

THE AMERICAN OIL & GAS REPORTER®

APRIL 2015

Refrac Facts
Page 62

The "Better Business" Publication Serving the Exploration / Drilling / Production Industry

Performance Drilling

Page 118



George Rogers
Chairman TAEP

"Oil and gas has become an industry of choice for young people, who may need reassurance during these market conditions."
Page 150



New Mexico Revamps Produced Water Rules To Promote Recycling

SANTA FE, N.M.—The New Mexico Oil Conservation Commission has adopted a rule proposed by the New Mexico Oil & Gas Association. OCC says it will reduce the industry's freshwater consumption by promoting recycling and reusing produced water.

"This is a big deal," affirms NMOGA Communications Director Wally Drangmeister. "Operators were able to undertake produced water projects to minimize freshwater use, but everything was done on a one-off application to OCC. This rule recognizes, on behalf of regulators and the industry, a desire to codify this so that the rules are predictable and make sense."

Under Title 19, Chapter 15, part 34 of the New Mexico Administrative Code, a recycling facility is defined as a stationary or portable facility used exclusively for treating, reusing or recycling produced water. Recycling containment is a storage container that uses a synthetic liner as the primary and secondary containment device, and is used solely in conjunction with a recycling facility to store, treat or recycle produced water only for use in drilling, completing or plugging oil or gas wells.

Among the provisions of the new rule, the OCC says:

- No permit or registration is required from OCC for disposing produced water from drilling, completion, producing, secondary recovery, pressure maintenance or well plugging activities.
- Recycling facilities may be on or off the drilling location and serve a number of wells.
- Recycling containments may hold produced fluids that include freshwater, brackish water, recycled and treated water, fluids added to water to facilitate drilling or completion, water produced with oil or gas, flowback from operations, water generated by an oil or gas processing facility, or other waters gathered for drilling or completion. They may not include any hazardous wastes.
- Registered recycling containments may be operated for five years from registration, with annual

extensions thereafter.

NMOGA and the Independent Petroleum Association of New Mexico testified before OCC in support of the new rule. It became effective March 31.

"This rule will make water recycling projects even more prevalent," Drangmeister predicts. "David Martin, secretary of the New Mexico Energy, Minerals and Resources Department, was the primary driving force behind getting the industry and regulators to address this." □

North Dakota Provides Relief From Flaring Rule

BISMARCK, N.D.—Reacting to operator requests for relief from forced production curtailments, North Dakota regulators have issued revisions to the state's associated gas flaring rules that clarify circumstances when exemptions will be granted.

The North Dakota Industrial Commission reports revisions it adopted in March exempt natural gas flared from a producing well's total on the date a force majeure event occurs, provided the circumstances are documented by the gas gathering or processing company.

Lynn Helms, director at the Department of Mineral Resources' Oil & Gas Division, offers two examples of unforeseen events that would result in flared gas volumes not counting against an operator's monthly capture percentage. In one, Helms cited a power surge at a gas processing plant that caused a two-day shutdown. Another example occurred when a gathering line was stopped following heavy rain that exposed the line on a hillside.

"This is a significant change for operators," affirms Ron Ness, president of the North Dakota Petroleum Council. "Gas processors file their force majeure reports monthly, and the operator now may deduct that volume from his monthly flared total without having to request an individual exemption."

The NDIC holds forced production curtailments as an incentive for operators to meet the state's gas capture goals, says Helms, pointing out that oil production from a well that captures less than the current goal of 77 percent of gas produced but more than 60 percent is limited to 200 barrels a day.

Production is limited to 100 bbl/d for wells capturing less than 60 percent.

"Our concern with curtailment always has been unexpected delays or an expansion of infrastructure," observes Ness. "These revisions are an improvement."

