

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

APPLICATION OF RED MESA	:	CAUSE NO.
HOLDINGS/O&G LLC FOR AN INACTIVE	:	
WELL FINANCIAL ASSURANCE	:	DOCKET NO.
WAIVER	:	
	:	

APPLICATION FOR WAIVER OF RULE 707(a)
REQUIREMENT FOR ADDITIONAL FINANCIAL ASSURANCE

COMES NOW, Red Mesa Holdings/O&G LLC ("Applicant"), by its attorneys, Bryan Cave LLP, and makes application to the Oil and Gas Conservation Commission of the State of Colorado ("Commission") for an order granting a waiver of the Rule 707(a) requirement for additional financial assurance.

In support of its application, Applicant states and alleges, upon information and belief, as follows:

1. Applicant is a Delaware limited liability company duly authorized to conduct business in the State of Colorado, and is a registered operator in good standing with the Commission.

2. Applicant is a small operator located in Marvel, Colorado. Applicant's COGCC Operator Number is 10254. Applicant currently leases approximately 10,500 acres with just over 2,000 acres held by production in La Plata County. Oil production is between 15.5 and 16 barrels of oil per day and the field produces about 100MCF per day in gas.

3. On October 7, 2014, the Commission issued a Warning Letter (#2540879) alleging that Applicant may be in violation of Rule 707(a) concerning additional financial assurance for certain specified alleged "Excess Inactive Wells."

4. Applicant and Commission Staff have met on two occasions in a good faith effort to resolve the alleged noncompliance.

5. Pursuant to Rule 707(a), Applicant requests a waiver of the additional financial requirement for Excess Inactive Wells because of the following circumstances:

NUMBER OF "EXCESS INACTIVE WELLS" WELLS AT ISSUE

The Warning Letter identified seventeen wells it considers as "Excess Inactive Wells" subject to the requirement for additional financial assurance. Based on depth criteria, the Warning Letter alleged that additional financial assurance in the amount of \$250,000 is required. Applicant disputes that the number of Excess Inactive Wells has been accurately calculated in the Warning Letter. For example, three wells (well numbers 05-067-06069, 05-067-06124 and 05-067-06163) were plugged and abandoned in 2014. In addition, the 05-067-05321 well is a producing well, but apparently was included in the Warning Letter because of confusion as to whether it is a "shut-in" well. Applicant understands that Commission Staff is in agreement regarding the classification of these 4 wells, which would reduce the amount that COGCC claims the Applicant is required to post in additional financial assurance to \$180,000. Applicant alleges that other well(s) should not be classified as Excess Inactive Wells, based on completion and/or production history. Applicant therefore calculates the amount of additional financial assurance potentially at issue (over and above the \$60,000 bond currently posted) is \$60,000. Applicant reserves the right to supplement this Application with additional information about the number of Excess Inactive Wells at issue, and to provide further information and interpretation at the Hearing, or both.

PLUGGING AND ABANDONMENT COSTS

There is significant variability in the cost to plug and abandon wells. Multiple factors affect the overall cost including, but not limited to location, depth, age, status of completion, and rates of service providers.

BUSINESS REASON TO SHUT IN WELLS/FINANCIAL CONDITION

Applicant continually evaluates each well on an economic basis. While there are no hard and fast rules, generally when lifting costs exceed income on individual wells they may be shut in for a period of time until commodity pricing improves. Crude oil prices have declined by approximately 50% in the past three months, and gas prices are at historic lows. This market volatility has had a dramatic and negative impact on Applicant's business. Based on these and other factors, the additional financial assurance levels and/or plugging and abandoning requirements for 2015 requested by the COGCC would levy an insurmountable burden on Applicant and effectively force the company to cease operations.

