

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

APPLICATION OF SOVEREIGN	:	CAUSE NO.
OPERATING LLC FOR AN INACTIVE	:	
WELL FINANCIAL ASSURANCE	:	DOCKET NO.
WAIVER	:	

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

COMES NOW, SOVEREIGN OPERATING COMPANY LLC ("Applicant"), by its attorneys, Lindquist & Vennum, 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 Colorado 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 an operator located in Denver, Colorado. Applicant's COGCC Operator Number is 10383. According to the records of the COGCC, Applicant is the operator of the wells located in Baca County, Colorado which are hereinafter described.
3. On September 16, 2014, the Commission issued a Warning Letter (#2540846) alleging that Applicant may be in violation of Rule 707(a) concerning additional financial assurance for certain specified "Inactive Wells" in Baca County, Colorado. There are 21 wells listed in the Warning Letter, all of which are identified on Exhibit "A".
4. The Inactive Wells were once entirely owned and operated by Crusader Energy Company.
5. Crusader filed for bankruptcy protection in the Bankruptcy Court in 2008. Applicant acquired the Inactive Wells from Jones Energy, successor to Crusader Energy Company, in March, 2011.
6. Between 2008 (if not before) and 2011 to the knowledge of Applicant neither Crusader nor Jones performed any maintenance, upkeep or workovers

with respect to the Inactive Wells. Deferred maintenance issues for these wells landed on the lap of Applicant when the Inactive Wells were acquired by Applicant in 2011.

7. Of the 21 Inactive Wells, 20 are shut-in and one is temporarily abandoned. The particulars are set forth on Exhibit "A". The 21 Inactive Wells were part of field of 77 Wells acquired by Applicant from Crusader, 56 of which are current producing wells.

8. The average depth of the Inactive Wells is 3,351', which is only approximately 10% more depth than the differentiating depth of 3,000' under Rule 707(a). The estimated cost of plugging and abandoning the wells in this area approximates \$18,000 per well, which assumes no recovered casing.

9. 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 "INACTIVE WELLS" WELLS AT ISSUE

The Warning Letter identified 21 wells that the COGCC considers as "Inactive Wells" and subject to the requirement for additional financial assurance. Based on depth criteria, the Warning Letter alleged that additional financial assurance in the amount of \$360,000 is required, being the difference between \$420,000 (21 Wells multiplied by \$20,000 per well) and \$60,000 (Applicant's current bond). Twenty of the twenty one wells are only temporarily shut-in, awaiting workover or repair to re-establish production. The sole exception is the Murray "A" Well located in the NE/2 NW/4 of Section 32, T31S, R42W. Applicant is now plugging that well. Applicant states that it is its intention to undertake diligent efforts to reestablish production from all twenty of the temporarily abandoned wells. Applicant believes that most or all of these Inactive Wells, based on completion and/or production history, can be returned to active producing status. Applicant therefore calculates the amount of additional financial assurance potentially at issue (over and above the \$60,000 bond currently posted) is \$0, assuming that the relief requested herein is granted. As discussed below, Applicant requests addition time within to establish production from the remaining twenty wells so that they are no longer classified as Inactive Wells.

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. As set forth above, the actual plugging costs in this area is estimated to be \$18,000 per well, which includes no recovered casing.

BUSINESS REASON FOR SHUT IN WELLS/PLAN OF OPERATIONS

Applicant continually evaluates each Inactive 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.

Applicant has funds, or has arranged for funds specifically allocated to maintaining, repairing and reworking/recompleting the Inactive Wells and other wells in the field. At this time, Applicant has not set aside addition funds to provide financial security to Inactive Wells. Applicant intends to use available funds to enhance the revenue associated with the overall field operations which will result in continued employment of local field personnel and royalty income to minerals owners, most of which are local farming families.

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 significant burden on Applicant.

Applicant has been a conscientious operator of the Baca County field where the Inactive Wells are located. Applicant has reworked or recompleted 19 wells, plugged and abandoned or performed mechanical integrity tests on 20 wells in the field and has budgeted another \$150,000-\$200,000 during 2015 to continue similar field operation on other wells, including Inactive Wells. This investment, coupled with improved production volumes and possibly better natural gas prices, should generate funds to restore the 20 Inactive Wells to production. Applicant requests until May 1, 2016 to rework and establish this production, or to properly plug and abandon unsuccessful Inactive Wells, or to provide the needed financial assurance pursuant to Rule 707(a).

