

TO: COGCC Commissioners
FROM: Rich Griebing
DATE: July 9, 1998

cc: Wade Buchanan
Ron Cattany
Dan McAuliffe
Cindy McNeill
Doug Robotham
Kathy Kanda
Bob Poelstra
Sue Griswold
Joan Avery
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OGCC Employees
MEGA Board Representatives
Monthly Report Mailing List

MONTHLY STAFF REPORT

I. STATISTICS

- ◆ Our monthly statistics report is attached. Through the first half of 1998, average permits per month are roughly 25% ahead of the 1997 full year average. This pace is surprising in light of significantly lower oil prices.

II. NORTHEAST COLORADO

- ◆ Boulder County ERF Project

The project to plug and abandon 3 wells west of the Boulder Reservoir has been completed. Estimated cost to plug and abandon these wells is \$22,500.

- ◆ Washington County ERF Project

The project to reclaim a water disposal site has been started and should be finished by June 30. Estimated cost to complete the reclamation is \$10,000 and will be funded by the ERF.

III. NORTHWEST COLORADO

- ◆ Northwest Colorado Oil and Gas Team

The next quarterly meeting of the team will be from 10:00 a.m. until 2:00 p.m. on Thursday, August 20 at the Rifle Town Hall. The team, which is made up of representatives from federal, state and local government, the oil and gas industry, and concerned citizens, is co-chaired by Brian Macke and Rio Blanco County Commissioner Don Davis. The agenda for the next meeting will include a discussion of how oil and gas tax and royalty revenues are

distributed to local governments, and updates on current oil and gas activity in the area. Please contact Brian Macke at 894-2100 x122 to submit agenda topics for the next meeting.

◆ Parachute/Battlement Mesa COGCC Field Office

The COGCC is proceeding to finalize a lease for office space in the Battlement Mesa area for a local field office. The office, which is expected to open later this month, will provide a central location for the Northwest Colorado Area Engineer and Field Inspector to be accessible to operators and the public. The COGCC is currently in the process of filling the new Northwest Colorado Field Inspector position.

◆ Garfield County Commission Addresses Road and Bridge Impacts

The Garfield County Commission has been working to address impacts to roads and bridges caused by the oil and gas industry and other industries. The Commission has been consulting with the geotechnical engineering firm of Chen and Associates to prepare a study to quantify the impacts of various axle weight vehicles on the different types of county roads. The results of the study will be used to develop a rational methodology for calculating road impact fees that can be applied fairly among various different industries.

◆ Garfield County COGCC Local Response

The COGCC continues to implement a program in Garfield County where a COGCC hearing officer is available in a public place one day per month to address and respond to citizen concerns. Northwest Colorado Engineer Jaime Adkins performed the public outreach on June 19 in Battlement Mesa in conjunction with the community golf tournament sponsored by Tom Brown, Inc. This event, which was attended by 72 local citizens (including members of the Garfield County Citizens Alliance and the Battlement Mesa Service Association) and 72 industry representatives, was reported to be a tremendous opportunity for community outreach.

Dates for the following months will be the third Friday of each month, with the next visit on Friday, July 17 at the Battlement Mesa Public Safety Building. Our thanks go to the Battlement Mesa Oil and Gas Committee for making the necessary arrangements for the outreach location. Attached are newspaper articles about Garfield County/Battlement Mesa topics.

◆ Battlement Mesa and Project Rulison Vicinity Issues

COGCC staff have been working with the Air Quality Control Division to follow up on complaints filed by Monte and Linda O'Neal about air quality concerns, including exacerbation of asthma conditions, related to the Tom Brown, Inc. Bently #11-24 gas well. Bob Jorgenson with the AQCD conducted a site inspection in early June and concluded that there were no immediately apparent air quality problems with the site. A complete assessment of air quality impacts on the O'Neals could not be made without more information regarding a number of other air quality factors in the area. Attached is a response letter from me to Ms. O'Neal. Tom Brown, Inc. plans to permit the Bently #11-23 well as a 40 acre offset to the west in the near future.

