

RECORD OF PROCEEDINGS

March 30, 2009

The Oil and Gas Conservation Commission met on March 30, 2009 at 9:00 a.m. in Suite 801 of The Chancery Building, 1120 Lincoln Street, Denver, Colorado, for a hearing in Cause Nos. 1, 191 (2 matters), 330, 369, 399 and 429, 510, and 533.

Those present were:

Harris Sherman	Chair
Richard Alward	Commissioner
Tom Compton	Commissioner
Michael Dowling	Commissioner
Trési Houpt	Commissioner
Kelly Rees	Assistant Attorney General
David Neslin	Acting Director
Rob Willis	Acting Hearings Manager

Vice Chair Joshua Epel and Commissioners Mark Cutright and Jim Martin did not attend the hearing. Chair Sherman finds that a quorum of Commissioners is present. Commissioner-designee DeAnn Craig was introduced and stated that her confirmation hearing is set on April 9, 2009. A motion was made by Commissioner Houpt to approve the February 2009 minutes, seconded by Commissioner Compton, and unanimously approved.

Report from the Executive Director. The Governor is to sign the Rules Bill for the Final Amended Rules today.

Staff Report. Acting Director stated that 1,602 APDs were approved as of March 23, 2009, which represents a 33% decrease in the number of APDs approved last year at that time, with the majority of APDs located in Garfield County (590 APDs for 37% of total) and Weld County (447 for 28%). It is expected that the March 2009 may be a record month as to the number of applications filed with the Final Amended Rules set to have effect on April 1, 2009. Drilling has been reduced in Colorado which is due, in part, to the commodity price and economic recession.

Northwest Colorado: The Northwest Colorado Oil and Gas Forum (“Forum”) is an informal gathering of local, state, and federal government officials, oil and gas industry representatives, and citizens that have met regularly since 1989. The purpose of the Forum is to share information about oil and gas development in northwest Colorado and to make government officials and oil and gas industry representatives easily accessible to the public. Currently the meetings are conducted once per quarter and are co-chaired by COGCC’s Acting Director, Dave Neslin, and Garfield County Commissioner, Mike Samson. The last meeting of the Forum took place on March 5th at the Garfield County Fairgrounds in Rifle. The next meeting is scheduled for June 4, 2009.

The COGCC had an exhibit at the annual Energy Forum and Expo in Grand Junction on February 27, 2009. The forum showcased western Colorado’s role in moving towards renewable and alternative forms of energy.

On June 12, 2008, COGCC staff issued a *Notice to Operators Drilling Wells within 3/4 Mile of the Rim of the Roan Plateau in Garfield County, Pit Design, Construction, and Monitoring Requirements* (“NTO”). The NTO acknowledges the continued need for the use of pits in the Area of Concern defined in the NTO and the potential problems and environmental impacts that can occur even when a closed loop or semi-closed loop system is used. Nonetheless, the NTO encourages continued infrastructure development, and the evaluation and use of alternatives to pits. The NTO includes specifications for designing, constructing, lining, operating, maintaining, monitoring, permitting, and

RECORD OF PROCEEDINGS

closing pits. Because of recent releases within and outside of the Area of Concern, COGCC staff is collecting additional data and considering an expansion of the Area of Concern.

The three operators currently holding most of the oil and gas leases within 3 miles of the Project Rulison test site (Noble Energy, Inc., Williams Production RMT, and EnCana Oil & Gas (USA)) and a third-party consultant, URS Corporation ("URS"), have developed the Rulison Sampling and Analysis Plan ("RSAP"), a comprehensive operational and environmental monitoring, and radiological incident management plan for drilling and production activities within a 3-mile radius of the test site. The current RSAP (Revision 2.0) and all other documents related to Project Rulison and activities are available on the COGCC website, within the Library section under Piceance Basin Area Reports/Data.

The RSAP will be modified as needed to reflect lessons learned through its implementation. As previously reported, COGCC staff met with the operators on November 19, 2008, to discuss possible revisions. Subsequently, a small technical working group met on December 4, 2008, to discuss such revisions in greater detail. On March 4th, COGCC and CDPHE staff met in Rifle with surface owners and mineral owners in the area subject to the RSAP. COGCC staff presented the findings of their annual audit of the activities subject to the RSAP, as well as the results of sampling and monitoring done under the RSAP. COGCC staff also solicited suggestions from the attendees regarding how the RSAP could be improved.