Under the revisions to NDIC Order 24665, adopted March 24, an operator seeking a temporary exemption must show an inability to meet gas capture targets because of:

- Third-party rights-of-way delays;
- Midstream downtime for upgrades or maintenance;
- Restrictions or delays from federal regulators;
- Safety concerns;
- Unanticipated delays in access to electrical power; or
- Possible reservoir damage.

Requests for temporary exemptions "may be considered for other types of extenuating circumstances" if the result is "a significant net increase in gas capture within one year," according to the revised guidance.

The revisions also add penalties for failing to file a hearing request when gas capture goals are not met and for failure to comply with a production curtailment notice.

According to Helms, operators who fail to request a hearing can be fined \$1,000 in the first month, doubling monthly to a maximum \$12,500 fine. Failure to comply with production curtailment can result in a verbal notice of violation the first month, followed by a written NOV the second month and a fine of up to \$12,500 per well per day in the third month. □

Kansas Well Operators Are Ordered To Reduce Their Injection Volumes

TOPEKA, KS.—Noting increased seismic activity, the Kansas Corporation Commission has ordered reductions in injection volumes for wells operating in two south-central Kansas counties.

The commission says Kansas experienced 30 earthquakes from 1981 to 2010, but reported four in 2013, 127 in 2014 and 51 through March 16 of this year, with the majority occurring in Harper and Sumner counties.

The KCC asserts the increase coincides with a jump in the number of

Idaho Group Supports Rule Updates

BOISE, ID.—As interest grows for new oil and natural gas development in Idaho, the state is bringing its oil and gas rules in line with contemporary standards, according to the head of the state trade group.

The Idaho Petroleum Council credits the success to the state's history of resource development, knowledgeable regulators and an active membership, says Suzanne Budge, the group's president. "We look at what is and is not working in other states," she relates. "It is critical that we adapt our framework to current best practices because so much about this industry has changed in just the past decade."

That process began in 2011 and continues into the 2015 Idaho Legislature, Budge reports. "This year, we have taken a pretty big bite at additional statutory changes," she characterizes. "There were three bills from the commission, two bills by IPC and two bills by the legislative delegation from the southwestern Idaho basin where development is occurring."

Since 2010, state records show 16 wells have been drilled in southwestern Idaho. More recently, according to published reports, mineral leasing activity has taken place in Idaho's Ada, Canyon, Payette, Gem, Washington and Owyhee counties, and Malheur County, Or. "Our approach has been to bring in today's in-

dustry standards as we consider revisions," Budge says. "We have good support from our members with operations in other states and benefit from their experience. That has helped keep our rules aligned with what works elsewhere and not set bad precedents."

IPC Initiatives

Budge highlights IPC's success with H 124, which received a gubernatorial signature in late March. H 124 allows the Idaho Oil and Gas Conservation Commission to exclude federal minerals when considering unit formation or operator-requested changes. At a Senate hearing in March, the bill's House sponsor, Representative Judy Boyle, R-Midvale, pointed to the delays often associated with federal mineral production. "You are dealing with a federal agency that takes a long time," Boyle testified.

The bill provides IOGCC with a process for considering interest pooling or integrating a unit when a 55 percent majority of mineral owners agree to lease their rights or otherwise participate.

Another bill to receive lawmakers' approval and the governor's signature is H 125, Budge indicates, which corrects a 2012 revision to the oil and gas statute. H 125 returns the term "condensate" to the definition of gas that was inadvertently omitted in the earlier bill. "The tax code says the state's 2.5 percent severance tax applies to oil and gas production, but without including condensate in the definition of gas," she notes. "Some worried the tax would not be collected."

Tax clarification also is addressed in H 269, she notes. The bill redefines "gross income" for purposes of oil and gas sales to align tax collections with industry and market practices, Budge explains. According to the bill, sale price is "the amount realized by the producer . . . at the wellhead or after transportation without

deduction for transportation, manufacturing, and processing costs." The bill also adds reference to IRS regulations for defining "related parties" in determining gross income and arms-length sales.

