

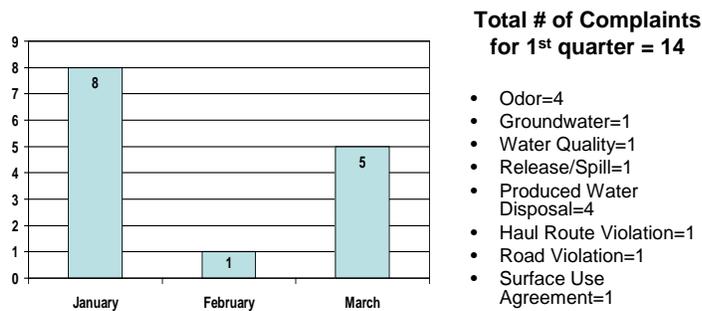
MEMORANDUM

TO: BOCC
FROM: Judy Jordan
RE: O&G 1st Quarter Report: January – March 2009
DATE: April 6, 2009
CC: Ed Green, Department Heads, Elected Officials

Complaints

The following chart shows the complaints received by the O&G Department in each month of this reporting period.

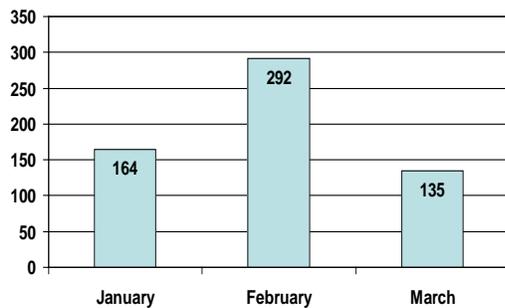
GarCo O&G Complaint Report
January – March, 2009



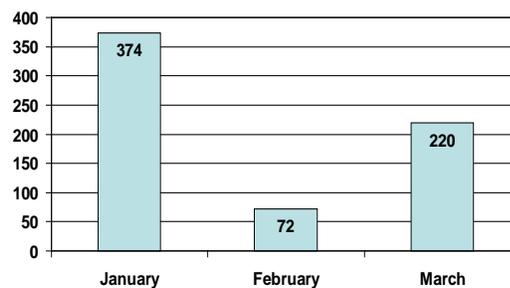
Drilling Activities

The following charts depict the drilling activities over the reporting period.

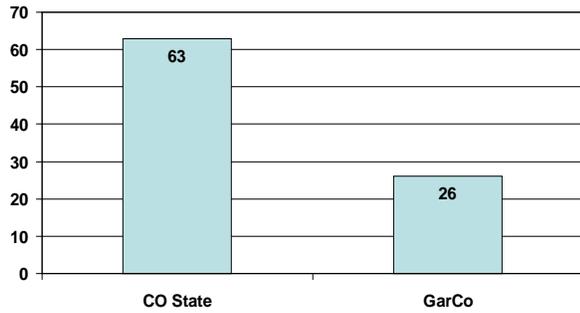
COGCC Approved APD's
January – March 2009



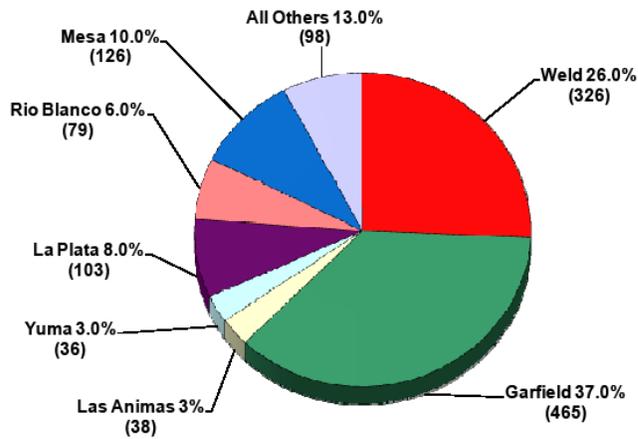
APD's reviewed by GarCo O&G
January – March, 2009



2009 Drilling Rigs running in Colorado and GarCo as of 3/9/09

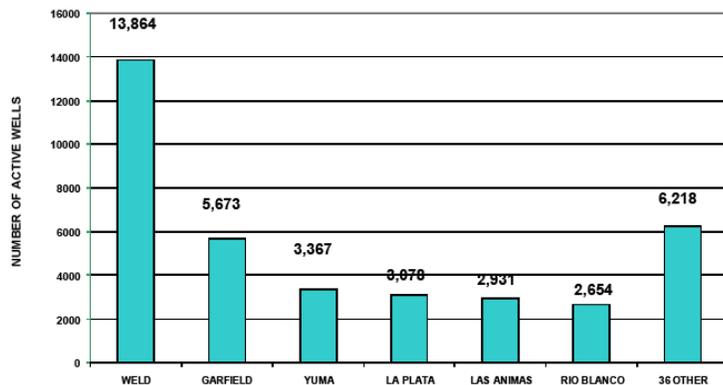


COLORADO OIL AND GAS 2009 DRILLING PERMITS BY COUNTY
as of 03-09-09



NUMBER OF ACTIVE COLORADO OIL & GAS WELLS BY COUNTY

84.0% of Colorado's 37,785 active wells are located in these 6 counties (03-09-09)



