

RECORD OF PROCEEDINGS

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October 23, 2006

The Oil and Gas Conservation Commission met on October 23, at 8:05 a.m. in Room 201, Las Animas County Courthouse, 200 East First Street, Trinidad, Colorado, for a hearing in Cause Nos. 112 (2 matters), 191 (5 matters), 139, 440, 510 (2 matters), and 528.

Those present were:

Peter Mueller	Chair
John Ashby	Commissioner
Kimberlee Gerhardt	Commissioner
Michael Klish	Commissioner
Tom Reagan	Commissioner
Carol Harmon	Assistant Attorney General
Brian Macke	Director
Patricia Beaver	Hearings Manager

Chair Mueller thanked Pioneer Natural Gas for the previous night's dinner and informational meeting.

Executive Director's Report: Mike King, Assistant Director for the Department of Natural Resources ("DNR") presented the Roadless recommendations and what the task force proposed. He believes the Governor will submit the Colorado proposal as recommended. Mr. King hopes that there will be an announcement of the new Commissioners within the next week.

Director's Report: Director Macke thanked Pioneer Natural Gas for the dinner and presentation last night. He pointed out the new staff report format and hopes that everyone likes the new look.

Director Macke stated that approximately five thousand seven hundred sixty (5760) Applications for Permits-to-Drill (APDs) will be approved this year. Garfield County has over 31% and Las Animas has approximately 8% of the APDs.

Northwest Colorado: The September 21, 2006 Northwest Colorado Oil and Gas Forum meeting had about 70 people in attendance. The next meeting has been scheduled for Thursday, December 7, 2006 from 10:00 a.m. until 2:00 p.m. at the Garfield County Fairgrounds in Rifle.

A meeting was held with Garfield County, Bureau of Land Management, Air Pollution Control Division and COGCC to discuss health concerns.

The Phase IV Piceance Basin Baseline Water Quality Study has been completed and the field data is being input at this time, with an anticipated completion date of December 2006.

The request for proposals for the Phase II Hydrogeological Characterization Project closes tomorrow, October 24, 2006, for the local and the bids should be granted soon.

The Colorado Department of Wildlife ("DOW") will be involved in a project Piceance Basin to educate the industry and general public regarding the use of best management practices to ensure that wildlife continues to thrive in the area.

The Department of Energy ("DOE") indicated to Director Macke that it wanted to respond to Senator Allard before responding to the COGCC and the Garfield County letters. A response was sent to Senator Allard on October 19, 2006. Modeling should be complete by early 2007. The DOE should be responding soon to the COGCC letter and will address whether DOE staff will be available to testify at any COGCC hearing on Project Rulison lands if or when an application for hearing is filed.

RECORD OF PROCEEDINGS

100 Leaves

Southwest Colorado: Another soil gas survey has been completed near Bondad with similar results as the previous results.

The Gas Seep Mitigation Advisory Committee work continues. Director Macke and Debbie Baldwin were involved in a hearing before the La Plata County Commissioners to discuss funding for mitigation.

The next GORT meeting is scheduled for March 8, 2007, at 8:30 a.m. at the La Plata County Fairgrounds.

A budget request for approximately \$1,000,000 dollars is being prepared now for the installation of monitoring wells at the Fruitland Coal outcrop and a reverse French drain system at Texas Creek and approximately 2.5 million dollars total is needed, with industry and La Plata County needing to provide the remainder. \$50,000.00 would be devoted to hydrogeology at the Fruitland Coal outcrop and to the methane detection equipment.

Northeast Colorado: The contractor for the Greater Wattenberg Baseline Water Quality Study is LT Environmental and completion of the study is planned for December 2006.

Southeast Colorado: The Phase II Raton Basin Seep Mapping Project contract has been signed by the contractor and project should be initiated within 10 days of receiving the signed contract.

Two water wells in Las Animas County have been sampled approximately thirteen (13) times with methane levels continually dropping. Manganese continues to be high. The new water wells are at depths of one hundred twenty (120) to one hundred thirty (130) feet. Pioneer Natural Gas continues to voluntarily refrain from drilling in the area and is providing water to landowners. Monitoring wells are less than two hundred (200) feet. COGCC has put institutional procedures in place to make sure operations are shut down if a similar situation occurs. Another water well complaint in the same vicinity has been investigated.

