

January 10, 2005

The Oil and Gas Conservation Commission met on January 10, 2005 at 9:00 a.m. in Suite 801, The Chancery Building, 1120 Lincoln Street, Denver, Colorado, for a hearing in Cause Nos. 1R, 1V, 139 and 191.

Those present were:

Peter Mueller	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

The Commission unanimously approved the minutes from the November 2004 hearing.

Peter Mueller introduced and welcomed new Commissioner Samuel Potter.

Executive Director's Report: Shane Henry, Department of Natural Resources ("DNR") Assistant Director for Energy, Land and Forestry, will participate in a hearing on the Roan Plateau on January 12, 2005 in Rifle. The Executive Director's office supports the proposed policy to address surface owners and onsite inspections. DNR is anticipating several bills to be introduced on Wednesday, January 12, 2005, that will affect the Department.

Director's Report: A written report was provided and Director Macke reported a record high number of Applications for Permits-to-Drill ("APDs") for calendar year 2004 with 2,917 APDs issued. This is a 23% increase over all time and a 30% increase over last year. He reports the following percentages: Weld County – 29%, Garfield County – 27%, Las Animas County – 11%, Yuma County – 8%, Rio Blanco County – 5%, and Washington County – 4%

Northwest Colorado: Tony Gorody's presentation titled "What's In Your Water Well" is now available on the Colorado Oil and Gas Conservation Commission ("COGCC") website. Chair Mueller requested that the LGD's be notified that this report is now available for downloading.

The next meeting of the Northwest Colorado Oil and Gas Forum will be held on February 17, 2005 from 10:00 a.m. until 2:00 p.m. at the new indoor arena meeting facility at the Garfield County Fairgrounds in Rifle, CO. Among other topics, there will be a discussion on pipelines at this meeting.

An update on the West Divide Creek seep indicated a recent reappearance of benzene. BTEX has not been detected in any other features tested. Toluene has been found but appears to be present due to lab or sampling contamination. The gas seep report for an approximately 9 square mile area should be finalized by the end of January. Commission Reagan requested a map of the plume as interpreted by COGCC staff.

An update on the public projects indicated that a Request for Proposal ("RFP") has been drafted for the hydrogeologic study that is one of the three projects approved by the Commission and agreed to by EnCana to utilize the \$371,200 fine levied by the Commission in Order No. 1V-276 and has been earmarked for funding three projects. It is anticipated that the contract will be awarded in February, after bidders go through Garfield County's process. The remaining two projects will be set aside until the first project is completed.

Southwest Colorado: The next Gas and Oil Regulatory Team (“GORT”) meeting will be March 18, 2005. LT Environmental (“LTE”) gave a presentation at the last GORT meeting regarding the extent of gas seepage. LTE will make a similar presentation at the February Commission hearing.

Staff Organization: Morris Bell’s title has been changed to Deputy Director of Operations. Karyn Zimmerman is now officially in the Executive Assistant position. Darla Geimausaddle is now a full-time employee as Well Records Administrator.

The noise task force committee, consisting of 13 members, met on December 2, 2004 to discuss changes to the noise regulations. The next meeting will be January 12, 2005. A hearing will possibly occur in April or May to consider proposed rule changes.

Public Outreach update: Director Macke participated in the second meeting of the Energy Brainstorming Forum which has been organized by Club 20 that was held on December 3, 2004 in Glenwood Springs.

Director Macke and other COGCC staff have been invited to participate in an oil and gas training session for the San Miguel County Planning Commission and county staff in Telluride on January 14, 2005 and to provide a presentation of oil and gas activity in Colorado and an update on the COGCC to the Denver Metro Chamber of Commerce during the annual Club 20 Denver Legislative Trip on January 20, 2005.

COGCC Commissioners and some of the COGCC staff are invited to the annual Department of Natural Resources Legislative Reception at the Colorado Museum of History on Thursday, March 10, 2005. The COGCC is planning to have its exhibit display available at the reception.

It was noted that there were over 422,000 hits to the COGCC website in 2004.

Director Macke described several information technology projects currently in progress.

A Rule 502.b. variance to Order No. 112-157 was granted to Energen Resources Corporation for the Jaramillo 32-6 No. 12-2 Well allowing the bottom hole to be located 330’ north and 330’ west of the drilling window.

Director Macke highlighted several articles regarding La Plata County and Garfield County gas revenues.

