



DEPARTMENT OF NATURAL RESOURCES

Bill Owens, Governor
1120 Lincoln St., Suite 801
Denver, CO 80203
Phone: (303) 894-2100
FAX: (303) 894-2109
www.oil-gas.state.co.us

June 1, 2006

Mr. Jim Warner
Magpie Operating, Inc.
2707 S. County Road 11
Loveland, CO 80537

RE: Rediess Tank Battery / Earthen Pits
NESW Section 18 – T1N – R56W
Morgan County, Colorado

Dear Mr. Warner:

As you are aware, Magpie Operating, Inc. (Magpie) was required to inform the Colorado Oil and Gas Conservation Commission (COGCC) of future operational plans for handling and disposing of produced water at the Redeiss lease by March 31, 2006. The COGCC is in receipt of a letter dated March 31, 2006 which states that Magpie has developed a new plan to address the issue of existing earthen pits and continued production of the Redeiss wells.

Magpie proposes to replace the existing earthen pits with a new lined evaporation pond that will be engineered and designed in compliance with COGCC and Colorado Department of Public Health & Environment (CDPHE) standards and requirements. The new evaporation pond will reportedly need approximately 4-5 acres of additional land in the vicinity of the tank battery. Magpie also proposes that the existing earthen pits would be closed and remediated upon installation of the new evaporation pond.

There are a number of issues regarding the Redeiss lease. As you may recall, the three earthen pits at the site were near capacity during the 2005 field inspections. However, produced water has only been reported during August and September of 2005. Magpie was previously requested in 2005 to provide revised Form 7's reflecting water production for the Redeiss wells. Additionally, no gas has been reported since 1999. The Operator's Monthly Production Report, Form 7 specifies that total volumes of produced gas and fluids be reported which includes the gas used on the lease (see attached).

The water production reported for August and September of 2005 equates to a 76.5% and 78.7% water cut, respectively. Historic production reports indicate that the water cut for the Redeiss wells from 1980 to 1984 ranged from 89.1% to 91.7%. In order for the COGCC to fully evaluate any pit permit application for the proposed evaporation pond, Magpie must fully report past production volumes. Therefore, Magpie must submit revised Form 7's by **June 30, 2006** to reflect the gas and water production since January of 1999.

Furthermore, Rule 1002.e. states that "In order to reasonably minimize land disturbances and facilitate future reclamation, well sites, production facilities, gathering pipelines and access roads shall be located, constructed and maintained so as to reasonably control dust, minimize erosion, alteration of natural features and removal of surface materials." Therefore, the location of the proposed evaporation pit should be constructed over the former unlined earthen pits. The current

unlined pits must first be remediated to meet COGCC soil standards prior to any new construction.

Additionally, Magpie will be required to install a minimum of two ground water monitoring wells downgradient to the proposed evaporation pond to determine if historic produced water disposal has impacted the aquifer. The monitoring wells and ground water monitoring program will also be used for detection of leaks from the proposed lined evaporation pond.

A Form 27 – Site Investigation and Remediation Workplan was previously submitted to the COGCC on October 6, 2005 for the oily soils to the southeast of the pits. A separate Form 27 was previously submitted to the COGCC on November 4, 2005 for the pit closures. The workplans are approved with the following conditions:

- There is one skim pit and three earthen produced water pits at the Redeiss battery. Magpie must collect one soil sample from beneath the skim pit after removal of any impacted soils. When the earthen pits are dry, at least two representative soil samples must be collected from within each earthen pit area.
- Confirmation soil samples must be collected after removal of the oily soils to the southeast of the pits. Each soil sample must be submitted to a laboratory and analyzed for Total Recoverable Petroleum Hydrocarbons (TRPH).
- Each soil sample from the pits must be submitted to a laboratory and analyzed for TRPH, Sodium Adsorption Ratio (SAR), Electrical Conductivity (EC), and pH.
- Submit the lab results to the COGCC with a site map showing soil sample locations in order to determine if any further remediation is required.
- Notify the COGCC at least 48 hours prior to soil sampling activities in order for the COGCC to witness same.

Should you have any questions, I may be reached at (303) 894-2100 ext.118.

Respectfully,



Randall H. Ferguson
Environmental Protection Specialist

Attachments

Cc: Brian Macke – COGCC Director
Debbie Baldwin – COGCC Environmental Manager
Kevin Lively – COGCC