Southwest Colorado: Ongoing investigation, reclamation and mitigation of residual methane in the vicinity of the Bryce 1-X Well area, near Bondad, Colorado continues. On behalf of the COGCC, LT Environmental ("LTE") conducted a soil gas survey, and Four Corners Geoscience collected another round of groundwater samples from water wells in the area on February 3, 2009. Overall methane concentrations in the groundwater continue to slowly decrease and all wells now report methane concentrations of less than 7.84 mg/L. Methane gas has not been detected in the soil gas survey and has not been detected in the soil since July 2007. The next sampling round is scheduled for August 2009.

The next Gas and Oil Regulatory Team ("GORT"), Southwest Colorado Oil and Gas Stakeholders meeting is tentatively scheduled for July 16, 2009, at 8:30 am at the La Plata County Fairgrounds in Durango, Colorado.

As part of the Fruitland Formation Outcrop Mitigation and Monitoring Projects ("4M Projects"), the Colorado Geological Survey ("CGS") is finalizing a detailed geologic map of the Fruitland Formation outcrop in Archuleta County. This work is similar to mapping done in 1999-2000 by the CGS as part of the Fruitland Formation Outcrop Monitoring ("3M Project"). The work included mapping the surface expression of the uppermost Cretaceous units, Pictured Cliffs Sandstone, Fruitland Formation, Kirtland Shale, along the rim of the San Juan Basin in Archuleta County between the La Plata-Archuleta County line and the northern boundary of the Southern Ute Indian Reservation. The final map and associated report will be posted to the website shortly after receipt from the CGS.

Drilling and installation of monitoring wells for the 4M Project in Archuleta County was completed in the fall of 2008. Due to constraints imposed by weather and seasonal construction restrictions, site reclamation is expected to occur in the spring of 2009.

Pressure monitoring devices were installed during the week of December 1, 2008. Pressure data are being collected at 8-hour intervals and being transmitted via satellite to the InSitu, Inc. data management system in Fort Collins where COGCC staff are able to access the data over the Internet.

Both 4M Outcrop Mitigation Pilot Project locations in La Plata County are weathering the winter conditions well, although snowpack and equipment testing issues have delayed installation at the sites. The lack of 3-phase power at the South Fork Texas Creek ("SFTC") site required equipment

RECORD OF PROCEEDINGS

modifications which are currently being evaluated and bench tested at the supplier's Farmington, NM facility. The surface systems will be installed as soon as weather and field conditions allow and the equipment issues are resolved. Testing of the systems will proceed at that time and continue for one year.

COGCC staff are also developing a Scope of Work for the La Plata County Fruitland Formation Additional Characterization and Monitoring Project. COGCC continues to negotiate with private surface owners to obtain access for the installation of new Fruitland Formation monitoring wells in La Plata County.

With regards to the 3M Project, COGCC and Norwest Applied Hydrology ("NAH") staff visited all of the existing La Plata County monitoring well locations on December 10, 2008, to download data from the data loggers and perform routine maintenance.

Steve Lindblom and Karen Spray have been participating in the Northern San Juan Basin Groundwater Model Technical Advisory Group ("NSJB TAG"). The NSJB TAG consists of experts in hydrogeology, groundwater modeling, geology, and water resources from industry, the CGS, the COGCC, the Colorado State Engineers Office, and the Colorado School of Mines. The NSJB TAG has been meeting on a monthly basis since June 2008 to discuss technical issues related to a numerical groundwater model for the Northern San Juan Basin being developed by NAH on behalf of several operators.

Northeast Colorado: The COGCC continues to receive complaints regarding exploration and production ("E&P") waste management, often associated with land application of water-based bentonitic drilling fluids. A large number of these complaints are located in Weld County. Although in many instances the land application has been performed in accordance with COGCC rules, there have also been several instances where violations were documented. As a reminder, oil and gas operators are allowed to use land application as a disposal method for water-based bentonitic drilling fluids in accordance with Rule 907.d.(3), which outlines several requirements for proper application. Drilling fluids can only be applied as a beneficial amendment and no more than 3 inches thick prior to incorporation into native soils. The application of drilling fluids cannot result in concentrations of contaminants above the COGCC allowable levels presented in Table 910-1. Application needs to be done in a manner to prevent ponding or erosion.

In some cases drilling fluids have been applied to sloping agricultural areas where storm events caused the fluids to migrate onto adjacent properties or into waterways, which is a violation of the Rules. In addition, drilling fluids should be incorporated into the native soils as soon as practicable. Operators retain responsibility for the land application of drilling fluids, even in cases where agreements between contract haulers and landowners have been made. Another common oversight in these cases is the surface owner approval requirement. Operators are required to obtain written authorization from the surface owner prior to land application. Other associated problems often include trucks tracking drilling fluids onto public roads from land application sites.