Staff Organization: The COGCC is pleased to announce the addition of Franki Carver to the staff as an Engineering Technician II. This is a new position that will provide the COGCC with additional field inspection presence in northwestern Colorado. Franki will be based in the Rifle area and will perform field duties in various northwestern counties. She has over four years of experience in oil and gas operations and has received geology and economic degrees from Mesa State College in Grand Junction.

Margaret ("Marg") Humecki has accepted the Hearings Assistant position effective October 16, 2006. She successfully completed the open competitive employment process put in place after this position was approved during the 2006 Legislative Session. Marg has been working on a temporary basis as the Hearings Assistant since July 2005 and we are pleased to have her as a permanent employee.

Offers have been made to the top candidates for the four EPS II positions. The offers for the northwest, northeast, and southeast positions have been accepted and the selected candidates will begin work on November 6, 2006. The offer for the southwest position has also been accepted and the selected candidate will begin work on November 27, 2006.

The COGCC is pleased to announce the addition of Mike Leonard to the staff as an Engineering Technician II. This is a new position that will provide the COGCC with additional field inspection presence in southeastern Colorado. Mike will be based out of Cheyenne Wells and will perform field duties in various southeastern counties. Mike has over 20 years of experience in oil and gas operations and has worked extensively in the Cheyenne Wells area. The addition of Mike to the COGCC staff will allow the COGCC to split the large territory currently covered by John Duran,

RECORD OF PROCEEDINGS

100 Leaves

allowing John to provide more field presence in the Trinidad area.

Public Outreach: Northwest Area Engineering Supervisor Jaime Adkins made a presentation on current and projected oil and gas well permitting and drilling activity levels to the Colorado Rural Electric Association's (CREA) annual meeting on Monday, September 25, 2006, in Grand Junction. The CREA is organized to discuss issues affecting its ability to meet the electrical power needs of users throughout the state. The oil and gas industry has placed extremely high demands upon electrical distribution systems in areas of the state where development activity has been the greatest.

Brian Macke provided a presentation about COGCC activities and regulation at the American Planning Association Colorado Annual Conference in Telluride on Friday, September 22, 2006. This event was an excellent opportunity to interface with many of the local government representatives who serve as Local Governmental Designees (LGDs) across the state.

Brian Macke provided a presentation about COGCC activities and regulation at an energy seminar sponsored by the Grand Junction Chamber of Commerce in Grand Junction on October 4, 2006. This session, which was one part of a multi-session series of seminars designed to educate local business leaders about energy development in northwest Colorado, was a very good opportunity to provide education and outreach. We were told that this session drew a top level of attendance.

Brian Macke attended the first Annual Awards Reception that was hosted by the Grand Valley Citizens Alliance in Rifle on October 11, 2006. The two types of awards that were presented were the Gene Park Corporate Citizen award and the Shirley Willis Outstanding Member awards. The awards were given to three residents of the Rifle, Silt, and New Castle area and to Antero Resources for the collaborative development of "The Rifle, Silt, New Castle Community Development Plan". As stated in the plan, it is a "ground-breaking project and a new blueprint for how a community and industry can work together to successfully manage natural gas development in a rural residential/agricultural area." The COGCC would like to recognize this remarkable achievement that has forged a partnership between the industry and the community that can have positive results for everyone involved. The COGCC would also like to congratulate the Grand Valley Citizens Alliance for providing this positive recognition and for inviting COGCC staff to attend the event.

COGCC is working with the Colorado Geological Survey and the Division of Water Resources for the next coalbed methane stream depletion study in the Raton and Piceance Basins.

The Water Quality Control Commission has a rulemaking hearing scheduled on January 8, 2007, to consider changes that may affect discharge standards for produced water in several areas of the state.

The United States Fish and Wildlife Service will begin enforcement March 1, 2007, for bird deaths in oil and gas heater/treaters and other fired equipment. The COGCC is helping to get the word out on this.

