

**DEPARTMENT OF NATURAL RESOURCES  
OIL AND GAS CONSERVATION COMMISSION  
AMENDMENTS TO 100 SERIES - DEFINITIONS AND 300 SERIES - DRILLING,  
DEVELOPMENT, PRODUCTION AND ABANDONMENT  
2 CCR 404-1**

**Statement of Basis, Specific Statutory Authority, and Purpose**

**Amendments to Current Rules of the Colorado Oil and Gas Conservation Commission, 2 CCR 404-1, Amending Rule 318A, and Defining Horizontal Well for Purposes of the Rule Amendments.**

This statement sets forth the basis, specific statutory authority, and purpose for the amendments to Rule 318A. of the Rules and Regulations and Rules of Practice and Procedure (“Rules”) promulgated by the Colorado Oil and Gas Conservation Commission (“Commission” or “COGCC”) on August 8 and 9, 2011.

**Statutory Authority**

These amendments to Rule 318A. are based on: 1) general Commission jurisdiction and rulemaking authority granted in section 34-60-105 (1) C.R.S; and 2) specific statutory authority of section 34-60-106 (2)(a), (c),and (d) C.R.S. The Commission adopted the following statement of basis and purpose consistent with section 24-4-103(4), C.R.S., of the Administrative Procedure Act. This statement is hereby incorporated by reference in the rules adopted.

The rulemaking for these amendments to Rule 318A was held by the Commission on August 8, 2011. These amendments become effective twenty days after published in the *Colorado Register*

**Basis and Purpose**

INTRODUCTION

Since the initial Wattenberg Field discovery in 1970, oil and gas development has continued to increase, with significant ancillary economic benefits. Rule 318A was initially adopted in April 1998, and last modified in 2005. The rule, also referred to as The Greater Wattenberg Area (GWA) Rule, was initiated to facilitate location of wells, and operator access to all Cretaceous age formations, without need to routinely secure Commission approval. Statewide setback rules of Rule 318.a. were becoming increasingly too restrictive, and an unnecessary impediment to reasonable development of the hydrocarbon resources of the GWA. The Rule was driven by intense interest in

hydrocarbon development in the GWA, the complex nature of the tight sands of the GWA, and the need to mitigate conflicts between mineral rights developer and surface owners with predictable and reasonably protective rules.

The GWA Rule generally: 1) authorizes comingling of hydrocarbon resources of Cretaceous age formations to the base of the Dakota Formation; 2) allows defined drilling locations (GWA Windows) to be used to drill wells; 3) establishes procedures for adaptive (wellbore) spacing units; 4) provides for the location of interior infill and boundary wells; and 5) limits the number of producing completions to eight per 160-acre governmental section. Rule 318A was last modified to provide for additional infill and boundary wells in a defined area within the GWA. Since the last amendment, market demand has driven even more intensive development. This has encouraged the use of new technologies and practices that permit even greater resource recovery in the GWA, which would be further facilitated by this amendment of Rule 318A.

GWA operators find themselves seeking Commission approval for well location exceptions with increasing frequency. Recent months have seen a significant increase in hearing applications, and this trend is expected to continue without modification of Rule 318A. The proposed rule amendments are expected to eliminate the bulk of the well location exception requests and implement additional environmental reporting requirements without increasing the number of well sites unless a surface owner consents to the additional well site. These proposed amendments were developed with industry input and discussed with Weld County officials and representatives of homebuilder and environmental groups.

The following discussion identifies proposed amendments and explains the substance of and rationale behind the proposed amendments.

#### IDENTIFICATION AND EXPLANATION OF AMENDMENTS

1. Definition of “Horizontal Well” (100 Series Definitions). One of the drivers for recent requested well location exceptions is horizontal drilling in the Niobrara Formation. The Niobrara Formation in the GWA has been drilled since the early 1980’s, and the GWA is an ideal location for horizontal drilling. The proposed amendments require a definition of “Horizontal Well”. The definition is self explanatory.

2. Reduced Minimum Size Spacing Units (318A a. (4) (C)). This amendment allows wellbore spacing units to be smaller than 160 acres. The wellbore spacing unit commonly referred to as a “roving 160”, has worked well, but there are occasions where it does not. These situations occur in unspaced areas, where the spacing unit may be central to two quarter-quarter sections but not to four. In these cases it makes sense to

size the wellbore spacing unit at 80 acres and not 160 acres. This amendment would address this situation.