As previously agreed, the COGCC staff has been sending Applications for Permit to Drill for wells within a few miles of Project Rulison to the Department of Energy for their review. Last month I reported that the Department of Energy attempted to take gas samples for radionuclide analysis from two of the three recently drilled Tom Brown, Inc. wells that are within three miles from Project Rulison, the Clem #15-14 and the Clem #15-23. The wells were in early stages of completion and gas samples could not be collected. The DOE is planning to return to the area to collect gas samples from these wells at a later date. In addition, the DOE took water samples for radionuclide analysis from the Goad water well and the two monitor wells, which were impacted by last year's gas well underground blowout in the Rulison area. Although these sample points are approximately six miles from Project Rulison, the sampling was performed to address public concern. Analysis results for these samples will be available within several weeks.

Tom Brown, Inc. has submitted a Notice to the BLM of its intent to drill 7 wells in 1998 and possibly 9 wells in 1999 in the area south of Battlement Mesa on federal and immediately adjacent non-federal leasehold. This action has triggered the need for an Environmental Assessment that will require the opportunity for public input.

◆ BLM Glenwood Springs Resource Area Draft Supplemental Environmental Impact Statement

The BLM Glenwood Springs Resource Area released their Draft Supplemental Environmental Impact Statement (SEIS) on June 19 for a 90 day public review and comment period. The SEIS will focus on the area having a high oil and gas potential, primarily in the area along the I-70 corridor between Silt and Parachute. The purposes of the SEIS are:

- To provide public disclosure of the impacts of higher than expected rates of gas well development than was foreseen in the 1991 Final Environmental Impact Analysis.
- To provide an improved information base for managing gas development impacts.
- To prepare a set of standard operating procedures that could be used to manage future oil and gas development.
- To permit the review and modification of lease stipulations that could be applied to future leases or used as Conditions of Approval on existing leases.
- To develop mitigation measures to be applied to new leases in the Naval Oil Shale Reserve.

An open house is being conducted today in Battlement Mesa by BLM to discuss the SEIS. The 90-day comment period will conclude on September 17, 1998. Attached are newspaper articles about the release of the Draft SEIS.

◆ Oil and Gas Vehicle Traffic on Garfield County Roads

Conversations with oil and gas operator and contractor personnel indicate that the operators are continuing to communicate their expectations of courteous and legal driving habits to the field personnel. Since the last report there have not been any complaints about oil and gas vehicles on Garfield County roads. **Operators and contractors are commended for their efforts to address this issue.**

◆ Proposed Piceance Basin Study Phase III

The Piceance Basin Study Phase III sampling is complete. Forty water samples were taken from water wells, springs and creeks. Two gas samples were also collected from water wells and isotope analysis will be run on these gases. The written report summarizing the data will be completed later this month.

◆ Air Issues in Piceance Basin

The COGCC continues to receive complaints from surface owners regarding odors and air emissions from drilling and production operations. We contacted CDPHE Air Quality staff to ensure an appropriate complaint response will occur, and continue to refer the complainants to the Air Quality field representatives.

◆ TransColorado Pipeline Project

Construction on the second phase is scheduled to begin July 15. This 300 mile long natural gas pipeline project is being designed to transport natural gas from underutilized supplies in western Colorado to consumers in California and Midwest markets. The route of the project traverses through nine counties in western Colorado. It will extend from 25 miles east of Rangely to Farmington, New Mexico and have a capacity of up to 300 mmcf/d. Newspaper articles about the pipeline are attached.

◆ Naval Oil Shale Reserves (NOSR) I and III, Garfield County

BLM continues to prepare for leasing an area which is expected to be somewhat larger than the 6000 acre developed area of NOSR III which was prescribed for leasing this year by recent legislation that transferred management from DOE to BLM.