The onsite inspection policy update shows that this policy has been extremely helpful with surface owners with only 14 onsite inspections having to be conducted and 26 requests withdrawn out of a total of fifty-six (56) requests submitted.

Hearings Manager Beaver described history regarding the numbers of hearing applications received, and a recent meeting with attorneys to discuss handling the record number of hearing matters. Assistant Attorney General Harmon described the streamlining process proposed to address these record numbers of hearing matters that was drafted by Hearings Manager Beaver and her. Commissioner Ashby and Chair Mueller would like to see each month's docket described during the

RECORD OF PROCEEDINGS

100 Leaves

staff report and both agreed that effectively Piceance Basin increased density applications would be subject to super streamlined approach.

The COGCC, in cooperation with the Bureau of Land Management ("BLM"), has released the new map layers containing the lease stipulations from the BLM on the COGCC GIS Online website. The newspaper article regarding another record-setting amount of money Colorado will receive in property taxes and federal mineral lease revenue, including royalties, rent and bonuses from drilling, was highlighted.

A variance under Rule 502.b. to a setback requirement of 600 feet from a unit boundary has been granted to EnCana Oil & Gas for the Okagawa #3-12B and #3-11A Wells in the NW¼ SW¼ of Section 3, Township 7 South, Range 92 West, 6th P.M., Garfield County. These wells are 313 feet from the boundary lines. EnCana sent waiver requests to all mineral owners and received waivers from 87%. No protests were received from the mineral owners who did not respond.

The COGCC processed a record number of APDs in September.

Assistant Attorney General's Report: AAG Harmon provided a confidential litigation memorandum and reported that oral arguments in Water Court in Durango were held last Friday in the Vance lawsuit versus DWR lawsuit. AAG Harmon has oral arguments in BDS case in the Court of Appeals (15 minutes) and in the Finley case in District Court (2 hours), both in mid-December.

Commissioner Comments: Chair Muller thanked the COGCC staff for its public outreach, Pioneer for its meeting last night and Petrogulf for the noise mitigation near the Bryce 1-X Well. Commissioner Gerhardt thanked the COGCC staff for their efforts regarding the seep mitigation in La Plata County. Commissioner Klish stated his belief that the COGCC staff is a well-functioning group of folks, one of the best he has seen in state government.

Audience Comments: Ken Torres thanked the Commission for coming down to Trinidad and would like to see the Commission return annually.

Dave Garcia, who lives in Texas, came up because he received a letter that a well head has been placed within one thousand (1000) feet of his property and he was concerned about easement rights.

Tom Scheffield, Raton Asset Manager for Pioneer Natural Gas, described what Pioneer will do if a similar situation to the Molaki Well happens again (will shut down operations and contact COGCC). Pioneer will commit to installing water monitor wells in and around the North Fork Ranch area near the domestic water wells, the monitoring wells will be drilled starting this week and Pioneer will have its employees on location during well drilling from now on.

Ben Bounds, who lives near La Veta in Huerfano County, has filed a complaint against Petrogulf and he wants to know if there is a way to measure noise closer to his residence or at the apparatus, as he does not believe the decibel levels are appropriate.

Consent Agenda: Commissioner Ashby had questions about pooling requirements and he thanked the applicants for providing pressure data. The Windsor, Chevron and Whiting applications lacked pressure data and he thinks it is necessary to have before approving. A motion was made by Commissioner Ashby to pull the three (3) matters from the consent agenda that did not have the pressure data. Attorney Bill Keefe stated that two (2) of the three (3) applications were referencing previously heard matters which included pressure data. Mr. Keefe asked if there a minimum amount of pressure data the Commission would like to have. Commissioner Ashby and Chair Mueller suggested nearby bottomhole pressures and ISIPs.

RECORD OF PROCEEDINGS

100 Leaves

A motion was made by Commissioner Gerhardt to approve the consent agenda, seconded by Commissioner Reagan and approved unanimously for the adjudicatory items as follows:

Cause No. 112, Docket No. 0609-AW-17, request for an order to allow up to four (4) wells to be optionally drilled in the 320-acre drilling and spacing units for certain lands in Townships 32 and 33 North, Ranges 9 and 10 West, N.M.P.M., with the permitted well to be located no closer than 660 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams.

