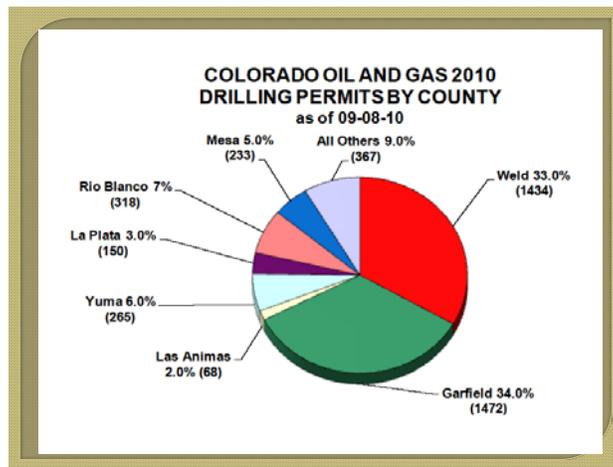


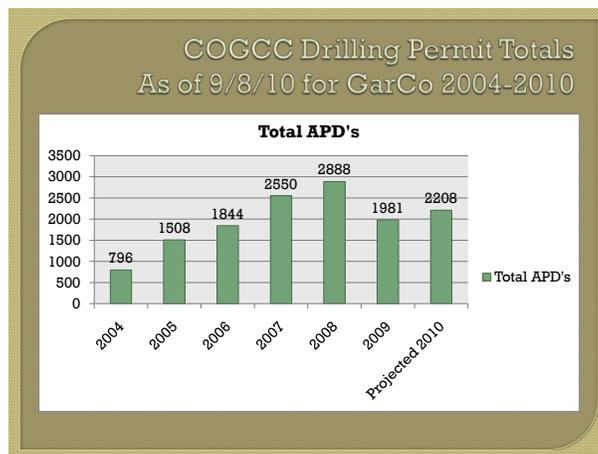
MEMORANDUM

TO: BOCC
FROM: Judy Jordan
RE: O&G 3rd Quarter Report: July-September 2010
DATE: October 6, 2010
CC: Ed Green, Department Heads, Elected Officials

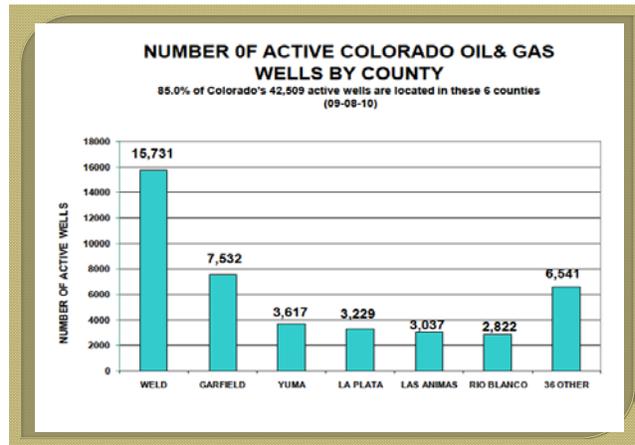
The following chart shows the numbers of APDs approved by COGCC for the quarter by county. As in previous years, Garfield County leads the state in numbers of APDs issued.



The following chart shows the number of APDs issued by COGCC for Garfield County by year since 2004. The peak year was 2008, when 2888 APDs were issued, followed by 2007, when 2550 APDs were issued. If the permitting activity continues at the same rate for the second half of 2010 as for the first, the total number of APDs for 2010 would be about 2208. Since the natural gas boom of the first decade began in 2004, this year would mark the third highest in Garfield County history.

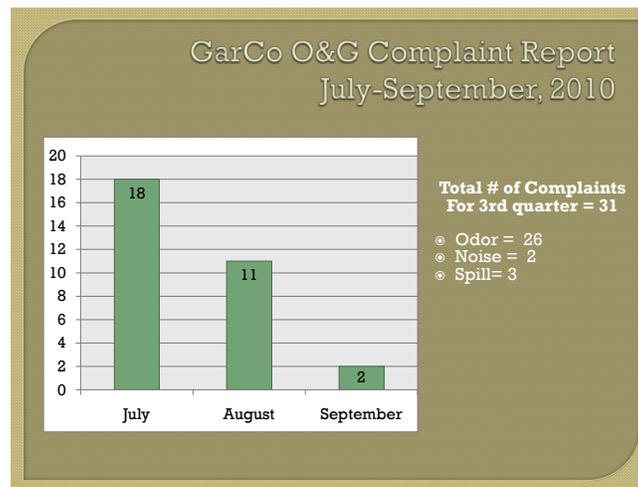


The final chart shows the number of active wells in Colorado, broken down by county. Garfield County continues to trail Weld County by far in the total number of active wells, but also leads the other jurisdictions in the State.



Complaints

The following chart shows the complaints received by the O&G Department in each month of this reporting period, and are broken down by type.



Activity Level

As of October 1st, the number of rotary drilling rigs working the US increased by nine rigs, up 635 over last year. Of the major oil-and gas-producing states, Texas gained 18 rigs, Wyoming and North Dakota each gained four and New Mexico increased by one. Oklahoma lost six rigs, California dropped by four, Alaska lost three, Louisiana lost two and Colorado and Pennsylvania each lost one rig. Arkansas and West Virginia remained unchanged. As of October 8, Baker Hughes reported 22 rigs operating in Garfield County.

