

Humecki, Margaret

12-105



From: Patty Amundson [patty.amundson@state.co.us]
Sent: Tuesday, June 03, 2008 4:03 PM
To: Humecki, Margaret
Cc: olls.ga@state.co.us
Subject: NOTICE - SOS Tracking No. 2008-00186

The rule that you submitted to the Office of Legislative Legal Services on 04/17/2008 concerning Measurement of Oil and Gas, OLLS Docket Number 080203, has been reviewed by staff and no objections have been made.

Please note, however, that this review does not constitute approval or preclude later review by the Committee on Legal Services.

If you have any questions, please do not hesitate to contact this office.

—
Office of Legislative Legal Services
Colorado General Assembly



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Rule Filing Confirmation

Thu Apr 17 16:22:31 MDT 2008

Please print this page for your records

Your rule filing has been submitted to the Secretary of State and Office of Legislative Legal Services.

Tracking Number	2008-00186
Type of Filing	Permanent
Department	400 - Department of Natural Resources
Agency	404 - Oil and Gas Conservation Commission
CCR Number	2 CCR 404-1
CCR Title	PRACTICE AND PROCEDURE
Adopted Rules	AdoptedRules02008-00186.RTF
Is this rule being submitted in response to issues raised by the committee on legal services or by the office of legislative legal services staff? N	
Adopted Date	04/01/2008
Effective Date	05/30/2008
Attorney General Opinion	04/17/2008
Comments	Possible second hearing date April 1, 2008 at same location.
Contact for the Public	
Name	Patricia Beaver
Title	Hearings Manager
Telephone	303-894-2100 x115
Email	tricia.beaver@state.co.us
Contact for SOS, AG and OLLS (if different)	
Name	Margaret Humecki
Title	Hearings Assistant
Telephone	303-894-2100 x 139
Email	margaret.humecki@state.co.us
Purpose or Objective of the Rule	To amend Rules 328. and 329. concerning the measurement of oil and gas.
Basis and Purpose Attachment or Fiscal Statement	BasisandPurposeAttachment2008-00186.RTF
Was regulatory analysis prepared?	N
Statutory Authority	Title 34, Article 60 CRS

Licensing center: 303 894 2200 • Fax: 303 869 4871 • e-mail: sos.licensing@sos.state.co.us



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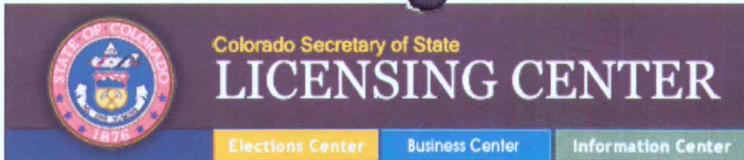
Humecki, Margaret

From: Colorado Department of State [rules@SOS.STATE.CO.US]
Sent: Thursday, April 17, 2008 3:39 PM
To: Humecki, Margaret
Subject: Attorney General Rule Opinion Has Been Issued

Your Attorney General Rule Opinion (or Correction Letter) has been issued for 2 CCR 404-1 Tracking Number 2008-00186. You may now login to the eFiling system and file your adopted rules (or Non-substantive Correction) with the Secretary of State and the Office of Legislative Legal Services.

If you have any questions or need help filing electronically, please contact Candy Herring at 303-860-6942 or candy.herring@sos.state.co.us.

Candy Herring
Administrative Rules Program Manager
Colorado Department of State
303-860-6942
candy.herring@sos.state.co.us



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Attorney General Opinion Request Confirmation

April 14,2008 03:47:13

Please print this page for your records

Your Attorney General Opinion request has been submitted to the Attorney General.
Your tracking number is 2008-00186.

Type of Filing	Permanent
Department	400 - Department of Natural Resources
Agency	404 - Oil and Gas Conservation Commission
CCR Number	2 CCR 404-1
CCR Title	PRACTICE AND PROCEDURE

Adopting Agency	
Adopted Rules	AdoptedRules02008-00186.RTF

Is this rule being submitted in response to issues raised by the Committee on Legal Services or by the Office of Legislative Legal Services Staff? N

Adopted date 04/01/2008

Comments Possible second hearing date April 1, 2008 at same location.

Contact for the Public

Name	Patricia Beaver
Title	Hearings Manager
Telephone	303-894-2100 x115
Email	tricia.beaver@state.co.us

Contact for SOS, AG, and OLLS (if different)

Name	Margaret Humecki
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Telephone	303-894-2100 x 139
Email	margaret.humecki@state.co.us
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NOTE: This bill has been prepared for the signature of the appropriate legislative officers and the Governor. To determine whether the Governor has signed the bill or taken other action on it, please consult the legislative status sheet, the legislative history, or the Session Laws.