Cause No. 528, Docket No. 0610-AW-22, request for an order to allow the equivalent of one well per 10 acres, for the production of gas and associated hydrocarbons from the Williams Fork, Iles and Segó Formations, with the permitted well to be located no closer than 600 feet from the lease line in Section 3, Township 2 South, Range 97 West, 6th P.M.

Cause No. 112, Docket No. 0604-AW-03, request for an order to allow up to four (4) wells in each 320-acre drilling and spacing unit for certain lands in Township 33 North, Ranges 7 through 9 West, N.M.P.M., with the permitted well to be located no closer than 660 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams.

Cause No. 510, Docket No. 0610-AW-21, request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet for the Williams Fork Formation and no closer than 600 feet for the Iles and Segó Formations, from the lease line for certain lands in Township 6 South, Range 98 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork, Iles and Segó Formations.

Cause No. 191, Docket No. 0610-AW-23, request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the lease line for certain lands in Section 18, Township 7 South, Range 91 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Cause No. 440, Docket No. 0610-UP-12, request to pool all nonconsenting interests in the 320-acre drilling and spacing unit consisting of the S $\frac{1}{2}$ of Section 6, Township 7 South, Range 95 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 510, Docket No. 0610-UP-13, request to pool all nonconsenting interests in the 160-acre drilling and spacing unit consisting of the NE $\frac{1}{4}$ of Section 27, Township 7 South, Range 96 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 139, Docket No. 0610-AW-24, request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the unit boundary for certain lands in Township 6 South, Range 94 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Cause No. 191, Docket No. 0610-AW-30, request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the lease line for certain lands in Section 18, Township 7 South, Range 91 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Cause No. 191, Docket No. 0610-SP-44, request for an order to establish an approximate 186.3-acre drilling and spacing unit for certain lands in Section 12, Township 6 South, Range 93 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations and to allow the equivalent of one (1) well per 10 acres, with the permitted well to be

RECORD OF PROCEEDINGS

100 Leaves

located no closer than 200 feet for the Williams Fork Formation and 400 feet for the Iles Formation from the unit boundary.

Cause No. 191, Docket No. 0610-SP-45, request for an order to establish an approximate 50.23-acre drilling and spacing unit for certain lands in Section 7, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations and to allow the equivalent of one (1) well per 10 acres, with the permitted well to be located no closer than 200 feet for the Williams Fork Formation and 400 feet for the Iles Formation from the unit boundary.

Cause No. 191, Docket No. 0610-SP-47, request for an order to vacate the 320-acre drilling and spacing unit in the S½ of Section 11, Township 6 South, Range 93 West, 6th P.M. established in Order Nos. 191-15 and 25, and establish two (2) approximate 160-acre drilling and spacing units for said lands, for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Cause No. 191, Docket No. 0610-SP-46, request for an order to vacate the 320-acre drilling and spacing unit in the S½ of Section 15, Township 6 South, Range 92 West, 6th P.M. established in Order Nos. 191-24 and 25, and establish various drilling and spacing units for these lands, for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations was withdrawn and hearing cancelled.

Cause No. 191, Docket No. 0609-SP-42, request for an order to vacate certain lands in the N½ of Section 18, Township 6 South, Range 92 West, 6th P.M. from the provisions of Order Nos. 191-25 and 510-16 and establish a 256.92 drilling and spacing unit for the N½ of Section 18, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations was continued to November hearing so that the application can be amended.

Cause No. 399, Docket No. 0609-SP-43, request for an order to establish 20-acre drilling and spacing units for certain lands in Township 10 South, Range 93 West, 6th P.M., with the permitted well to be located no closer than 200 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Williams Fork Formation was continued to November hearing.

Cause No. 191, Docket No. 0610-SP-48, request for an order to vacate the 320-acre drilling and spacing unit in the E½ of Section 15, Township 6 South, Range 92 West, 6th P.M. established in Order No. 191-21 and establish two (2) approximate 160-acre drilling and spacing units for said lands, for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations was continued to November hearing.