In addition to common land application violations, there are often waste generator violations associated with these complaints. In accordance with Rule 907.b.(2), generators of E&P waste are required to maintain copies of each invoice, bill or ticket and such other records as necessary to document waste transportation and disposal. Specifically, the date of transport, identity of the waste generator and transporter, location of waste pickup site, type and volume of waste, and name and location of the treatment or disposal site are required. If land application is used as a disposal method for drilling fluids, the operator must have waste generator documentation for every load of drilling fluid applied at a given location.

While land application of water-based bentonitic drilling fluids continues to be a viable disposal alternative, operators are encouraged to review the 900-Series Rules regarding E&P waste management. Operators should also be aware that the new Rules include several changes regarding

RECORD OF PROCEEDINGS

E&P waste management. For example, after April 1, 2009, drilling fluids can still be applied as a beneficial soil amendment, but lining of stock ponds and irrigation ditches will no longer be allowed unless a Form 4, Sundry Notice with a Waste Management Plan, is submitted for COGCC prior approval. There is also a requirement to incorporate the drilling fluids into native soils within 10 days of application. Regarding waste transportation and disposal, documentation will need to be maintained for not less than 5 years. These are just a few examples of relevant changes.

In 2008 the COGCC investigated a surface owner complaint in Weld County alleging that trees had been damaged by the application of certain herbicides used by an operator to control weeds. Cuttings from the damaged trees were taken to the Plant Diagnostic Clinic at Colorado State University. Soil samples were also collected within the drip line of the affected trees. After examining the plant specimens and reviewing pictures of the trees and surrounding area, experts at the diagnostic clinic concluded that the damage to the trees was consistent with herbicide injury. The operator was very cooperative and has made the appropriate changes to its weed management plan and has settled this matter with the landowner.

Based on this case, the COGCC would like to encourage all operators to review their weed management practices to ensure that herbicides are being applied properly in accordance with the manufacturer's directions. In addition, employees should be properly trained in the application of these products as well as the associated health and safety hazards. While it is very important to control noxious weeds at oil and gas locations, it is also very important to prevent potential adverse impacts to the environment that can be caused by the improper use of herbicides.

Acting Director Neslin also reported that a complaint has been received regarding methane in a domestic well serving the Ellsworth residence near Fort Lupton. COGCC staff continues to conduct its investigation as to a responsible party, and public outreach concerning this report is ongoing.

Southeast Colorado: One monitoring well, four recovery, and eight injection wells have been drilled, completed and tested by Petroglyph Energy Inc. ("PEI") as part of Phase 1 of the Methane Investigation, Monitoring and Mitigation Plan ("MIMMP") in Huerfano County. Treatment under Phase 1 consists of physically separating dissolved methane from the recovered ground water using a vertical separator. The methane is sent to a controlled flare for combustion. Operation of the pump, treatment, and injection system started on December 8, 2008. More than 1.64 million gallons of water had been pumped to the surface and treated as of February 27, 2009. More than 90% of that water had been re-injected into the aquifer after treatment.

PEI has applied to the Bureau of Land Management ("BLM") for permission to drill an exploratory well in the vicinity of the impacted water well located in Section 15, Township 29 South, Range 67 West, 6th P.M. This impacted water well is located more than one mile south of the ring of injection wells. The exploratory hole will assist in determining if gas is present, at what level the gas occurs, and whether additional venting or treatment is needed at that location. A decision by BLM is anticipated in the near future.

Gas flows are monitored at four domestic wells by PEI or its consultant and at two domestic wells by COGCC and its consultant. Overall gas flow has decreased in all monitored domestic wells.

During the period from January 22, 2009, to February 27, 2009, NAH and PEI screened 76 domestic water wells for the presence of methane with hand-held methane detectors for changes in percent volume of methane, %LEL, and %O₂; 57 of the monitored wells showed little change from the previous month's monitoring, 10 wells showed increases in methane concentration, and nine wells showed decreases in methane concentration.

PEI is currently supplying water to 15 homes upon request of the well owner. Methane alarms have been installed in 14 homes.

RECORD OF PROCEEDINGS

Within the next month the EPA is expected to issue draft permits for public comment with respect to PEI's applications to allow the injection of Vermejo Formation water produced from coalbed methane ("CBM") wells. PEI has submitted an application to the Division of Water Resources to ask for changes to water sources and injection as part the process of initiating Phase II. Approval to operate some of PEI's CBM wells by the Director would also be needed to initiate Phase II.

Staff organization: The COGCC is pleased to announce the addition of Chuck Browning to the staff as an Engineering Physical Science Technician II. Chuck resides in Whitewater, and he is filling a vacant Field Inspector position for the Northwest area. Chuck graduated from Stephen F. Austin State University with a B.S. in Geology, and he has more than 20 years experience in the oil and gas industry.

