

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

IN THE MATTER OF ALLEGED VIOLATIONS	)	CAUSE NO. 1V
OF THE RULES AND REGULATIONS OF THE	)	
COLORADO OIL AND GAS CONSERVATION	)	DOCKET NO. 0607- OV-10
COMMISSION BY <b>WALLACE OIL AND GAS INC.</b> ,	)	
BACA COUNTY, COLORADO	)	

NOTICE OF HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

Wallace Oil and Gas Inc. ("Wallace") is the operator of the Newman #1-7 Well located in the SW¼ NE¼ of Section 7, Township 32 South, Range 41 West, 6<sup>th</sup> P.M., the Hume #17-1 Well located in the SW¼ SE¼ of Section 17, Township 32 South, Range 41 West, 6<sup>th</sup> P.M., and the Watkins #1 Well located in the SE¼ NW¼ of Section 20, Township 32 South, Range 41 West, 6<sup>th</sup> P.M.

On October 25, 2004, the Colorado Oil & Gas Conservation Commission ("COGCC") docketed the three (3) wells for hearing, with a request to approve an Order Finding Violation finding Wallace in violation of Rule 326.b., failure to perform a mechanical integrity test within two (2) years of being shut-in, for the three (3) wells. The matter was withdrawn from the docket after Wallace submitted delinquent Operator's Monthly Report of Operations, Form 7, for the three (3) wells.

On October 21, 2005, COGCC staff sent a letter via certified mail to Wallace. The letter informed Wallace that Operator's Monthly Report of Operations, Form 7, were delinquent beginning May 2005, for the Newman #1-7 Well, the Hume #17- Well and the Watkins #1 Well. The letter informed Wallace that the three (3) Wells were in violation of Rule 309., and requested that Wallace submit the required information by November 20, 2005. The COGCC received no response from Wallace.

On December 2, 2005, COGCC staff issued Notices of Alleged Violation ("NOAVs") to Wallace for alleged violations found on the three (3) Wells. The Newman #1-7 and Hume #17-1 Wells were alleged to be in violation of Rule 309., each producer or operator of an oil or gas well shall file with the Commission, within forty-five (45) days after the month in which production occurs, a report on Operator's Monthly Report of Operations, Form 7, containing all information required by said form. The NOAVs for these two (2) Wells specified an abatement date of December 20, 2005. The Watkins #1 Well was alleged to be in violation of Rule 319.b.(3), a well that has ceased production shall be abandoned within six (6) months unless the time is extended by the Director upon application by the owner, and Rule 326.b., a mechanical integrity test shall be performed within two (2) years of initial shut-in date. This NOAV had an abatement date of February 28, 2006.

The NOAVs were sent Certified Mail, Return Receipt to Wallace. Per United States Postal Service tracking records, the NOAVs were delivered to Wallace on December 5, 2005. Wallace did not respond to nor abate the violations alleged by the NOAVs.

On March 31, 2006, COGCC staff offered Wallace an Administrative Order By Consent ("AOC") by certified mail. The return receipt of delivery to Wallace recorded April 18, 2006, as the date of delivery. To date, Wallace has not contacted the COGCC to discuss the AOC.

The COGCC has not received the required Operator's Monthly Report of Operations, Form 7, for the Newman #1-7 and Hume #17-1 Wells, nor has Wallace submitted any documentation that the alleged violations have been corrected for the Watkins #1 Well.

Based on the above findings, COGCC staff recommends that Wallace be found in violation of Rule 309., each producer or operator of an oil or gas well shall file with the Commission, within forty-five (45) days after the month in which production occurs, a report on Operator's Monthly Report of Operations, Form 7, containing all information required by said form, for the Newman #1-7 and Hume #17-1 Wells; Rule 319.b.(3), a well that has ceased production shall be abandoned within six (6) months unless the time is extended by the Director upon application by the owner, and Rule 326.b., a mechanical integrity test shall be performed within two (2) years of initial shut-in date, for the Watkins #1 Well.

Rule 523. specifies a base fine of Five Hundred dollars (\$500.00) per day for each violation of Rule 309., and a base fine of One Thousand dollars (\$1,000.00) per day for each violation of Rules 319.b.(3) and 326.b.

A monetary penalty of Six Thousand dollars (\$6,000.00) should be assessed against Wallace Oil and Gas Inc., in accordance with Rule 523.a., for violation of Rules 309., 319.b.(3), and 326.b.

Wallace should bring the Newman #1-7 and Hume #17-1 Wells into compliance with COGCC rules within thirty (30) days of the date the order is issued.

Should Wallace not comply with the above, COGCC staff should be authorized to suspend the Certificates of Clearance, Form 10, preventing the gathering of gas for sales, for the Newman #1-7 and Hume #17-1 Wells.

Wallace should bring the Watkins #1 Well into compliance with COGCC rules within ninety (90) days of the date the order is issued.

Should Wallace not comply with the above, within one hundred and eighty (180) days of the date the order is issued, COGCC staff should be authorized to make a claim on the five thousand dollar (\$5,000) plugging bonds posted by Wallace for any or all of the three (3) wells, in order to plug, abandon and reclaim any or all of the three (3) wells not in compliance with Commission Rules.

Should Wallace not comply with the above, COGCC staff should not approve any Application for Permit-to-Drill, or approve any Change of Operator, Form 10, for Wallace.

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, July 10, 2006  
Tuesday, July 11, 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 June 26, 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 June 26, 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  
June 9, 2006