

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. 0801-OV-01
COLORADO INTERSTATE GAS COMPANY,)
MORGAN COUNTY, COLORADO)

NOTICE OF ADMINISTRATIVE ORDER BY CONSENT

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On September 26, 1958, the Colorado Oil and Gas Conservation Commission (“the Commission” or “COGCC”) issued Order No. 49-4, which approved pressure maintenance operations pursuant to a unit agreement for the Fort Morgan Field (“Field”). The operations involved injecting and recycling gas into and from the “D” Sand reservoir to enhance oil recovery.

Colorado Interstate Gas (“CIG”) operates the Field, which is located in Morgan County, Colorado, and occupies 3,220 acres. The storage formation is at approximately 5,500 feet below ground surface (“fbgs”). The maximum storage capacity is 14.8 billion cubic feet of gas at a storage pressure of 2,000 pounds per square inch (“psi”). The gathering pipeline has a “maximum allowable operating pressure” of 2,160 psi guage. Currently, the Field has 34 wells, comprised of: a. 26 injection/withdrawal wells; b. 6 observation wells; and c. 2 salt water disposal (Underground Injection Control) wells.

In July 1972, CIG drilled the Fort Morgan Unit Well #26 (“Well #26,” API #05-087-07228), located in the SW¼ NE¼ of Section 25, Township 3 North, Range 58 West, 6th P.M. Surface casing was set at a depth of 215 fbgs. A wellhead was installed on Well #26 on or about August 23, 1972 and replaced during 2001. A release of gas from this well (“the incident”) occurred on October 22, 2006 and is the subject of this AOC.

On November 7, 2006, CIG submitted a Spill/Release Report (Form 19) and a Site Investigation and Remediation Workplan (Form 27) as required by the COGCC. This was supplemented by a draft Environmental and Engineering Assessment Workplan (the “Workplan”), submitted on November 17, 2006.

On December 18, 2006, COGCC staff issued Notice of Alleged Violation (“NOAV”) #1175591 to CIG for Well #26, citing violations of the following rules: Rule 209., Rule 317.d., Rule 324A.a., Rule 324A.c., Rule 324A.d., Rule 326.d., Rule 327., h. Rule 404., Rule 906.a., and Rule 907.a.

Corrective action in the NOAV required CIG, among other things, to provide the COGCC with the data to be acquired pursuant to the Workplan and addendum and to provide a draft Operating Plan outlining the operational practices and regulatory oversight of the Field by January 31, 2007.

On August 31, 2007, COGCC staff issued a Notice of Alleged Violation (“NOAV”) #1175635 to CIG for Well #26, citing a violation of Rule 324A.b., for conducting oil and gas operations which constituted a violation of the water quality standard for benzene established by the Water Quality Control Commission for waters of the state.

CIG is the “responsible party” within the meaning of CRS 34-60-124(8) for an unauthorized release of gas that caused a significant adverse environmental impact to air, water, soil or biological resources. The incident involved a significant risk to public safety, a significant waste of gas resources, and resulted in significant loss or damage to public or private property. Accordingly, the maximum penalty of \$10,000 provided in C.R.S. §34-60-121(1) does not apply in this matter.

Based on the above findings, COGCC staff recommends that CIG be found in violation of the following provisions of the Oil and Gas Conservation Act and COGCC Rules and Regulations with respect to the incident:

a. Rule 209, for failure to exercise due care to protect water-bearing formations;

b. Rule 317.d., for failure to plan and maintain a casing program to prevent the migration of oil, gas or water from one horizon to another, that may result in the degradation of ground water;

c. Rule 324A.a., for failure to take precautions to prevent significant adverse environmental impacts to air, water, soil, or biological resources to the extent necessary to protect public health, safety and welfare and to prevent the unauthorized discharge of oil, gas, or E&P waste;

d. Rule 324A.b., for conducting oil and gas operations which constituted a violation of water quality standards established by the WQCC for waters of the state;

e. Rule 326.d., for failure to maintain mechanical integrity;

f. Rule 327., for failure to take reasonable precautions to prevent oil, gas or water from blowing uncontrolled;

g. Rule 906.a., for failure to control and contain a spill/release of E&P waste immediately upon discovery (which, according to COGCC staff, includes the point in time at which the release could have been discovered by reasonable diligence); and

h. C.R.S. §34-60-107 which prohibits the waste of oil and gas.

