STATE OF COLORADO
OIL & GAS
CONSERVATION COMMISSION

DEPARTMENT OF NATURAL RESOURCES
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To: Colorado Oil and Gas Conservation Commission

From: Dave Neslin

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This memorandum will report on oil and gas activity in Colorado during 2010.

Despite continued low natural gas prices and diminished economic activity, Colorado's oil and gas industry fared better during 2010 than that in many other states, including our closest neighbors, in terms of drilling permits issued, new wells started, and drilling rigs active.

With respect to drilling permits, Colorado remains the regional leader and among the national leaders:

- Colorado issued 5,996 drilling permits during 2010, making it the third busiest year for permitting in the state's history notwithstanding the market and economic constraints. The five counties with the most permits issued were Weld with 2,152, Garfield with 2,037, Rio Blanco with 441, Mesa with 306, and Yuma with 299. The number of permits issued increased by 15% from 2009, and permits were issued in a total of 38 counties.
- Colorado also issued 515 recompletion permits during 2010, which is the highest total in the state's history. As with drilling permits, many of the recompletion permits were issued in Weld and Garfield counties. This number increased by 56% from 2009.
- In comparison, Wyoming issued approximately 5,431 permits, Kansas issued approximately 4,241 permits, New Mexico issued approximately 1,684 permits (this number omits some permits on federal land), Utah issued approximately 1,185 permits, and Montana issued approximately 329 permits.
- Beginning in 2009, drilling permits in Colorado are valid for two years, while previously in Colorado and currently in other states they are valid for one year. Therefore, it is likely that the 2010 Colorado permitting numbers reflect fewer refilled permits than did the Colorado permitting numbers for prior years or the 2010 permitting numbers for other states. Stated differently, the 2010 permitting numbers probably understate the current operator interest in Colorado compared to prior years and other states.
- At the end of 2010, operators held 4,735 active and unused drilling permits. This is the second largest number of active and unused permits at year end in the state's history, ranking just behind 2008 (4,897) but well ahead of 2006 (3,353), 2007 (3,451), and 2009 (4,096). These permits should be sufficient to accommodate a further substantial increase in drilling activity during 2011 if prices and conditions allow.

With respect to well starts, Colorado likewise remains the regional leader:

- According to the industry tracking firm Anderson Reports, 1,907 new wells were started in Colorado during 2010. This reflects a 28% increase from 2009. The COGCC's own records indicate that 2,311 wells were started during 2010, and that well starts during the last six months of the year were up 54% from 2009 (the COGCC did not collect such information prior to July 2009).

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- The comparable numbers for nearby states are Wyoming 1,126, Utah 732, New Mexico 172 in the San Juan Basin (Anderson does not provide information for the entire state), and Montana 129.

With respect to active drilling rigs, Colorado likewise remains a regional leader:

- According to Baker Hughes, Colorado had an average of 40 drilling rigs active during December 2009. By December 2010, this number had grown to 67, reflecting an increase of 27 rigs or about 68%.
- In comparison, New Mexico went from 49 to 67 rigs for an increase of 18, Utah went from 17 to 30 for an increase of 13, Kansas went from 19 to 26 for an increase of 7, Wyoming went from 40 to 45 for an increase of 5, and Montana remained at 7.

Despite the increasing level of activity, the COGCC has substantially decreased average permitting times:

- The COGCC's current permitting time, from application receipt to permit issuance, averages about 21 days everywhere but northwest Colorado, where there are often more environmental issues and more wells per pad. In northwest Colorado, the average permitting time is approximately 30 to 33 days.
- For example, during October and November 2010, the COGCC received a total of 718 permit applications. By year end, the COGCC had processed 93% of these applications, and the average processing time was 27.5 days. Only 3 applications (0.3%) took more than 50 days.
- By way of comparison, it took the COGCC an average of 41.5 days to process the permit applications received during October and November 2009. The average processing time for permit applications received during 2008, 2007, and 2006 was 65, 53, and 50 days, respectively.

The COGCC has also increased protections for the environment and wildlife under the amended rules:

- Specific areas of improvement include increased use of closed loop drilling systems and lined pits to protect ground water, improved storm water management to protect surface water, additional baseline and periodic water well sampling to compile data, and the development of various site-specific permit conditions to provide additional protection for nearby residents.
- Ten companies have developed wildlife mitigation plans or similar measures in collaboration with the CDOW covering approximately 560 square miles of high value habitat in western Colorado. These plans allow for the drilling of hundreds of future wells while protecting sage grouse, cutthroat trout, elk, and other wildlife.
- A total of 375 environmental remediation projects were completed during the year, which is the highest total in the state's history. By way of comparison, the number of such projects completed in 2009, 2008, 2007, and 2006 was 133, 113, 85, and 97, respectively. Even if some of the projects recorded in 2010 were actually completed during 2009, the difference between the numbers is of sufficient magnitude to indicate that more remediation projects were completed in 2010 than in any prior year.
- In addition, 16,228 inspections were completed during the year, which is likewise the highest total in the state's history. By way of comparison, the number of inspections completed in 2009, 2008, 2007, and 2006 was 9,991, 9,454, 10,120, and 9,667, respectively.