The additional time will not only generate cash flow needed for the repair and workover of the Inactive Wells, but recognizes the realities of operations in Baca County. Baca County is no longer a hub of oil and gas activity and most, if not all, oil field service companies have left the area. Workover crews will be brought in from Kansas or the panhandles of Texas and Oklahoma. In order to achieve reasonable cost efficiencies, projects will need to be carefully planned and aggregated. Flexibility in scheduling will be most useful.

The immediate plan of Applicant is to plug one well and put six wells back on production through reworking and/or the installation of replacement downhole equipment. The final 14 wells will remaining shut in and shut in royalties paid until they can be addressed by Applicant.

Applicant and its previous and current operating entities (Sovereign Energy LLC and Colton LLC) are commonly owned, have operated in Colorado since 1993 and are in good standing. Applicant has operated up to 100 wells at one time and has always met its financial obligations under the rules of the COGCC, to surface and royalty owners and its investors.

ENVIRONMENTAL AND REGULATORY IMPACT

The Inactive Wells produce low BTU natural gas with little or no associated liquids. Gas is run through a separator and the gas sent down the gathering and/or sales line. Salt water is collected and held in a fiberglass tank until transported to a salt water disposal site. There are no hydrocarbon storage tanks on location or necessary at any site.

There have been no environmental incidents with the wells identified in the Warning Letter. Due to the minimal amount of natural gas liquids, 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.

The Commission's regulatory responsibilities would be served by granting a waiver of the additional financial assurance requirements in these specific circumstances.

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 the Inactive Wells.

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. Granting Applicant until May 1, 2016 to complete one of the following with respect to substantially all of the Inactive Wells: (a) restore production from the Inactive Well; (b) plug and abandon the Inactive Well; or (c) provide adequate financial assurance with respect the Inactive Wells.

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

Dated: January 21, 2015.



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Counsel for Sovereign Operating Company, LLC

Address of Applicant
Sovereign Operating Company LLC
475 17th Street, Suite 1200
Denver, CO 80202

VERIFICATION

STATE OF COLORADO)

) ss.

COUNTY OF Denver)

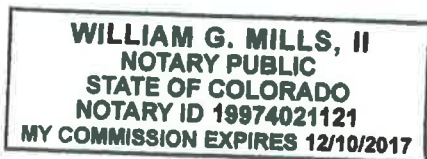
Thomas S. Metzger, of lawful age, being first duly sworn upon oath, deposes and says that he is an authorized person of Sovereign Operating Company, LLC and acting in such capacity has read the foregoing Application and as of the date executed below, that the matters there in contained are accurate based on my personal knowledge, information or belief.



(name)

Subscribed and sworn to before me this 21st day of January, 2015.

Witness my hand and official seal.