The COGCC is pleased to announce the addition of Jay Krabacher to the staff as an Engineer-In-Training II. Jay is filling a new position in COGCC's Rifle office. Jay graduated from Colorado State University with a B.S. degree in Physical Sciences, and he previously worked for COGCC as a Northwest Area Field Inspector from August 1998 through January 2008.

Public outreach opportunities: Karen Spray participated as a judge in the San Juan Basin Regional Science Fair, held in Durango, Colorado on March 5, 2009.

Peter Gintautas participated in a roundtable discussion in Walsenburg, Colorado on March 10, 2009. Discussions were focused on possible studies of groundwater and surface water hydrology in the Raton Basin. Sources of funding and the scope of studies were discussed by representatives of the oil and gas industry, CGS, Division of Water Resources, CDPHE, United States Geological Survey ("USGS"), Huerfano County Commission and administration, Representative Salazar's office, and the public. Huerfano County has requested assistance for the USGS to better understand water resource issues in the county.

COGCC staff conducted training sessions on the Final Amended Rules at various locations around the state. It is estimated that some 400-500 people attended these outreach training sessions. Schedules, agendas, slide presentations, a permitting handbook, and a page for frequently asked questions are posted on the COGCC website. Staff training on the rules also took place at the Colorado Department of Wildlife ("CDOW") Hunter Education Hall over a two-day period.

COGCC staff has developed a new Form 2A, contemplated by Rule 303.d., and new Form 36, contemplated by Rule 206.b., of the Final Amended Rules. Both forms are posted on the COGCC website, on the homepage under "Forms."

A rulemaking hearing regarding confirming non-substantive changes to the Final Amended Rules will be held on March 30, 2009. These changes will respond to concerns expressed by the Office of Legislative Legal Services.

A rulemaking hearing regarding proposed amendments to several maps for the 1200-Series, Protection of Wildlife Resources, and Rule 317B, Surface Water Areas, to reflect further verification of their contents and coverage will be held on April 28-29, 2009, at the Sheraton Hotel in Downtown Denver. The Interim Policy regarding APDs is currently in place, which includes interim maps. The Director is to defer granting variances on APDs which fall in protective areas pending the above rulemaking hearing.

A rulemaking hearing regarding proposed amendments to Rule 503.b.(7) will be held on May 6, 2009. The Commission will consider whether to delete the CDPHE and the CDOW as parties that can seek a hearing before the Commission on an approved APD.

Bob Randall, DNR Federal Lands Coordinator, has been attempting to get a dialogue going with the

RECORD OF PROCEEDINGS

Bureau of Land Management (“BLM”) to update a Memorandum of Understanding (“MOU”) which will address the regulatory scheme for federal lands. The staff is requesting that the effective date for the new Rules on federal lands be extended an additional 60 days from May 1, 2009 until July 1, 2009. A meeting with the BLM is presently scheduled for March 31, 2009 to address the MOU. A temporary rulemaking hearing is to be noticed to consider a temporary rule to extend the effective date of the Final Amended Rules on federal lands from May 1, 2009 to July 1, 2009.

Stakeholder meetings are to begin in the next 30-60 days to address rulemaking on matters which were deferred during the course of last year’s rulemaking.

Chair Sherman requests that COGCC Staff prepare a project priority list for the Commission to consider the next time the body convenes.

A preliminary docket for the May 2009 hearing was provided.

Variances under Rule 502.b. were granted: (1) A variance under Rule 502.b. was granted on February 27, 2009, with the approval of the APD the Petrox Resources’ Ellison 33-5 #29-1 Well, located in the NW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of Section 29, Township 33 North, Range 5 West in Archuleta County. This well location is an exception to spacing Order No. 112-85 which states:

“The units shall consist of the N $\frac{1}{2}$ and S $\frac{1}{2}$ or the E $\frac{1}{2}$ and W $\frac{1}{2}$ of a full section with the permitted well located, when north of the north line of Township 32 North, in the NW $\frac{1}{4}$ and SE $\frac{1}{4}$ of the section, and when south of the north line of Township 32 North, in the NE $\frac{1}{4}$ and SW $\frac{1}{4}$ of the section, and no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line.”

The well is a horizontal well drilled from the NW $\frac{1}{4}$ of the SE $\frac{1}{4}$ to the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$ and 50 feet from the east line of the lay-down 320 S $\frac{1}{2}$ unit. The operator obtained waivers for the Ellison 33-5 #29-1 Well from 98% of the northern and eastern offset mineral holders. No negative responses have been received.

