

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. 0711-OV-10
RED RIVER RANCH HOLDINGS LLC,)	
LAS ANIMAS COUNTY, COLORADO		

NOTICE OF ADMINISTRATIVE ORDER BY CONSENT

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On October 19, 2006, Red River Ranch Holdings LLC ("Red River") notified the Colorado Oil and Gas Conservation Commission ("COGCC" or "Commission") staff of a release at the Red River Ranch No.18-3E wellsite ("RR No.18-3E," API #05-071-08976) located in the NW¼ SW¼ of Section 18, Township 35 South, Range 67 West, 6th P.M.

The release was an uncontrolled discharge of approximately 480 barrels of exploration and production ("E&P") waste, consisting of formation water, drill cuttings, and produced water, that over-flowed the onsite reserve pit, flowed downhill in an easterly direction, and entered the Lorencito Canyon waterway, which is located approximately 150 feet from the well site. The released E&P waste flowed approximately four miles downstream of the point where it entered the Lorencito Canyon waterway. The release occurred on October 18 and 19, 2006 and was discovered by an adjacent gas operator.

On October 19, 2006, Red River reported the release to the Colorado Department of Public Health and Environment ("CDPHE") Release and Incident System. On October 26, 2006, Red River provided the five-day follow up report to the CDPHE, as required.

On October 24, 2006, COGCC staff inspected the release site and observed deposits of drill cuttings on the hillside east of the well site and on the bottom of the stream in Lorencito Canyon.

On November 1, 2006, COGCC staff issued Notice of Alleged Violation ("NOAV") #200098314 to Red River citing the following violations:

- a. Rule 209., which requires operators to take special precautions in drilling wells to guard against any loss of artesian water from the stratum in which it occurs and the contamination of fresh water by objectionable water, oil, or gas;
- b. Rule 324A.a., which requires the operator to take precautions to prevent significant adverse environmental impacts to water, soil, or biological resources to the extent necessary to protect public health, safety and welfare, to protect environmental quality, and to prevent the unauthorized discharge or disposal of E&P waste;
- c. Rule 324A.b., which states that no operator shall perform 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;
- d. Rule 907.a.(1), which requires operators to ensure that E&P waste is properly stored, handled, or disposed of to prevent threatened or actual significant adverse environmental impacts to water, soil or biological resources; and
- e. Rule 907.a.(2), which requires E&P waste management activities to be conducted and facilities constructed and operated to protect the waters of the state from significant adverse environmental impacts from E&P waste.

The NOAV abatement and corrective actions required Red River to provide to the COGCC a Site Investigation and Remediation Work Plan, Form 27, to address impacts to soil and water resources, and an Operation Plan, to provide a description of methods, processes and procedures Red River would implement to protect water-bearing formations and to ensure the proper management of E&P waste on future drilling projects. The NOAV abatement date was

November 8, 2006 for submittal of the Site Investigation and Remediation Work Plan, Form 27 and the Operation Plan, and November 30, 2006 for completion of the investigation.

Red River responded to the NOAV on November 8, 2006 by submitting the Site Investigation and Remediation Work Plan, Form 27 and the Operation Plan. A summary report that described the site investigation and remedial actions was submitted to the COGCC on November 30, 2006. The summary report also included a discussion of Red River's emergency response actions implemented on October 19, 2006.

COGCC staff, after review of records and documents regarding the October 18-19, 2006 release, including analytical laboratory results for water, soil, and sediment samples collected by O&G Environmental Consulting LLC. during the site investigation, concluded that the release consisted of drill cuttings, formation water, and produced water. The analytical laboratory results along with visual observations indicated that the deposition of drill cuttings on the stream bottom did not create a long-term impact to the Lorencito Canyon water way.

Red River acted timely and responsively by reporting the release to the COGCC and CDPHE, by initiating emergency response actions, and by correcting the condition leading to the release.

Red River should be found in violation of Rule 209. for not taking special precautions in drilling the RR No. 18-3E Well to guard against any loss of artesian water from the stratum in which it occurred and the contamination of fresh water by objectionable water, oil, or gas.

Red River should be found in violation of Rule 324A.a. for not taking adequate precaution to prevent significant adverse environmental impacts to water resources to the extent necessary to protect public health, safety and welfare, to protect environmental quality, and to prevent the unauthorized discharge of E&P waste.

Red River should be found in violation of Rule 324A.b. for violating WQCC's *Basic Standards and Methodologies for Surface Water* (5 CCR 1002-31, "Regulation 31"), which requires that surface waters of the state be free from substances attributable to human-caused point source or non-point source discharge in amounts, concentrations, or combinations that can settle to form bottom deposits detrimental to beneficial uses. See Regulation 31 at 31.11(1)(a)(i).