General

As the charts show, the drilling activity and complaints numbers are lower than in past quarters. However, 591 applications for permits to drill have been approved by COGCC in Garfield County for the first quarter of this year. If permitting continued at the present rate, we would be on schedule to have 2364 permits issued this year, which would be nearly as many permits as were issued in 2007 and would still be almost 30% more than the 1844 APDs that were issued in 2006. Colorado's top month for rig counts in recent years was November 2008, with a high of 124 rigs. The March 27 rig count was 55, according to Baker Hughes. To put this in context, throughout the 1990s Colorado never had as many as 50 rigs operating in a given year and the number of rigs operating in the US remained under 1000. Since 2003 the number of US rigs in operation rose steadily from 1032 to 1879 in 2008. The current US gas rig count is about 1039, down about 44 % from this time last year. The Colorado rig count is down about 55% from this time last year, Wyoming down 37%. In the expanding gas fields where new reserves have recently been proven, such as the Marcellus Shale in Pennsylvania, the rig count has held at about 27 - steady since the peak last summer. With the explosion of the exploration in the Marcellus Shale, the Pennsylvania legislature has introduced 3 new bills that would increase oil and gas regulation there. Canadian rigs counts are down over 60%.

The Henry Hub spot natural gas price is just over \$4 per MM BTUs. Data provided by Encana at a recent EAB meeting indicate that their break even point for drilling in the Piceance is over \$7 per MM BTU. Piceance development is costly because of topographic challenges and gas prices are depressed because of lack of gas pipeline capacity that would otherwise allow for competition with distant markets. A variety of factors influence operators' decisions whether to drill new wells in the Piceance.

At the last EAB meeting operators have reported a decrease in drilling, with about 23 rigs running, compared to about 72 last summer. Most operators report that they are concentrating on infrastructure development so that they will be prepared to resume higher drilling rates when the gas price recovers. At least one contractor has indicated that they are performing more interim reclamation at pads, as operators catch up on their workload.

The Department's workload has remained very high through the drilling deceleration and we have been interviewing candidates for the Oil and Gas Representative position.

Major Meetings Attended

Comprehensive Drilling Plans

I have been attending meetings between the DOW and operators regarding comprehensive drilling plans (CDPs) described in the new COGCC rules. Having an approved CDP allows operators to avoid submitting paperwork on a site-by-site basis and will accelerate COGCC's processing of applications for permits to drill. The COGCC rules require that operators consult on the development of CDPs with DOW, CDPHE and the relevant Local Government Designee (LGD). I wanted to gain an understanding of the CDP development process as well as potentially competing concerns by attending the DOW meetings. All of the meetings I have observed have been constructive exchanges regarding sensitive wildlife areas and actions that can be taken to minimize adverse effects on the animals.

In order to avoid asking the operators to visit with each department to address Garfield County concerns, the individual departments have agreed that I should coordinate meetings between the operators and our collective department representatives. To date, we have met with one operator; the others have been advised to contact the County ASAP in order to allow adequate time for us to review and comment on their plans. It is generally expected that our access to these multi-year development plans will enhance our ability to plan our own infrastructure and related activities.

Regulatory Developments

The House and the Senate have passed the bill that approves the oil and gas rules posed by the COGCC. The Governor is expected to sign the bill in order to allow the rules to go into effect April 1.

EAB

Both operators and citizen representatives have recently threatened to quit the EAB on claims of perception that it is dominated by the other interest group. Several operators have also expressed extreme discontent over one citizen representative's tendency to present general complaints of conditions that cannot be addressed due to lack of specificity. While this individual, who was serving as an alternate for a BOCC appointed citizen representative, has since been removed by the BOCC's removal and re-appointment of the primary representative, several participants and observers have requested that the County hire a mediator to lead a discussion at the EAB of conflict resolution objectives, techniques and ground rules. I will request the BOCC's approval to identify and hire a mediator to attend one EAB meeting to accomplish this.

Despite the recent events, I believe that the EAB has been functioning well during the past year; several specific complaints have been brought to the Board's attention and resolved and educational presentations have been more balanced than in the past. Others have related similar observations to me, and I believe that the recent events are anomalous. The EAB has continued to revise its recommendations for suggested changes to its founding resolution and expects to submit those recommendations in April. Some revisions to the founding resolution and by-laws should help avoid problems in the future, nevertheless, the BOCC may want to discuss other options for improving the management of the EAB.

Thank you for approving our recommended changes in citizen representation over the past few weeks.

Special Reports/Studies

We are in the process of developing a scope of work for Phase III of the hydrogeologic study of the Mamm Creek area.

USGS is conducting a water dating exercise in the Mamm Creek area. They will be sampling domestic wells in April or June of this year.

Rulison

The County hosted a meeting between property owners in the Rulison area and COGCC on March 4, 2009. While there was a good exchange of information, the meeting underscored the need to work with DOE to resolve the pending issues of the site. A separate letter to our Congressional delegation requesting their attention to the matter will be presented in addition to this report.

Other

Bill Barrett Corporation (BBC) is requesting a waiver from the COGCC drilling and spacing unit order applicable to their operations south of Silt. A separate presentation on this request will be made, and in conjunction with this request I am asking the board to re-delegate authority to me as the LGD to approve requests for these waivers in the future. Up until the first of this year, I was approving these rare requests in keeping with past practices, where logistics or infrastructure prevent the operator from reaching their downhole targets and surface owners give permission and County interests are not adversely affected. However, the County Attorney advises that the delegation of these matters by the previous board is not valid after the new board has taken office; therefore, I am requesting a re-delegation to continue processing these in a timely fashion. Of course any additional direction that addresses BOCC concerns would be welcomed.