An Act

HOUSE BILL 07-1180

BY REPRESENTATIVE(S) White, Buescher, Carroll M., Curry, Fischer, Gibbs, Kerr J., King, Labuda, Levy, Looper, McFadyen, Merrifield, Pommer, Roberts, Rose, Solano, and Gardner C.;
also SENATOR(S) Isgar, Brophy, Fitz-Gerald, Johnson, Kester, Kopp, May R., Penry, Shaffer, Taylor, Ward, Wiens, and Williams.

CONCERNING ACCURATE WELLHEAD OIL AND GAS MEASUREMENT, AND
MAKING AN APPROPRIATION THEREFOR.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 34-60-106 (11), Colorado Revised Statutes, is amended to read:

34-60-106. Additional powers of the commission - rules.

(11) The commission shall promulgate rules: ~~and regulations~~

(a) To protect the health, safety, and welfare of the general public in the conduct of oil and gas operations;

(b) **BY JANUARY 1, 2008, TO ENSURE THE ACCURACY OF OIL AND GAS PRODUCTION REPORTING BY ESTABLISHING STANDARDS FOR WELLHEAD OIL AND GAS MEASUREMENT AND REPORTING. AT A MINIMUM, THE RULES SHALL**

Capital letters indicate new material added to existing statutes; dashes through words indicate deletions from existing statutes and such material not part of act.

ADDRESS ENGINEERING STANDARDS, HEATING VALUE, SPECIFIC GRAVITY, PRESSURE, TEMPERATURE, METER CERTIFICATION AND CALIBRATION, AND METHODOLOGY FOR SALES RECONCILIATION TO WELLHEAD METERS. THE RULES SHALL BE CONSISTENT WITH STANDARDS ESTABLISHED BY THE AMERICAN SOCIETY FOR TESTING AND MATERIALS, THE AMERICAN PETROLEUM INSTITUTE, THE GAS PROCESSORS ASSOCIATION, OR OTHER APPLICABLE STANDARDS-SETTING ORGANIZATIONS, AND SHALL NOT AFFECT CONTRACTUAL RIGHTS OR OBLIGATIONS.

SECTION 2. 34-60-118.5 (2.5), Colorado Revised Statutes, is amended to read:

34-60-118.5. Payment of proceeds. (2.5) Upon written request by the payee, submitted to the payor by certified mail, the payor shall provide to the payee within sixty days a written explanation of those deductions or adjustments over which the payor has control and for which the payor has information, whether or not identified with the payment, ~~This~~ AND, IF REQUESTED BY THE PAYEE, SUCH METER CALIBRATION TESTING AND PRODUCTION REPORTING RECORDS THAT ARE REQUIRED TO BE MAINTAINED BY THE PAYOR IN ACCORDANCE WITH SECTION 34-60-106 (1) (e). THE requirement TO PROVIDE A WRITTEN EXPLANATION OF DEDUCTIONS OR ADJUSTMENTS shall not preclude the payor from answering the inquiry by referring the payee to the royalty clause or payment provision in a lease or other agreement.

SECTION 3. Appropriation. In addition to any other appropriation, there is hereby appropriated, out of any moneys in the oil and gas conservation and environmental response fund created in section 34-60-124 (1), Colorado Revised Statutes, not otherwise appropriated, to the department of natural resources, for allocation to the oil and gas conservation commission, for the fiscal year beginning July 1, 2007, the sum of three thousand four hundred fifty dollars (\$3,450), or so much thereof as may be necessary, for the implementation of this act.

SECTION 4. Safety clause. The general assembly hereby finds,

determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

Andrew Romanoff
SPEAKER OF THE HOUSE
OF REPRESENTATIVES

Joan Fitz-Gerald
PRESIDENT OF
THE SENATE

Marilyn Eddins
CHIEF CLERK OF THE HOUSE
OF REPRESENTATIVES

Karen Goldman
SECRETARY OF
THE SENATE

APPROVED _____

Bill Ritter, Jr.
GOVERNOR OF THE STATE OF COLORADO

Exhibit A

Statement of Basis, Specific Statutory Authority, and Purpose

New Rules of the Colorado Oil and Gas Conservation Commission, 2 CCR 404-1 Concerning accurate wellhead oil and gas measurement pursuant to HB 07-1180

March 5, 2008

Basis

These additions to 2 CCR 404-1 - Rule 328., Measurement of Gas and Rule 329., Measurement of Oil - are made pursuant to the authority granted to the Colorado Oil and Gas Conservation Commission ("COGCC") in § 34-60-106(11)(b)(II), C.R.S., of the Oil and Gas Conservation Act. The COGCC's adoption of these rules is taken pursuant to procedures and requirements set forth in § 24-4-103(4), C.R.S., and § 34-60-106 and § 34-60-108, C.R.S.

