

RECORD OF PROCEEDINGS

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March 20, 2006

The Oil and Gas Conservation Commission met on March 20, at 8:32 a.m. in the Aspen and Birch Rooms, Ramada Inn and Suites, 124 West 6th Street, Glenwood Springs, Colorado, for a hearing to Cause Nos. 1V (3 matters), 112, 139 (2 matters), 440, and 527.

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
Patricia Beaver	Hearings Manager

Chair Mueller stated his sorrow regarding the passing of Dave Petrie, a longtime oil and gas industry representative who most recently worked for EnCana Oil & Gas (USA). Dave's balanced approach will be greatly missed.

Chair Mueller asked for a motion to approve the January minutes. A motion was made by Commissioner Reagan, seconded by Commissioner Klish and approved unanimously.

Chair Mueller wants the February minutes to clearly reflect that the only portion of the noise rulemaking to be reconsidered is the 45dbA level. Chair Mueller asked for a motion to approve the February minutes. A motion was made by Commissioner Gerhardt, seconded by Commissioner Ashby and the February minutes were approved unanimously.

Executive Director's Report: Russell George thanked the Commissioners for being in Garfield County. He congratulated Commissioner Potter for being confirmed for a second term as a Commissioner and thanked him for serving on the Commission for the citizens of Colorado. Mr. George discussed the budget process and stated that all of the Department of Natural Resources ("DNR") budget requests are in the long bill proposal. He believes that the COGCC's requests will be approved. The state has been invited to be in a cooperating agency process with the federal government on the oil shale issue and he wants to watch the competition between oil shale and natural gas development. The Roadless Taskforce has been in the process of meeting for the past six (6) months with no resolution yet as it is too soon. The Taskforce has traveled to half of the state's forests but no decision will be made until all of the forests have been visited. A formal presentation to the Commission on this issue is likely at some point in the future.

Chair Mueller thanked Executive Director George for his support with the increase in COGCC staff. Commissioner Potter had a question about oil shale regarding balancing the technology and politics versus natural gas development. Mr. George stated that Governor Owens will be appointing someone from DNR to be on the Energy Advisory Council. Executive Director George does not believe there needs to be a realignment to address oil shale development at this time. He stated that the Coalbed Methane Depletion Study has been finalized in the last week or so to address the San Juan Basin and the Colorado Geological Survey is asking for funding for a similar Raton Basin study. Commissioner Ashby questioned the stormwater regulations. Executive Director George believes the stormwater rules should be fair for the citizens of Colorado.

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Director's Report: Director Macke thanked Executive Director Russell George and Assistant Director Mike King for attending today. He introduced the COGCC staff in attendance and recognized Don DeFord, Garfield County Attorney. Director Macke also expressed regret over the loss of Dave Petrie.

He stated that the permit numbers are flat compared to last year and described the new chart appearing in this month's staff report to show the number of APDs issued with bonds. The chart shows that bonds are used approximately ten percent (10%) of the time but in reality it is probably much less since many surface use agreements are executed after an APD is approved but prior to drilling a well.

Northwest Colorado: The Northwest Oil and Gas Forum held March 16, 2006 was well attended. The industry has been presenting very helpful information to let people know what their plans are for activity in the area.

The West Divide Creek Gas Seep continues to be sampled with no benzene, toluene, ethylbenzene, and xylenes (BTEX) detected except near the creek.

Director Macke described the Phase IV Piceance Basin Baseline Water Quality Study proposed prior to drilling getting underway in the area. He appreciated the legislature approving the money for the study, and stated that 17 Requests for Proposals ("RFPs") were received which are currently being reviewed.

Director Macke mentioned that the Hydrogeological Report will be presented later in today's hearing.

A brief discussion was held on the Plateau Field and its new operator Black Hills Exploration & Production.

Southwest Colorado: A soil gas survey was conducted in the Bondad area on January 30, 2006 and the aerial extent has not changed. Aztec Well Services is concerned about safety issues in reentering the Bryce I-X Well and COGCC staff plan to meet with Aztec around April 1st.