(2) A variance under Rule 502.b. was granted on February 27, 2009, with the approval of the APD, the Petrox Resources’ Lark 33-5 #21-2 Well, located in the SW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 21, Township 33 North, Range 5 West in Archuleta County. This well location is an exception to spacing Order No. 112-85 which states:

“The units shall consist of the N $\frac{1}{2}$ and S $\frac{1}{2}$ or the E $\frac{1}{2}$ and W $\frac{1}{2}$ of a full section with the permitted well located, when north of the north line of Township 32 North, in the NW $\frac{1}{4}$ and SE $\frac{1}{4}$ of the section, and when south of the north line of Township 32 North, in the NE $\frac{1}{4}$ and SW $\frac{1}{4}$ of the section, and no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line.”

The well is a horizontal well drilled from the SW $\frac{1}{4}$ of the SW $\frac{1}{4}$ to the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$ and 634 feet from the west line of the lay-down 320 S $\frac{1}{2}$ unit. The operator obtained waivers for the Lark 33-5 #21-2 Well from 100% of the western S $\frac{1}{2}$ unit, 98% of the southwestern N $\frac{1}{2}$ unit, 98% of the southern N $\frac{1}{2}$ unit and 92% of the northern N $\frac{1}{2}$ unit. No negative responses have been received.

(3) A variance under Rule 502.b. was granted on February 27, 2009, with the approval of the APD, the Petrox Resources’ Wright 33-5 #16-1 Well, located in the SE $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 16, Township 33 North, Range 5 West in Archuleta County. This well location is an exception to spacing Order No. 112-85 which states:

“The units shall consist of the N $\frac{1}{2}$ and S $\frac{1}{2}$ or the E $\frac{1}{2}$ and W $\frac{1}{2}$ of a full section with the permitted well located, when north of the north line of Township 32 North, in the NW $\frac{1}{4}$ and SE $\frac{1}{4}$ of the section, and

RECORD OF PROCEEDINGS

when south of the north line of Township 32 North, in the NE $\frac{1}{4}$ and SW $\frac{1}{4}$ of the section, and no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line.”

The well is a horizontal well drilled from the SE $\frac{1}{4}$ of the SW $\frac{1}{4}$ to the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$ and 100 feet from the east line of the lay-down 320 S $\frac{1}{2}$ unit. The operator obtained waivers for the Wright 33-5 #16-1 Well from 100% of the eastern W $\frac{1}{2}$ unit, 92% of the southern N $\frac{1}{2}$ unit and 87.5% of the northern N $\frac{1}{2}$ unit. No negative responses have been received.

(4) ExxonMobil Oil Corporation (“ExxonMobil”) submitted a Sundry Notice requesting a variance to the production casing compressive strength requirements of Rule 317.i. for the planned Freedom Unit 197-33A6 Well, which is located in the SW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of Section 33, Township 1 South, Range 97 West, 6th P.M. ExxonMobil submitted similar Sundry Notices for the following planned wells located on the same well pad in the NW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 34, Township 1 South, Range 97 West, 6th P.M.: Piceance Creek Unit 197-34A1, Piceance Creek Unit 197-34A2, Piceance Creek Unit 197-34A3, Piceance Creek Unit 197-34A4, Piceance Creek Unit 197-34A5, Piceance Creek Unit 197-34A6, Piceance Creek Unit 197-34A7, Piceance Creek Unit 197-34A8, and Piceance Creek Unit 197-34A9. All of the wells listed above have federal jurisdiction for surface and minerals.

As a result of the use of high-temperature-capable cement retarders in the cement slurry, ExxonMobil’s production casing cement design for these wells does not meet the temperature requirement of Rule 317.i., which specifies that production casing cement “shall be of adequate quality to achieve a minimum compressive strength of at least three hundred (300) psi after twenty-four (24) hours and eight hundred (800) psi after seventy-two (72) hours measured at ninety-five degrees Fahrenheit (95°F) and at eight hundred (800) psi.” ExxonMobil’s production casing cement design will meet the required compressive strengths within the required timeframes at the expected downhole temperatures.

ExxonMobil contends that the requested variances do not violate the basic intent of the Oil & Gas Conservation Act. On March 26, 2009, COGCC staff approved ExxonMobil’s Rule 317.i. variance requests for the wells listed above. ExxonMobil submitted similar requests to the BLM in late February 2009.

(5) On February 20, 2009, COGCC staff approved an APD, Form 2, for the Breeze Unit 34-8 Well, located in the SW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of Section 8, Township 6 North, Range 89 West, 6th P.M. On March 9, 2009, True Oil, LLC (“True Oil”) attempted to set and cement surface casing at a depth of 3,777 feet. Prior to cementing, True Oil ran casing into the hole and circulated without any lost circulation problems. During most of the cement job, True Oil observed full returns. However, the pump pressure reached approximately 2,300 psig just prior to bumping the plug. This pressure was much higher than expected, based on the cement and mud properties. The high pump pressure was indicative of probable bridging above the lead cement. Cement did not circulate to surface.