Market Conditions

Since my last quarterly report, the spot price for natural gas has dropped to around \$4.00 per MBTU and at the time of this report the futures price was about \$3.80. According to the EIA, estimated net injections of natural

gas into underground storage totaled 74 billion cubic feet (Bcf) toward the end of September. Working natural gas in underground storage was 3,414 Bcf, which is 6.3 percent above the 5-year (2005-2009) average. According to Reuters, “rising output from shale gas has been the primary driver of increased gas production in the last few years, and most traders agree it will be difficult to tighten the gas market unless shale drilling activity slows sharply. Recent EIA estimates still put U.S. gas output this year at more than 22 trillion cubic feet, its highest since 1973. With gas inventories likely to remain above average heading into winter and production likely to remain strong into 2011, many traders expect prices to remain on the defensive until an improving economy kicks up industrial demand, which accounts for nearly 30 percent of total U.S. gas consumption.”

Business Week reported in August that South Korean STX Energy bought a gas field in Canada from Encana for \$144MM. A column in the Calgary Herald stated that “\$17.2 billion of foreign investment is coming head on into the shale gas business, disrupting natural gas supply patterns in the United States and Canada, and pounding down prices on top of it all.”

Based on the latest reports from major news outlets and energy experts, there continue to be downward pressures on natural gas prices, especially because of shale frenzy and foreign investment. Given these high production and storage rates, as well as soft seasonal demand, some of the majors have begun shutting in wells.

Other Gas Plays

As discussed in last quarter’s report, the Piceance is essentially competing with other unconventional gas plays for development resources among the operators, and the Marcellus Shale of the northeastern US is attracting local operators. Although the regulatory agencies charged with overseeing oil and gas development appears to be more active than in Colorado, Pennsylvania has not had a severance tax, and the rising rig count there is probably a reflection of the favorable tax climate. Last summer the Pennsylvania legislature passed Governor Rendell’s budget with an expectation of passing a severance tax this session, and both the House of Representatives and the Senate in are considering bills to implement a rate that would be comparable to New Mexico’s (about 7 percent). This will probably affect the competitive position of the Piceance next year.

Studies

As the BOCC will recall, Mr. Pepi Langegger granted written access to his property on West Divide Creek for the purpose of drilling two monitoring well nests as part of the Hydrogeologic Study Phase III. Other landowners who granted access to their property for monitoring purposes include Mr. and Mrs. Protz and Mr. Currie. Thank you notes signed by the commissioners were mailed out to these citizens this week.

Conferences/Meetings/Workshops:

Waivers

I granted one 305 (c) waiver during the quarter to Laramie II for the Furr pad.

Other Agency Information

- COGCC identified Williams as the source of the hydrocarbons released to the Prather Springs in April 2008. The Prathers have filed an action for civil damages.
- Per BOCC’s direction, Judy drafted a letter to COGCC for the Chairman’s signature to the director of the DNR and the Chair of the COGCC requesting that the COGCC staff meet with us and provide data concerning the Divide Creek area. The letter was mailed on June 25. No response has been received by the oil and gas liaison to date, however, a major breakthrough has occurred in the analysis of methane and associated hydrocarbons in the Mamm Creek area. Staff members from the Rifle COGCC office

met with Geoff Thyne and me on September 30. Linda Spry O'Rourke of COGCC is leading an effort to have a third party evaluate our data as well as gas well records and sampling data that we have not had access to. Geoff and I are hoping that this will result in a full, objective analysis of conditions in the area.

Severance Tax/Employee Residence Reports

The following table shows severance tax distributions within Garfield County for 2010.

Local Government:	SDD \$	FML Muni/County \$	FML School District \$
County Totals:	\$1,831,924.58	\$4,301,471.52	\$365,625.08
Carbondale, Town of	\$87,314.58	\$204,991.37	\$0.00
DeBeque 49JT School District	\$0.00	\$0.00	\$1,015.64
Eagle County RE 50 School District	\$0.00	\$0.00	\$0.00
Garfield 16 School District	\$0.00	\$0.00	\$44,841.95
Garfield County	\$1,105,388.34	\$2,591,712.70	\$0.00
Garfield RE-2 School District	\$0.00	\$0.00	\$175,455.60
Glenwood Springs, City of	\$130,670.78	\$308,554.81	\$0.00
New Castle, Town of	\$70,698.53	\$165,732.55	\$0.00
Parachute, Town of	\$76,972.84	\$179,992.71	\$0.00
Rifle, City of	\$295,549.96	\$697,476.01	\$0.00
Roaring Fork RE-1 School District	\$0.00	\$0.00	\$144,311.89
Silt, Town of	\$65,329.55	\$153,011.37	\$0.00

On Wednesday, September 2, 2010, DOLA announced that the administration has decided to retain severance tax revenues ordinarily allotted for local government grants to use to balance their budget, therefore they will not be issuing energy impact grants this year. It should be noted that, at the second highest number of permits issued in any year, the local impacts to Garfield County, its municipalities and residents continue despite the State's diversion of these funds to its other priorities.