

OIL AND GAS LEASE

AGREEMENT, Made and entered into April 9, 1946, by and between: The Federal Land Bank of Wichita, Wichita, Kansas, a corporation Party of the first part, hereinafter called lessor (whether one or more) and Stanolind Oil and Gas Company

Part of the second part, hereinafter called lessee. WITNESSETH, That the said lessor, for and in consideration of One and No/100 DOLLARS, cash in hand paid, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto said lessee, for the sole and only purpose of mining and operating for oil and gas, and laying pipe lines, and building tanks, power stations and structures thereon to produce, save and take care of said

products, all that certain tract of land, together with any reversionary rights therein, situated in the County of La Plata State of Colorado described as follows, to-wit: An undivided one-fourth mineral interest in, on and under the following land: Southwest Quarter (SW 1/4); East Half (E 1/2) of the Northwest Quarter (NW 1/4) of Section Thirty-five (55), Township Thirty-four (34) North, Range Nine (9) West of the New Mexico Meridian; North Half (N 1/2) of the Southeast Quarter (SE 1/4) of Section Thirty-four (34), Township Thirty-four (34) North of Range Nine (9) West;

of Section Township Range and containing 320 acres more or less.

It is agreed that this lease shall remain in full force for a term of ten (10) years from this date, and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee, or the premises are being developed or operated.

In consideration of the premises the said lessee covenants and agrees: 1st. The lessee shall deliver to lessor as royalty, free of cost, into the pipe line to which lessee may connect its wells the equal 1/4 part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks. 2nd. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product as royalty, 1/4 of the market value of such gas at the mouth of the well; if said gas is sold by the lessee, then as royalty 1/4 of the proceeds of the sale thereof at the month of the well. The lessee shall pay lessor as royalty 1/4 of the proceeds from the sale of gas as such at the month of the well where gas only is found and where such gas is not sold or used, lessee shall pay or tender annually at the end of each yearly period during which such gas is not sold or used as royalty, an amount equal to the delay rental provided in the next succeeding paragraph hereof, and while said royalty is so paid or tendered this lease shall be held as a producing lease under the above term paragraph hereof; the lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of such gas to be at the lessor's sole risk and expense.

If no well be commenced on said land on or before April 9, 1947, this lease shall terminate as to both parties, unless the lessee on or before that date shall pay or tender to the lessor, or to the lessor's credit in The Federal Land Bank of Wichita, xxx at Wichita, Kansas

or its successors, which shall continue as the depository regardless of changes in the ownership of said land, the sum of One Hundred Sixty and No/100 DOLLARS, which shall operate as a rental and cover the privilege of deferring the commencement of a well for twelve months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods or the same number of months successively. All such payments or tenders of rental may be made by check or draft or assignee thereof, mailed or delivered on or before the rental payment date either direct to lessor or assignee or to said depository bank. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said first rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. Lessee may at any time execute and deliver to lessor, or place of record, a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases.

Should the first well drilled on the above described land be a dry hole, then, and in that event, if a second well is not commenced on said land within twelve months from the expiration of the last rental period for which rental has been paid, this lease shall terminate as to both parties, unless the lessee on or before the expiration of said twelve months shall resume the payment of rentals in the same amount and in the same manner as hereinbefore provided. And it is agreed that upon the resumption of the payment of rentals, as above provided, that the last preceding paragraph hereof, governing the payment of rentals and the effect thereof, shall continue in force just as though there had been no interruption in the rental payments.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rental shall be increased at the next succeeding rental anniversary after any reversion occurs to cover the interest so acquired.

Lessee shall have the right to use, free of cost, gas, oil, and water produced on said land for its operation thereon, except water from wells or ponds of lessor. When requested by lessor, lessee shall bury its pipe lines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the lessee shall commence to drill a well within the term of this lease or any extension thereof, the lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with the like effect as if such well had been completed within the term of years herein first mentioned.

If the estate of either party hereto is transferred, and the privilege of transferring in whole or in part is expressly allowed, or if the rights hereunder of either party hereto are vested by descent or devise, the covenants hereof shall extend to and be binding on the heirs, devisees, executors, administrators, successors, or assigns, but no change in the ownership of said land or of any right hereunder shall be binding on the lessee until after lessee has been furnished with the original or a certified copy thereof of any transfer by lessor or with a certified copy of the will of lessor together with a transcript of the probate thereof or, in the event lessor first transfers and his estate is being administered, with a transcript of the administration proceedings or, in the event of the death of lessor and no administration being had on the estate, with an instrument satisfactory to lessee executed by lessor's heirs authorizing payment or deposit or tender for deposit to their credit as hereinbefore provided, at least thirty days before said rentals and royalties are payable or due, and it is hereby agreed in the event this lease shall be assigned as to a part or as to parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rental due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of said lands upon which the said lessee or any assignee thereof shall make due payments of said rentals. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment. If the leased premises are now or hereafter owned in severalty or in separate tracts, the premises, nevertheless, may be developed and operated as an entirety, and the royalties shall be paid to each separate owner in the proportion that the acreage owned by him bears to the entire leased area. There shall be no obligation on the part of the lessee to offset wells on separate tracts into which the land covered by this lease may hereafter be divided by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks for the oil produced from such separate tracts.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof and may reimburse itself from any rental or royalties accruing hereunder.

The terms, covenants, and conditions hereof shall run with said land and herewith and shall be binding upon the parties hereto, their heirs, administrators, devisees, executors, successors and assigns; however, all express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

IN WITNESS WHEREOF, We sign the day and year first above written.

ATTEST: J. E. Carrico, Assistant Secretary

THE FEDERAL LAND BANK OF WICHITA (SEAL) By: Geo. H. Humker, Vice-President (SEAL)

71810-I

STATE OF KANSAS }
COUNTY OF SEDGWICK } ss.

