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BORCHERT\* R V  
P O BOX 467  
SIDNEY, NE 69162

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**SUBJECT: PIT INVENTORY REPORTS**

In 1995, the Colorado Oil and Gas Conservation Commission (the "COGCC") adopted Rule 901.d. (reenacted in 1997 as Rule 911.b.), which requires every Colorado operator to file a pit inventory no later than December 31, 1995. The rule requires the pit inventory to identify production pits, buried or partially buried produced water vessels, blowdown pits, and basic sediment/tank bottom pits that existed on June 30, 1995. The rule does not exempt any operator from providing the required inventory, including an inventory for those operations with no pits, buried or partially buried tanks, vessels and structures.

Since the adoption of the rule, the COGCC has provided operators and local trade associations with information detailing this requirement by newsletter and memoranda. In 1997, the COGCC amended its 900 Series Rules at which time it continued to stress the importance of the pit inventory to the COGCC's regulation of oil and gas operations within the state. Despite these efforts, to date approximately 62% of active operators have not submitted inventories.

In accordance with Rule 522.b., the Director has reasonable cause to believe that any operator within the state who has failed to submit the required inventory is in continuing violation of the Conservation Act, Rule 911.b. A review of our records indicates that we do not have your inventory on record. Accordingly, this letter serves as the Director's Notice of Alleged Violation ("NOAV") of Rule 911.b. The proposed penalty for this ongoing violation is \$2000.

Pursuant to Rule 522.b. this NOAV may be resolved without formal hearing upon entry into an Administrative Order By Consent ("AOC"). In order to finally resolve this matter the Director proposes an AOC which requires that you submit your inventory on the attached inventory form or on disk no later than February 28, 1998. Provided the inventory is timely received the Director would agree to reduce the proposed fine to \$1000. If you elect to resolve this NOAV by AOC please so indicate by signing in the space provided below and submitting the inventory and the fine amount no later than February 28, 1998. Upon the COGCC's satisfactory review of the inventory and receipt of the required fine, the executed copy of this letter will serve as the final AOC. If the COGCC does not receive the inventory and the fine within this timeframe, the Director will make application to the Commission for a hearing seeking an Order Finding Violation specifying a fine amount no less than \$2000.