IV. SOUTHWEST COLORADO

◆ La Plata County Cooperative Agreement

Attached, please find my letters to La Plata County Commissioners of June 15 and June 19 regarding our proposed extension of the Cooperative Agreement (CA).

David Dillon attended the La Plata County Commission meeting on June 2 and Morris Bell attended the June 17 meeting and the June 23 public comment meeting. At the public comment meeting, the La Plata County Board of Commissioners voted not to extend the CA and reinstated their surface owner determination and mediation rules. The county sound rules remain stayed until October 5, 1998 pending the results of our sound study described below. The attached La Plata County Commissioners' letter to Chair Heinle of June 25 confirms their actions taken June 23.

While our staff and I remain committed to working closely with La Plata County, I am concerned that the reinstatement of their rules will lead to contentious legislation or expensive and consuming litigation. Their decisions appear to be based more on local politics than on the substance and success of the CA or the benefit of additional conflicting and duplicative regulation.

Engineering Dynamics has been contracted to fulfill the third party expert review and practical recommendations regarding sound level data gathering methods and potential measures for

cost-effective mitigation. This is specified in III.B.5. and C.1 of the CA. Estimated cost for this study of \$20,000 is being funded by the Environmental Response Fund. The study is expected to be completed later this month.

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

The last GORT meeting was held Thursday, June 18 at 8:30 a.m. at the La Plata County Fairgrounds. Topics discussed at the meeting included: the La Plata County Cooperative Agreement; new OGCC rules; the plugging and abandonment of orphan wells in La Plata County; revision of bradenhead testing frequency; Fruitland Coal outcrop seep data gathering; an update on the JM Huber development plan; the potential for remote sensing of the Fruitland Coal outcrop seeps; water well sampling program; an update on the Tiffany nitrogen injection project; Pine River update; an update on the geothermal seep north of Durango; the adjudication of water rights for produced water; and a discussion on potential reorganization of GORT. Attached are newspaper articles describing the meeting and the Carbon Junction seeps.

The next meeting is scheduled for September 23, 1998 at 8:30 a.m. at the La Plata County Fairgrounds.

◆ Pressure Falloff Test, Simon Land & Cattle Disposal Well #1 Well

Amoco has completed the test on this well. We have contracted Dave Cox of Questa Engineering to assist us in evaluating the results. We are holding a meeting with Amoco today to discuss the results of the evaluation.

◆ Pine River Update

Amoco and the staff will update you today on the historic review and chronology of the Pine River.

◆ La Plata County ERF Project - Domestic Water Well Monitoring

The COGCC and the BLM are working together to conduct another phase of ground water sampling from domestic water wells. Approximately 110 water wells will be sampled. We are focused on water wells located in the vicinity of gas wells that have been repaired or that are being vented as a result of failed historic bradenhead tests. Ground water analytical results will be used to determine whether the gas well remediation efforts have resulted in a decrease in methane concentrations in the water wells. In addition, other water wells sampled during the 1993-94 La Plata County ground water investigation will be sampled again and analyzed so we can continue to monitor and to investigate whether changes in methane concentrations and water quality are occurring.

Sampling began on May 3, 1998 and approximately 90 wells have been sampled to date.

V. SOUTHEAST COLORADO

◆ Southeast Colorado ERF and Financial Assurance Project

The project to plug and abandon 11 wells in southeast Colorado has started and should be completed later this month. The project involves wells from four different operators. The estimated cost to complete the project is \$79,400 with financial assurance monies of \$55,000 and ERF monies of \$24,400 being used to complete the project.

◆ Las Animas County Ownership Consolidation

Evergreen has completed the purchase of Amoco's Raton Basin properties and some of CIS's operated interests (see attached press release). If the remaining CIS operated interests are purchased by Evergreen, there will be two currently active Las Animas County operators, Evergreen and Stroud.

