

April 25, 2005

The The Oil and Gas Conservation Commission met on April 25, 2005 at 9:00 a.m. in Suite 801, The Chancery Building, 1120 Lincoln Street, Denver, Colorado, for a hearing in Cause Nos. 1, 1V, 191 (2 matters) and 518.

Those present were:

Peter Mueller	Chair
Brian Cree	Vice Chair
John Ashby	Commissioner
Kimberlee Gerhardt	Commissioner
Mike Klish	Commissioner
Samuel Potter	Commissioner
Tom Reagan	Commissioner
Carol Harmon	Assistant Attorney General
Brian Macke	Director
Morris Bell	Deputy Director of Operations
Patricia Beaver	Hearings Manager

Prior to approving the minutes from the March hearing, Commissioner Potter clarified that all negotiations with Williams Production RMT Company were complete prior to his Commission appointment. In the future, he may need to recuse himself from voting on spacing matters affecting lands under which he owns minerals. The Commission unanimously approved the minutes from the March 2005 hearing, amended to clarify Commissioner Potter's comments.

Director's Report: A written report was provided and Director Macke reported a continued projected high number of Applications for Permits-to-Drill ("APDs") for calendar year 2005. Statistics show approximately 3,600 APDs may be approved this year based on APDs to date. He reported the percentages for six counties. There are ten new rigs coming into Garfield County which have smaller footprints and make less noise. Williams Production RMT Company has increased its estimated number of wells proposed to be drilled this year. An estimate of various operators' proposed number of wells to be drilled this year will be compiled for the June 2005 hearing. Garfield County is ranked second in the state for gas production with 205 BCF in 2004.

Northwest Colorado: The next meeting of the Northwest Colorado Oil and Gas Forum will be held on June 2, 2005 with the location still to be determined.

An update on the West Divide Creek Gas Seep indicated that low benzene concentrations have reappeared. Although not surprising, the levels are below the Water Quality Control Commission ("WQCC") water quality standards.

An update on the Garfield County public projects indicated that the pre-bid meeting was held on April 4<sup>th</sup> and the bids are due on May 11<sup>th</sup>.

Southwest Colorado: The next Gas and Oil Regulatory Team meeting will be held on September 16, 2005. The April 28, 2005 3M Technical Peer Review meeting has been cancelled and will be rescheduled to allow individuals additional time to review data and prepare.

Bondad explosion update: \$130,000 has been spent thus far but has not yet been invoiced. The supplemental ERF money that was approved by the Commission on March 28, 2005 still is not accessible but should be available in the near future.

Archuleta County – LT Environmental ("LTE") conducted a Reconnaissance Study prior to drilling for Fruitland coal seams gas. Petrox has four Applications For Permit-to-Drill ("APDs") ready to approve. Five complaints have been received on these APDs from mineral owners who do not own minerals underlying the proposed wells. There are numerous permit conditions applied to these APDs.

Southeast Colorado: LTE has installed methane detection equipment at the Mondragon and Saint residences. Apogee Scientific conducted a reconnaissance gas survey for the Raton Basin Project. The preliminary results confirm the presence of a methane gas seep south and southeast of, but not in the immediate vicinity of the Primero School and around the school bus garage. A more complete report will be provided in the June 2005 staff report.

The Vanartsdalen water well complaint has been resolved. COGCC paid to pull the pump and found that the pump was the problem with the water well.

Staff Organization: The written test for the IT Manager position was held today with hopes that the position will be filled by the end of May.

The oral exam for the Environmental Protection Specialist ("EPS") position was held on April 22, 2005, and the position should be filled within the next several weeks.

Morris Bell has resigned effective May 6, 2005 to return to private industry. He will be missed by the COGCC staff.

The Surface Protection Specialist position could also be filled from the list of EPS candidates once it is approved by legislature.

The Oil and Gas Operations Awards deadline for nominations is June 1, 2005. The awards will be presented at the Colorado Oil and Gas Association ("COGA") Natural Gas Conference.

Approval has been given to the COGCC to acquire 800 square feet of additional office space adjacent to the existing office space. There will only be a slight build-out since it is unknown if COGCC offices will remain at the current location after August 31, 2006. The process to re-negotiate the lease will begin soon.

The Noise Regulation stakeholders group next meeting will be to hear from Williams Production regarding the noise study on the Sid Lindaur property.

Public Outreach update: Director Macke will give a briefing on oil and gas development to the Colorado Senate Agricultural, Natural Resources and Energy Commission on April 27, 2005

Director Macke and Dave Dillon will give a presentation in Norwood on May 3, 2005 to San Miguel and Montrose Counties on oil and gas issues.

The Onsite Inspection Policy was briefly discussed. Six requests for onsite inspections have been received to date with one withdrawn. No inspections have taken place to date.

Dave Dillon has been working on surveying rules and has worked with the COGCC IT group to make sure any changes made will be compatible with our database.