Assistant Attorney General’s Report: A briefing schedule will be set in the Monument lawsuit once the record is filed on January 12, 2005. The briefs will likely be due in April, after which a decision could then be made in the case. Allen Oil and Gas will likely file an appeal with the U.S. Supreme Court in its federal lawsuit.

Commissioner Comments: Commissioner Potter stated it was a pleasure to join the Commission. Commissioner Ashby reported that two corporate sponsors have been identified so far and the price for the “Drill Bit to Burner Tip” video prepared by Linda Flis is now \$300. Chair Mueller thanked Director Macke and COGCC staff for their public outreach efforts.

Audience Comments: Ken Wonstolen of the Colorado Oil and Gas Association (“COGA”) welcomed the Commissioners and COGCC staff to 2005 and hoped everyone’s holidays were good. He also gave a warm welcome to new Commissioner Samuel Potter. February 9, 2005 is COGA’s Legislative Reception at the Grant Humphreys Mansion. There are approximately 3.5 million dollars of ERF surplus funds that may be targeted in the upcoming legislative session. COGA will be submitting its Amicus brief on January 12, 2005 in the Whitham Farms lawsuit. Oral arguments in the Petron case will be held February 2, 2005.

Gail Van Staverent, who lives in Rancho Escondito near Trinidad, stated that there are 16 coal bed methane wells surrounding her home as well as 2 compressors nearby, with both gas and electric

motors. She and her husband have experienced ear pain, headaches and the inability to sleep, and it takes them approximately 3 hours to recover from the exposure once they leave the property. They have decided to sell the property but are unable to do so with the wells causing these problems. They want to have the wells fixed so that they can live in their house and sleep in their master bedroom. She believes that the location of the well below her house (which is on a cliff) causes the noise to be so extreme. She provided a photo of Petrogulf's operation and stated that all of Petrogulf's enclosures are similar. She is requesting the Commission's help in solving this problem.

Dave Dillon responded that there have been no COGCC noise violations recorded at the Van Staverents, and that although some operators entirely enclose engines, ventilation can be a problem with an enclosed building.

Charlie Goodin, attorney and landman with Petrogulf, stated that Petrogulf has replaced its gas motors with electric motors, and that the motors weren't fully enclosed because of ventilation issues. If the motors were fully enclosed, another motor would be needed to address ventilation.

Chair Mueller suggested that Petrogulf look into fiberglass buildings to address this issue. He also expressed appreciation that Petrogulf was present at the hearing. Commissioner Reagan believes the current enclosure is inadequate. Commissioner Ashby would like an update on this matter at the February hearing.

Cause No. 1V, Docket No. 0411-OV-34, failure by Joseph Strabala to properly reclaim Wedel #1 Well located in the SW¼ NW¼ of Section 26, Township 17 South, Range 48 West, 6<sup>th</sup> P.M was continued to the February 2005 Hearing.

Cause Nos. 479 and 510, Docket No. 0501-AW-02, request for an order to increase well density in existing drilling and spacing units to the equivalent of one well per 10 acres and establish new setbacks for various sections in Townships 4, 5 and 6 South, Ranges 95 and 96 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons from the Williams Fork Formation was continued to the February 2005 Hearing.

Cause No. 525, Docket No. 0501-AW-03, request for an order to increase well density to the equivalent of one well per 10 acres and establish new setbacks for various sections in Townships 4, 5 and 6 South, Ranges 95 and 96 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons from the Iles Formation was continued to the February 2005 Hearing.

Cause No. 166, Docket No. 0501-AW-04, request for an order to increase the number of wells allowed to a total of 4 wells per 160-acre drilling and spacing unit in various sections of Townships 9 and 10 South, Ranges 94 and 95 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons from the Mesaverde Formation was continued to the February 2005 Hearing.

Cause No. 105, Docket No. 0501-AW-05, request for an order to allow an additional well to be drilled on the 640-acre drilling and spacing unit consisting of Section 24, Township 21 South, Range 48 West, 6<sup>th</sup> P.M., located no closer than 600 feet from the boundaries of the drilling and spacing unit for the production of gas and associated hydrocarbons from the McClave Sand Formation was continued to the February 2005 Hearing.

