned.

Attached is a draft policy for consideration by the Commission for adoption for these types of re-abandonment operations. The policy requires that either the surface developer or its designee be registered as an operator in the state who must provide financial assurance to ensure the proper final re-abandonment of the well. The policy specifies requirements for notice to the previous well owner and approval of the operational procedures to cut off and re-abandon wells by COGCC staff prior to conducting the operations. The policy also specifies requirements for the remediation of exploration and production waste encountered during surface development activities including reporting, sampling and analysis, and remediation workplans.

IX. VARIANCES

502.b. Variance Granted

44 Canyon, LLC was granted a Rule 502.b. variance of lease line setback requirements established by Order No. 112-156 for the St. Ours #1-3 Well. This is to be a Fruitland Coal test in the SE¼ NE¼ of Section 1, Township 34 North, Range 9 West, 6th P.M. This exception location was requested to accommodate the surface owner and to minimize surface disturbance. The location is 185 feet east of the drilling window.

Berry Energy, Inc. was granted a variance to Rule 1004.a. for the Hardaway #2 and #4 wells located in Adams County. The surface owner requested that the tank battery location and lease roads not be ripped or revegetated since the land will be developed into single family homes.

HS Resources was granted a Rule 502.b. variance of Rule 318A for drilling locations because of surface constraints imposed by turkey barns. The location is 141 feet north of an existing well, thereby complying with the twinning rule. Two waivers were signed and returned and two waivers were not returned. No protests were received.

J.M. Huber was granted a Rule 502.b. variance of property line setback requirements of Rule 603.a.(2). The location is 115 feet from a property line and is 45 feet closer to the property than the required minimum of 150 feet. The encroached upon property owner declined to sign a waiver. Additional factors for granting the variance are the location is inside the drilling window and in a topographical low that provides visual mitigation. A well location 150 feet from the property line would also require a more extreme cut and fill to build the location and would require the partial removal of a grove of trees that provide a visual shield.

Southwestern Production Corporation was granted a variance to Rule 1004.a. for the Lucas #1 Well located in Weld County. The surface owner requested the reserve pit be left open to utilize as a stock watering pond.