Before me, the undersigned, a Notary Public in and for said County and State, on this 9 day of April, 19 46, personally appeared Geo. H. Hunker

to me personally known and known to me to be the identical person who subscribed the name of The Federal Land Bank of Wichita, Wichita, Kansas, a corporation, to the foregoing instrument as its Vice-President, and he being by me duly sworn did say that he is such officer and that the seal affixed to said instrument is the corporate seal of said corporation and that the same was signed and sealed in behalf of said corporation by authority of its board of directors, and he acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the uses and purposes set forth and specified therein.

Witness my hand and seal the day and year last above written.

My commission expires:

November 25, 1948 19 48

Geeshy Porter
Notary Public.

STATE OF KANSAS }
COUNTY OF SEDGWICK } ss.

Before me, the undersigned, a Notary Public in and for said County and State, on this _____ day of _____, 19____, personally appeared _____

to me personally known and known to me to be the identical person, who, as Vics-President of said Bank, subscribed the names of The Federal Land Bank of Wichita, Wichita, Kansas, a corporation (as Agent and Attorney-in-Fact) and the Federal Farm Mortgage Corporation, a corporation, to the foregoing instrument, and he being by me duly sworn, did say that he is such officer and that the seal affixed to such instrument is the corporate seal of said Bank, and that the same was signed and sealed in behalf of said Bank, as agent and attorney-in-fact for the Federal Farm Mortgage Corporation (under and by virtue of that certain power of attorney which is recorded in Book _____ at Page _____ of the records of _____ County, _____), and was signed in behalf of the Federal Farm Mortgage Corporation by said Bank, as agent and attorney-in-fact therefor, all by authority of the Board of Directors of said Bank, and he acknowledged to me that the foregoing instrument was executed by him as his free and voluntary act and deed and as the several free and voluntary acts and deeds of said Bank (as agent and attorney-in-fact) and the Federal Farm Mortgage Corporation, all for the uses and purposes set forth and specified therein.

WITNESS my hand and seal the day and year last above written.
My commission expires:

_____, 19____ Notary Public.

COMPARED

No. 188028
OIL AND GAS LEASE

FROM

TO

Date _____ 19____
Section _____ Twp _____ Rge _____
No. of Acres _____ Term _____
County _____

STATE OF Colorado }
County of Sedgewick } ss.

This instrument was filed for record on the _____ day of Nov, 1946 at 1:29 o'clock P. M., and duly recorded in Book 259 Page 334 of the records of this office.
EDITH C. KIEL, County Clerk

By Marcy Self

When recorded, return to _____

COMPARED

STATE OF _____ }
COUNTY OF _____ } ss.

Before me, the undersigned, a Notary Public in and for said County and State, on this _____ day of _____, 19____, personally appeared _____

to me personally known and known to me to be the identical person _____ who executed the within and foregoing instrument and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal the day and year last above written.
My Commission expires:

_____, 19____ Notary Public.

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STATE OF Colorado ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans. Okla. and Colo.)
COUNTY OF La Plata

Before me, the undersigned, a Notary Public, within and for said County and State, on this 7th
day of June, 1950, personally appeared Richard W. R.
and Marie W. R. his wife,

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me
that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.
My commission expires March 6, 1951 G. Collins Notary Public

STATE OF _____ ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans. Okla. and Colo.)
COUNTY OF _____

Before me, the undersigned, a Notary Public, within and for said County and State, on this _____
day of _____, 19____, personally appeared _____
and _____

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me
that _____ executed the same as _____ free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.
My commission expires _____ Notary Public

STATE OF _____ ss. ACKNOWLEDGMENT FOR CORPORATION
COUNTY OF _____

Be it remembered that on this _____ day of _____, 19____, before me, the undersigned, a
Notary Public, duly commissioned, in and for the County and State aforesaid, came _____
president of _____

a corporation of the State of _____ personally known to me to be such officer, and to be
the same person who executed as such officer the foregoing instrument of writing in behalf of said corporation, and he duly ac-
knowledged the execution of the same for said corporation for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal on the day and year last above written.
My commission expires _____ Notary Public

No. 310117

OIL AND GAS LEASE

FROM _____ TO _____

Date _____ Section _____ Township _____ County _____

STATE OF Colorado
County of La Plata

This instrument was filed for record on the
_____ day of June, 1950
at 11:28 o'clock AM, and duly recorded
in Book 287 Page 431
of the Office of the Notary Public
Collins Notary Public

Witnessed by me on this
6th day of June, 1950
_____ Notary Public

THE KANSAS BLUE PRINT CO.
101 NORTH MARKET ST. WICHITA, KANSAS
PROFESSIONAL SERVICE - 1950 DATE OIL LEASE

NOTE: When signature by mark in Kansas, said mark to be witnessed by at least one person and also acknowledged.
For acknowledgment by mark, use regular Kansas acknowledgment.

STATE OF _____ ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans. Okla. and Colo.)
COUNTY OF _____

Before me, the undersigned, a Notary Public, within and for said County and State, on this _____
day of _____, 19____, personally appeared _____
and _____

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me
that _____ executed the same as _____ free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.
My commission expires _____ Notary Public

U.S. DEPARTMENT OF THE INTERIOR **BUREAU OF LAND MANAGEMENT**
Colorado**Colorado BLM/Southern Ute Indian Tribe/BIA MOU****MEMORANDUM OF UNDERSTANDING**
(Southern Ute Indian Tribe and Bureau of Land Management)
AND
INTERAGENCY AGREEMENT
(Bureau of Indian Affairs and Bureau of Land Management)**I. Purpose**

This agreement between the Southern Ute Indian Tribe (Tribe), the Bureau of Indian Affairs (BIA) and the Bureau of Land Management (BLM) is intended to: (1) provide clear and consistent procedures and policy for the review and evaluation of proposed spacing, pooling, and field rule requests that come before the Colorado Oil and Gas Conservation Commission (COGCC); (2) avoid duplication of effort by the participants of this memorandum of understanding (MOU); and (3) define trust responsibility in matters of oil and gas spacing and pooling.

The parties recognize that the Tribe is the beneficial owner of lands held by the United States Government in trust for the Tribe and that the Tribe is entitled to monitor and participate in the spacing, pooling, and field rule requests.

