

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

IN THE MATTER OF ALLEGED VIOLATIONS OF THE)	CAUSE NO. 1V
RULES AND REGULATIONS OF THE COLORADO OIL)	
AND GAS CONSERVATION COMMISSION BY)	DOCKET NO. 0602-OV-04
BONANZA CREEK OPERATING COMPANY LLC,)	
WELD COUNTY, COLORADO)	

NOTICE OF ADMINISTRATIVE ORDER BY CONSENT

In March of 1985, the CEI-Gutterson #1 Well located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 9, Township 6 North, Range 66 West, 6th P.M. was drilled and completed by Cache Exploration, Inc.

On March 25, 1988, the Colorado Oil and Gas Conservation Commission ("COGCC") approved the Certification of Clearance and/or Change of Operator, Form 10 from Cache Exploration, Inc. to Lyco Energy Corp. with an effective date of April 1, 1988.

On September 15, 1999, the COGCC approved the Certification of Clearance and/or Change of Operator, Form 10 from Lyco Energy Corp. to Thomas Operating Co., Inc. with an effective date of July 1, 1999.

On December 16, 2002, the COGCC approved the Certification of Clearance and/or Change of Operator, Form 10 from Thomas Operating Company, Inc. to Bonanza Creek Oil Company, LLC ("Bonanza Creek") with an effective date of November 1, 2002.

On January 30, 2004, the COGCC approved a Sundry Notice, Form 4 to re-perforate and add perforations to the Codell Formation and to fracture stimulate.

On March 5, 2004, a workover rig moved onto the subject well for the approved work to the wellbore. Daily field operation reports were provided by Bonanza Creek after a request by COGCC staff. The report for March 6, 2004 indicated that the hole was full of fluid. After tying in the hole with a scraper on March 8, 2004 the hole began losing fluid rapidly.

On March 9, 2004, COGCC environmental staff received a complaint from Gary Jurgensmeier (Complaint #200051005) regarding a potential impact to his domestic water well. The complainant's water well is approximately 400 feet from the subject well.

On March 10, 2004, COGCC environmental staff collected water samples for organic and inorganic analyses. The laboratory results were summarized in COGCC correspondence dated April 22, 2004. Benzene was measured at a concentration of 5.1 milligrams/liter ("mg/l") which slightly exceeded the Colorado Basic Standards for Ground Water at 5.0 mg/l. Chloride was measured at a concentration of 4,760 mg/l which exceeds the Secondary Drinking Water standard of 250 mg/l. The Total Dissolved Solids ("TDS") concentration was measured at 8,170 mg/l. Previous analyses conducted on July 2, 2003 indicated a TDS concentration at 620 mg/l. Methane was measured at a concentration of 20 mg/l.

On March 11, 2004, COGCC environmental staff collected a gas sample from the complainant's water well for gas compositional analyses. Laboratory results indicated that thermogenic gas was present in the Jurgensmeier water well. Thermogenic gas typically contains methane (C1), ethane (C2), propane (C3), iso-butane (iC4), normal butane (nC4), iso-pentane (iC5), normal pentane (nC5), and hexane (C6).

On March 16, 2004 COGCC environmental staff collected an additional gas sample from the complainant's water well for isotopic analyses. Additionally, a gas sample was collected from the bradenhead of the subject well. The laboratory results were summarized in COGCC correspondence dated May 17, 2004. The isotopic signature of the bradenhead sample was very similar to the gas in the Jurgensmeier water well.

As of March 22, 2004 the name change from Bonanza Creek Oil Company, LLC to Bonanza Creek Operating Company, LLC became effective.

Following workover operations, a mechanical integrity test ("MIT") was conducted on the subject well on March 26, 2004. The well passed the MIT and was witnessed by COGCC staff.