◆ Las Animas County Issues

Assistant Attorney General McNeill, Dave Dillon, Loren Avis, Bob VanSickle and I attended a meeting on June 24 at Trinidad State Jr. College at the request of Southern Colorado CURE. Also participating were representatives from BLM, Evergreen and Stroud. We presented a 15 minute overview of real property law in Colorado (McNeill) and the June 2 changes to COGCC rules (Griebeling) as per the attached handout. A newspaper article describing the meeting is attached.

At the meeting CURE proposed the formation of a "Collaborative Planning Committee" and later forwarded a draft written proposal (attached). Their current draft needs to be revised. Representation must be expanded to include a more representative cross-section of Las Animas County residents. A professionally facilitated meeting should be held with the "invited" representatives to determine if there is a level of commitment to continue with the process. Ground rules and long term goals should be developed at such a meeting. The voluntary collaborative nature of such a process must be emphasized as opposed to the combative litigious approach that CURE is currently pursuing if the process is to succeed. Participants must also understand and accept that long term "master planning" is unrealistic because operators development plans are continuously evolving in response to gas prices, capital budgets, geologic data, stimulation success, new technology, lease provisions, regulatory issues, property ownership transactions, etc. Current legislative, legal and property rights realities must be accepted and respected by all participants.

If you are interested in further pursuing the CURE proposal, and if CURE provides a point of contact for me to discuss further modifications to the proposal with, I would suggest that we proceed to formalize the process and present it to you for consideration at the August 17-18 hearing. We are scheduled to discuss this matter today at 1:30 p.m.

VI. ENVIRONMENTAL ISSUES

◆ Notary Water Well Complaint, Weld County

The replacement well for Mr. Notary was successfully drilled and completed in the Fox Hills Sandstone at a depth of approximately 200 feet shallower than the original well. The new well does not contain methane and appears to be capable of producing 12-15 gpm of water.

◆ Water Quality Control Commission/Division Quarterly Meeting

We met with WQCC and WQCD on June 15 and primarily discussed the bullet points from our May meeting with Dave Akers and Carla Lenkey (see below under Spill/Release Policy). In lieu of the next quarterly meeting with WQCC, staff will prepare our annual report to be submitted for WQCC's review and make a presentation at their hearing September 15.

◆ EPA Enforcement on Spills/Releases From Oil and Gas Facilities

The CDPHE-WQCD took enforcement action against Texaco for spills to Wilson Creek. The action included a fine, as well as facility improvements. COGCC had also issued NOAV's to Texaco for recent spills, and requested a facility improvement plan as abatement. Robin Reade is in contact with WQCD to ensure avoidance of duplicative enforcement.

◆ Spill/Release Policy

We met with Dave Akers and Carla Lenkey, WQCD - spill enforcement, on May 26 to begin conceptual discussions of each agency's role in reporting, responding, remediating, enforcing and assessing penalties regarding spills/releases to surface waters. Our objective is to clearly describe how each agency will function and to avoid potential duplication and conflict. At our quarterly WQCC meeting on June 15 (see above), we brought the conceptual discussion to a review of bullet points with WQCD Director and a WQCC member. By late summer we may have a draft MOU which would be available for review and discussion by interested parties. The spill/release policy will be on hold until this process is completed.

◆ Pit Program

We are tracking the requirements of the pit program, as initiated by rule changes in May 1995. The primary objectives of the program were to test all buried & partially buried tanks, vessels and structures, eliminate leaking tanks and pits in Sensitive Areas, and ensure all earthen pits remaining in service are permitted or have a Sundry Notice/Form 15 Report filed.

The inventory database is being updated with Summary Closure Report information (was due January 31, 1998), and with Pit Inventories received from operators as a result of our mailing. The inventory data is currently being used for various requests, such as complaint response and due diligence, as well as verifying compliance for internal purposes.

Inventory enforcement: Responses to NOAV letters include the following. Final counts should be available later this month.