The meeting adjourned at 11:11 a.m.

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The Secretary was therefore authorized to issue the following orders:

Order No. 112-194, Ignacio-Blanco Field, La Plata County: Approves the request for an order to allow up to four (4) wells to be optionally drilled in the 320-acre drilling and spacing units for certain lands in Townships 32 and 33 North, Ranges 9 and 10 West, N.M.P.M., with the permitted well to be located no closer than 660 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams.

Order No. 528-1, Piceance Creek Field, Rio Blanco County: Approves the request for an order to allow the equivalent of one well per 10 acres, for the production of gas and associated

RECORD OF PROCEEDINGS

100 Leaves

hydrocarbons from the Williams Fork, Iles and Segó Formations, with the permitted well to be located no closer than 600 feet from the lease line of Section 3, Township 2 South, Range 97 West, 6th P.M.

Order No. 112-195, Ignacio-Blanco Field, La Plata County: Approves the request for an order to allow up to four (4) wells in each 320-acre drilling and spacing unit for certain lands in Township 33 North, Ranges 7 through 9 West, N.M.P.M., with the permitted well to be located no closer than 660 feet from the unit boundary, for the production of gas and associated hydrocarbons from the Fruitland coal seams.

Order No. 510-27, Grand Valley Field, Garfield County: Approves the request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet for the Williams Fork Formation and no closer than 600 feet for the Iles and Segó Formations, from the lease line for certain lands in Township 6 South, Range 98 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork, Iles and Segó Formations.

Order No. 191-35, Mamm Creek Field, Garfield County: Approves the request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the lease line for certain lands in Section 18, Township 7 South, Range 91 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Order No. 440-37, Parachute Field, Garfield County: Approves the request to pool all nonconsenting interests in the 320-acre drilling and spacing unit consisting of the S½ of Section 6, Township 7 South, Range 95 West, 6th P.M., for the development and operation of the Williams Fork Formation.

Order No. 510-28, Grand Valley Field, Garfield County: Approves the request to pool all nonconsenting interests in the 160-acre drilling and spacing unit consisting of the NE¼ of Section 27, Township 7 South, Range 96 West, 6th P.M., for the development and operation of the Williams Fork Formation.

Order No. 139-66, Rulison Field, Garfield County: Approves the request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the unit boundary for certain lands in Township 6 South, Range 94 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork Formation.

Order No. 191-36, Mamm Creek Field, Garfield County: Approves the request for an order to allow the equivalent of one well per 10 acres, with the permitted well to be located no closer than 100 feet from the lease line for certain lands in Section 18, Township 7 South, Range 91 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Order No. 191-37, Mamm Creek Field, Garfield County: Approves the request for an order to establish an approximate 186.3-acre drilling and spacing unit for certain lands in Section 12, Township 6 South, Range 93 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations and to allow the equivalent of one (1) well per 10 acres, with the permitted well to be located no closer than 200 feet for the Williams Fork Formation and 400 feet for the Iles Formation from the unit boundary.

Order No. 191-38, Mamm Creek Field, Garfield County: Approves the request for an order to establish an approximate 50.23-acre drilling and spacing unit for certain lands in Section 7, Township 6 South, Range 92 West, 6th P.M., for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations and to allow the equivalent of one (1) well per 10 acres, with the permitted well to be located no closer than 200 feet for the Williams Fork Formation and 400 feet for the Iles Formation from the unit boundary.

RECORD OF PROCEEDINGS

100 Leaves

Order No. 191-39, Mamm Creek Field, Garfield County: Approves the request for an order to vacate the 320-acre drilling and spacing unit in the S½ of Section 11, Township 6 South, Range 93 West, 6th P.M. established in Order Nos. 191-15 and 25, and establish two (2) approximate 160-acre drilling and spacing units for said lands, for the production of gas and associated hydrocarbons from the Williams Fork and Iles Formations.

Patricia C. Beaver, Secretary

Approved:

Peter M. Mueller, Chair