On May 17, 2004, COGCC issued a Notice of Alleged Violation ("NOAV") to Bonanza Creek. The NOAV cited violations of Rule 209., failure to protect water-bearing formations; Rule 317.d., failure to prevent the migration of oil, gas or water resulting in the degradation of ground water; Rule 324A.a., failure to prevent the unauthorized discharge of Exploration and Production ("E&P") waste; Rule 324A.b., performing an act or practice which shall constitute a violation of water quality standards or classifications established by the Water Quality Control Commission ("WQCC") for waters of the state; Rule 906.b.(3), requirement to report a spill/release which impacted waters of the state; and Rule 910.a., exceeding the allowable concentrations for ground water in Table 910-1. Corrective action included the submittal of a Spill/Release Report, Form 19 and a Site Investigation and Remediation Workplan, Form 27 by May 31, 2004.

Per return receipt, the NOAV was accepted by Bonanza Creek on May 20, 2004.

On May 31, 2004, COGCC received the Spill/Release Report, Form 19 and the Site Investigation and Remediation Workplan, Form 27 submitted by Bonanza Creek. The Form 27 was conditionally approved on June 6, 2005.

On June 23, 2004, COGCC staff met with consultants for Bonanza Creek to collect representative gas and water samples in accordance with the approved Remediation Workplan. Laboratory results were summarized in correspondence dated August 31, 2004. Benzene was not detected in the sample. Chloride was measured at a concentration of 228 mg/l. The TDS concentration was measured at 1,086 mg/l. Methane was measured at a concentration of 1.3 mg/l. Laboratory results of the gas sample indicated that only C1, C2, and C6 gases were present.

On July 6, 2004, the COGCC received a Sundry Notice, Form 4 for the workover and recompletion operations performed on the subject well. This form documented holes in the casing located just above 1,250 feet and between 761-795 feet.

On September 17, 2004, COGCC staff sent correspondence to Bonanza Creek outlining additional requirements to the Site Investigation and Remediation Workplan, Form 27.

On September 28, 2004, COGCC staff met with consultants for Bonanza Creek to collect representative gas and water samples. Laboratory results were summarized in correspondence dated October 12, 2004. Benzene was not detected in the sample. Chloride was measured at a concentration of 36.7 mg/l. The TDS concentration was measured at 1,516 mg/l. Methane was measured at a concentration of 0.25 mg/l. Laboratory results of the gas sample indicated that no C1 through C6 gases were present.

On October 22 and 29, 2004, consultants for Bonanza Creek collected representative gas and water samples. Laboratory results were summarized in correspondence dated November 10, 2004. Benzene was not detected in the samples.

On November 4 and 12, 2004, consultants for Bonanza Creek collected representative gas and water samples. Laboratory results were summarized in correspondence dated November 29, 2004. Benzene was not detected in the samples.

On November 29, 2004, COGCC staff resolved the NOAV.

On December 20, 2004 and January 7, 2005, consultants for Bonanza Creek collected representative gas and water samples. Laboratory results were summarized in correspondence dated February 14, 2005. Benzene was not detected in the 12/20/04 sample. Laboratory results of the 1/7/05 gas sample indicated that only a trace amount of C1 gas was present.

On March 25, 2005, consultants for Bonanza Creek collected representative gas and water samples. Laboratory results were summarized in correspondence dated April 21, 2005. Benzene was not detected in the sample. Chloride was measured at a concentration of 15.9 mg/l. The TDS concentration was measured at 1,052 mg/l. Methane was measured at a concentration < 0.01 mg/l. Laboratory results of the gas sample indicated that no C1 through C6 gases were present.

On June 24, 2005, consultants for Bonanza Creek collected representative gas and water samples. Laboratory results were summarized in correspondence dated July 15, 2005. Benzene was not detected in the sample. Chloride was measured at a concentration of 19.4 mg/l. The TDS concentration was measured at 1,080 mg/l. Methane was measured at a concentration < 0.01 mg/l. This sampling event was the last required sampling by the COGCC and no further action has been requested. The benzene, toluene, ethylbenzene, and xylene ("BTEX") compounds in the Jurgensmeier well water have been non-detectable for four (4) quarters of monitoring. A COGCC closure letter is pending.