According to the Idaho Legislature's website, H 269 was amended late in the session and was the only industry-specific bill of seven this session that had not passed by late March, although Budge noted that it was likely to become law because it had passed both houses.

Commission Bills

Of the trio of IOGCC-supported bills, H 49 provides for increasing oil and gas application fees with separate fees for different types of operations (Table 1). Previously, applications for all drilling and treating operations were covered by a flat \$100 fee. General fees for applications for permits to drill had been raised earlier to \$2,000 and are unchanged under the bill.

A second commission-supported bill, HB 4, sets a one-year mark for public release of well information. "At this early stage of development, it is understandable that companies want to keep data confidential," Budge says. "But there was nothing that said the information ever had to be released, which is out of line with other states. The bill was not meant to target the industry so much as bring oil and gas into line with the state's record exemption code."

A third commission-supported bill, HB 50, provides a framework for the unitization process, observes Budge. "This is all new language," she describes. "When there are competing or multiple interests, this gives the commission a way to rationally develop a field without drilling more wells than necessary. Here again, we have the benefit of applying what works in other states." □

TABLE 1

Idaho Oil & Gas Permit Fees	
Effective July 1, 2015	
APD	\$2,000
Deepen well	\$500
P&A uncompleted well	\$500
Well treatment	\$1,000
Pit construction	\$1,500
Directional drilling	\$1,000
Multizone completion	\$1,000
Change spacing unit	\$1,300
Set fieldwide spacing	\$1,300
Integration order	\$1,300
Unitization order	\$1,300
Seismic 2-D, < 12 mi.	\$800
Seismic 2-D, 12-24 mi. 3-D <72 mi.	\$2,000
Seismic 2-D, >24 mi. 3-D >72 mi.	\$2,500

Source: Idaho HB 49, passed and signed by governor 3/19/15

Osage's Oklahoma Well Hits 850 BOE Peak Rate

SAN DIEGO—The Everest 1-9MH, a horizontal well in Oklahoma, recorded a one-day peak production rate of 850 barrels of oil equivalent, with a product mix of 78 percent crude oil and natural gas liquids and 22 percent natural gas, Osage Exploration and Development Inc. says. The company has a 65 percent working interest in the well.

In addition to the Everest 1-9MH, the company reports two horizontal Missis-

sippian wells in Logan County, Ok.—the George Plagg 1-18MH and George Plagg 1-19MH—both hit 30-day production peak rates.

In its first 30 days of production, the company says the George Plagg 1-18MH produced 21,028 barrels of oil equivalent. The product mix was 86 percent oil and natural gas liquids, and 14 percent natural gas. Osage has a 49 percent working interest in the well. □

Colorado Task Force Releases Report

DENVER—A task force empaneled by Colorado Governor John Hickenlooper to examine oil and gas issues has approved nine recommendations, many of which the Colorado Oil & Gas Association says enhance the role of local governments when it comes to energy development in their communities.

The nine recommendations contained in the *Colorado Oil and Gas Task Force Final Report*, issued Feb. 27, were culled from the final 36 measures considered. Five of the nine were sent to the Colorado Oil & Gas Conservation Commission, two were sent to the Colorado Legislature for consideration, one was sent to the governor's energy office, and one was sent to the state Department of Public Health and Environment (CDPHE).

The task force was created last August in a compromise agreement with supporters of two ballot initiatives aimed at restricting oil and gas development. The initiatives, along with two pro-industry measures, were pulled from the ballot in exchange for forming the task force (*AOGR*, September 2014, pg. 183).

The task force met over five months and heard testimony from dozens of state and local officials, geologists and engineers, health and safety experts, environmental advocates, and the public. At its conclusion, Hickenlooper expressed gratitude for the group's effort, according to published reports, and defended its recommendations against criticism that it was "a failure."

Seven of the nine recommendations were approved unanimously, which the governor said demonstrated the task force did its job. "A lot of people said nothing would come out of this," Hickenlooper told a radio station. "They said we would not make any progress. That turned out not to be the case."