Data from the Coalbed Methane Stream Depletion Assessment Study have not shown any results that were not identified by previous studies performed in the area.

The Gas and Regulatory Team ("GORT") meeting was held March 9, 2006, with Commissioner Gerhardt in attendance along with La Plata County Commissioner Wally White. A brief presentation was made by Christi Zeller of the La Plata County Energy Council to show the progress the industry group is making toward identifying coalbed methane mitigation.

Northeast Colorado: Another baseline water quality study is planned for the Greater Wattenberg Area to be completed by September 2006.

An orphaned Bureau of Land Management ("BLM") well was plugged recently using Environmental Response Fund ("ERF") and BLM monies. Kevin Lively did an excellent job on this project. Commissioner Ashby stated that he has heard many positive comments about Kevin's knowledge and ease to work with. Director Macke thanked Dave Dillon and Ed DiMatteo for their work in getting through the procurement process.

The Bradenhead Retest Program is underway in the Greater Wattenberg Area with a planned review of 3500 wells to determine which wells will need additional testing.

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Southeast Colorado: Director Macke described water being discharged in the Raton Basin under a Colorado Department of Public Health and Environment ("CDPHE") Water Quality Control Division ("WQCD") permit as a concern to COGCC staff. He stated that discussions will continue with WQCD to ensure that shallow ground water is not being impacted. Approximately 45% of the produced water in Las Animas County is being discharged.

Staff Organization: The COGCC staff has been realigned to accommodate the new staff that is anticipated. Debbie Baldwin is now the Environmental Manager and David Dillon is the Engineering Manager. Chair Mueller had positive comments about Debbie and David. Commissioner Klish thanked Director Macke for his work and Chair Mueller stated that he has seen forward thinking under Brian Macke's directorship.

Public Outreach: Director Macke had an opportunity to give a talk to the Colorado Coalition of Land Trusts on February 28, 2006 in Glenwood Springs and saw faces he had never seen before indicating a new group of people who are very interested in oil and gas issues. There were approximately 160 people in attendance.

The field inspectors have been directed to conduct noise measurements throughout the state, and thanks to Commissioner Ashby and his development of noise reading data sheets the collection of the information is easier.

The Joint Budget Committee has recommended 11 fulltime employees, with five (5) contract positions along with four (4) new line items for the COGCC budget. The emergency response line item is for one million five hundred thousand dollars (\$1,500,000.00) to respond to any emergencies that may arise throughout each year. The procurement process will be expedited with this emergency response line item. The environmental assistance and complaint resolution line will also be increased to improve response abilities.

The deadline for the 10th anniversary of the Outstanding Operations Awards submittals is June 1st.

All of the COGCC engineers and environmental staff have taken stormwater training and passed the exam. Commissioner Ashby wants to make sure inspectors are consistently interpreting best management practices.

The Onsite Inspection Policy update shows the number of inspections required and conducted since its inception in February 2005.

The April docket will grow with March matters that are being continued from today's hearing.

There is a new tool on our website to calculate latitude and longitude.

Delinquent reports are being developed for paperwork that has not been filed with the COGCC.

A variance was granted to Delta Petroleum to the NOTICE TO ALL OPERATORS DRILLING MESAVERDE GROUP OR DEEPER WELLS IN THE MAMM CREEK FIELD AREA IN GARFIELD COUNTY WELL CEMENTING PROCEDURE AND REPORTING REQUIREMENTS July 23, 2004, which was referred to in Order No. 1V-276. Delta Petroleum requested permission to run the cement bond log (CBL) on the Vega 34-23 and 34-24 wells after the 12-48 hour window specified in the notice. This approval is part of a very limited pilot test on the perimeter of the field intended by COGCC staff to evaluate the merits of delaying the CBL. The wells are located approximately 18 miles southwest of the Divide Creek Gas Seep and are approximately 1950 feet inside of the area

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encompassing the 12 townships described in the Notice. No problems have been experienced during drilling and completion of wells such as this on the perimeter of the field. It is COGCC staff's belief that the Notice can be revised to allow operators greater flexibility in obtaining the CBL without compromising safety, and that the resulting data will be of better quality. A variance was granted last month on one other well on the same well pad. Additional wells may be included in the pilot depending on the outcome of the wells on the initial well pad in the pilot. COGCC staff intends to revise the Notice if the results of the pilot demonstrate it is warranted.

