

TO: COGCC Commissioners
FROM: Rich Griebing
DATE: September 22, 1998

cc: Wade Buchanan
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Dan McAuliffe
Cindy McNeill
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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.
- ◆ Direct Economic Impact – 1997 Oil and Gas Production

Attached please find a summary of the Direct Economic Impact of 1997 Oil and Gas Production in Colorado referencing: produced value of \$2 billion; estimated local property taxes of \$120 million; state severance taxes of \$20 million; and state share of federal royalties of \$30 million. We are using this summary in handouts for information purposes and posting it on our website.

II. NORTHEAST COLORADO

- ◆ Loss of Well Control

On August 19th, HSR lost well control on the Moore UPRC G #15-8 Well located in Weld County. The Codell Formation had been refraced and the well had been killed so the blowout preventor (“BOP”) could be replaced with the wellhead. The BOP had been removed and the well began to kick. The rig crew tried to reinstall the BOP to control the gas flow, but was not successful. The gas ignited and the well flared for approximately 6 hours before it put itself out. The well continued to flow gas until the well was killed by pumping fluids down the wellbore. The well flowed uncontrolled for approximately 14 hours before it was killed and a new BOP installed. There were no injuries and a small amount of equipment was damaged.

The staff was notified of the incident during the evening of the 19th and inspected the site the next day. HSR has submitted a comprehensive written report with details of the event and has complied with all the requirements of Rule 327. The report details operational changes implemented to prevent similar incidents.

◆ North Washington Water Well Users Association

To accommodate the users' need for water during late summer and early fall, logging and running the video of the well is scheduled for early to mid-October, 1998.

◆ Weld County - Water Well Complaints

Two complaints regarding methane in water wells were investigated. Gas samples from the water wells and nearby gas wells were analyzed for carbon and hydrogen isotopes and composition. The analytical results indicate that the gas in the water wells is geochemically different from the other gas samples. Both water wells contain biogenic methane, rather than the thermogenic methane produced from the gas wells.

III. NORTHWEST COLORADO

◆ Northwest Colorado Oil and Gas Team

The next quarterly meeting of the team will be on Thursday, November 12 from 10:00 a.m. until 2:00 p.m. at the Rifle City Hall. The last meeting of the team, which was on August 20 in Rifle, was attended by approximately 40 people and was videotaped for playback on the local access television station. Rio Blanco County Commissioner Don Davis has voluntarily stepped down as co-chairman of the team after four years of dedicated service. The new co-chairman of the team is Garfield County Commissioner Larry McCown. The team meetings continue to be an excellent forum for communication about oil and gas issues between industry, government, and the public. Some of the agenda items included updates on oil and gas activity in the area, updates on the expanded COGCC water quality baseline study and the Rulison Field blowout ground water monitoring program, a discussion by Jim Evans about Federal Royalty and Severance Tax distribution, and the BLM Glenwood Springs Resource Area Draft Supplemental EIS and NOSR leasing plans. The team, which is made up of representatives from federal, state and local government, the oil and gas industry, and concerned citizens, is also co-chaired by Brian Macke. Please contact Brian Macke at 894-2100 x122 to submit agenda topics for the next meeting. Attached are newspaper articles about some of the topics discussed at the meeting.

◆ Parachute/Battlement Mesa COGCC Field Office

The COGCC has executed a lease agreement for office space in the Battlement Mesa area for a local field office. The office, which is expected to open by mid-September, will provide a central location for the Northwest Colorado Area Engineer and Field Inspector to be accessible to operators and the public. The office will be located in the central business strip mall near the Battlement Mesa City Market, and will be open approximately 3 days per week. The address and telephone number for the Parachute field office will be:

Colorado Oil & Gas Conservation Commission
Parachute Field Office

73 Sipprelle Drive
Parachute, CO 81635
(970)285-9000

The COGCC has hired Jay Krabacher to fill the new Northwest Colorado Field Inspector position who started in this position on August 17. Attached is a newspaper article about the new Parachute office.

◆ 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 purpose of the study was to develop a rational methodology for calculating road impact fees that can be applied fairly among various different industries.

The Garfield County Commissioners adopted a resolution in August to increase overweight and oversized vehicle permit fees from \$8 per vehicle to \$15 per vehicle plus \$5 per axle. The road and bridge bond was also increased from a maximum of \$100,000 per operator to a maximum of \$500,000. The Garfield County Commissioners are continuing to study adopting a per well fee to address road and bridge impacts.