Red River should be found in violation of Rule 907.a.(1) for not ensuring that E&P waste was properly stored, handled, or disposed of to prevent threatened or actual significant adverse environmental impacts to water, soil or biological resources.

Red River should be found in violation of Rule 907.a.(2) for not conducting E&P waste management activities and not constructing and operating facilities to protect the waters of the state from significant adverse environmental impacts from E&P waste.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rule 209. The RR No.18-3E Well was spud on October 17, 2006 and cased on October 20, 2006 for four days of violation of Rule 209. A fine of Four Thousand dollars (\$4,000) for violation of Rule 209. should be assessed against Red River in accordance with Rule 523.a.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) for each violation of Rule 324A.a. E&P waste was discharged to waters of the state from October 18, 2006 to October 19, 2006 for two days of violation of Rule 324A.a. A fine of Two Thousand dollars (\$2,000) for violation of Rule 324A.a. should be assessed against Red River in accordance with Rule 523.a.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rule 324A.b. E&P waste were discharged to waters of the state from October 18, 2006 to October 19, 2006 for two days of violation of Rule 324A.b. A fine of Two Thousand dollars (\$2,000) for violation of Rule 324A.b. should be assessed against Red River in accordance with Rule 523.a.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rule 907.a.(1). E&P waste was discharged to waters of the state on October 18, 2006 and October 19, 2006 for two days of violation of Rule 907.a.(1). A fine of Two Thousand dollars

(\$2,000) for violation of Rule 907.a.(1) should be assessed against Red River in accordance with Rule 523.a.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rule 907.a.(2). E&P waste was discharged from the RR No.18-3E wellsite and deposited in the Lorencito Canyon waterway on October 18, 2006 and October 19, 2006 for two days of violation of Rule 907.a.(2). A fine of Two Thousand dollars (\$2,000) for violation of Rule 907.a. (2) should be assessed against Red River in accordance with Rule 523.a.

Rule 523.d. specifies that a fine may be adjusted because of mitigating factors. The following mitigating factors should be considered in adjusting the fine for the release of E&P waste from the RR No.18-3E wellsite: (1) Red River demonstrated prompt, effective response to the violations; (2) Red River cooperated with the COGCC with respect to the violations; and (3) the cost of correcting the violations reduced the economic benefit to Red River.

The total fine assessed in paragraphs #15 though #19 is Twelve Thousand dollars (\$12,000). The fine should be decreased by ten percent (10%) because of the mitigating factors enumerated in paragraph #20, resulting in a recommended fine of Ten Thousand Eight Hundred dollars (\$10,800).

Pursuant to Article IX, of the "Memorandum of Agreement" between the Water Quality Control Division ("WQCD") of CDPHE and COGCC, adopted February 15, 2000, COGCC staff conferred with WQCD enforcement staff in determining the monetary penalty against Red River for violations of WQCC standards for surface waters. WQCD indicated it agrees with the fine and the terms of this AOC and will not pursue any additional penalty.

On August 14, 2007, COGCC staff issued an Administrative Order by Consent ("AOC") to Red River Ranch Holdings LLC, for the violation of Rule 209. for failure to take special precautions in drilling to guard against any loss of artesian water from the stratum in which it occurred and the contamination of fresh water by objectionable water, oil, or gas; Rule 324A.a. for not taking adequate precautions to prevent significant adverse environmental impacts to water resources to the extent necessary to protect environmental quality, and to prevent the unauthorized discharge of E&P waste; Rule 324A.b. for violating WQCC's standard that surface waters of the state shall be free from substances attributable to human-caused point source or non-point source discharge in amounts, concentrations, or combinations that can settle to form bottom deposits detrimental to beneficial uses; Rule 907.a.(1) for not ensuring that E&P waste was properly treated, stored, handled, or disposed of to prevent threatened or actual significant adverse environmental impact; Rule 907.a.(2) for failure to conduct E&P waste management activities and construct and operate E&P waste facilities to protect the waters of the state from significant adverse environmental impact, in drilling the Red River Ranch No.18-3E Well, located in the NW¼ SW¼ of Section 18, Township 35 South, Range 67 West, 6th P.M. and proposing a fine of Ten Thousand Eight Hundred dollars (\$10,800) for violation of the rules. On September 10, 2007, Red River Ranch Holdings LLC, agreed to and accepted the AOC, including the fine of Ten Thousand Eight Hundred dollars (\$10,800).

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, November 5, 2007
Tuesday, November 6, 2007

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 October 22, 2007, 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 13 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 October 22, 2007.** Pursuant to Rule 503.f., 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
October 5, 2007