ENVIRONMENTAL AND REGULATORY IMPACT

There have been no environmental incidents with the wells identified in the Warning Letter. Due to the shallow nature and low pressure environment at these wells, the potential for environmental impact is extremely low. Applicant has demonstrated that it is a conscientious operator with respect to public safety and the environment at its entire field. When it acquired these operations in 2008 it spent considerable sums to address areas in need of reclamation and housekeeping, and otherwise bringing the field into compliance with regulations.

The Commission's regulatory responsibilities would be served by granting a waiver of the additional financial assurance requirements in these specific circumstances. Applicant has demonstrated that it takes seriously the requirement to provide financial assurance for plugging and abandoning wells. Applicant has posted a \$60,000 cash bond. Applicant has dedicated significant company funds to plugging and abandoning wells over the past four years, in communication with Commission Staff, even though this has contributed to the company's financial distress.

The table below presents the wells that have been recently plugged and abandoned along with corresponding year. Since 2011 alone, seventeen wells have been plugged and abandoned which is impressive for an operator of Applicant's size and makeup.

1	KROEGER-FERGUSON #3 F-3	2014
2	FERGUSON #1 F-4	2014
3	DYEHARD #3	2014
4	KROEGER-FERGUSON #2 KF-3	2014
5	KROEGER-FERGUSON #3 K-5	2014
6	KENNEDY #2	2013
7	SANCHEZ #3	2013
8	MACY #1	2013
9	JUMBO #3	2013
10	KROEGER-FERGUSON #1 KF-2	2012
11	KROEGER-FERGUSON #2 KF-4	2012
12	ROWE #1	2012
13	FERGUSON #2 F-9	2012
14	ALAN #1	2011
15	FERGUSON #2 F-12x	2011
16	FERGUSON #2 F-8	2011
17	HALL 22-1	2011

Applicant simply does not have the funds to plug and abandon wells in 2015 as planned. Nor does Applicant have the funds to increase bonding levels at this time. If a waiver is not granted, there is a substantial likelihood that the wells at issue would be orphaned and that significant state time and money would have to be spent on plugging and abandoning them. Applicant respectfully submits that the COGCC would be better served by waiving the requirements and allowing Applicant sufficient time to stabilize cash flow so that the plugging and abandonment obligations can be resumed.

TOTAL NUMBER OF WELLS

Applicant has thirty-seven wells classified as active, in contrast to thirteen wells now alleged by the COGCC to be Excess Inactive.

REQUEST FOR WAIVER OF FINANCIAL ASSURANCE

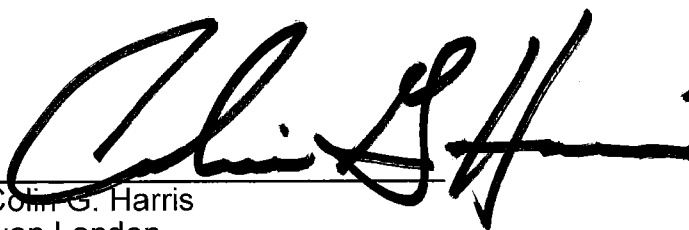
COGCC Rule 707.a states: "This requirement shall be modified or waived if the Commission approves a plan submitted by the operator for reducing such additional financial assurance requirement, for returning wells to production in a timely manner, or for plugging and abandoning such wells on an acceptable schedule." For the reasons set forth above, and as will be demonstrated in a supplement to this Application and at a Hearing, Applicant respectfully requests that the Commission waive additional financial assurance for Excess Inactive Wells (the ultimate number of which will be determined at the Hearing), subject to a plan requiring that Applicant plug and abandon wells on an agreed phased in schedule commencing in 2016.

WHEREFORE, Applicant requests that this matter be set for a hearing, that notice be given as required by law, and that upon such hearing, the Commission enter its order:

A. Granting a waiver of Rule 707(a), whereby Applicant may continue to operate under its existing bond; and

B. For such other findings and orders as the Commission may deem proper or advisable in this matter.

Dated: January 2, 2015.



