

**BEFORE THE OIL AND GAS CONSERVATION COMMISSION  
OF THE STATE OF COLORADO**

IN THE MATTER OF THE APPLICATION FOR A VARIANCE TO RULE 706

CAUSE NO.

DOCKET NO.

**APPLICATION**

COMES NOW Petron Development Company ("Applicant"), by its attorneys, Beatty & Wozniak, P.C., and makes application to the Oil and Gas Conservation Commission of the State of Colorado ("Commission") for an order granting a variance from the financial assurance requirement of Rule 706, with specific regard to the amount of the bond required thereunder.

In support of its application, Applicant states and alleges as follows:

1. Applicant is a company duly authorized to conduct business in the State of Colorado, and is a registered operator in good standing with the Commission.
2. Applicant is the contract operator of 111 wells. Applicant is not the owner of the wells.
3. Under Rule 706.b, Applicant may submit statewide blanket financial assurance in the amount of \$100,000 to ensure the proper plugging and abandonment of its operated wells, including associated land reclamation.
4. Under Rules 502.b(1) and 706.c, an operator may seek a variance from this financial assurance requirement under appropriate circumstances.
5. Applicant requests such a variance because of the following circumstances:
  - (a) The commercial bond market will not provide a performance bond to Applicant upon reasonable terms. Currently, bond underwriters are requiring 100% cash collateral. Providing such cash collateral to a bond underwriter, or in the form of a certificate of deposit or escrow account, represents a hardship to Applicant and its well owners, and would unnecessarily tie up working capital that could otherwise be put to productive use for oil and gas operations.
  - (b) Applicant's current bond (\$30,000), as supplemented by the salvage value of equipment, as well as its sound balance sheet, is adequate to "provide assurance that it is financially capable of fulfilling" its obligation to properly plug, abandon and reclaim its wells and production facilities. C.R.S. § 34-60-106(13).
  - (c) Plugging costs for the shallow wells Applicant operates are relatively low compared to deeper wells in other fields. In addition, the reclamation costs for the sandy, agricultural lands on which the wells are located are minimal.
  - (c) Applicant does not have a large number of inactive wells, which might be indicative of potential plugging liability. Applicant currently has 5 shut-in wells, 3 of which will be plugged after crop harvest and before the end of the year. The 2 remaining wells were shut-

in due to lack of market, and are being maintained at the direction of the well owners, who are also the mineral owners.

(d) Applicant is unique in that it is a contract operator, and not the owner of its fleet of wells. Accordingly, its working interest owners are contractually obligated to fund plugging, abandonment and reclamation pursuant to operating agreements.

(e) Applicant has an established history of sound operations and compliance with COGCC regulations.

6. Applicant asserts that applying the financial assurance requirements of the statute and the rules in a mechanistic fashion, whereby a "worst case scenario" is utilized to determine the amount of such financial assurance, is neither required by the Act, nor consistent with the legislative directive "to foster the responsible, balanced development, production and utilization of the natural resources of oil and gas in the state of Colorado ...." C.R.S. § 34-60-102(1).

WHEREFORE, Applicant requests that this matter be set for hearing at the next available opportunity, that notice be given as required by law, and that upon such hearing, the Commission enter its order:

A. Granting a variance to Rule 706, whereby Applicant may continue to operate under its existing bond; and,

B. For such other findings and orders as the Commission may deem proper or advisable in this matter.

WHEREFORE, Applicant respectfully requests that this matter be set for hearing in December, 2011, that notice be given as required by law, and that upon such hearing, the Commission enter its order consistent with Applicant's request as set forth above.

Dated: October 10, 2011

By: \_\_\_\_\_  
Kenneth A. Wonstolen  
Beatty & Wozniak, P.C.  
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Denver, CO 80202-5115

Address of Applicant  
Petron Development Company  
1899 W. Littleton Blvd.  
Littleton, CO 80120  
Attn. Jim Walker

**VERIFICATION**

STATE OF COLORADO                    )  
  )     ss.  
COUNTY OF ARAPAHOE                )

Jim Walker, of lawful age, being first duly sworn upon oath, deposes and says that he is the Secretary/Treasurer of Petron Development Company and that he has read the foregoing Application and that the matters therein contained are true to the best of his knowledge, information and belief.

\_\_\_\_\_  
Jim Walker

Subscribed and sworn to before me this \_\_\_\_\_ day of October, 2011.

Witness my hand and official seal.

My commission expires:\_\_\_\_\_

\_\_\_\_\_  
Notary Public