◆ Garfield County Citizens' Alliance Meeting on Closed Loop (Pitless) Drilling Systems

Brian Macke, Jaime Adkins and Jay Krabacher attended the August 20 meeting of the Grand Valley Citizens' Alliance where a presentation about Closed Loop (Pitless) drilling systems was given by Lance Astrella of Environmental Equipment Corporation. Mr. Astrella described how this system functions, and explained that although the system can be used economically in some applications in the DJ Basin in Northeast Colorado, a variety of significantly different operational factors make the Closed Loop Drilling systems not feasible for use on the West Slope, particularly in the Garfield County area. Some of the factors included the much longer drilling time for wells on the West Slope, and the limited and expensive options for fluid disposal in the region. Attached are newspaper articles about the meeting.

◆ Garfield County COGCC Local Response

The COGCC monthly outreach meetings in Battlement Mesa are being replaced by the opening of the new Parachute field office. The Northwest Area engineer Jaime Adkins and field inspector Jay Krabacher will be available approximately three days per week to address and respond to citizen concerns.

◆ Battlement Mesa and Project Rulison Vicinity Issues

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 preparation of a BLM

Environmental Assessment that was issued in late August for a two week public comment period.

◆ 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.

A public open house was conducted in Parachute July 7 by the BLM to discuss the SEIS. The 90-day comment period will conclude September 17. Attached is a newspaper article about the Draft SEIS, and my letter of response to the Glenwood Springs Resource Area Manager.

◆ Oil and Gas Vehicle Traffic on Garfield County Roads

Conversations with oil and gas operators 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.

◆ Piceance Basin Study Phase III

The Piceance Basin Water Quality Study Phase III is complete. Forty water samples were taken from water wells, springs and creeks. Two gas samples were also collected from water wells. Methane was present in the gas, but at such low levels that an isotope analysis could not be performed. The gas consists primarily of nitrogen and oxygen. The written report summarizing the data is in the COGCC files, with copies in the Parachute and Rifle libraries.

◆ TransColorado Pipeline Project

Construction on the second phase of TransColorado is continuing. 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 MMCFD. A newspaper article about prehistoric cultural information provided by the pipeline construction is attached.

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

BLM continues to prepare for leasing approximately 7,700 acres of the developed area of NOSR III referred to as the NOSR Production Area. These lands were prescribed for leasing late in 1998 by recent legislation that transferred management from DOE to BLM. The lease stipulations that are developed in the Glenwood Springs Resource Area Supplemental Environmental Impact Statement will apply to the new leases in the NOSR Production Area.

IV. SOUTHWEST COLORADO

◆ La Plata County Workshop on Local Public Forums and Rule 508.

I conducted a workshop sponsored by La Plata County Energy Council at the La Plata County Courthouse in Durango on September 2 to explain how local public forums would be conducted. The workshop was well attended by 2 County Commissioners, several County planning staff and operator representatives. Copies of handouts are attached.

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

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

◆ La Plata County ERF Project - Domestic Water Well Monitoring

The COGCC and the BLM have conducted another phase of ground water sampling from domestic water wells. Approximately 120 water wells have been sampled. We 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 have been sampled again and analyzed so we can continue to monitor and to investigate whether changes in methane concentrations and water quality are occurring.

Sampling is complete and analytical results for water and gas samples are being received. Staff and BLM are currently evaluating the analytical results and compiling them into individualize letters that will be sent to each well owner. A final report containing all data also is being produced for distribution to interested parties. In addition, the BLM has sent preliminary letters to the owners of 30 wells where exceedences of water quality standards were detected. These letters specified which of the standards were exceeded and recommended that the owners consider establishing an alternative water supply or adding treatment to the existing system. The seven wells in which selenium was detected close to or above the drinking water standard are of particular concern. In addition, fluoride was detected in many wells at concentrations high enough to be a health risk.

◆ Pressure Falloff Test, Simon Land & Cattle Disposal Well

Amoco has completed the test on this well. Dave Cox of Questa Engineering has completed his evaluation and will issue his final report this week. We are awaiting Amoco's response to concerns we have raised to them regarding the pressure transient analysis results and the

Hall plot implications. We are asking Amoco to incorporate their explanation at the October hearing.

◆ Pine River Update

We are in the process of comparing actual production with the model-forecasted production for the Fruitland wells in the Pine River area. Depending on the match, and in light of the lack of pressure data acquisition since the original model runs, new modeling may not be necessary. We are continuing to prepare a recommendation for your consideration at the October hearing.

◆ La Plata County Noise Study Update

Staff has received a draft of the Noise Study required by the La Plata County MOU. Staff is currently reviewing the draft and will release the study when it is completed.

◆ Mesaverde Infill Meeting

Burlington Resources has applied to the New Mexico Oil Conservation Division for increase well density for the Mesaverde Formation in the New Mexico portion of the San Juan Basin. COGCC staff participated in a meeting on September 16 in Farmington to discuss the application.