True Oil ran a temperature log to determine the top of cement in the borehole-surface casing annulus. The temperature log showed a transition from 900 feet to 1,020 feet, indicating top of lead cement, and another transition was apparent from 3,480 feet to 3,550 feet, indicating top of tail cement. True Oil contemplated options to remediate the surface casing cement in order to comply with COGCC Rule 317.h., which requires that all surface casing shall be cemented with a continuous column of cement from the bottom of the casing to the surface. True Oil also consulted with COGCC staff to evaluate geologic and hydrogeologic conditions in the upper 1,000 feet of the hole.

During drilling from surface to approximately 1,000 feet, True Oil reported that the drill cuttings were very consistent, and they were composed of clay/bentonite, which caused plugging problems at the surface and possible bridging downhole. Below 1,000 feet the cuttings reportedly varied from 90% sand and 10% shale to 50% sand and 50% shale. These observations are consistent with logs from

RECORD OF PROCEEDINGS

offset wells, which were reviewed by COGCC staff.

COGCC staff checked the Colorado Division of Water Resources (“CDWR”) database for nearby water wells within one mile of the Breeze Unit 34-8 Well. One permitted water well is located approximately 4,300 feet west-southwest of the Breeze Unit 34-8 Well. This water well was a re-entry of a plugged and abandoned gas well, the Breeze 41-18 Well, located in the NE $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 18, Township 6 North, Range 89 West, 6th P.M.

The wellbore configuration for the Breeze 41-18 Well consisted of two casing strings: 8-5/8" surface casing was set at 380 feet and cemented to surface, and 5-1/2" production casing was set at 3,580 feet and cemented to surface. During the re-entry for a conversion to a water well, the surface owner reportedly perforated the production casing in the Breeze 41-18 Well at a depth of 1,200 feet. Accounting for differences in ground surface elevation, this perforation depth equates to an equivalent depth of approximately 1,496 feet in the Breeze Unit 34-8 Well. Therefore, the cement coverage in the Breeze Unit 34-8 Well provides adequate protection for the perforated interval in the converted water well (the Breeze 41-18 Well).

True Oil was concerned with compromising casing integrity by perforating and squeezing cement. True Oil was also concerned that they might not be able to establish circulation to surface because of hole sloughing and bridges in the borehole-surface casing annulus. Therefore, True Oil proposed running in the annulus with one-inch tubing to top off the annular cement. True Oil was able to circulate the one-inch tubing down to a depth of 120 feet, and cement was circulated to surface.

True Oil was in contact with COGCC staff throughout their surface casing cementing operations. On March 26, 2009, COGCC staff approved True Oil’s request for a variance of Rule 317.h. True Oil contends that the current surface casing and cement configuration adequately protects the environment and the requested variance does not violate the basic intent of the Oil & Gas Conservation Act, primarily because of the significant amount of clay/bentonite observed during drilling of the uncemented interval.

(6) A variance under Rule 502.b. was granted on March 23, 2009, with the approval of the APD, the Petrox Resources’ Candelaria 33-5 #10-1 Well, located in the NE $\frac{1}{4}$ of the NW $\frac{1}{4}$ of Section 10, Township 33 North, Range 5 West in Archuleta County. This well location is an exception to spacing Order No. 112-85 which states:

“The units shall consist of the N $\frac{1}{2}$ and S $\frac{1}{2}$ or the E $\frac{1}{2}$ and W $\frac{1}{2}$ of a full section with the permitted well located, when north of the north line of Township 32 North, in the NW $\frac{1}{4}$ and SE $\frac{1}{4}$ of the section, and when south of the north line of Township 32 North, in the NE $\frac{1}{4}$ and SW $\frac{1}{4}$ of the section, and no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line.”

The well is a horizontal well drilled from the NE $\frac{1}{4}$ of the NW $\frac{1}{4}$ to the SE $\frac{1}{4}$ of the NW $\frac{1}{4}$ and 49 feet from the south line of the lay-down 320 N $\frac{1}{2}$ unit. The operator obtained waivers for the Candelaria 33-5 #10-1 from 100% of the northern S $\frac{1}{2}$ unit in Section 3 and 98% of the southern S $\frac{1}{2}$ unit in section 10. No negative responses have been received.

There was no report from the Assistant Attorney General.

