

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

IN THE MATTER OF ALLEGED VIOLATIONS OF THE RULES)	CAUSE NO. 1V
AND REGULATIONS OF THE COLORADO OIL AND GAS)	
CONSERVATION COMMISSION BY MAGPIE OPERATING,)	DOCKET NO. 1009-OV-07
INC. , MORGAN COUNTY, COLORADO)	

NOTICE OF ORDER FINDING VIOLATION HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On July 14, 1959, Skelly Oil Company spud the J.W. Challis #1 Well (API No. 05-087-06066) (the “Well”), located in the SW¼ SW¼ of Section 34, Township 4 North, Range 59 West, 6th P.M., and, subsequently, completed the Well in the “D” Sand Formation with a total depth of 6,150 feet. On November 1, 1998, Magpie Operating, Inc. (“Magpie”) (Operator No. 52530) became the successor and present operator of the Well. The Well has been temporarily abandoned since, at least, January 1, 1999. Colorado Oil and Gas Conservation Commission (“Commission” or “COGCC”) records indicate that the Well has not passed a mechanical integrity test since Magpie became the operator.

On October 29, 2007, COGCC Staff issued Notice of Alleged Violation (“NOAV”) #200121147 to Magpie for alleged violations of COGCC rules, to include:

- a. Rule 319.b.(1), which allows a well to be temporarily abandoned when completed, upon approval of the Director, for a period not to exceed six months, with any requested extension to be approved by the Director. The operator shall annually submit a Sunday Notice, Form 4, or other form approved by the Director, which states the method the well is closed to the atmosphere and plans for future operation.
- b. Rule 319.b.(3), which requires abandonment of the well that has ceased and is incapable of production within six months, unless that time is extended by the Direction upon application by the owner. In the event the well is covered by a blanket bond, the Director may require an individual plugging bond on the shut-in or temporarily abandoned well.
- c. Rule 326.b.(1), which requires a mechanical integrity test on each shut-in well within two years of the initial shut-in date. A mechanical integrity test shall be performed on each shut-in well on five year intervals from the date the initial mechanical integrity test was performed. If, at any time, surface equipment is removed or the well becomes incapable of production, a mechanical integrity test must be performed within thirty days.

Abatement or corrective actions found in the NOAV required Magpie to either: (1) produce the Well, (2) perform a mechanical integrity test on the Well, or (3) properly plug and abandon the Well. Further, Magpie was required to write a letter explaining how the current situation of the well arose, how similar situations will be prevented in the future, and why the operator should not be fined for violation of the rules.

To date, Magpie has not attempted to perform any of the abatement or corrective actions found in the NOAV.

Magpie should be found in violation of Rules 319.b.(1), 319.b.(3), and 326.b.(1) for its operations at the J.W. Challis #1 Well, located in the SW¼ SW¼ of Section 34, Township 4 North, Range 59 West, 6th P.M.

Rule 523.c. specifies a base fine of One Thousand dollars (\$1,000) per day for violations of Rules 319.b.(1), 319.b.(3), and 326.b.(1). It appears that the violations alleged occurred for a period of more than ten (10) days, however, the violations did not result in significant waste of oil and gas resources, damage to correlative rights, or a significant adverse impact on public health, safety or welfare, including the environment or wildlife resources. Accordingly, the maximum penalty for any single violation shall not exceed Ten Thousand dollars (\$10,000) regardless of the number of days of such violation.

In summary, Magpie should be found in violation of Rules 319.b.(1), 319.b.(3), and 326.b.(1) as described herein, and base fines levied as compiled in the table below:

<i>Rule Violation</i>	<i>Days of Violation</i>	<i>Fine Amount/Violation</i>
319.b.(1)	10	\$10,000
319.b.(3)	10	\$10,000
326.b.(1)	10	\$10,000
Total Maximum Allowable Fine		\$30,000

Further, Magpie should be required to either: (1) produce the Well, (2) perform a mechanical integrity test on the Well, or (3) properly plug and abandon the Well. Further, Magpie should be required to write a letter to the Commission explaining how the current situation of the Well arose and how similar situations will be prevented in the future.

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, September 16, 2010
Friday, September 17, 2010

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 September 1, 2010, 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 September 6, 2010.** Pursuant to Rule 503.g., 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 _____
Carol Harmon, Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
August 25, 2010

Magpie Address of Record:
James M. Warner/Ryan Warner
Magpie Operating, Inc.
2707 S. County Road 11
Loveland, CO 80537