For the purposes of this agreement, the term "Indian lands" shall mean those lands located within the exterior boundaries of the Southern Ute Indian reservation, including allotted Indian lands, in which the legal, beneficial, or restricted ownership of the underlying oil, gas, or coal bed methane or of the right to explore for and develop the oil, gas, or coal bed methane belongs to or is leased from the Southern Ute Indian Tribe or allottee.

The BIA and BLM are agencies of the federal government charged with overseeing certain oil and gas related activities on tribal and allotted lands in a manner consistent with the highest fiduciary and trust standards.

II. Authority

Authority for this MOU includes, but is not limited to, the following: Indian Mineral Leasing Act of 1938; the Indian Self Determination Act of 1968; the Indian Mineral Development Act of 1982; the Constitution of the Southern Ute Indian Tribe; the Mineral Leasing Act of 1920 as amended; the 1909 Mineral Leasing Act for allotted lands; and the Interior Department Secretarial Order No. 3087, as amended. This agreement shall not supersede existing law, rule, or regulation of either party; nor require commitments of manpower or funds beyond legal authority or appropriation. This agreement is not intended to abrogate or improperly delegate any of the Secretary of the Interior's fiduciary responsibilities towards Indian tribes within the State of Colorado.

III. Procedures

The Tribe, BIA, and BLM agree as follows:

A. Point of Contact

Each party shall appoint a specific person or persons who shall be the point of contact to facilitate communication and coordination in implementing the agreement.

B. Coordination Meetings

Coordination meetings will be held in conjunction with the established quarterly Tribe, BIA, and BLM coordination meetings. This agreement will be reviewed and updated from time to

EXHIBIT L

time as required in conjunction with coordination meetings, subject to lawful acceptance by the parties. In any event, however, this Agreement shall be reviewed at the first coordination meeting at the beginning of the calendar year.

C. Procedural Format

In accordance with the terms of the Cooperative Agreement between the COGCC and the BLM, all spacing and pooling requests involving federal and Indian minerals shall initially be submitted to the COGCC.

1. Oil and Gas Hearings

The BLM will provide testimony or present evidence to the COGCC concerning hearings and other matters affecting Indian Lands.

a. BLM Will:

- (1) Administratively review hearing notices and notices of other matters to determine if Indian lands may be affected by an application. Forward copies of notices affecting Indian lands to the BIA and the Tribe within 3 working days of receipt.
- (2) Schedule any requested meetings with BIA and/or the Tribe concerning hearing applications or other matters for all trust lands.
- (3) Conduct a technical review and develop evidence of impact on Indian owned and allotted Indian lands. Nonconcurrence will be handled in accordance with COGCC/BLM MOU.
- (4) Attend all hearings affecting Indian and allotted Indian lands to present the BLM's position and provide any evidence.
- (5) Provide BIA and the Tribe with a copy of all decisions of the COGCC which concerns Indian lands within 5 working days after receipt of a decision from the Commission.

b. BIA Will:

- (1) Notify the BLM, by letter or memorandum, of any concerns affecting an application on Indian or allotted Indian lands within 5 working days after receipt of the hearing notice or notice of other matters.
- (2) Consult as necessary with the BLM, lessees, operators, Tribe, or allottees concerning all applications affecting Indian lands.
- (3) Notify BLM of concurrence within 5 working days of receipt, but not later than 3 days prior to hearing for allotted Indian lands. If concurrence is not received prior to the hearing, the BLM will be forced to object to any discussions relating to the application of concern.

c. Tribe Will:

- (1) Provide the BLM with a current Indian mineral ownership and lease status map depicting the area affected by an application as well as all known and proposed well locations. This map should be received by the BLM at least 5 working days prior to the hearing.
- (2) Notify BIA/BLM of concurrence within 5 working days of receipt, but

not later than 3 days prior to hearing. If concurrence is not received prior to the hearing, the BLM will be forced to object to any decisions relating to the application of concern. With respect to Tribal allotted lands, Tribal concurrence will not be considered necessary for action by BIA/BLM, however Tribal comment will be accepted and considered.

3. Existing COGCC Decisions

Consistent with the terms of this agreement, all existing decisions of the COGCC involving federal and Indian minerals will remain in effect, subject to the right of the Colorado BLM to request that any specific orders be reviewed, recinded, or modified. All parties, Indian owners, or their representatives may request that specific orders be reviewed.

D. Special Provisions

1. Confidentially

Each agency will abide by the confidentiality requirements of its own laws and regulations with respect to determinations concerning and handling of proprietary data and any other statutes, regulations, or directives concerning restricted access to records or information in any form. With respect to any information supplied by the Tribe or generated by agencies in regard to a particular issue, the Tribe may request in writing that such matters be treated as confidential, and so long as not inconsistent with law, said request shall be honored.

2. Access to Records

Each agency will provide public access in accordance with its own rules.

3. Information Sharing

Each agency will provide the others with courtesy copies of all regulations changes and Instruction Memoranda that deal with common or pertinent issues.

4. Jurisdiction of COGCC

It is the Tribe's position that the COGCC lacks the jurisdiction to issue an order or decision affecting Indian lands within the boundaries of the Southern Ute Indian Reservation. Pursuant to an MOU between the BLM and the COGCC, BLM has contracted with the state to conduct hearings and review matters affecting Indian lands, and to make decisions affecting Indian lands. Without the concurrence of the parties hereto to decisions rendered by the COGCC affecting Indian lands, the parties agree that the COGCC by itself lacks the jurisdiction to render such decisions. This Agreement is intended to provide an acceptable procedure for obtaining the concurrence of the parties needed to make any COGCC decision binding.

Should the COGCC render a decision or order after the parties have followed the approved procedures contained in this Agreement, said COGCC decision shall be deemed by the parties hereto to be a decision of the BLM. Any interested party shall have the same opportunity to appeal or challenge such decision as if said decision had been rendered exclusively by the BLM, Colorado State Director.

E. Effect on Prior Agreements

There are no prior agreements among the Tribe, BLM, and BIA that this MOU would affect.

F. Administration

This agreement shall become effective upon the date of execution by the last signatory party to this agreement.