Assistant Attorney General's Report: AAG Harmon provided a confidential litigation memo to report on the status of all legal matters currently pending along with a copy of HB06-1185 and Senator Isgar's amendments. She will prepare a tutorial on rulemaking for the Commissioner to be provided by the next hearing. A question was asked about who will own the gas at Leyden after the facility is completely closed.

Commissioner Comments: Commissioner Potter is pleased to have the Commission in Garfield County. Commissioner Ashby asked Joe Feeley to comment on the stormwater classes and again expressed concern that best management practices could be arbitrarily interpreted. Commissioner Gerhardt thanked Debbie Baldwin and David Dillon on their Bondad work and on the GORT meeting, and Chair Mueller concurred.

Audience Comments: Cary and Ruth Weldon, owners of land near the Rulison blast site, have owned the property since 1976 and had assurance from the Department of Energy that the site was safe. They were told there was a three (3) mile buffer zone around the site. They asked the Commission to not approve wells in the area and they would like a buffer zone of more than one half mile. Chair Mueller stated that the Commissioners are concerned about ensuring safe drilling in the area.

Randy Fricke, Save Colorado Now and Basalt resident, represents a small environmental group who has grave concerns about the invasion of drilling on the western slope. He represents friends who live in West Divide Creek where folks have gone through much trauma and would like to see the moratorium stay in place. The results of EnCana's operations have resulted in water contamination. Mr. Fricke has 30 years experience in the alternative energy field and would like to have the Commission watch and monitor oil shale for water depletion and would like to see oil shale just in the research and development stages from now. Chair Mueller clarified that the Commission does not have jurisdiction over oil shale. Mr. Fricke believes that gas wells are too close to the Colorado River and he has concerns about drilling on the Roan Plateau where he would like to see a moratorium on drilling.

Joe Feeley, mineral owner in Garfield County, asked why a Notice of Alleged Violation ("NOAV") was not issued to Williams regarding its bottomhole setback problem. Director Macke indicated that Williams has self-reported the violation and the matter has been docketed for hearing.

Pepi Langegger, who resides in the middle of West Divide Creek seep, stated that it is still active, spilling out BTEX compounds. Ground water monitoring has been effective and he is surprised that EnCana and Bill Barrett Corporation would want to lift the moratorium with the recent release of the Hydrological Study. He believes that the West Divide Creek Seep area is more fragile as shown by the study. Mr. Langegger believes that one area should be cleaned up first before going into a new area, and he presented photos from a local newspaper showing black smoke from burning off pits.

Sherry Long, EnCana, wanted to clear up the reason for EnCana's request to continue the moratorium hearing based on new issues that have been raised by COGCC staff.

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Hermann Stouffer thought that the hydrogeological study was going to be just in the moratorium area, not in an 11 mile area and would like to see additional studies done in the moratorium area.

Wesley Kent, property owner by the Rulison blast site, stated that Presco's operations have killed one man, caused a leak, created traffic problems, dust problems, all as they promised to be a good neighbor. He does not believe the Commission should issue any APDs near the blast site.

Consent Agenda: Chair Mueller asked if any Commissioners had a conflict of interest with any of the items on the consent agenda and no conflicts existed, however, Commissioners Klish's company has some contracts with EnCana but he is not directly involved and does not believe it will affect his participation. Commissioner Gerhardt had a question about La Plata County's intervention which was responded to by the Hearings Manager, who stated that La Plata County and Black Hills have agreed to the conditions of approval to be applied to Black Hills' application. A motion was made by Commissioner Gerhardt to approve the consent agenda, seconded by Commissioner Ashby and approved unanimously for the adjudicatory items as follows:

Cause No. 139, Docket No. 0603-SP-13, request for an order to establish a 160-acre drilling and spacing unit consisting of the N½ N½ of Section 32, Township 7 South, Range 95 West, 6th P.M., and to allow the option of up to eight (8) wells per unit, with the permitted well to be located no closer than 200 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork/Iles Formations.