- a. Operators that were not in existence or did not operate wells as of 7/1/1995, category 1 (164);
- b. Operators that operated wells as of 7/1/1995, but had no buried or partially buried tanks, structures or vessels, or pits, category 3 (113);
- c. Operators that operated wells as of 7/1/1995 solely on federal or tribal lands, category 5 (17);

- d. Operators that reported inventories under a different name or company;
- e. Operators that operated wells and had pits or buried or partially buried tanks, structures or vessels, as of 7/1/1995, but did not submit an inventory prior to 12/31/1997, none to date.

Some 26 operators already sent in signed AOC's, which were noticed prior to this hearing, and 20 paid fines.

Robin Reade is working with field engineers to verify compliance with the inventory, the Sensitive Area Determination and proper closures. Further investigation is initiated on pits where complaints are made about pits in Sensitive Areas. Operators will be requested to close pits in Sensitive Areas, and will be required to submit a Form 27, Site Investigation and Remediation Workplan for prior approval.

Summary of data entered to date:

Earthen pits	3950	
Concrete vaults	3567	
Steel tanks	2017	
Fiberglass tanks	1707	
Tin horns	451	
Other	??	
TOTAL pits, buried & buried tanks, vessels and structures:		12,715

Program statistics:

Operators/Gatherers that sent inventories by 12/31/97	280
NOAV letters sent	639
Operator/Gatherer Responses received to date	458
AOC's signed	15
Fines paid	15

Operators/Gatherers that sent follow-up reports with updated inventories, closure reports and pit reports (Form 15) for earthen pits remaining in service **34**

◆ Oil and Gas NORM Disposal

Last month we sent a letter to the Rocky Mountain Low-Level Waste Compact in support of industry, requesting the Compact board to extend the mining waste exclusion to oil and gas NORM waste, thereby enabling the waste to be managed onsite or in UIC wells. The Compact board met and agreed to revise existing rules to effect similar results, although did not actually extend the exclusion as requested. We will continue to monitor progress of this issue.

Currently, the IOGCC NORM subcommittee is working on a set of draft, model regulations for NORM management. Robin Reade reviewed the draft and submitted comments. The model regulations should be completed by fall, and will be recommended for rule adoption by each state.

VII. ORGANIZATION

- ◆ Our current organization chart is attached.

◆ Office and Field Technician Position Openings at the COGCC

There are three position openings at the COGCC. These openings are in three of the existing thirty-five FTE positions. The positions are as follows:

- 2 Engineering/Physical Science Technician II (Denver Office Permit/Completion Technicians)
- 1 Engineering/Physical Science Technician II (Northwest Colorado Field Inspector - based in the Battlement Mesa field office.)

Approximately 100 applications were submitted. The COGCC has completed the applicant testing process and is currently in the final steps of hiring to fill these positions.

VIII. PLANNING/ADMINISTRATION/OTHER

◆ Outstanding Oil and Gas Operations Awards Program

This is the second year for the program, which was a great success last year, in recognizing outstanding accomplishments by oil and gas operators in several categories. I will be proposing that the awards be presented coinciding with the COGA Natural Gas Conference.

◆ COGCC Letter to Colorado Real Estate Commission

We have continued to follow up on your letter of February 9 advocating explicit disclosure of mineral interest ownership in real estate forms. I contacted Colorado Real Estate Commission Director Mike Gorham to request that explicit disclosure provisions be incorporated in the "Contract to Buy or Sell Form". During several follow-up contacts, he continues to assure me that their Commission is working on form revision and expects to take up our request at one of two meetings later this month.

◆ COGCC Computer System Overhaul

Work continues on development of the workflow system. The workflow routing structure has been documented and the initial forms conversion is nearing completion. The work on creating and adding the edits to the forms in the workflow will begin in the middle of June.

Work continues on the physical database model and data dictionary. These areas are being fine-tuned as the workflow process becomes more defined.