This agreement may be amended by mutual consent of the parties at the same organizational level as sign this agreement.

Termination of this agreement may be effected by any party upon 60 days written notice to the other parties. Termination of this agreement may be effected at any time by written notification of the other parties.

This agreement shall terminate when no longer authorized by the U.S. Department of the Interior, by federal or state law, or if determined to be unenforceable by any court having jurisdiction over the parties.

IN WITNESS WHEREOF, the parties have executed this agreement on the date indicated for each respective party,

Date: 8/22/91

BUREAU OF INDIAN AFFAIRS

by: /s/ Ralph R. Pensoneau
Superintendent, Southern Ute Agency

Date: 8/22/91

BUREAU OF LAND MANAGEMENT

by: /s/ Bob Moore
State Director, Colorado

Date: 8/22/91

SOUTHERN UTE INDIAN TRIBE

by: /s/ Leonard Burch
Chairman, Southern Ute Tribal Council

**Memorandum of Understanding
Between The Colorado Bureau of Land Management
And The Colorado Oil and Gas Conservation Commission**

A. Introduction

For many years there has been a spirit of cooperation, communication, and trust between the Colorado Oil and Gas Conservation Commission (COGCC) and the Colorado Bureau of Land Management (BLM) in the management of lands in the state of Colorado and the development of our nation's oil and gas resources. Each agency's mission and staffing levels have grown during these years to the point where we believe it is important to formalize our excellent working relationship, as well as define each agency's role and responsibilities in our overlapping jurisdictions.

B. Purpose

Most of our operations occur on adjacent lands or on the same lands, and it is important that both agencies provide oil and gas lessee/operators with consistent policy and procedures (including statewide oil and gas orders) on federal/Indian lands as well as nonfederal lands.

C. Objectives

This memorandum of understanding (MOU) between the Colorado BLM and the COGCC is intended to (1) avoid duplication of effort by the responsible oil and gas permitting agencies and (2) clearly define jurisdictional authority.

D. Authorities

The authorities for this agreement are the Mineral Leasing Act of 1920; the Interior Department Secretarial Order No. 3087, as amended; Title 34, Article 60, of the Colorado Revised Statutes; and 25 CFR Part 211. These agreements shall not supersede existing law, rule, or regulation of either party, nor require commitments of manpower or funds beyond legal authority or appropriation.

E. Definitions

1. COGCC actions shall mean those actions taken by the COGCC to establish pooling, spacing, and other orders (field rules) to govern operations in specific fields.
2. Colorado BLM actions shall mean actions taken by the Colorado BLM in accordance with federal regulations (i.e., Application for Permit to Drill approvals, plugging orders, etc.).
3. For purposes of this agreement, the term "Indian lands" shall mean those lands located within the exterior boundaries of the Southern Ute Indian reservation, including allotted Indian lands, in which the legal, beneficial, or restricted ownership of the underlying oil, gas, or coal bed methane or of the right to explore for and develop the oil, gas, or coal bed methane belongs to or is leased from the Southern Ute Indian Tribe or allottee. This includes allotted Indian lands. The Colorado BLM will act in the same manner for actions involving Ute Mountain Ute land as for Southern Ute land.

4. Protest shall mean any objection to a proposed determination. A protest by the Colorado BLM to the COGCC shall be furnished in writing so as to be received by the COGCC at least three working days prior to the hearing or any appearance at the hearing. On Indian lands, the Colorado BLM will notify the COGCC in writing of protest or concurrence so as to be received by the COGCC at least three working days prior to the hearing or any appearance at the hearing. However, should the Colorado BLM fail to protest, and at a later date wish to protest, the Colorado BLM has the right to request that specific orders be reviewed.

F. Responsibilities

The Colorado BLM and the COGCC agree as follows:

1. Designated Official

Each party shall appoint a designated official to receive notices hereunder and to facilitate communication and coordination in implementing this agreement.

2. Coordination Meetings

Semiannual coordination meetings will be held to discuss orders, policies, and procedures. This MOU will be reviewed and updated, if necessary, at the first coordination meeting of every year. Prior to the meeting, each agency's respective staffs will identify issues that will be discussed/resolved at the meeting. An agenda will be prepared and distributed prior to the meeting. Other agency staff and/or interested parties may be included in these meetings, as agreed upon by the agencies. Any decisions and agreements reached as a result of these discussions will be addenda to this agreement, as appropriate.

3. Procedural Format

It is agreed that all matters which would require COGCC approval (whether administrative or COGCC decision) involving nonfederal minerals shall initially be submitted to the COGCC even if federal/Indian minerals are partially involved. All matters which would require COGCC approval (whether administrative or COGCC decision) where federal/Indian minerals are entirely involved shall be initially submitted to the COGCC. Both types of matters shall be heard and decided by the COGCC, subject to the conditions set forth below.

The COGCC shall furnish the Deputy State Director, Mineral Resources, in the Colorado BLM with notices of all requests for hearings which in any manner relate to or involve federal/Indian lands. As an additional courtesy, the COGCC will send notices of all requests for hearings to the Colorado BLM District Offices. The Colorado BLM shall be entitled to present expert testimony with respect to such determinations and hearings, and shall be informed in writing of any dispositions. If the Colorado BLM should desire to protest any requested determination, it shall do so by written protest delivered to the COGCC within three working days prior to the hearing or appearance at the hearing. Any such protest shall specify the Colorado BLM objections and the conditions, if any, under which the Colorado BLM will accept the relief requested. The COGCC shall either issue its order incorporating the conditions of the protest or shall relinquish jurisdiction to the Colorado BLM over the matter insofar as it relates to federal/Indian lands. Failure to object to any determination, and failure to appear and protest (either by witness or in writing) at any hearing, shall be construed as

concurrence by the Colorado BLM, with the exception of Indian lands. On Indian lands, the Colorado BLM will notify the COGCC of concurrence within three working days prior to the hearing or appearance at the hearing. Failure to concur shall cause the hearing for that issue to be postponed until the following month or until concurrence is obtained. Consistent with the terms of this agreement, all existing decisions of the COGCC involving federal and Indian minerals will remain in effect, subject to the right of the Colorado BLM to request that any specific orders be reviewed, rescinded, or modified.