Rule 523.a. and c. specify a base fine of One Thousand dollars (\$1,000) for each day of violation of each of the Rules cited above. C.R.S. §34-60-121(1) specifies that a violation of a provision of the statute may be subject to a fine of up to One thousand dollars (\$1,000) for each day of violation. The parties disagree on the calculation of the number of days of each violation but have agreed to a base fine of One Hundred Ninety-six Thousand dollars (\$196,000) for violation of Rules 209., 317.d., 324A.a., 326.d., 327., 906.a, and C.R.S. §34-60-107. They further agree to a fine of \$10,000 for exceeding the state water quality standard for benzene, in violation of Rule 324A.b. CIG should be assessed a total base fine of Two Hundred Six Thousand dollars (\$206,000) for violation of Rules 209., 317.d., 324A.a., 324A.b., 326.d., 327., 906.a., and C.R.S. §34-60-107.

Rule 523.a.(2) specifies that base fines may be adjusted upward by aggravating factors pursuant to Rule 523.d. COGCC staff recommends increasing the base fine by Two Hundred Ten Thousand dollars (\$210,000) ($\$10,000 \times 3$ aggravating factors $\times 7$ violations (excluding Rule 324A.b.)) because of the following aggravating factors:

a. The violations caused, or threatened to cause, a significant adverse environmental impact to air, water, soil or biological resources or on public health, safety and welfare;

b. The violations resulted in significant waste of oil and gas resources; and,

c. The violations resulted in significant loss or damage to public or private property.

Rule 523.a.(2) specifies that base fines may be adjusted downward by mitigating factors pursuant to Rule 523.d. COGCC staff recommends reducing the base fine by Forty Two Thousand dollars (\$42,000) ($\$2,000 \times 3$ mitigating factors $\times 7$ violations (excluding Rule 324A.b.)) because of the following mitigating factors:

a. CIG self-reported the incident and took prompt, effective and prudent response measures, including assistance to impacted parties;

b. CIG cooperated with the COGCC with respect to the incident;

c. The cost of responding to the incident eliminated any economic benefit to CIG for failure to take adequate precautions.

The adjustment factors are weighted toward an upward adjustment in the recommended fine because of the significant loss of gas, the distance the gas release traveled from Well #26, the proximity of surface impacts to the manned gas processing facility and

residences, the required long-term evacuation of two houses, and the areal extent of the required subsurface mitigation. Applying the aggravating and mitigating adjustment factors to the base fine results in a total recommended fine of Three Hundred Seventy-four Thousand dollars (\$374,000).

COGCC staff recommends that this Order require CIG to conduct Field activities in accordance with the Operating Plan received by the COGCC on February 6, 2007. The Operating Plan should be amended to require three-times weekly (with at least a day between) readings of shut-in surface casing (bradenhead) pressure. To the extent that such pressure exceeds a gradient of 0.25psi/foot at the casing shoe, the well shall be shut in for a blow-down test to be conducted within 24 hours, and the results promptly reported to the COGCC. Blow-down tests shall be conducted on all wells in the Field during the semi-annual reservoir survey, and the COGCC shall be notified 48 hours in advance so that it may send an inspector to monitor such tests. The Operating Plan shall be subject to further amendment from time to time, with COGCC approval, including to conform it to any rule or regulation that the Commission may adopt with respect to gas storage operations generally.

CIG should assess the feasibility of equipping the Field with remote monitoring (e.g., surface casing pressure, gas leak detection) and report its conclusions to the COGCC on or before July 1, 2008.

CIG should continue to conduct further site investigation, monitoring activities, and other remedial requirements as necessary to comply with the approved Workplan and any addenda as may be approved by the COGCC staff.

On December 14, 2007, COGCC staff issued an Administrative Order by Consent ("AOC") to Colorado Interstate Gas Company for violation of Rules 209., 317.d., 324A.a., 324A.b., 326.d., 327., 906.a., and C.R.S. §34-60-107 at Well #26, located in the SW¼ NE¼ of Section 25, Township 3 North, Range 58 West, 6th P.M., proposing a fine of Three Hundred Seventy-four Thousand dollars (\$374,000.00) for violation of the rules statute. On December 14, 2007, CIG agreed to and accepted the AOC, including the fine of Three Hundred Seventy-four Thousand dollars (\$374,000.00).

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: Tuesday, January 15, 2008
Wednesday, January 16, 2008

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 2, 2008, 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. **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of January 3, 4 or 7, 2008.** 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
December 14, 2007