All desktop PCs have been converted to Windows 95 which is necessary for access to Windows NT servers on the Local Area Network

◆ Production Reporting by E-mail

All operators are encouraged to submit their production reports in this manner to e-mail address: *dianne.lyons@state.co.us*. Attachments must meet the same guidelines required for diskette submission. Questions should be directed to Dianne Lyons at x129.

◆ Production Reporting by Well and by Formation

Last month I requested that the Commission move the consideration of the adoption of the new Form 7 "Monthly Report of Operations" to the July hearing to allow the industry as much time as possible to prepare for the production reporting change before the January 1999 production month. Because the new computer system is being developed, it is critical that decisions be made regarding how production will be reported.

Oil and gas industry representatives emphasized two points:

- The Industry needs to be given as much time as possible to prepare for this important change in production reporting.
- The COGCC should mail out a notice of this change in production reporting to all Colorado operators and producers to allow them as much time as possible to prepare.

Attached are a notice and the most recent draft Form 7 that was mailed to all Colorado operators and purchasers. Those wishing to obtain a copy of the proposed production reporting form or to make comments should contact Brian Macke at 894-2100 x122 or Thom Kerr at x127.

◆ Department of Natural Resources Imaging Project

The COGCC is working with the Division of Water Resources to help prepare an imaging needs assessment document for the divisions and a Request for Proposal (RFP) for contractor bidding on the document imaging project. The Division of Water Resources is preparing to begin the project this fiscal year and the COGCC is requesting Severance Tax funding for the project beginning FY98-99. One of the project goals is to make COGCC document images accessible by the oil and gas industry and by the public in remote locations.

Work on the RFP is nearly completed. The tentative schedule for the procurement process is as follows:

May 8, 1998 - Request for Proposals (RFP) put out on the state BIDS system.

June 8, 1998 - Deadline for vendor RFP responses.

July 10, 1998 - Finish evaluating proposals.

July 17, 1998 - Select a vendor for the system.

Sept. 4, 1998 - Finish contract work.

Sept. 6, 1998 - Vendor begins work on project.

Those who would like to provide project input should contact Thom Kerr at x127.

◆ Minerals, Energy, Geology Advisory (MEGA) Board

The Oil and Gas Subcommittee of the MEGA Board met on June 12. The full Board will meet at 9:00 a.m. Friday, July 17, 1313 Sherman St., Room 318.

◆ COGCC on the Internet

The COGCC continues to expand its Internet presence. As of March 1st, a listing of all drilling permit applications received have been posted the day following receipt. The newest additions to the website include the newly adopted rules, the draft spill policy, the Quality Assurance Project Plan (QAPP) and the monthly staff report. The COGCC continues to redesign its Web pages to provide improved customer service. The public is invited to leave

comments or suggestions for improvements at the COGCC Internet site. The address is: <http://www.dnr.state.co.us/oil-gas/>. The COGCC also has a general e-mail address: dnr.ogcc@state.co.us.

◆ Penalties Status

Attached is a revised table showing the status of penalties paid and penalties pending collection. We will update you regarding some of these items in executive session.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

Brian Macke and I attended the midyear meeting June 21 to 23 in Overland Park, Kansas.

X. VARIANCES GRANTED BY THE DIRECTOR UNDER RULE 502.b.

I have approved a variance of Rule 317A a. for Sovereign Energy LLC. Sovereign has proposed to drill and run 200 feet of surface casing at the Weld County #22-15, located in the SENW of Section 15, Township 5 North Range 61 West, Weld County. At this location, the Foxhills Aquifer outcrops to the north and to the south. There are no other aquifers below 200 feet at this location. A DST performed in Section 15, showed a D sand bottom hole pressure gradient of .2 psi/ft. Well control at this site is not a significant concern. The staff has determined that compliance with rule 317A a. is not necessary to protect the public health, safety and welfare at this location.

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