

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. 0906-OV-08
SAMOTLOR PETROLEUM INVESTMENTS, LLC)
CHEYENNE COUNTY, COLORADO

NOTICE OF HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

The Golden Hammer Lowe "H" #2 Well (API # 05-017-06905) is located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 18, Township 16 South, Range 44 West, 6th P.M. and is operated by Samotlor Petroleum Investments, LLC ("Samotlor"). Magnum Oil drilled the well in 1988 but was not able to complete it as a producer because of lost equipment in the hole. In 1995 Samotlor obtained the well from Cavanaugh & Cavanaugh Inc. and converted it to a water disposal well, which was approved by the Commission on June 19, 1996. The well was used for water disposal between approximately October 1995 and July 1999. Since that time, it has been incapable of being used for injection. The well passed its most recent mechanical integrity test ("MIT") which was performed on November 25, 2002.

On July 26, 2007, the COGCC staff issued Notice of Alleged Violation #200115641 ("first NOAV") to Samotlor, citing violations of the following Rules:

- a. Rule 210.b.(1), which requires the operator to install a permanent sign at the wellhead within 60 days of completion of the well;
- b. Rule 319.b.(1), which requires the operator to obtain approval of the Director to shut-in or temporarily abandon a well for up to six months, to leave the hole in such a manner as to prevent migration of oil, gas, water or other substance from the formation or horizon in which it originally occurred, to close the well with a swedge and valve or packer or other approved method, to keep the well sign in place, to request from the Director an extension of the original six-month time period and explain why the extension is needed, and to submit a Sundry Notice (Form 4) or other approved form annually, setting forth the status of the well and plans for future operation;
- c. Rule 326.d., which requires the operator to conduct an MIT within two years of the initial shut-in date and every five years thereafter; and
- d. Rule 603.j., which requires the operator to keep all locations free of weeds.

Corrective actions under the first NOAV required the operator to close in the well immediately, and, by September 26, 2007, to control weeds, MIT the well, install a well sign, and submit proper documentation to continue shut-in status or plug and abandon the well. To date, Samotlor has failed to perform any of the corrective actions required by the first NOAV.

The COGCC staff sent the first NOAV to Samotlor at its last known address in July, August, and October 2007. It appears that the copy of the first NOAV sent in October 2007 was received by Samotlor, but there has been no further communication by the company to the COGCC staff.

On December 7, 2007, the COGCC staff issued Notice of Alleged Violation #200123131 ("second NOAV") to Samotlor, citing violations of the following Rules:

- a. Rule 319.b.(1), which requires the operator to obtain approval of the Director to shut-in or temporarily abandon a well for up to six months, to leave the hole in such a manner as to prevent migration of oil, gas, water or other substance from the formation or horizon in which it originally occurred, to close the well with a swedge and valve or packer or other approved method, to keep the well sign in place, to request from the Director an extension of the original six-month time period and explain why the extension is needed, and to submit a Sundry Notice (Form 4) or other approved form annually, setting forth the status of the well and plans for future operation;
- b. Rule 319.b.(4), which requires the operator to perform an MIT on an injection well that is shut-in or temporarily abandoned within two years after the shut-in date in order to retain its status as shut-in or temporarily abandoned;
- c. Rule 325.e., which requires the proposed disposal well to pass an MIT test prior to approval of the application for using the well for underground disposal of water; and

d. Rule 326.a., which requires MITs on dedicated injection wells every five years after the date of the initial MIT.

Corrective actions under the second NOAV required the operator to MIT or plug and abandon the well by December 28, 2007. To date, Samotlor has failed to perform any of the corrective actions required by the second NOAV.

The COGCC staff sent the second NOAV to Samotlor at its last known address in December 2007. It appears that the second NOAV was received by Samotlor, but there has been no further communication by the company to the COGCC staff.

Repeated attempts by COGCC staff to contact Samotlor have failed in obtaining Samotlor's compliance with the NOAVs.

Samotlor should be found in violation of the following Rules:

a. Rule 319.b.(1), for failure to obtain Director's approval to continue shut-in status of the well for longer than six months;

b. Rule 319.b.(4), for failure to perform an MIT on the injection well within two years after the shut-in date; and

c. Rule 326.a.(4), for failure to perform an MIT on the injection well every five years after the date of the initial MIT.

Rule 523. specifies a base fine of \$1,000 for each violation of Rule 319. and Rule 326.

A total monetary penalty of \$6,000 should be assessed against Samotlor in accordance with Rule 523.a for violations of Rules 319.b.(1), 319.b.(4), and 326.a.(4).

Pursuant to Order No. 1V-248, the COGCC assessed Samotlor \$18,000 in fines for violations at four other wells owned or operated by Samotlor and required Samotlor to bring the wells into compliance within 90 days. If the wells were not brought into compliance the COGCC staff was to foreclose Samotlor's statewide blanket plugging bond (\$30,000) to plug and abandon the wells.

Samotlor did not pay the \$18,000 fine. Samotlor's contractor, working with the insurance company that provided Samotlor's financial assurance, plugged the four wells. COGCC staff did not foreclose the \$30,000 bond.

The Commission should require Samotlor to bring the Golden Hammer Lowe "H" #2 Well into compliance with COGCC rules within 60 days. If Samotlor does not, the Commission should authorize the COGCC staff to foreclose Samotlor's \$30,000 plugging bond, supplemented as may be necessary by funds from the Oil and Gas Conservation and Environmental Response Fund, to plug and abandon the Golden Hammer Lowe "H" #2 Well and reclaim the well site and associated facilities.

The Commission should find that a knowing and willful pattern of violations exists because Samotlor has failed to perform the abatement and corrective actions required by the NOAVs, has failed to contact the COGCC with respect to the NOAVs, and has failed to pay the \$18,000 fine ordered by Order No. 1V-248. Until the fines assessed by this order and Order No. 1V-248 are paid in full, the Director should not approve any Application for Permit-to-Drill, any Certificate of Clearance and/or Change of Operator, Form 10, or other permit for conducting oil and gas operations for Samotlor or any entity of which Mr. Jesse Ferrer is a principal, majority owner, operational or general manager, or which Mr. Ferrer otherwise controls.

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: Thursday, June 11, 2009
Friday, June 12, 2009

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. 5139, 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 8, 2009, 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. **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of June 8, 2009.** 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 _____
Robert A. Willis, Acting Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
May 21, 2009