Colin G. Harris
Ivan London
Bryan Cave LLP
1801 13th Street, Suite 300
Boulder, CO 80302
Telephone: 303-444-5955
Facsimile: 303-866-0200
colin.harris@bryancave.com

Counsel for Red Mesa Holdings/O&G LLC

Address of Applicant
Red Mesa Holdings/O&G LLC
5619 DTC Parkway, Suite 800
Greenwood Village, CO 80111
Attn: David R. Lionette

VERIFICATION

STATE OF COLORADO)

COUNTY OF

§§.

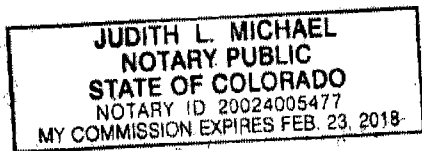
David R. Lionette, of lawful age, being first duly sworn upon oath, deposes and says that he is an authorized person of Red Mesa/O&G LLC and acting in such capacity has read the foregoing Application and as of the date executed below, that the matters therein contained are accurate based on my personal knowledge, information or belief.



David R. Lionette

Subscribed and sworn to before me this 2nd day of January, 2015.

Witness my hand and official seal.

My Commission expires: _____




Notary Public

Attachment 1

LIST OF PARTIES TO BE NOTICED

No known interested Parties

Attachment 2

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION : CAUSE NO.
OF RED MESA HOLDINGS/O&G LLC :
FOR AN INACTIVE WELL FINANCIAL : DOCKET NO.
ASSURANCE WAIVER :
:

NOTICE OF HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On January 2, 2015, Red Mesa Holdings/O&G LLC ("Red Mesa Holdings/O&G LLC" or "Applicant"), by its authorized persons, filed with the Commission an Application for a Waiver of Variance from Rule 707.a. for Additional Financial Assurance for alleged excess inactive wells.

NOTICE IS HEREBY GIVEN, pursuant to: 1) the general jurisdiction granted to the Oil and Gas Conservation Commission of the State of Colorado under §34-60-105, C.R.S.; 2) specific powers granted pursuant to §34-60-106; 3) the State Administrative Procedures Act at §24-4-105, C.R.S.; and 4) the Commission's Series 500 Rules at 2 CCR 404-1, that the Commission has scheduled the above-entitled matter for hearing on:

Date:

Time:

Place: Colorado Oil and Gas Conservation Commission
1120 Lincoln Street, Suite 801
Denver, Colorado 80203

In Accordance with the Americans with Disabilities Act, if any party requires special accommodations as a result of a disability for this hearing, please contact Margaret Humecki at (303) 894-2100 ext. 5139, prior to the hearing and arrangements will be made.

Pursuant to said hearing in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter such orders as it deems appropriate to protect the health, safety and welfare of the public and to prevent the waste of oil and gas, either or both, in the operations of said field, and to carry out the purposes of the statute.

In accordance with Rule 509, any interested party desiring to protest the granting of the application or to intervene on the application should file with

the Commission a written protest or intervention no later than _____, 2015, briefly stating the basis of the protest or intervention. Such interested party shall, at the same time, serve a copy of the protest or intervention to the person filing the application. One electronic (cogcc.hearings_unit@state.co.us), one original and two copies shall be filed with the Commission. **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of _____, 2015.** Pursuant to Rule 503.g., if a party who has received notice under Rule 503.b. wishes to receive further pleadings in the above-referenced matter, that party must file a protest or intervention in accordance with these rules. In accordance with the practices of the Commission, should no protests or interventions be filed in this matter by _____, 2015, **the Applicant may request that an administrative hearing be scheduled beginning _____, 2015.** In the alternative, pursuant to Rule 511., if the matter is uncontested, the applicant may request, and the Director may recommend approval on the basis of the merits of the verified application and the supporting exhibits.

OIL AND GAS CONSERVATION
COMMISSION OF THE STATE OF
COLORADO

By _____