Based on the above findings, COGCC staff recommends that Bonanza Creek Operating Company, LLC be found in violation of Rules 209., 317.d., 324A.a., 324A.b., and 910.a., for failure to prevent the migration of oil, gas or water resulting in the degradation of ground water; for failure to prevent the unauthorized discharge of Exploration and Production ("E&P") waste; for performing an act or practice which shall constitute a violation of water quality standards or classifications established by the Water Quality Control Commission ("WQCC") for waters of the state; and for exceeding the allowable concentrations for ground water in Table 910-1.

Rule 523. specifies a base fine of One Thousand dollars (\$1,000.00) per day for each violation of Rules 209., 317.d., 324A.a., 324A.b., and 910.a., and a base fine for violations of the Oil and Gas Conservation Act shall be determined by the Commission at its discretion.

A monetary penalty of Five Thousand dollars (\$5,000.00) should be assessed against Bonanza Creek Operating Company, LLC, in accordance with Rule 523.a. for violation of Rules 209., 317.d., 324A.a., 324A.b., and 910.a.

The following mitigating factors were considered in reducing the recommended fine amount to Two Thousand dollars (\$2,000.00) for the following mitigating factors: Rule 523.d.(2), the violator demonstrated prompt, effective and prudent response to the violation; Rule 523.d.(3), the violator cooperated with the Commission with respect to the violation; Rule 523.d.(4), the cause of the violation was outside of the violator's reasonable control and responsibility; and Rule 523.d.(6), the cost of correcting the violation reduced or eliminated any economic benefits to the operator.

On November 16, 2005 COGCC staff issued an Administrative Order By Consent ("AOC") to Bonanza Creek Operating Company, LLC for violation of Rules 209., 317.d., 324A.a., 324A.b., and 910.a., for failure to prevent the migration of oil, gas or water resulting in the degradation of ground water; for failure to prevent the unauthorized discharge of Exploration and Production ("E&P") waste; for performing an act or practice which shall constitute a violation of water quality standards or classifications established by the Water Quality Control Commission ("WQCC") for waters of the state; and for exceeding the allowable concentrations for ground water in Table 910-1 and a proposed fine of two thousand dollars (\$2,000.00) for the violation of the rules. On November 23, 2005, Bonanza Creek Operating Company, LLC agreed to and accepted the AOC, including the fine of two thousand dollars (\$2,000.00).

NOTICE IS HEREBY GIVEN, that the Oil and Gas Conservation Commission of the State of Colorado, pursuant to the above, has scheduled the above-entitled matter for hearing on:

Date:	Monday, February 13, 2006 Tuesday, February 14, 2006
Time:	9:00 a.m.
Place:	Suite 801, The Chancery Building 1120 Lincoln Street Denver, Colorado 80203

In accordance with the Americans with Disabilities Act, if any party requires special accommodations as a result of a disability for this hearing, please contact Margaret Humecki at (303) 894-2100 ext. 139, prior to the hearing and arrangements will be made.

Pursuant to said hearing in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter such orders as it deems appropriate to protect the health, safety and welfare of the public and to prevent the waste of oil and gas, either or both, in the operations of said field, and to carry out the purposes of the statute.

In accordance with Rule 509., any interested party desiring to protest the granting of the application or to intervene on the application should file with the Commission a written protest or intervention no later than January 30, 2006, briefly stating the basis of the protest or intervention. Such interested party shall, at the same time, serve a copy of the protest or intervention to the person filing the application. An original and nine (9) copies shall be filed with the Commission (Rule 503.). **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of January 30, 2006.** Pursuant to Rule 503.e., if a party who has received notice under Rule 503.b. wishes to receive further pleadings in the above-referenced matter, that party must file a protest or intervention in accordance with these rules.

IN THE NAME OF THE STATE OF COLORADO

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By _____
Patricia C. Beaver, Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
January 13, 2006