Cause No. 139, Docket No. 0603-SP-12, request for an order to establish 40-acre drilling and spacing units, to allow the equivalent of one well per 20 acres, with the permitted well to be located no closer than 100 feet from the unit boundary, for certain lands in Sections 3 and 4, Townships 8 South, Range 96 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 440, Docket No. 0603-SP-14, request for an order to establish 40-acre drilling and spacing units in the W½ of Township 7 South, Range 95 West, 6th P.M., and to allow the option of up to two (2) wells per unit, with the permitted well to be located no closer than 200 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork/Iles Formations.

Cause No. 112, Docket No. 0603-AW-04, request for an order to allow up to four (4) wells in each 320-acre drilling and spacing unit certain lands in Sections 33 and 34, Township 33 North, Range 8 West, N.M.P.M., with the permitted well to be located no closer than 990 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams formation.

Cause No. 527, Docket No. 0603-AW-05, request for an order to allow additional wells to be drilled on certain lands in Townships 2 and 3 South, Ranges 97 and 98 West, 6th P.M., the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork Formation.

None of the Commissioners have conflicts on the Administrative Orders by Consent ("AOC") except as Commissioner Klish previously stated. Commissioner Ashby had questions on the AOC for Plainview. Assistant Attorney General Harmon pointed out the actual rule violations in the two EnCana AOCs. A motion was made by Commissioner Ashby to approve the AOCs, seconded by Commissioner Reagan and approved unanimously as follows:

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Cause No. 1V, Docket No. 0603-OV-06, request to approve an Administrative Order by Consent finding Plainview Oil & Gas, Inc. in violation of Rule 603.j., statewide equipment, weeds, waste, and trash requirements, Rule 1002.c., protection of soils, Rule 1002.e., surface disturbance minimization, Rule 1003.b., interim reclamation of areas no longer in use, Rule 1003.d., drilling pit closure, and Rule 1003.f., weed control, for the State #16-4 Well located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 16, Township 2 South, Range 70 West, 6th P.M.

Cause No. 1V, Docket No. 0507-OV-06, request to approve an Administrative Order by Consent finding EnCana Oil & Gas (USA) Inc. in violation of Rules 209. and 324A.a., failure by to prevent the contamination of fresh water by gas, failure to prevent a significant adverse environmental impact to water, to protect public health, safety and welfare, for the former Dietrich water well located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 3, Township 7 South, Range 92 West, 6th P.M.

Cause No. 1V, Docket No. 0507-OV-07, request to approve an Administrative Order by Consent finding EnCana Oil & Gas (USA) Inc. in violation of Rules 209. and 324A., failure by EnCana Oil & Gas (USA) Inc. to prevent the contamination of fresh water by gas, failure to prevent a significant adverse environmental impact to water, to protect public health, safety and welfare, for the Amos/Walker water well located in the SE $\frac{1}{4}$ of Section 33, Township 6 South, Range 92 West, 6th P.M.

Director Macke described the fine amounts assessed in the AOCs for the Dietrich and Amos wells, with a seventy-seven thousand four hundred dollars (\$77,400.00) fine for the Dietrich well and ninety-nine thousand four hundred dollars (\$99,400.00) fine for the Amos well, with a provision in the AOCs for Garfield County to propose public projects to be funded by the fines.

Hearings Manager Tricia Beaver clarified that Lisa Bracken and Emma Eicher's 510 statement was for the EnCana application requesting that the moratorium established in Order No. 1V-276 be lifted. The hearing agenda contained an error that associated the statement with the Bill Barrett application.