My Commission expires: 12-10-2017




Notary Public William G. Mills II

7946 E. MEXICO AVENUE
DENVER, CO 80231

EXHIBIT A

SOVEREIGN OPERATING INACTIVE WELL BOND LIST, BACA COUNTY, COLORADO										AMENDED OPERATIONAL PLAN W/COGCC 12/14			
API	NAME	NO.	COMP. DATE	NEED WI CONSENT	LOCATION	STATUS	LAST PROD	MIT DONE	NEXT MIT DUE	NOTES	PROPOSED OPERATIONAL PLAN	ESTIMATED START DATE	FINAL COMPLETION DATE
05-009-06648	BAR-B-4 RANCH	1-15	2008	YES	NENE 15 32S 43W 6	SI	06/2010	12/28/2012	12/2017	Has 295 psi shut-in pressure.	Put back on production.	3/15	5/1/2016
05-009-06645	BURHENN	1-12	2008	YES	NESW 12 32S 43W 6	TA	08/2008	12/17/2012	12/2017	Csg & tbg shut off at surface. Evaluate for future production.	Put back on production.	5/15	5/1/2016
05-009-06159	COGBURN	1	1979	YES	SWSW 29 32S 43W 6	SI	01/2008	1/8/2013	01/2018	Needs horse head and tank.	Put back on production.	4/16	5/1/2016
05-009-06398	COGBURN-WECO A	1	1984	YES	SWNE 31 32S 43W 6	SI	03/2007	5/8/2013	05/2018	Evaluate possible Waubunsee test.	Put back on production.	3/16	5/1/2016
05-009-06599	COTTRELL-RUTHERFORD	2-17	2001	YES	NWSE 17 31S 44W 6	SI	03/2004	5/16/2013	05/2018	Limited surface equipment.	Put back on production.	3/16	5/1/2016
05-009-06644	DUNIVAN	1-11	2008	NO	NESW 11 32S 43W 6	SI		1/4/2013	01/2018	Csg & tbg shut off at surface. Evaluate for future production.	Put back on production.	4/16	5/1/2016
05-009-06653	FULBRIGHT	1-20	2008	YES	NESW 20 32S 43W 6	SI	09/2009	1/3/2013	01/2018	Possibly Waubunsee + Topeka A potential.	Put back on production.	4/15	5/1/2016
05-009-06647	GIBSON	1-19	2008	YES	SENW 19 32S 42W 6	SI	08/2008	12/20/2012	12/2017		Put back on production.	10/15	5/1/2016
05-009-06646	GIBSON	1-25	2008	NO	NWNE 25 32S 43W 6	SI	02/2009	12/26/2012	12/2017		Put back on production.	12/15	5/1/2016
05-009-06035	LOFLIN-FEDERAL	1-21	1970	YES	SENW 21 31S 44W 6	SI	01/2013		01/2015	Initial 2-yr SI period.	Put back on production.	1/15	5/1/2016
05-009-06140	MOORE 'C'	1	1976	YES	SENW 29 31S 42W 6	SI	01/2009	4/5/2011	04/2016		Put back on production.	9/15	5/1/2016
05-009-06585	MURRAY 'A'	2	1976	NO	NENW 32 31S 42W 6	SI	04/2011			Intent to Abandon has been authorized.	Plug and Abandon.	1/15	2/28/2014
05-009-06586	MURRAY C	2	1998	YES	NENE 29 31S 42W 6	SI	01/2009	4/7/2011	04/2016	Needs pump.	Put back on production.	6/15	5/1/2016
05-009-06135	MURRAY 'C'	1	1976	YES	SWSW 28 31S 42W 6	SI	03/2009	4/13/2011	04/2016		Put back on production.	2/16	5/1/2016
05-009-06651	ROBBINS	1-16	2008	YES	SWSE 16 32S 42W 6	SI		12/12/2012	12/2017	Evaluate possible zone isolation.	Put back on production.	2/16	5/1/2016
05-009-06652	SHARP GIBSON	1-24	2008	YES	SWNW 24 32S 43W 6	SI		12/18/2012	12/2017	Has a pumping unit but don't know how the engine is or what it would take to produce. Might not take a lot.	Put back on production.	6/15	5/1/2016
05-009-06173	STATE 267-S	1	1977	YES	SESW 16 31S 42W 6	SI	06/2009	12/23/2010	12/2015	Limited surface equipment.	Put back on production.	12/15	5/1/2016
05-009-06176	STATE OF COLORADO	1-16	1977	YES	SESW 16 31S 43W 6	SI	12/2013			Possible pump chg or tbg leak.	Put back on production.	2/15	5/1/2016
05-009-05308	STATE-ST JOHN	1-36	1966	YES	SWNE 36 30S 45W 6	SI	11/2007	5/6/2013	05/2018	Pumping unit needs repair. Might need rods.	Put back on production.	1/16	5/1/2016
05-009-06600	THOMPSON-JEFFREY	1-13	2000	NO	NWSE 13 31S 44W 6	TA	12/2006	5/7/2013	05/2018		Put back on production.	10/15	5/1/2016
05-009-06650	WRIGHT	1-7	2008	NO	NWSE 7 32S 42W 6	SI	03/2009	12/13/2012	12/2017		Leave shut in.	1/16	5/1/2016

LEGEND:

PUT BACK ON PRODUCTION

PLUG AND
ABANDON

12/16/2014

ATTACHMENT 1

LIST OF PARTIES TO BE NOTICED

There are no 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 SOVEREIGN OPERATING :
COMPANY LLC FOR AN INACTIVE :
WELL FINANCIAL ASSURANCE : DOCKET NO.
WAIVER :

NOTICE OF HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On _____, 2015, Sovereign Operating Company LLC ("Sovereign" 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 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 _____