

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

IN THE MATTER OF CHANGES TO THE RULES AND) CAUSE NO. 1R
REGULATIONS OF THE OIL AND GAS CONSERVATION)
COMMISSION OF THE STATE OF COLORADO) DOCKET NO. 0708-RM-01

NOTICE OF RULE-MAKING HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

The Oil and Gas Conservation Commission, on its own motion, will consider increasing the charge imposed by the Conservation Mill Levy from five tenths of one mill (\$0.0005) to nine and one quarter tenths of a mill (\$0.000925) on the dollar as provided for in §34-60-122(1) (a), C.R.S., as amended, effective October 30, 2007, retroactive to July 1, 2007.

Rule 310A. would be renumbered as Rule 310. and the second paragraph would be amended as shown below:

310A. COGCC Form 8. MILL LEVY

The levy shall be an amount fixed by order of the Commission. The levy amount may, from time to time, be reduced or increased to meet the expenses chargeable against the oil and gas conservation AND ENVIRONMENTAL RESPONSE fund. The present charge imposed, as of July 1, 2004 2007, is ~~five tenths of a mill (\$0.0005)~~ NINE AND ONE QUARTER TENTHS OF A MILL (\$0.000925) per dollar value.

Rule 310B. would be deleted as shown below:

310B. COGCC Form 8A. ENVIRONMENTAL RESPONSE FUND LEVY

~~On or before March 1, June 1, September 1 and December 1 of each year, every producer or purchaser, whichever disburses funds directly to each and every person owning a working interest, a royalty interest, an overriding royalty interest, a production payment and other similar interests from the sale of oil or natural gas subject to the charge imposed by §34-60-122 (1) (b) C.R.S., 1973, as amended, shall file a Form 8A, Environmental Response Fund report with the Director showing the total volume of oil, gas or condensate produced or purchased during the preceding calendar quarter, including the total consideration due or received at the point of delivery from all leases listed on the corresponding mill levy, Form 8. No filing shall be required when the surcharge imposed is zero.~~

~~The Environmental Response Fund surcharge shall be an amount fixed by order of the Commission. The surcharge amount may, from time to time, be reduced or increased to meet the expenses chargeable against the oil and gas Environmental Response Fund. As of October 1, 1996, the surcharge shall be zero mill (\$0.0000) on the dollar.~~

Minor modifications to the rule proposed above may be made at the time of hearing.

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, August 27, 2007
Tuesday, August 28, 2007

Time: 9:00 a.m.

Place: Suite 801, The Chancery Building
1120 Lincoln Street
Denver, CO 80203

Copies of the current Rules and Regulations are available at the office of the Oil and Gas Conservation Commission, 1120 Lincoln Street, Suite 801, Denver, Colorado 80203, for \$10.00 or by mail upon the receipt of a check or money order for \$15.00, at the same address. The Rules and Regulations are also available on the Commission Internet homepage at <http://www.oil-gas.state.co.us>.

Pursuant to said hearing, in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter its order adopting such rules as in its judgment the facts may justify.

Written comments on the proposed rule change to be considered are requested to be submitted by **August 13, 2007** for more complete consideration by the Commission. Opportunity for testimony from any interested party will be provided at the hearing, however the time in which to present testimony may be limited and parties sharing similar viewpoints are requested to appoint a spokesperson to present their testimony at the hearing.

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 15, 2007

Submit comments to:
Colorado Oil and Gas Conservation Commission
Attn: P. C. Beaver, Docket No. 0708-RM-01
1120 Lincoln Street, Suite 801
Denver, CO 80203

Exhibit A

STATEMENT OF BASIS AND PURPOSE

This statement sets forth the basis, specific authority, and purpose for the amendments to Rule 310A. and Rule 310B. of the Rules and Regulations ("Rules" or, individually, "Rule") of the Colorado Oil and Gas Conservation Commission ("Commission"), 2 CCR 404-1. The amendments to the Rules are proposed for hearing by the Commission on August 27-28, 2007. This statement is hereby incorporated by reference in the amendments as adopted.

AUTHORITY

The Commission's authority is primarily set forth in the provisions of Title 34, Article 60 of the Colorado Revised Statutes, as amended, specifically, the "Oil and Gas Conservation Act," §§ 34-60-101 through 126, C.R.S. (2006).

C.R.S. §§ 34-60-122(1)(a) and (5) establish the oil and gas conservation and environmental response fund ("Fund").

C.R.S. § 34-60-122(1)(a) gives the Commission authority to impose a charge on the market value at the well of all oil and natural gas produced, saved, and sold or transported from the field where produced, not to exceed one and seven-tenths mill (\$0.00170) on the dollar.

C.R.S. § 34-60-122(1)(a) requires the Commission to fix the charge by order and gives the Commission authority to reduce or increase the amount from time to time to meet the expenses chargeable against the Fund.

C.R.S. § 34-60-124(10) requires that a portion of the Fund be spent to cover the cost of administering the Oil and Gas Conservation Act, including staffing, overhead, enforcement, and environmental response.

C.R.S. § 34-60-124(4)(a) authorizes the Commission to spend monies from the Fund to (i) investigate, prevent, monitor, or mitigate conditions related to oil and gas operations that threaten to cause, or that actually cause, a significant adverse environmental impact on any air, water, soil, or biological resource, (ii) gather background or baseline data on any air, water, soil, or biological resource that the Commission determines may be impacted by the conduct of oil and gas operations, and (iii) investigate alleged violations of any provision of the Oil and Gas Conservation Act, any rule, or order of the Commission, or any permit where the alleged violation threatens to cause or actually causes a significant adverse environmental impact.

C.R.S. § 34-60-129 (enacted in 2007 by passage of HB 07-198) requires the Commission to monitor and mitigate the seepage of coalbed methane from the Fruitland Formation outcrop in La Plata and Archuleta Counties. The money for this project is to come from the Fund.

PURPOSE

Prior to 2005, there were separate levies authorized by C.R.S. § 34-60-122, one for the oil and gas conservation fund (Rule 310A.) and the other for the environmental response fund (Rule 310B.). In 2005, the Colorado General Assembly modified C.R.S. § 34-60-122 and combined

the two funds into the Fund, earmarking an account within the Fund as the environmental response account. C.R.S. §§ 34-60-122(1)(a) and (5).

The proposed amendments will combine Rules 310A. and 310B. into a single Rule 310. to reflect the combined Fund that was enacted by the 2005 legislative changes to C.R.S. § 34-60-122.

The proposed amendments will increase the charge (levy) imposed by the Commission, pursuant to C.R.S. § 34-60-122(1)(a), from five tenths of a mill (\$0.0005) (set in 2004) to nine and one quarter tenths of a mill (\$0.000925) per dollar of market value at the well of all oil and natural gas produced, saved, and sold or transported from the field where produced.

The increased levy is necessary to supplement the Commission's administration and operation budget, which has increased dramatically in the past three years because of increased drilling activity in the state. Staff requirements are 57% higher than three years ago, requiring additional funds for salaries to attract qualified professionals. More than half of the recently hired staff is in the field near areas of active drilling, requiring expenditures for, among other things, additional equipment, computers, and vehicles.

The increased levy is also necessary to maintain the Fund balance adequately to address environmental response needs (not to exceed \$4 million) as required by C.R.S. § 34-60-122(1)(b).

The increased levy is also necessary to meet the estimated expense of the three-year project required by C.R.S. § 34-60-129 (\$2,003,400 for each of the first two years and \$445,200 for the third year).