V. SOUTHEAST COLORADO

◆ Las Animas County Planning Commission

Dave Dillon and I met with the Las Animas County Planner Bob Lucero and the 5 member Planning Commission on Monday, September 14. The meeting involved a request the Commission had received to adopt the La Plata County Rules in Las Animas County.

◆ Evergreen's Southern Las Animas County Homeowners Meeting

Dave Dillon, Bob VanSickle and I attended Evergreen's meeting of homeowners from the Long Canyon and Widow Woman Canyon properties recently acquired from CIS. The meeting was held from 7:00 p.m. to 11:30 p.m. on Monday, September 14. Several questions were discussed relating to COGCC enforcement. Evergreen should be commended for their outreach efforts in holding this meeting. Attached is a copy of an Evergreen proposal to the homeowners.

◆ Campo Lateral Natural Gas Pipeline Dedication

Brian Macke, Dave Dillon, and Bob VanSickle attended the dedication ceremony for the new Colorado Interstate Gas Company Campo Lateral Pipeline on September 2. The ceremony was attended by CIG officials, oil and gas producer representatives, and state and local government leaders. The Campo Lateral is a new 115 mile, 16 inch natural gas pipeline connecting CIG's Picketwire Lateral near Trinidad, Colorado, with CIG's mainline at Campo Junction in Baca County. The lateral will initially provide 100 Million Cubic Feet Per Day of increased coalbed methane production from the Raton Basin with a larger, direct link to CIG's mainline, which can then take gas to markets in the Midwest and further east. CIG is congratulated on the completion of this important project.

◆ City of Florence and Fremont County

Members of COGCC staff and AAG McNeill met Friday, July 31, with Fremont County and City of Florence officials to discuss the orphaned gas wells which may pose a safety hazard to residence. Thirty-five orphaned wells have been identified. A letter outlining the plan for the plugging of wells has been sent to the county commissioners. Approximately 5-7 wells will be plugged annually. Environmental Response Fund (“ERF”) monies will be used to plug the wells. The project will begin in the spring of 1999 and will continue through the year 2005. Domestic gas wells will be brought into compliance with COGCC rules and regulations or plugged.

◆ Cañon City Orphaned Well Study

Larry Robbins has completed a study of orphaned wells in Fremont County. Larry has spent several days touring the area with local operators and photographing and logging wells for future plugging operations. He has noted 35 orphaned wells in the area. The COGCC plans to plug five to seven of these wells each year using the Environmental Response Fund.

VI. ENVIRONMENTAL ISSUES

◆ Water Quality Control Commission/Division Quarterly Meeting

In lieu of the next quarterly meeting with WQCC, staff prepared our annual report and submitted it for WQCC’s review. The environmental staff presented it at their hearing September 15.

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

The CDPHE-WQCD is reviewing spill events by Evergreen Operating in the Raton Basin, in conjunction with the notice of the CURE lawsuit. COGCC has issued NOAVs to Evergreen for non-compliance with COGCC rules regarding spills. Robin Reade is in contact with WQCD to ensure avoidance of dual enforcement. Staff is in the process of inspecting all pit and spill sites cited in the NOAVs.

◆ EPA Problem Pit Program

EPA and USFW are continuing their program for problem pits throughout Region VIII. The last flyover in Kansas found many large oily pits. In Colorado, the compliance rate remains high, with only two oily pits found recently.

Commercial oilfield waste disposal facilities continue to be scrutinized by EPA and the Solid Waste Unit of CDPHE. In response to these pressures, API formed a workgroup to develop industry guidelines for the construction and operation of commercial and centralized oilfield waste disposal facilities. Robin Reade is assisting the workgroup with this task. Draft guidelines are expected to be available the end of the first quarter next year.

◆ COGCC Pit Program

The Pit Program resulted in a pit inventory and requirement for pit closures in Sensitive Areas by December 31, 1997. Since then, a number of operators have expressed interest in closing pits, because they missed the deadline, as a result of sales or acquisitions, or due to complaints. The rules require that operators submit Form 27s, Site Investigation and Remediation Workplans for prior approval, for each proposed pit closure. To date, 36 Form 27's for pit closures were submitted, and are in various stages of completion.

VII. ORGANIZATION

- ◆ Our current organization chart is attached.