The purpose of these additions to 2 CCR 404-1 is to comply with a mandate from the General Assembly to promulgate new rules concerning accurate wellhead oil and gas measurement. Pursuant to HB 07-1180, codified at § 34-60-106(11)(b)(II) C.R.S., these rules will be promulgated "to ensure the accuracy of oil and gas production reporting by establishing standards for wellhead oil and gas measurement and reporting. At a minimum, the rules shall address engineering standards, heating value, specific gravity, pressure, temperature, meter certification and calibration, and methodology for sales reconciliation to wellhead meters. The rules shall be consistent with standards established by the American Society for Testing and Materials, the American Petroleum Institute, the Gas Processors Association, or other applicable standards-setting organizations, and shall not affect contractual rights or obligations."

The new rules will be added to the 300 series of COGCC rules, 2 CCR 404-1, which deal with drilling, development, producing, and abandonment. There are two rules that are proposed to meet the legislative mandate: Rule 328., Measurement of Oil and Rule 329., Measurement of Gas.

Purpose

The purpose of these rules is to comply with § 34-60-106(11)(b)(II), C.R.S. The General Assembly decided that it is in Colorado's best interest to ensure that oil and gas is measured in a consistent manner, ensuring that royalty owners have a consistent system in place for calculating the amount due to them.

These rules clarify the location where volume measurements and heating value measurements are taken, how often gas meters are calibrated, the technical standards for meter calibration, time periods for the retention of calibration records, and when sales allocation methods may be used. These technical requirements were recommended to standardize the location and methods of gas and oil measurement which are not currently addressed in COGCC rules.

The decision to include language in the rules that says the rules are to be used consistently with contractual rights and obligations is because § 34-60-106(11)(b)(II), C.R.S., states that the rules "shall not affect contractual rights or obligations." The language in the rules is not intended to imply that the COGCC will interpret private contracts. Rather, it is intended to clarify that the new rules are only to be used as a default and can be trumped by private contracts.

Background

The COGCC initiated a stakeholder process in late 2007 for the development of language pertaining to the new rules required by HB 07-1180. Draft language of the new rules were developed, shared, discussed, reviewed, and edited as part of the stakeholder process.

**COLORADO OIL AND GAS CONSERVATION COMMISSION
ADOPTED:**

**PROPOSED REGULATIONS
CONCERNING ACCURATE
WELLHEAD OIL AND GAS
MEASUREMENT**

AS REQUIRED BY HB 07-1180

DAVID DILLON
ENGINEERING MANAGER
COLORADO OIL AND GAS CONSERVATION COMMISSION
MARCH 31, 2008

HB 07-1180 REQUIRED

- PROMULGATE RULES BY JANUARY 1, 2008
- ESTABLISHING STANDARDS
 - FOR WELLHEAD OIL AND GAS MEASUREMENT
 - REPORTING

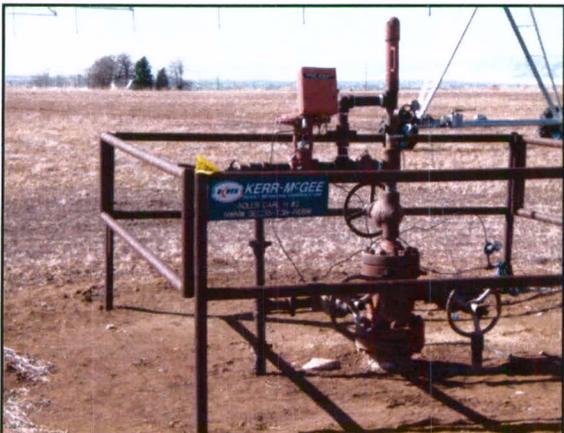
**THE ACT REQUIRED US TO
ADDRESS AT A MINIMUM:**

- Engineering Standards
- Heating value
- Specific Gravity
- Pressure
- Temperature
- Meter Certification and Calibration
- Methodology for Sales Reconciliation

ASSUMPTIONS

- Gas and Oil volumes and physical properties should be measured prior to leaving the lease or drilling unit.
- The requirement for "Well Head Oil and Gas Measurement and Reporting" would be satisfied by metering at the well or metering on a lease basis.









CHANGES IN THE DRAFT PROPOSAL

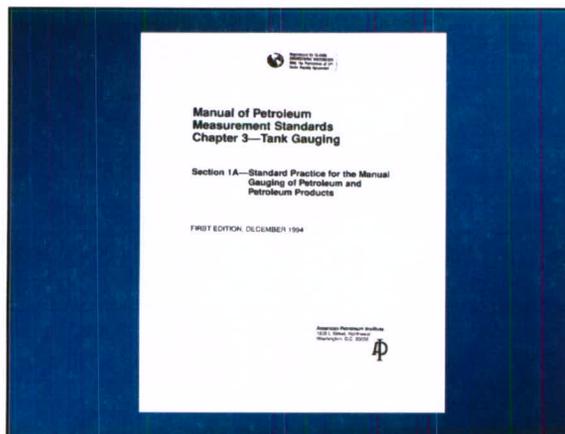
- We added additional wording to clarify the technical citations (e.g. 1ST EDITION JUNE 1999).
- We recommend a minor rewording of 329.D regarding "Gas Quality" to clarify where gas sample is taken.
- We recommend deleting proposed Rule 328.G and proposed Rule 329.E wording regarding "Sales Allocation" but holding these sections open for future rules.