Comments from the Commissioners. Commissioner Alward stated that he attended the March 16 Oil and Gas Forum in Grand Junction which was attended by approximately 100 people. He also met with Lisa Bracken, complainant, regarding West Divide Creek issue.

RECORD OF PROCEEDINGS

Commissioner Compton stated he would be unable to attend the first day (May 6) scheduled for the regular May Commission hearing. Commissioner Compton attended the COGCC Staff training on the Final Amended Rules and congratulated staff on its presentation.

Commissioner Dowling expressed his gratitude to staff, CDPHE, CDOW, Attorney General's Office regarding efforts made toward the implementation of the Final Amended Rules.

Upcoming remote locations for COGCC hearings are to be considered by the Commission.

Comments from the Audience. Ken Wonestolen, oil and gas attorney, House Bill 1303 will be considered this week which may require the Office of the State Engineer to conduct a rulemaking regarding, in part, tributary and non-tributary status of produced water associated with coal-bed methane gas production and how 900-Series COGCC Rules interface with that concern.

Consent Agenda. Commission Dowling moved to approve all matters set forth under the Consent Agenda, seconded by Commissioner Compton, and approved unanimously. The following matters were approved:

Cause No. 510, Docket No. 0903-AW-01, Garfield County, request for an order to allow 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 certain lands in Townships 5 through 7 South, Ranges 96 through 97 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Cause No. 330, Docket No. 0903-EX-01, Yuma County, request for an order allowing an exception to the permitted location for the Crites # 01-04 Well located 686 feet FNL and 802 feet FEL in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 4, Township 3 South, Range 42 West, 6th P.M., for the production of gas and associated hydrocarbons from the Niobrara Formation.

Cause No. 381, Docket No. 0903-SP-10, Weld County, request for an order to establish 40-acre drilling and spacing units consisting of the NW $\frac{1}{4}$ NW $\frac{1}{4}$ and SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 33 of Section 33, Township 6 North, Range 66 West, 6th P.M., for the production of gas and associated hydrocarbons from the Codell, Niobrara and "J" Sand Formations.

Cause No. 533, Docket No. 0903-SP-11, Montezuma County, request for an order to establish various 1280-acre drilling and spacing units consisting of certain lands in Township 38 North, Range 16 West, N.M.P.M., and allow up to eight (8) horizontal wells in each unit, with the bottom hole location no closer than 460 feet to the outside boundary of the unit, for the production of gas and associated hydrocarbons from the Gothic Shale Formation.

Cause Nos. 369, 399 and 429, Docket No. 0903-SP-12, Garfield County, request for an order to establish various drilling and spacing units and allow one well per 10 acres, with the permitted well to be located no closer than 100 feet to the outside boundary for certain lands in Township 9 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Cause No. 191, Docket No. 0903-SP-13, Garfield County, request for an order to establish 160-acre drilling and spacing unit and allow one well per 10 acres, with the permitted well to be located no closer than 100 feet to the outside boundary of the unit, for the NW $\frac{1}{4}$ of Section 9, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Mancos Group Formation.

Cause No. 191, Docket No. 0903-SP-14, Garfield County, request for an order to establish 320-acre drilling and spacing unit and allow one well per 10 acres, with the permitted well to

RECORD OF PROCEEDINGS

be located no closer than 100 feet to the outside boundary of the unit, for the S½ of Section 5, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Mancos Group Formation.

The following matters have been continued to the May 2009 hearing:

Cause No. 1, Docket No. 0809-GA-01, Adams County, request for an order to designate Barr Lake State Park as a Designated Outside Activity Area.

Cause No. 191, Docket No. 0903-UP-03, Garfield County, request for an order to pool all nonconsenting interests in the 80-acre drilling and spacing unit for the E½ NE¼ of Section 11, Township 6 South, Range 93 West, 6th P.M., for the development and operation of the Williams Fork, Iles and Mancos Formations.

Update on Memorandum of Understanding with Colorado Interstate Gas. Colorado Interstate Gas ("CIG") has requested that the prepared memorandum of understanding ("MOU") between CIG and COGCC staff be approved – said MOU designed to address underground gas storage preemption issues until future rulemaking further addresses the issue. Gregory Tan, attorney for CIG, was recognized and requested approval of the MOU. Acting Director Neslin amended the MOU to include that language that October/November 2009 deadline of MOU may be extended through agreement of the parties. Commissioner Dowling moved for approval of the MOU as amended, Chair Sherman seconded, approved by a majority with Commissioner Houpt voting not to approve.