G. Special Provisions

1. Confidentiality

Each agency will abide by the proprietary and confidential data requirements of its own laws and regulations, in accordance with 43 Code of Federal Regulations 3162.8 and Rule 306 of the Colorado Rules and Regulations, Rules of Practice and Procedure (as amended), and Oil and Gas Conservation Act.

2. Access to Records

Each agency will provide for public access in accordance with its own rules.

3. Information Sharing

Each agency will provide the other with courtesy copies of all regulation changes and Instruction Memoranda that deal with common or pertinent issues.

4. Jurisdiction of the COGCC

a. Federal lands – In the event any matter is submitted to the COGCC for decision or other order, and the Colorado BLM does not object to the COGCC order as provided in Section F, the COGCC shall exercise its jurisdiction over all private parties holding interests in federal oil and gas leases jointly with any nonfederal interests, other than Indian interests.

b. Indian lands – The Southern Ute Indian Tribe does not concur with the exercise of jurisdiction by the COGCC over Indian lands. The Tribe does, however, concur with the exercise of limited authority by the COGCC, but only with the concurrence of the BLM over certain aspects of oil and gas activities on tribal lands. Specifically, the Tribe and the BLM have entered into a separate MOU which secures to the Tribe the independent right to participate and concur through the BLM in any proposed COGCC action affecting tribal lands prior to said action becoming effective. The BIA and the BLM have entered into a separate interagency agreement which sets out procedures for allotted Indian participation through BLM in any proposed COGCC action affecting allotted Indian lands prior to said action becoming effective.

Should the COGCC render a decision or order after the parties have followed the approved procedures contained in this agreement, said COGCC decision shall be deemed by the parties hereto to be a decision of the BLM. Any interested party shall have the same opportunity to appeal or challenge such decision as if said decision had been rendered exclusively by the BLM, Colorado State Director, through the State Director Review process

outlined in 43 CFR 3165.3.

H. Affect on Prior Agreements

This agreement will supersede the previous agreement signed September 4, 1986, and incorporate the previous amendment signed September 22, 1989.

I. Administration

This agreement shall become effective upon the date of execution by the last signatory party.

This agreement may be amended by mutual consent of the parties.

Termination of this agreement may be effected by either party upon 60 days written notice to the other party. Termination of this agreement may be effected at any time by mutual written consent of the parties.

This agreement shall terminate when no longer authorized by the U.S. Department of the Interior, by federal or state law, or if determined to be unenforceable by any court having jurisdiction over the parties.

Signed by:

Dennis R Bicknell
Director Colorado Oil and Gas Conservation Commission
August 22, 1991

Bob Moore
State Director
Bureau of Land Management, Colorado State Office
August 22, 1991

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

IN THE MATTER OF THE PROMULGATION AND)
CAUSE NO. 112)
ESTABLISHMENT OF FIELD RULES TO GOVERN)
OPERATIONS IN THE IGNACIO-BLANCO FIELD,)
ORDER NO. 112-180)
LA PLATA COUNTY, COLORADO)

REPORT OF THE COMMISSION

This cause came on for hearing before the Commission on September 26 and 27, 2005 in the Rolling Thunder Hall, Sky Ute Casino, 14826 Highway 172 North, Ignacio, Colorado on the verified application of BP America Production Company, for an order to allow the option of a total of four (4) wells in each 320-acre drilling and spacing unit for certain lands, with the permitted well to be located no closer than 660 feet to any outer boundary of the unit with no interior section line setback, utilizing a common or expanded pad with an existing well, for production of gas from the Fruitland coal seams.

FINDINGS

The Commission finds as follows:

1. BP America Production Company ("BP" or "the operator"), as applicant herein, is an interested party in the subject matter of the above-referenced hearing.
2. Due notice of the time, place and purpose of the hearing has been given in all respects as required by law.
3. The Commission has jurisdiction over the subject matter embraced in said Notice, and of the parties interested therein, and jurisdiction to promulgate the hereinafter prescribed order pursuant to the Oil and Gas Conservation Act and the terms of the Memorandum of Understanding ("MOU") between the Commission and the Bureau of Land Management ("BLM").
4. On July 11, 1988, the Commission issued Order No. 112-60, which established 320-acre drilling and spacing units for the production of gas and associated hydrocarbons from the Fruitland coal seams underlying certain lands, including the lands described below, with the permitted well to be located in the center of the NW¹/₄ and the SE¹/₄ of the section and no closer than 900 feet from the boundaries of the quarter section upon which it is located, nor closer than 130 feet to any interior quarter section line.
5. On May 15, 2000, the Commission issued Order No. 112-157, which allowed an optional additional well to be drilled for the production of gas from the Fruitland coal seams for certain lands, including the lands described below, with the permitted well when north of the north line of Township 32 North to be located in the NW¹/₄ and the SE¹/₄ of each section and when south of the north line of Township 32 North to be located in the NE¹/₄ and SW¹/₄ of each section, no closer than 990 feet from the boundaries of the quarter section, nor closer than 130

EXHIBIT M

feet to any interior quarter section line.

6. On August 8, 2005, BP, by its attorney, filed with the Commission a verified application for an order to allow a total of four (4) wells to be optionally drilled in each 320-acre drilling and spacing unit for the below-listed lands, with the permitted well to be located no closer than 660 feet to any outer boundary of the unit with no interior section line setback, utilizing a common or expanded pad with an existing well for production of gas from the Fruitland coal seams:

Township 33 North, Range 7 West, N.M.P.M.

Sections 5 and 6:All

Township 33 North, Range 8 West, N.M.P.M.

Section 1: All

Section 2: N½

Township 33 North, Range 9 West, N.M.P.M.

Sections 2 and 3: All

Township 34 North, Range 7 West, N.M.P.M.
(S.U.L.)

Sections 4 thru 9:All

Sections 16 thru 21: All

Sections 28 thru 32: All

Section 33: N½

Township 34 North, Range 8 West, N.M.P.M.
(S.U.L.)