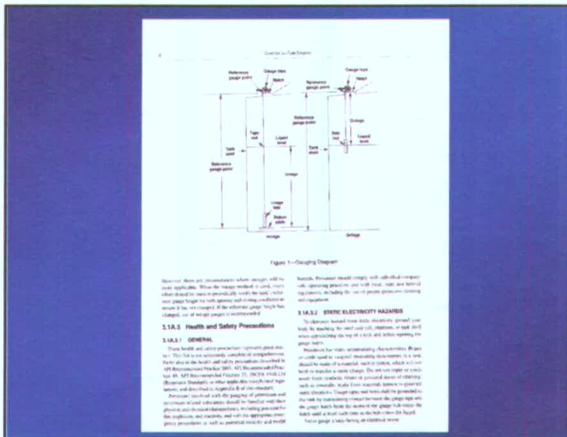
ORIGINAL MEASUREMENT RULES

- For oil – Rule 328:
 - Only required measurement with a properly calibrated meter.
 - Corrections for impurities, temperature, and gravity.
- For gas – Rule 329:
 - Only required gas to be measured by meter
 - Volumes to be reported at Standard Temperature and Pressure

NEW ADDITIONS TO RULE 328 MEASUREMENT OF OIL

- Oil volumes must be measured and recorded prior to leaving the lease or production unit.
- Engineering Standards
 - Tank gauging (Rule 328.D)
 - Metering Station (Rule 328.E)
 - LACT Meters (Rule 328.F)
- Sales Reconciliation
 - Staff no longer recommends the language shown in 328.G but we would like to reserve this section.





NEW ADDITIONS TO RULE 329 MEASUREMENT OF GAS

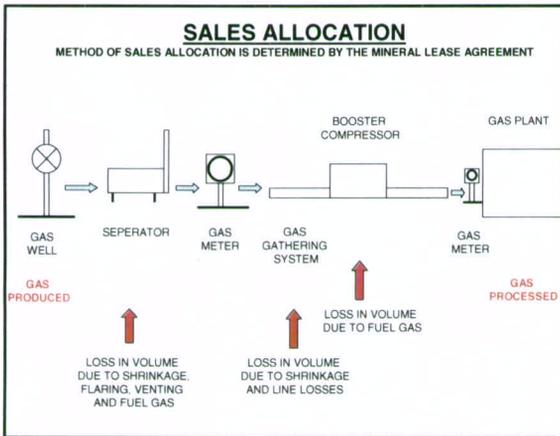
- Gas volumes must be measured and recorded and gas quality sampled prior to leaving the lease or production unit.
- Engineering Standards
 - Metering Station (Rule 329.A)
 - Metering Equipment (Rule 329.B)
 - Meter Calibration (Rule 329.C)
 - Must be calibrated at least yearly
 - Records must be created and maintained in accordance with Rule 205
 - Gas Quality (Rule 329.D)
- Sales Reconciliation
 - Staff no longer recommends the language shown in 329.E but we would like to reserve this section.

REVISED WORDING FOR 329.D GAS QUALITY

The heating value of produced natural gas shall be representative of the flowing gas stream **at the lease or unit boundary**, as determined by chromatographic analysis of a sample **prior** obtained in close proximity to the volume measurement device, **at the lease or unit boundary** and shall be reported **appropriately** on form 7. Gas sampling

SALES RECONCILIATION

- The point of sale of gas can occur in different places depending on the various contracts.
- Because this is a contractual agreement, the COGCC cannot change the point of sale or the terms of the agreement.
- The requirement of "methodology for sales reconciliation" can be answered through sales transparency.



STAKE HOLDERS GROUP TO DISCUSS SALES RECONCILIATION

- Representatives from:
 - Industry
 - Royalty owners
 - Colorado Department of Revenue
 - Local County Governments
 - Staff

SUMMARY

- Staff recommends the Commission approve these draft rules as amended:
 - With additional wording to clarify the technical standards to be used
 - With revised wording in rule 329.D clarifying where gas quality sample is taken
 - With wording in Rule 328.G and Rule 329.E regarding “Sales Allocation” to deleted but to note these rules are reserved pending revised wording based on stakeholders meetings