3. Flexible Horizontal Wellbore Spacing Sizes (318A a. (4) (D)). This amendment allows a horizontal wellbore spacing unit to include any quarter-quarter sections within 460 feet of the lateral wellbore in the producing formation. This will result in irregular unit boundaries along the edges of the included quarter-quarter sections along the length of the wellbore, but would allow for a more equitable sharing of oil and gas revenues by mineral interest owners, when compared to requiring the unit to be an entire section. Each horizontal well would have its own unique unit.

4. Increased Area Allowed for Infill Wells (318A e). This amendment removes the infill well area geographic restriction of 318A.e., and allows infill wells throughout the GWA. New completion techniques have made hydrocarbon resources throughout the GWA attractive targets, that were not considered economic six years ago. Additionally, removing this geographic constraint allows the drilling of horizontal wells between GWA windows, without requiring Commission approved exceptions. This amendment also makes the rules uniform over the entire GWA, providing for simpler administration and easier understanding by owners and operators.

5. Water Well Sampling (318A e. (4)). By eliminating the special area of 318A.e with amendment 4 above, the entire GWA area is covered by the water well sampling requirement. The intent with this amendment is to get a water well sample in every section within the GWA based on a requirement for the test with the next proposed well in the section, regardless of its drainage area.

6. Notice and Hearing Procedures (318A e. (6)). This amendment covers notice and hearing procedures for wells utilizing the wellbore spacing unit concept. Because this concept creates units across original traditional units established by early spacing orders, each well would have different mineral owners. This amendment establishes the process to inform mineral owners of the intent of an operator to create the new unit and drill a new well. The idea is to provide operators a simple method to create a wellbore spacing unit and only utilize the Commission adjudicatory process when the parties cannot agree on terms. The notification consists of a letter sent to the mineral owners in the proposed unit describing the operation and the affected lands. This notice requires the recipient to object to the proposal within 30 days or the assumption will be that there is no objection to the proposed operation. This provision establishes a procedure and requirements of an objection, before parties proceed with a formal hearing before the Commission. Finally, if the operator fails to file an Application for Permit to Drill, Form 2, within 90 days of the expiration of the 30-day notice period, the notice will be considered withdrawn. A notice provision is included in the current rule,

but this amendment clarifies the process and provides an action deadline which does not currently exist.

7. Elimination of Outdated Effectiveness Review (318A e. (7)). This amendment eliminates an effectiveness review of the GWA infill provisions, from the previous Rule 318A amendment, that was required to be completed by March 1, 2008.

8. Elimination of Limitation of Eight Completions (318A f). This proposed amendment eliminates the restriction on the number of wellbore completions per quarter section, and thus the requirement that any increase in the number of completions beyond eight requires Commission approval. The current limitation of eight completions has driven a significant increase in the demand for Commission hearings in recent months. With the increasing demand for horizontal wells in the GWA, this trend will continue in the absence of this amendment.

The limitation of eight wellbores commonly causes an operator to seek a well number exception because the current rule is not conducive to operator utilization of optimum infill well locations for recovery of the resource. Sometimes the drilling sequence of wells resulted in bypassed reserves, as the eight well limit would be reached before reaching each otherwise authorized infill location. The amendment provides greater flexibility for the operator to match the number and location of wells to that necessary to fully develop the resource. This amendment does not eliminate the surface use limitation imposed in the original GWA Rule. Utilization of GWA drilling windows and twinning existing wells are still required.

9. Waste Management Plans (318A h). This amendment requires an operator filing a Oil and Gas Location Assessment, Form 2A, to file a waste management plan in accordance with Rule 907.a. The waste management plan will require the operator to describe its basic exploration and production waste handling operations at the location including: 1) storage; 2) transportation method; 3) transportation frequency; 4) disposal sites; and 5) any planned re-use and recycling. It is not intended that the waste management plan be particularly detailed. It is intended to demonstrate the operator's conceptual plan for dealing with: 1) drill cuttings, produced water, and tank bottoms; 2) what the operator will do with the waste when it is generated; 3) how the operator will be transport the waste; and 4) how the waste will be disposed.

## CONCLUSION

These proposed amendments to the Rule 318A, are expected to allow further development of the GWA in a logical and cooperative manner, to the benefit of mineral owners, residents, and industry, while continuing to provide balanced, reasonable protections to surface owners and the environment.