New organic ground water standards were proposed by the WQCC to change certain standards for ethylbenzen and xylenes.

Bradenhead Monitoring Area in the DJ Basin: There have been six or seven water wells that have been impacted from oil and gas operations. COGCC staff believe that bradenhead monitoring should be established in this area.

Assistant Attorney General's Report: A confidential litigation memo was provided to the Commissioners. There has not been much activity this month. Allen Oil and Gas has asked to be heard by the United States Supreme Court. A joint motion by Gunnison Energy Corporation ("GEC") and Delta County to dismiss GEC's sixth counterclaim was filed on April 20, 2005. The Monument Oil and Gas case is pending a decision in the United States Court of Appeals. Chair Mueller asked Assistant Attorney General ("AAG") Harmon about rulemaking to allow the COGCC Director the ability to withhold APDs. He inquired as to the latitude that the Director has to approve or not approve APDs for operators who may not

be in compliance with COGCC Rules and Regulations. The Commissioners agreed that AAG Harmon should continue to investigate this question.

Commissioner Comments: Commissioner Potter indicated that he may want business cards to use in outreach efforts. Commissioner Mueller thanked COGCC Environmental Supervisor Debbie Baldwin for her work and for having the methane survey performed so quickly at the Primero School. He also discussed getting Colorado Energy Research Institute (“CERI”) to perform further studies on coalbed methane in La Plata County. The Commission approved a letter for Chair Mueller’s signature to be sent to COGA and CERI.

Audience Comments: Ken Wonstolen, COGA, reported that the COGA newsletter should be out this week with a front page article describing the COGCC Oil and Gas Outstanding Operators Awards. August 31 through September 3, 2005 are the dates for the COGA Natural Gas Conference. He also reported that HB05-1219 failed and it appears that a late bill will not be run. There is a high likelihood of a ballot initiative to address surface issues in 2006. The reconfiguration of the COGCC Environmental Response Fund (“ERF”) bill is on Governor Owens’ desk. COGA has supported the ERF request for supplemental funds for the Bondad explosion and for the surface protection specialist position. The federal energy bill has passed the House. National Public Radio aired a piece on Friday with Laura Amos claiming her water well was contaminated by hydraulic fracturing. COGA and CPA will be filing suit against WQCC on stormwater regulations. COGA and IPAMS submitted comments on the Roan Plateau proposal. The onsite inspection policy is creating a difference of opinion between industry and COGCC staff. A discussion on whether APDs should be filed prior to onsite inspections was held. COGCC staff will not perform onsite inspections without an APD being filed unless requested to do so by both surface owners and operators.

The consent agenda was approved by the Commission which included the following:

Cause No. 191, Docket No. 0504-SP-03, request for an order to establish various drilling and spacing units and the ability to drill the equivalent of one well per ten acres for various sections in Townships 6 and 7 South, Ranges 91 and 92 West, 6th P.M. for the production of gas and associated hydrocarbons from the Iles Formation.

Cause No. 191, Docket No. 0504-SP-04, request to rescind certain 320-acre drilling and spacing units in Sections 22 and 25 through 27, Township 6 South, Range 91 West, 6th P.M. for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 1, Docket No. 0504-SP-05, request for an order to establish an exploratory drilling and spacing unit for various sections in Townships 7 and 8 North, Range 94 West, 6th P.M., to allow a horizontal production well system as the designated well system for these lands and to be located no closer than 660 feet from the outer boundary of the sections, for the production of gas and associated hydrocarbons from the Williams Fork Coal Formation.

Cause No. 518, Docket No. 0504-UP-03, request to establish an enhanced recovery project for certain lands in Township 2 South, Ranges 65 and 66 West, 6th P.M. for the production of gas and associated hydrocarbons from the “J” Sand Formation.

Leyden Gas Storage Facility Closure Update: Presented by Bill Uding, Project Director and Jim Albright, Attorney for Public Service Company (“PSCo”). Bill Uding presented an overview of the Leyden facility prior to gas storage and closure. At the end of March, there was 577 mmcf of gas remaining in the caverns, the caverns are full of water and are currently shut-in. Chair Mueller requested pressure data for the #36 Well from the time it was shut-in. The Consolidated Mutual Water (“CMW”) Well was drilled in the Spring of 2004 and tested in April 2004 when gas was encountered at the time of testing. PSCo worked with CMW to see if they wanted to install blowout prevention (“BOP”) equipment while drilling the well and CMW declined. The well produced 1,687 mcf in seven days and is currently shut-in waiting on connection to a gas line. In 2004, PSCo abandoned 20 wells and all four shafts. Six wells will be plugged and abandoned in 2005 and four wells will be transferred to City of Arvada. Three wells will be used for monitoring for two more years. Prior to plugging and abandoning wells, PSCo ran logs to look for additional gas. A PSCo staff engineer was onsite during plugging to review whether logs needed to be run. All buried lines will be abandoned and all field surface facilities will be removed in 2005. Gravel pads will be removed and reseeded. PSCo will have discussions with the surface owners as to whether to

remove tall dry hole markers and replace with welded plates. Once the shafts are sealed tall dry hole markers are also installed. Prior to the abandonment of gathering lines, PSCo will remove all liquids by pumping from the lines. This will begin in mid-May with completion by August 2005. A map of all abandoned gathering lines will be given to the One Call Center. The number of soil gas monitoring sites expanded to 79 sites in 2004 and included adjacent Spring Mesa sites. The City of Arvada has suggested that Spring Mesa continue testing for another year. One anomaly occurred in November 2004 that appears to be contamination from the sample and not storage gas. Storage gas has never been found in any of the soil gas monitoring wells.