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

Cause No. 191, Docket No. 0501-SP-01, request for an order to establish various drilling and spacing units, the ability to drill the equivalent of one well per ten acres, and new setbacks for various sections in Townships 6 and 7 South, Ranges 91 and 92 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 139, Docket No. 0501-AW-01, request for an order to increase well density in 640-acre and 320-acre drilling and spacing units to the equivalent of one well per 20 acres and establish

new setbacks for various sections in Township 7 South, Ranges 95 and 96 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons from the Williams Fork Formation.

A presentation was given on Shell’s Oil Shale Research and Development Project by Terry O’Conner. U.S. oil shale reserves total the same as U.S. oil reserves. Although the U.S. has the majority of oil shale reserves, there are seven other countries with oil shale reserves. Shell is the only company in the U.S. working on oil shale. Colorado oil shales are the thickest in the world in the Green River Basin area. Mr. O’Conner described the process used to extract oil using heaters that are inserted into holes to heat the shale below the surface. The process (now more environmentally friendly) takes approximately two years with 8 to 9 barrels produced per day. The wells are 500’ to 600’ deep with several hundred feet of overburden (35 to 40 feet between wells). Shell owns 35,000 acres in surface and minerals and will take \$200 million to build over 2 years and produce 1,500 barrels per day for a total of 10 years from start to reclamation. They plan to start the permitting process this year in order to begin by 2006.

A hearing was held in Cause No. 1, Docket No. 0501-GA-01, adoption of a policy to conduct onsite inspections on lands where the surface owner is not a party to a lease or to a surface use agreement. Director Macke described the process which created the policy and the various components of the policy. He also recommended several changes to the draft. Ken Wonstolen of COGA and David Siple of Patina both provided comments along with their proposed changes. Janice Bennett Good, president of National Association of Royalty Owners Rocky Mountains provided written comments. Doug Dennison, Garfield County Oil and Gas Auditor representing both the Garfield County Commissioners and himself, indicated that an additional month would be needed before Garfield County and the Energy Advisory Board could finalize comments and have a position on the policy. Carolyn Lamb, Oil and Gas Accountability Project, representing Western Colorado Congress and the Grand Valley Citizens Alliance, indicated that the parties she represents would have endorsed the first draft of the policy but not the January 4, 2005 draft. She has not had sufficient time to review the latest draft and cannot support the policy. After deliberation, the Commission amended the policy and unanimously adopted the policy to be effective for APDs submitted after February 15, 2005.

A hearing was held in Cause No. 1V, Docket No. 0501-OV-01, request for an Order Finding Violation (“OFV”) finding Lifestyle Energy Corp. (“Lifestyle”) in violation of Rule 1004.a., improper reclamation for the Leischuck #1 Well located in the NW¼ SE¼ of Section 22, Township 8 South, Range 61 West, 6<sup>th</sup> P.M. COGCC staff engineer Larry Robbins presented the recommended order. No one representing Lifestyle was present. After deliberation, the Commission unanimously approved the OFV.

The meeting adjourned at 5:15 p.m.  
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The Secretary was therefore authorized to issue the following orders:

Order No. 139-44, Rulison and Parachute Fields, Garfield County: Approves the request for an order to increase well density in 640-acre and 320-acre drilling and spacing units to the equivalent of one well per 20 acres and establish new setbacks for various sections in Township 7 South, Ranges 95 and 96 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons in the Williams Fork Formation.

Order No. 191-8, Mam Creek Field, Garfield County: Approves the request for an order to establish various drilling and spacing units, the ability to drill the equivalent of one well per ten acres and new setbacks for various sections in Townships 6 and 7 South, Ranges 91 and 92 West, 6<sup>th</sup> P.M. for the production of gas and associated hydrocarbons in the Williams Fork Formation.

Order No. 1R-96, Statewide: Approves a policy requiring onsite inspections on lands where the surface owner did not execute a lease or is not a party to a surface use agreement. This policy shall become effective for Applications for Permits-to-Drill submitted after February 15, 2005.

Order No. 1V-282, Elbert County: Approves the request to enter an Order Finding Violation finding Lifestyle Energy Corporation in violation of Rule 1004.a., failure to reclaim the Leischuck #1 well site, located in the NW¼ SE¼ of Section 22, Township 8 South, Range 61 West, 6<sup>th</sup> P.M., and authorizes the COGCC staff to make a claim on the Thirty Thousand dollar (\$30,000) blanket plugging bond posted by Lifestyle Energy Corporation in order to reclaim the Leischuck #1 well site.

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Patricia C. Beaver, Secretary

Approved:

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Peter M. Mueller, Chair