Corrections of Rules 306.c.(1).A, 604.a.(1) and 604.a.(10). The proposed corrections to Rules 306.c.(1).A, 604.a.(1) and 604.a.(10) were considered by the Commission as noticed. No public comment was received in anticipation of the Commission's hearing. Mr. Wonstolen, attorney for Colorado Oil and Gas Association ("COGA"), requested that the proposed corrections to the rules be adopted. Commissioner Dowling moved adoption of the proposed corrections as presented, seconded by Commissioner Houpt, and unanimously approved.

CPA Request for Clarification of Proposed Rulemaking for Amendments to Maps. Jep Seman and Scott Campbell, attorneys for the Colorado Petroleum Association ("CPA"), were recognized and made argument regarding the request set forth in their pleadings. Acting Director Neslin gave the COGCC staff response that final proposed maps have been provided to industry. Commissioner Compton moved to accept the response of Acting Director Neslin in response to CPA's request, seconded by Commissioner Dowling, and unanimously approved.

Update on Methane Gas in Water Wells in Weld County. Bob Chesson, COGCC Environmental Specialist for the Northeast Area, gave a powerpoint presentation regarding updating the Commission as to complaint from the Ellsworth residence, located near Fort Lupton, regarding methane gas being found their water well. Investigation continues by 2 operators and the COGCC to evaluate the presence of methane gas the water well and sources of that contamination from the operators' activities.

Cause No. 1, Docket No. 0903-GA-01, Gunnison County. Thom Kerr, COGCC Technical Services Manager, was recognized and detailed information which supported the approval of the Hotchkiss Federal Comprehensive Drilling Plan ("CDP"). Commissioner Dowling moved approval of the Hotchkiss Federal CDP as amended – setting forth that this CDP is the first CDP considered by the Commission under the Final Amended Rules, and that subsequent CDPs will be considered on a case-by-case basis, and that this CDP requires written consent of the surface owner regarding wildlife provisions, seconded by Commissioner Compton, and unanimously approved.

The Commission moved into executive session to consider applicants for the Director position.

RECORD OF PROCEEDINGS

The hearing adjourned at approximately 6:30 p.m.

The Secretary was therefore authorized to issue the following orders:

Order No. 510-48, Grand Valley Field, Garfield County: Approves the request for an order to allow 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 certain lands in Townships 5 through 7 South, Ranges 96 through 97 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Order No. 330-5, Armel Field, Yuma County: Approves the request for an order allowing an exception to the permitted location for the Crites # 01-04 Well located 686 feet FNL and 802 feet FEL in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 4, Township 3 South, Range 42 West, 6th P.M., for the production of gas and associated hydrocarbons from the Niobrara Formation.

Order No. 381-14, Bracewell Field, Weld County: Approves the request for an order to establish 40-acre drilling and spacing units consisting of the NW $\frac{1}{4}$ NW $\frac{1}{4}$ and SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 33 of Section 33, Township 6 North, Range 66 West, 6th P.M., for the production of gas and associated hydrocarbons from the Codell, Niobrara and "J" Sand Formations.

Order No. 533-1, Pedro Field, Montezuma County: Approves the request for an order to establish various 1280-acre drilling and spacing units consisting of certain lands in Township 38 North, Range 16 West, N.M.P.M., and allow up to eight (8) horizontal wells in each unit, with the bottom hole location no closer than 460 feet to the outside boundary of the unit, for the production of gas and associated hydrocarbons from the Gothic Shale Formation.

Order Nos. 369-6, 399-6 and 429-11, Buzzard Creek, Vega and Brush Creek Fields, Garfield County: Approves the request for an order to establish various drilling and spacing units and allow one well per 10 acres, with the permitted well to be located no closer than 100 feet to the outside boundary for certain lands in Township 9 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Order No. 191-62, Mamm Creek Field, Garfield County: Approves the request for an order to establish 160-acre drilling and spacing unit and allow one well per 10 acres, with the permitted well to be located no closer than 100 feet to the outside boundary of the unit, for the NW $\frac{1}{4}$ of Section 9, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Mancos Group Formation.

Order No. 191-63, Mamm Creek Field, Garfield County: Approves the request for an order to establish 320-acre drilling and spacing unit and allow one well per 10 acres, with the permitted well to be located no closer than 100 feet to the outside boundary of the unit, for the S $\frac{1}{2}$ of Section 5, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Mancos Group Formation.

Order No. 1-143, West Muddy Creek Field, Gunnison County: Approves the request for an order to accept the Hotchkiss Federal Comprehensive Drilling Plan for Sections 17 through 20, Township 12 South, Range 89 West, 6th P.M., for the development and production of the oil and gas resources underlying said lands.

RECORD OF PROCEEDINGS

Robert A. Willis, Acting Secretary

Approved:

Harris Sherman, Chair