Ideas for resolution of landowners concerns near the Leyden Gas Storage Facility: Kemp Will, attorney for the landowners, believes Xcel has managed the information and not disclosed everything. The biggest concern is the public issue of where the gas has migrated. He described the plan by landowners: 1) request a panel of experts to review data, 2) submit numerous complaint forms alleging violations at various well sites, 3) an umbrella insurance policy obtained by Xcel to cover damages and 4) Xcel to bear costs of drilling explosion-proof drilling.

Chair Mueller addressed the major points of Mr. Will’s letter. He stated that the Commission’s real concern is the public health, safety and welfare of the citizens in the area. He stated that if gas is not at the surface, he doesn’t believe there is a safety issue. PSCo should provide logs to COGCC for temporarily storing for access by Eldorado Estates. The CMW owner should contact the COGCC if it is concerned about it’s water well. Chair Mueller believes that the Commission can determine if experts are not telling the truth and he does not believe that Xcel’s experts could be paid any amount of money to impune their reputations. He doesn’t believe an umbrella liability insurance policy is warranted, and landowners already have the ability to ask Xcel to pay the extra water well drilling costs to ensure BOP equipment is installed.

A hearing was held in Cause No. 1V, Docket No. 0504-OV-02, request for an Order Finding Violation (“OFV”) finding Cimarron Operating, Inc. (“Cimarron”) in violation of Rules 326.b, 603.j, 902.d and 906.b, failure to perform a mechanical integrity test within two (2) years of being shut-in, failure to control weeds on the location, failure to remove oil from a pit within twenty-four (24) hours and failure to report a spill or file a Spill/Release Report, Form 19 within ten (10) days of discovery for the Belnap #1 Well located in the E½ SE¼ of Section 4, Township 6 North, Range 91 West, 6<sup>th</sup> P.M. COGCC Northwest area engineer Jaime Adkins and COGCC Deputy Director of Operations Morris Bell presented the recommended order. After deliberation, the Commission unanimously approved the OFV and the recommended pentalty.

A discussion to hold a retreat will occur at the June 2005 hearing, as well as where to hold the retreat.

There was a brief discussion on Presco’s request for clarification of Order No. 139-43 to drill inside the ½ mile radius of Project Rulison. COGCC staff will gather questions raised by the Commissioners and questions from Garfield County Commissioners and present them to Presco for further discussion at the June 2005 hearing.

The meeting adjourned at 3:50 p.m.  
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The Secretary was therefore authorized to issue the following orders:

Order No. 1-220, Wildcat Field, Moffat County: Approves the request for an order to establish an exploratory drilling and spacing unit for various sections in Townships 7 and 8 North, Range 94 West, 6th P.M., to allow a horizontal production well system as the designated well system for these lands and to be located no closer than 660 feet from the outer boundary of the sections, for the production of gas and associated hydrocarbons from the Williams Fork Coal Formation.

Order No. 1V-284, Moffat County: Approves the request to enter an Order Finding Violation finding Cimarron Operating, Inc. in violation of Rules 326.b, 603.j, 902.d. and 906.b., failure to perform a mechanical integrity test within two (2) years of being shut-in, failure to control weeds on the location, failure to remove oil from a pit within twenty-four (24) hours and failure to report a spill or file a

Spill/Release Report, Form 19 within ten (10) days of discovery for the Belnap #1 Well located in the E½ SE¼ of Section 4, Township 6 North, Range 91 West 6th P.M.

Order No. 191-10, Mam Creek Field, Garfield County: Approves a request for an order to establish various drilling and spacing units and the ability to drill the equivalent of one well per ten acres for various sections in Townships 6 and 7 South, Ranges 91 and 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Iles Formation.

Order No. 191-11, Mam Creek Field, Garfield County: Approves a request to rescind certain 320-acre drilling and spacing units in Sections 22 and 25 through 27, Township 6 South, Range 91 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Order No. 518-2, Third Creek Field, Denver County: Approves the request to establish an enhanced recovery project for certain lands in Township 2 South, Ranges 65 and 66 West, 6th P.M., for the production of gas and associated hydrocarbons from the “J” Sand Formation.

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Patricia C. Beaver, Secretary

Approved:

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Peter M. Mueller, Chair