Sections 1 thru 36: All

Township 34 North, Range 9 West, N.M.P.M.
(S.U.L.)

Sections 1 thru 3:All

Sections 10 thru 15:All

Sections 22 thru 27:All

Sections 34 thru 36:All

7. On September 12, 2005, La Plata County, by right in accordance with Rule 509., filed with the Commission an intervention on the application.

8. On September 12, 2005, the San Juan Citizens Alliance ("SJCA" or "Alliance") filed with the Commission an intervention on the application.

9. On September 14, 2005, a prehearing conference was held, at which time the Hearing Officer ruled to accept SJCA's intervention limited to issues affecting public health, safety, welfare and the environment either not addressed or inadequately addressed in the Commission rules, Order No. 112-157 or in the BP/La Plata County Memorandum of Understanding ("MOU"), to bifurcate the application and conduct an administrative hearing on the technical issues on Thursday, September 15, 2005, to allow the parties to make their presentations at the September 26, 2005 hearing without cross examination, and to accept proposed conditions from the parties due by close of business on Wednesday, September 21, 2005 for consideration by the Commission for inclusion in any order it may enter.

10. At the time of the administrative hearing on September 15, 2005, the Hearing Officers heard testimony and reviewed exhibits that indicated that the application lands consist of sixty-six (66) sections in the Ignacio-Blanco Field in La Plata County, the application area is located approximately ten (10) miles southeast of Durango, Colorado, and the entire application area is located within the Southern Ute Indian Reservation.

11. Testimony and exhibits presented at the administrative hearing indicated that the majority of the surface in the area is privately owned with a small amount of surface owned by the Southern Ute Indian Tribe and the State of Colorado. Additional testimony indicated that the majority of the mineral ownership in the application area is private, with a small percentage of federal and state mineral ownership.

12. Testimony and exhibits presented at the administrative hearing indicated that notification of the application was given to operators and mineral owners both in the application lands and in a buffer area outside of the application lands due to proposed setback revisions for the permitted well locations.

13. Testimony and exhibits presented at the administrative hearing showed the change in drilling windows and setbacks from the section lines requested in the application, proposing one drilling window in each 320-acre drilling and spacing unit with a six hundred and sixty (660) foot setback from the unit boundary and no setbacks from interior quarter section lines.

14. Testimony and exhibits presented at the administrative hearing showed that the Fruitland coal seams are approximately eighty-nine (89) feet thick in the application area, that well performance varies and cumulative production is lower in comparison to performance and production in the fairway area, that the western portion of the application area has thicker average coals than the eastern portion, and that the coals are discontinuous, fractured and difficult to correlate, requiring additional wells to adequately drain the gas contained in the reservoir.

15. Testimony and exhibits presented at the administrative hearing showed recovery factors in the application area calculated on a one hundred and sixty (160) acre drainage area. Testimony indicated that much of the application area shows a less than fifty

percent (50%) recovery factor.

16. Testimony and exhibits presented at the administrative hearing showed examples of reserve calculations using the material balance method and the decline curve method. Testimony indicated that the mean recovery factor for original gas in place in the application area is 46.2% when calculated on 160-acre well spacing. Additional testimony indicated that economics for the proposed additional wells are positive with an internal rate of return of 31.2%.

17. No protests to the application were filed with the Commission or the Applicant. No interventions on the technical merits of the application were filed with the Commission or the Applicant.

18. BP agreed to be bound by oral order of the Commission and the Hearing Officers recommended to the Commission at its hearing on September 26, 2005 that the technical portion of the application be approved.

19. A written statement was filed with the Commission on September 19, 2005 by Brian Hoffman expressing his concerns regarding the application.

20. On September 20, 2005, a letter in support of the application was filed with the Commission by the Bureau of Land Management after consultation with the Southern Ute Indian Tribe's Department of Energy.

21. On September 26, 2005, at the time of the hearing, the Commission heard testimony from Scott Thompson, Director Infill Land Operations for BP who summarized the testimony using the exhibits presented at the administrative hearing regarding ownership of the land in the application area and the proposed drilling window and setback changes.

22. The Commission heard testimony from J.W. "Bill" Hawkins, San Juan Regulatory Consultant for BP who summarized the testimony using exhibits presented at the administrative hearing regarding geologic development and reservoir engineering. He opined that the Fruitland coal seams are discontinuous across the application area, that granting the application would minimize waste and maximize production from the Fruitland coal seams, that additional wells would recover additional reserves, protect correlative rights and prevent waste, and that the drilling of additional wells would be economic for the Applicant.

23. The Commission heard testimony from Chad Tidwell, Operations Manager for BP regarding the provisions contained in the MOU executed between BP and La Plata County, how the MOU will adequately protect public health, safety, welfare and the environment with the increased well density, and how BP will continue to be subject to the La Plata County Land Code.

24. The Commission heard testimony from David Brown, Manager of Regulatory Affairs, HSSE for BP who used a well development flowchart to describe how the Commission's existing rules, the provisions in Order No. 112-157, and the MOU will ensure protection of the environment, public health, safety and welfare from increased density wells. Mr. Brown testified that BP will use Best Management Practices for expanding well pads, has ceased using diesel fluids, and that hydraulic fracturing service companies will have available onsite Material Safety Data Sheets for all fracturing fluids used. He described the proposed

process for conducting water well testing under the MOU and requested for inclusion in any order the Commission may enter.

25. The Commission heard expert testimony from Dr. Anthony Gorody, consultant for BP regarding dissolved methane studies who opined that groundwater has not shown any discernable increase in methane concentrations as a result of the drilling of additional Fruitland coal seam wells.

26. The Commission heard fact testimony from Sheryl Ayers, Board of County Commissioners of La Plata County Chair who thanked the Commission for coming to La Plata County to conduct the hearing and thanked BP for working with the County to address public health, safety, welfare and environmental concerns resulting in the executed MOU. She opined that the provisions of the MOU in addition to conditions previously approved in Order No. 112-157 would adequately address the environment, public health, safety and welfare issues.