Hickenlooper reiterated comments he had made when announcing the task force about the consequences of banning hydraulic fracturing in Colorado. "If you ban fracturing," he observed, "you put the state in serious jeopardy. The state could be held liable for the financial penalties of taking the rights of mineral owners, to say nothing of the financial impact and lost jobs."

COGA Director of Policy and External Affairs Doug Flanders says the task force recommendations clearly demonstrate unwillingness by opposition groups to compromise. "COGA is pleased with the work of the task force. It spent the time to learn the issues and tackle tough prob-

lems. Unfortunately, the environmental side wants an easy answer, which we would have found already, after 150 years of oil and gas development in Colorado," Flanders says. "They like to say they only want more local government control, but in the end, that is their way of banning oil and gas."

Of the nine recommendations approved by the task force, two were sent to the Colorado Legislature. One seeks funding for 12 additional staff positions at the Oil & Gas Conservation Commission, and the second seeks to prevent expiration of the methane emissions regulations adopted in February 2014 by the CDPHE. Those regulations establish volatile organic compound requirements for storage tanks and address methane emissions from natural gas wells (see "Colorado's New Emission Rules Most Comprehensive In Country," *AOGR*, April 2014, pg. 197).

With the state legislature split between a Democratic-controlled House and Republican-controlled Senate, passage of

significant legislation this session, including any affecting the industry, is unlikely, suggests Flanders.

New Tools for Siting

The list of recommendations (see Table 1) includes one that acknowledges a shift in development in Colorado over the past half decade from natural gas drilling in rural areas such as the Piceance Basin to multiwell pad drilling for oil into the Niobrara Shale in expanding suburban areas along the Front Range, according to Mike King, executive director of the Department of Natural Resources. As these interests collide, "conflicts are inevitable," King told an industry summit in Denver.

Task force recommendation 17 directs the COGCC to add definitions for "urban mitigation areas" and "large scale oil and gas facilities."

Recommendation 17 also directs the commission to develop rules that "address the authority and procedures to be used .

TABLE 1

Task Force on Oil & Gas Recommendations

Number		Vote	Sent to
17	Enhance local government participation during permitting of "large-scale oil and gas facilities" in "urban mitigation areas," which are to be defined in COGCC rules. Provide COGCC with tools to locate or mitigate intensity and scale of operations.	21-0	COGCC
20	Operator registration with local government designee (LGD) and submission, on request, of development plans for incorporating into local comprehensive plans.	21-0	COGCC
25	Ensure adequate funding from COGCC for LGD and local government liaison (LGL), and to educate local governments on utilization.	18-3	COGCC
27	Fund 12 additional staff at COGCC for inspection, permitting, and monitoring complaints.	21-0	General Assembly
31b	Secure funding for five permanent staff at CDPHE to monitor for emissions, and create a health compliance line as well as related human health risk assessment and a mobile air quality monitoring unit.	21-0	CDPHE
37	Develop best practice guidelines for reducing truck traffic related to oil and gas activities.	21-0	COGCC & CDOT
41	Create a statewide oil and gas information clearinghouse to distribute accurate, unbiased information to improve understanding of industry activities and practices, and federal, state and local regulations.	21-0	Governor's Energy Office
49	Approve SB15-100, the 2015 Rule Review Bill, to prevent expiration of methane emissions rules adopted in 2014.	20-1	General Assembly
52b	Create a compliance assistance program at COGCC to help operators understand and comply with new operating rules and policies, and to assure consistent enforcement of rules by COGCC staff.	21-0	COGCC

... to regulate the location when permitting large scale oil and gas facilities for the purpose of reducing impacts and conflicts with communities."

These protocols would include "siting tools to locate facilities away from residential areas when feasible" and "mitigations to limit the intensity and scale of operations" when relocation is not feasible.

