



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 the first quarter of 2011.

Despite continued low natural gas prices and diminished economic activity, Colorado's oil and gas industry continues to fare better than that in many other states, including our closest neighbors.

For example, Colorado remains the regional leader in well starts:

- According to the industry tracking firm Anderson Reports, 543 new wells were started in Colorado during the first quarter of 2011. This reflects a 32% increase from the first quarter of 2010. The COGCC's own records indicate that 608 wells were started during this period, and that well starts during the period were up 15% from 2010.
- The comparable numbers for nearby states are Wyoming 274, Utah 204, New Mexico 39 in the San Juan Basin (Anderson does not provide information for the entire state), and Montana 42.

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

- According to Baker Hughes, Colorado had an average of 63 drilling rigs active during January 2011. By April 2011, this number had grown to 72, reflecting an increase of 9 rigs or about 14%.
- In comparison, Utah went from 25 to 29 for an increase of 4, New Mexico went from 73 to 75 rigs for an increase of 2, Montana went from 8 to 10 for an increase of 2, Kansas went from 26 to 28 for an increase of 2, and Wyoming went from 47 to 40 for a decrease of 7.

Drilling permits are a less useful metric because they are now valid for two years in Colorado (this rule change became effective in late 2009) compared to one year in other states. Therefore, Colorado's permit numbers for the first quarter reflect fewer expired and refilled permits than do the numbers for other states or for Colorado in prior years. In addition, an increasing number of Colorado's permits are for horizontal wells. Horizontal wells typically take longer to drill, and a single productive horizontal well may be drilled in place of several vertical wells. Therefore, fewer permits may be necessary to reflect the same level of investment or reach the same level of production. Nevertheless, Colorado still remains a regional leader in issuing drilling permits:

- Colorado issued 1,099 drilling permits during the first quarter of 2011, of which 172 permits or 16% were for horizontal wells. The three counties with the most permits issued were Weld with 497, Garfield with 390, and Mesa with 45.

- In comparison, Wyoming issued approximately 1,227 permits, Kansas issued approximately 1,127 permits, New Mexico issued approximately 462 permits, Utah issued approximately 182 permits, and Montana issued approximately 37 permits.
- At the end of the first quarter of 2011, operators held 4,864 active and unused drilling permits. This reflects an increase of 824 permits or 24% over the number of active and unused permits held at the end of the first quarter in 2010 (4,040). These permits should be sufficient to accommodate a further substantial increase in drilling activity during the remainder of 2011 should operators choose to do so.

Despite this level of activity, the COGCC has continued to decrease average permitting times:

- The COGCC currently takes about 27 days to process drilling permit applications from application receipt to permit issuance. For example, during January, February, and March of 2011, the median time spent processing drilling permit applications from permit receipt to permit issuance was 27 days.
- By way of comparison, the median time spent processing drilling permit applications was 45.7 days during January, February, and March of 2010 and 52.3 days during January, February, and March 2009.
- In addition, since January 1, 2011, the average age of all pending applications has decreased from 40 days to 28 days, and the number of applications pending more than 60 days has decreased from 54 to 31.

The COGCC has also continued to protect the environment and wildlife:

- For example, operator use of closed loop drilling systems to protect groundwater has almost doubled in the past year. During January, February, and March of 2010, 182 out of 511, or 36%, of approved locations statewide used such systems. By January, February, and March of 2011, this number had grown to 358 out of 481, or 74%. In Weld County, about 91% of the approved locations use such systems.
- Twelve operators have developed wildlife mitigation plans or similar measures in collaboration with the CDOW covering more than 750 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 100 environmental remediation projects were completed during the first quarter of 2011. This reflects a 170% increase over the number of remediation projects completed during the first quarter of 2010, which was a record year for remediation projects.
- A total of 4,349 inspections were completed during the first quarter of 2011. This reflects a 5% increase over the number of inspections completed during the first quarter of 2010, which was likewise a record year for inspections.
- The Commission has also undertaken or required additional water well sampling in Garfield, Weld, Las Animas, La Plata, Elbert, and other counties to compile baseline data, worked with operators to improve storm water management, and developed various site-specific permit conditions to provide additional protection for nearby residents.