27. The Commission heard fact testimony from Nancy Lauro, Community Development Director for La Plata County regarding how the fees assessed in the MOU would be used to address road repairs in the application lands.

28. The Commission heard testimony from Michael Matheson, Oil and Gas Technical Advisor for La Plata County regarding how the water well monitoring provisions in the MOU will ensure that public health, safety, welfare and the environment will be protected.

29. The Commission heard testimony from Dan Randolph, SJCA staff regarding how the Alliance has worked on oil and gas issues since the early 1990s and the three (3) conditions it proposed for inclusion in any order the Commission may enter as follows: (1) All water wells within a one-quarter ($\frac{1}{4}$) mile radius of both the surface location and the expected bottom hole location of a proposed additional well shall be sampled. If no water well is located within the one-quarter ($\frac{1}{4}$) mile radius area of either the surface location or the bottom hole location, or if access is denied, then sampling shall not be required. Initial baseline water quality testing shall include all items listed in Order No. 112-157, (2) All water wells within a one-quarter ($\frac{1}{4}$) mile radius of both the surface location and the expected bottom hole location of a proposed additional well shall be tested for quantity. If no water well is located within the one-quarter ($\frac{1}{4}$) mile radius area of either the surface location or the bottom hole location, or if access is denied, then testing shall not be required. Such testing shall be repeated on a quarterly basis every third year after the additional well has been drilled, and (3) All drilling and completion fluids used in any additional well shall be disclosed and the use of diesel in such fluids shall be prohibited.

30. The Commission heard testimony from Rebecca Koeppen, SJCA board member regarding the need to test water wells in conjunction with allowing additional wells as proposed by BP.

31. The Commission heard testimony from Lisa Sumi, Research Director for the Oil and Gas Accountability Project regarding chemicals used in the drilling and completion of wells, hydraulic fracturing techniques and the use of diesel fluids. She requested that chemical names and quantities used during drilling and completion operations be disclosed to the general public.

32. Pursuant to Rule 510., Susan Franzheim provided a handout and made a

statement regarding the need to do more to protect public health, safety and welfare, including zero tolerance for non-compliance by contractors.

33. Pursuant to Rule 510., Heather Snow, who lives on Florida Mesa, made a statement regarding safety concerns near gas operations, the condition of her water well, the lack of vegetation on well pads, and diminished land values. She stated that she does not believe there is sound science to support increased well density.

34. Pursuant to Rule 510., Carl Weston, who lives near and west of the Nick Spatter #1 and Bryce 1-X Wells, made a statement regarding concerns about cathodic protection wells and hydraulic fracturing and the associated fluids that may be buried with the pit liner.

35. Pursuant to Rule 510., Bob Miller, an oil and gas attorney speaking on his own behalf, made a statement in support of the application, stating his belief that using best practices for increased well density is important, that the application will adequately address surface impacts, and that the application should be used as a model for future applications.

36. Pursuant to Rule 510., Matthew Whalawitsa, a Fort Lewis College student and summer intern with the SJCA made a statement regarding his concern about gas well activity in La Plata County. He asked various questions of the Commission on matters he did not believe were adequately addressed by the previous day's presentations.

37. Brian Macke, Commission Director ("Director") commended the parties for the high quality of the presentations, the extraordinary undertaking that resulted in the executed MOU which addressed a comprehensive list of environmental and public health, safety and welfare issues that he would like to see included in any order the Commission enters. He stated that the Commission staff believes that these provisions, along with the provisions in Order No. 112-157 and the Commission's Rules and Regulations will adequately protect public health, safety, welfare and the environment. Mr. Macke expressed concern that the SJCA proposal to test for water quantity would be difficult to implement. He indicated his intent to review the need and funding mechanisms for additional modeling to supplement the 3M work previously accomplished. Mr. Macke recommended that the application be approved including the proposed conditions from the MOU.

38. Based on the technical testimony presented by the Applicant and the recommendation by the Hearing Officers, the Commission finds that the current well density will not efficiently and economically drain the drilling and spacing units previously designated by the Commission, and that based on geological and engineering data presented at the hearing, additional wells are necessary to allow the gas to be produced at its maximum efficient rate, to prevent waste and protect correlative rights, and to efficiently and economically recover gas from the Fruitland coal seams within the application area.

39. Based on the facts stated in the application and the testimony and exhibits presented, the Commission finds that the request to allow a total of four (4) wells to be optionally drilled in each 320-acre drilling and spacing unit for production of gas from the Fruitland coal seams for the lands described above in Finding #6 should be approved. The permitted well shall be located no closer than 660 feet to any outer boundary of the unit with no interior section line setback, utilizing a common or expanded pad with an existing well.

40. Based on the testimony and exhibits presented at the hearing, and the request by BP and La Plata County to include conditions agreed upon in the MOU executed by the parties, the Commission should apply conditions to the order to protect the environment from significant adverse impacts and to protect the public health, safety, and welfare.

ORDER

NOW, THEREFORE, IT IS ORDERED, that Order No. 112-157 is hereby amended to allow a total of four (4) wells to be optionally drilled in each 320-acre drilling and spacing unit for the below-listed lands, with the permitted well to be located no closer than 660 feet to any outer boundary of the unit with no interior section line setback, utilizing a common or expanded pad with an existing well, for production of gas from the Fruitland coal seams:

Township 33 North, Range 7 West, N.M.P.M.

Sections 5 and 6:All

Township 33 North, Range 8 West, N.M.P.M.

Section 1:All

Section 2:N½

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Sections 2 and 3:All

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(S.U.L.)

Sections 1 thru 36:All

Township 34 North, Range 9 West, N.M.P.M.
(S.U.L.)

Sections 1 thru 3:All

Sections 10 thru 15:All

Sections 22 thru 27:All

Sections 34 thru 36:All

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with the terms and provisions of all of the Commission's health, safety, welfare and environmental rules and regulations now or hereafter in effect.

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with all applicable regulations of the BLM, Bureau of Indian Affairs and the Southern Ute Indian Tribe when conducting operations on lands subject to the respective jurisdiction of each agency.