VIII. PLANNING/ADMINISTRATION/OTHER

- ◆ COGCC Letter to Colorado Real Estate Commission (CREC)

We have continued to follow up on your letter of February 9 advocating explicit disclosure of mineral interest ownership in real estate forms. Colorado Real Estate Commission Director Mike Gorham has supplied the drafting committee's new language for the "Contract to Buy or Sell Form". Attached is a compilation of comments we have assembled as alternative draft language. As this is further refined, we plan to submit it to the CREC and to attend their November 5 hearing.

- ◆ Presentation to American Planning Association Annual Colorado Meeting

I participated in a presentation to local government planners regarding oil and gas regulations at their annual meeting on Thursday, September 17 in Estes Park. A copy of my presentation outline is attached.

- ◆ COGCC Computer System Overhaul

Marnan Peacock, former COGCC Information Manager, has started as a consultant to review the reporting requirements for the new system. Marnan's expertise in this area will be of great benefit in terms of the quality of the final product and the time saved to analyze the needs of the agency in this area.

University of Colorado graduate students will be utilized to program the user interface screens. These students are under the guidance of Rick Fawcett. Rick coordinated the design and deployment of the COGCC home page as well as the other DNR home pages through the efforts of staff and CU students.

- ◆ 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 (303)894-2100 x129.

◆ Production Reporting by Well and by Formation

During the July hearing the Commission adopted the new Form 7 "Monthly Report of Operations" 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 was critical that the decision was made regarding how production will be reported. Attached is a letter from an operator regarding the planned change to production reporting by well.

◆ Department of Natural Resources Imaging Project

The COGCC/Division of Water Resources Request for Proposal (RFP) bids for document imaging hardware and software have been reviewed and demos provided by the leading candidates last week with the vendor to be chosen by the first part of this week of September 21, 1998. At this time it appears that Central Services has determined that they would not bid on the conversion of the historic documents (backfile) which was not included in the RFP at Central Service's request. Unless Central Services reverses their decision, another RFP will have to be released to deal with the backfile conversion.

◆ Minerals, Energy, Geology Advisory (MEGA) Board

The Board met Friday, July 17 and voted to recommend approval of our FY 99-00 budget request. The next meeting is scheduled for October 22-23 in Victor.

◆ 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.

◆ October Hearing Docket

A preliminary docket for October is provided for your review. There are 29 matters currently docketed, including 25 additional well applications in La Plata County.

IX. INTERSTATE OIL AND GAS COMPACT COMMISSION (IOGCC)

I will be attending the Quarterly IOGCC meeting in Jackson, Wyoming September 23-24.

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

I have granted a variance to Rule 1004. for the Slanovich No. 1 Well located in the SW¼ SE¼ of Section 33, T19S, R70W in Fremont County. I granted the variance due to the surface/mineral owner's request to maintain the reserve pit as a soil erosion dam and livestock water supply facility.

I have granted a variance to Rule 1004. for the Boulter No. 1 Well located in the SE¼ SW¼ of Section 16, T4N, R65W in Weld County. I granted the variance due to the surface owner's request to utilize the existing access roads for agricultural purposes.

I have granted a variance to Rule 1004.a. for the Domke No. 1 Well located in the SW¼ NE¼ of Section 22, T5N, R66W in Weld County. I granted the variance due to the surface owner's request. The surface is to be developed and the reclamation is not appropriate.

I have granted a variance to the Rule 905.b. requirement for lined workover pits for the 19 wells listed below, which are located in Garfield County.

WELL	LOCATION
Clough #19	SENE SEC. 20 T6S R94W
GV 7-31	NWSE SEC. 31 T6S R96W
GR 24-32	SESW SEC. 3 T6S R96W
MV 34-5	SESE SEC. 5 T7S R96W
GV 5-33	NWSE SEC. 33 T6S R96W
GV 10-34	SWSW SEC. 34 T6S R96W
GV 23-34	NWSE SEC. 34 T6S R96W
MV 37-32	SWNE SEC. 32 T6S R95W
MV 7-4	NWNE SEC. 4 T7S R96W
GV 87-36	NWSE SEC. 36 T6S R95W
GV 15-36	SWNW SEC. 36 T6S R96W
GV 39-32	NESW SEC. 32 T6S R95W
GV 81-5	NWNW SEC. 5 T7S R95W
MV 43-31	SESE SEC. 31 T6S R95W
GV 80-4	NESW SEC. 4 T7S R95W
GV 75-3	NWSE SEC. 3 T7S R65W
GV 86-2	NESW SEC. 2 T7S R95W
GV 83-1	SENE SEC. 1 T7S R95W
O-4	SESE SEC. 4 T7S R94W

I granted the variance based upon geologic, topographic, and water well data indicating these wells are located in Non-Sensitive Areas. In addition, these pits must be constructed, closed, and reclaimed in accordance with the 900 and 1000 Series rules.