Mark Levorsen presented an overview of the Phase I Hydrogeologic Characterization of the Mamm Creek Field Area in Garfield County. He described the scope and objectives of the project which covered Townships 6 and 7 South, Ranges 92 and 93 West, 6th P.M. Mr. Levorsen described the study as a broad brush look at the existing data, with the new data being the Wasatch outcrop study. He provided a thorough description of the hydrogeologic data, the gas well activities, the water quality data and Phase II recommendations.

The COGCC staff made a presentation regarding its analysis of the moratorium area and review of the West Divide Creek Gas Seep Area. Introduction comments were made by Director Macke with the presentation by Jaime Adkins and Debbie Baldwin.

Garfield County attorney Don DeFord stated his preference for an April hearing in Denver on the moratorium applications so that the issues raised by COGCC staff can be addressed more fully, rather than a hearing held today in Garfield County.

The Hearing adjourned at 4:05 p.m.

The Secretary was therefore authorized to issue the following orders:

Order No. 112-187, Ignacio-Blanco Field, La Plata County: Approves the request for an order to allow up to four (4) wells in each 320-acre drilling and spacing unit certain lands in Sections 33 and 34, Township 33 North, Range 8 West, N.M.P.M., with the permitted well to be located no closer than

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990 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams formation.

Order No. 139-54, Rulison Field, Garfield County: Approves the request for an order to establish 40-acre drilling and spacing units, to allow the equivalent of one well per 20 acres, with the permitted well to be located no closer than 100 feet from the unit boundary, for certain lands in Sections 3 and 4, Townships 8 South, Range 96 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Order No. 139-55, Rulison Field, Garfield County: Approves the request for an order to establish a 160-acre drilling and spacing unit consisting of the N½ N½ of Section 32, Township 7 South, Range 95 West, 6th P.M., and to allow the option of up to eight (8) wells per unit, with the permitted well to be located no closer than 200 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork/Iles Formations.

Order No. 440-30, Parachute Field, Garfield County: Approves the request for an order to establish 40-acre drilling and spacing units in the W½ of Township 7 South, Range 95 West, 6th P.M., and to allow the option of up to two (2) wells per unit, with the permitted well to be located no closer than 200 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork/Iles Formations.

Order No. 527-1, Sulphur Creek Field, Rio Blanco County: Approves the request for an order to allow additional wells to be drilled on certain lands in Townships 2 and 3 South, Ranges 97 and 98 West, 6th P.M., the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Order No. 1V-296, Jefferson County: Approves an Administrative Order by Consent finding Plainview Oil & Gas, Inc. in violation of Rule 603.j., statewide equipment, weeds, waste, and trash requirements, Rule 1002.c., protection of soils, Rule 1002.e., surface disturbance minimization, Rule 1003.b., interim reclamation of areas no longer in use, Rule 1003.d., drilling pit closure, and Rule 1003.f., weed control, for the State #16-4 Well located in the NW¼ NW¼ of Section 16, Township 2 South, Range 70 West, 6th P.M.

Order No. 1V-297, Garfield County: Approves an Administrative Order by Consent finding EnCana Oil & Gas (USA) Inc. in violation of Rules 209. and 324A.a., failure by to prevent the contamination of fresh water by gas, failure to prevent a significant adverse environmental impact to water, to protect public health, safety and welfare, for the former Dietrich water well located in the SE¼ SE¼ of Section 3, Township 7 South, Range 92 West, 6th P.M.

Order No. 1V-298, Garfield County: Approves an Administrative Order by Consent finding EnCana Oil & Gas (USA) Inc. in violation of Rules 209. and 324A., failure by EnCana Oil & Gas (USA) Inc. to prevent the contamination of fresh water by gas, failure to prevent a significant adverse environmental impact to water, to protect public health, safety and welfare, for the Amos/Walker water well located in the SE¼ of Section 33, Township 6 South, Range 92 West, 6th P.M.

Patricia C. Beaver, Secretary

Approved:

Peter M. Mueller, Chair