Under recommendation 17, an operator would be required to meet with local government when considering a well site location, and to include notation of local government approval in his application for a permit to drill. If an agreement is not reached, mediation may be pursued, and if that fails, an APD with the operator's proposed location would go to hearing before the commission, the recommendation states.

"This is an example of how the civic leaders on the task force recognize the final authority for siting a well has to stay with the state," observes Flanders.

Recommendations 17 and 20—both of which were approved unanimously by the task force—direct the COGCC to address issues of local government involvement in siting wells and the impacts of development, Flanders points out.

"These are issues we have dealt with for decades," he says. "COGA member companies have a history of coming to the table and finding solutions that work for the community and the state. Problems come when the opposition continues to push new regulations under the guise of local government control. Ultimately, they want to drive us out of the state.

"They may argue that it simply is about giving local governments a say," Flanders continues. "But local government already has an enormous say and influence in the final outcome. What they really want is for local government to have a veto over state authority and to be allowed to have the final 'no.'"

No Local Veto

Hickenlooper, in a statement announcing the task force membership last September, indicated the goal was to provide equitable representation for stakeholder groups. He named eight civic and non-energy-industry leaders, seven members with affiliation to the environmental community, and six oil and gas industry executives.

"We saw early in the process that the civic leaders were not going to allow the environmentalists to blow up the current system," praises Flanders.

He adds, "Increasing setbacks quickly went nowhere and (task force member, former speaker of the Colorado House

of Representatives, and executive director of the Colorado departments of Natural Resources and Transportation) Russ George made it clear that he would not support any effort to give veto power to local government. Throughout the process, the opposition was not open to compromise and so, even with their voting bloc, (environmentalists) were unable to get approval for any of their more radical recommendations."

Co-Chairwoman Gwen Lachelt says in a letter to task force members, after they concluded their work, that she was disappointed the group did not send a strong recommendation to the governor and legislature that local governments should have more authority in siting wells and mitigating impacts of development.

In particular, Lachelt cited the failure of one recommendation that would have blocked drilling a well where the operator had a state-approved APD, but not the approval of local government. She claimed the recommendation failed because it was misrepresented "during the 11th hour as veto power over development."

However, Flanders counters, Lachelt and other local control advocates on the task force voted against a recommendation that would have provided the COGCC with added flexibility to create or amend drilling units to consider surface impacts. Also, he says, a proposal to increase local government input through use of memorandums of understanding, best management practices, and comprehensive drilling plans also failed to win their support.

Among recommendations that were approved, number 41 calls for creating a clearinghouse within the governor's energy office to manage and disseminate information about industry activities and practices, as well as relevant federal, state and local regulations.

Recommendations 25 and 31b direct the COGCC and the CDPHE to secure funding for their respective local government designee programs, and for inspection and health-risk assessment staff.

Looking ahead, Flanders says the task force recommendations are not the end of the process. To the contrary, he says. "Between rule makings and meetings with local government, we have a lot of work to do. While the other side deemed the task force a failure before a final vote was even cast, we believe these recommendations are sensible solutions with reasonable changes. However, we don't have the luxury of walking away because we didn't get everything we wanted. We have to make these things workable, not only for industry but for all Coloradans." □

What's happening
online at aogr.com

This month's website exclusives:

Catalysts Optimize Tight Oil Refining

Mary Jo Wier

Principal R & D Engineer

Dan Sioui

Refining Marketing Manager

Steve Metro

Senior Business Leader

UOP LLC, a Honeywell Company

Traditional Energy Lending Parameters Survive Price Cycles

Tim Brendel

Senior Vice President

Oil & Gas Segment Leader

Associated Bank, Houston

What's Popular

Frac Facts: The Latest in Delivery Systems and Proppants

And of course, current and future oil and gas prices updated every 11 minutes!

North America

1-800-847-8301

International

011-316-788-6271

THE AMERICAN OIL & GAS
REPORTER
www.aogr.com

