

POLICY ON GUARANTEES OF PERFORMANCE AS FINANCIAL ASSURANCE

WHEREAS, the Colorado Oil and Gas Conservation Commission requires every operator to provide assurance that it is financially capable of fulfilling certain obligations under the Colorado Oil and Gas Conservation Act, §34-60-101 et seq., C.R.S.

WHEREAS, in accordance with §34-60-106(13), C.R.S., in complying with this requirement, an operator may submit for commission approval, without limitation, one or more of the following:

- (a) A guarantee of performance where the operator can demonstrate to the commission's satisfaction that it has sufficient net worth to guarantee performance of any obligation imposed by rule under subsections (11), (12), and (17) of §34-60-106, C.R.S. Such guarantee and demonstration of net worth shall be annually reviewed by the commission.
- (b) A certificate of general liability insurance in a form acceptable to the commission which names the state as an additional insured and which covers occurrences during the policy period of a nature relevant to an obligation imposed by rule under subsections (11), (12), and (17) of §34-60-106, C.R.S.;
- (c) A bond or other surety instrument;
- (d) A letter of credit, certificate of deposit, or other financial instrument;
- (e) An escrow account or sinking fund dedicated to the performance of any obligation imposed by rule under subsections (11), (12), and (17) of §34-60-106, C.R.S.;
- (f) A lien or other security interest in real or personal property of the operator. Such lien or security interest shall be in a form and priority acceptable to the commission in its sole discretion and shall be reviewed annually by the commission.

WHEREAS, the Colorado Oil and Gas Conservation Commission has historically accepted only two (2) guarantees of performance during the period from July 1994 through October 2002 (one from a municipality and one from a private person);

WHEREAS, the Colorado Oil and Gas Conservation Commission believes that negative financial events involving major companies (for example, bankruptcies and questionable accounting practices) have made guarantees of performance less desirable forms of financial assurance than in the past;

NOW THEREFORE, the Colorado Oil and Gas Conservation Commission does not wish to accept guarantees of performance as acceptable forms of financial assurance, and hereby approves and adopts the following policy.

1. An annual review shall be conducted on operators using guarantees of performance.
2. Operators using guarantees of performance shall demonstrate a net worth in excess of twenty (20) times the estimated cost to plug, abandon and reclaim all of its active wells.
3. Operators who are unable to meet the requirements described above shall no longer be allowed to use guarantees of performance, and shall be required to submit another form of acceptable financial assurance.

ADOPTED AND EFFECTIVE THIS 28th DAY OF OCTOBER, 2002.