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with certain provisions of the MOU between BP and La Plata County, and shall comply with all terms, conditions and provisions of prior Commission Orders in Cause No. 112, including without limitation, the specific provisions of Order No. 112-157 including the Rule 508.j.(3)B. conditions attached thereto, to the extent they do not duplicate the provisions of the MOU. For convenience and ease of reference, the relevant conditions of the MOU and Order No. 112-157, including Rule 508.j.(3)B conditions, are set forth below. Conflicts between the conditions of the MOU set forth herein and the terms, conditions and provisions of Order No. 112-157 shall be resolved in favor of the MOU.

IT IS FURTHER ORDERED, that the following provisions of the MOU between BP and La Plata County found in Article V, VI and Subsections 2.1 and 2.2 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable existing Commission Rules and Regulations or orders:

Surface Density The density of Fruitland Coal Well Pads within the Infill Application Area shall not exceed four (4) within any single 640-acre governmental section of real property. Notwithstanding the foregoing, nothing contained in this provision shall be construed so as to require the closure or abandonment of any existing gas well. "Fruitland Coal Well" means a gas well drilled for the purpose of producing gas from the Fruitland coal seams under the lands described in this Order No. 112-180. "Well Pad" means the flat graveled portion of the pad area in which permanent operations for the gas well take place and shall always include, at a minimum, that portion of the pad area occupied by the drilling rig anchors. "Infill Application Area" means the lands described in this Order No. 112-180.

Well Location; Exceptions The Commission may grant a special exception allowing for a greater density of Fruitland Coal Well Pads (i.e., more than 4 per 640-acre section), at the request of BP and after consultation with the Local Governmental Designee ("LGD"), based upon a finding by the Commission that one or more of the following factors apply in a manner such that use of an existing Well Pad is rendered impractical:

- a. topographic characteristics of the site;
- b. natural resource constraints (e.g., wetlands);

- c. the location of utilities or similar services;
- o d. geologic factors or where issues concerning distances between wells are present;
- e. other site conditions beyond the control of BP; or
- f. safety concerns.

Storm Water Management and Spill Prevention Containment and Control

Even if not required to do so by any applicable regulation or law, BP agrees to utilize best management practices for all pad expansions and new pads and for road and pipeline development or improvements. "Best management practices" means schedules of activities, prohibitions of practices, maintenance procedures, and other management practices intended to prevent or reduce the pollution of waters of the State of Colorado as described in the regulations of the Colorado Department of Public Health and Environment, as amended from time to time.

Water Well Monitoring If a conventional gas well exists within one quarter ($\frac{1}{4}$) mile of the bottom hole location of a proposed Infill Well, then the two (2) closest water wells within a one-half ($\frac{1}{2}$) mile radius of a conventional gas well shall be sampled by BP as water quality testing wells. If possible, the water wells selected shall be on opposite sides of the existing conventional gas well not exceeding one-half ($\frac{1}{2}$) mile radius. "Infill Well" means wells drilled pursuant to this Order No. 112-180. "Conventional gas well" means a well producing from a non-coalbed methane formation found in the San Juan Basin, such as the Mesaverde or Dakota Sandstone Formation.

If water wells on opposite sides of the conventional gas well cannot be identified, then the two (2) closest wells within one-half ($\frac{1}{2}$) mile radius shall be sampled. If two (2) or more conventional gas wells are located within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well, then the conventional gas well closest to a proposed Infill Well shall be used for selecting water wells for sampling.

If no conventional gas wells are located within one quarter ($\frac{1}{4}$) mile radius of the bottom hole location of the proposed Infill Well, then the selected water wells shall be within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well. In areas where two (2) or more water wells exist within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well, then the two (2) closest water wells shall be sampled by BP. Ideally, if possible, the water wells selected shall be on opposite sides of the bottom hole location of the proposed Infill Well.

If water wells on opposite sides of the bottom hole location of the proposed Infill Well cannot be identified, then the two (2) closest wells within one quarter ($\frac{1}{4}$) mile radius shall be sampled by BP. If two (2) water wells do not exist within one quarter ($\frac{1}{4}$) mile radius, then the two closest water wells within a one-half ($\frac{1}{2}$) mile radius shall be selected. If no water well is located within a one quarter ($\frac{1}{4}$) mile radius area or if access is denied, two water wells within one-half ($\frac{1}{2}$) mile of the bottom hole location of the Infill Well shall be selected. If there are no water quality testing wells meeting the foregoing criteria, then sampling shall not be required. If the BLM

or the Commission have already acquired data on a water well within one quarter ($\frac{1}{4}$) mile of the conventional gas well, but it is not the closest water well, it shall be given preference in selecting a water quality testing well. The "initial baseline testing" described in this paragraph shall include all major cations and anions, total dissolved solids ("TDS"), iron and manganese, nutrients (nitrates and nitrites), selenium, dissolved methane, pH, presence of bacteria and specific conductance and field hydrogen sulfide.

If free gas or a methane concentration level greater than 2 milligrams/liter ("mg/L") is detected in a water quality testing well, compositional analysis and isotopic analyses of the carbon and hydrogen of the methane shall be performed to determine gas type (thermogenic, biogenic or an intermediate mix of both). If the testing results reveal biogenic gas, no further isotopic testing shall be done. If the carbon isotope test results in a thermogenic or intermediate mix signature, annual testing shall be performed thereafter and an action plan shall be drafted by BP to determine the source of the gas. If the methane concentration level increases by more than 5 mg/L between sampling periods, or increase to more than 10 mg/L, an action plan shall be drafted to determine the source of the gas.

The initial baseline testing shall occur prior to the drilling of the proposed Infill Well. Within one (1) year after completion of the proposed Infill Well, a "post completion" test shall be performed for the same parameters above and repeated three (3) and six (6) years thereafter. If no significant changes from the baseline have been identified after the third test (the six year test), no further testing shall be required. The testing schedule shall restart after the drilling of a new Infill Well on an existing Well Pad if the wells to be tested include those tested for the 160 acre infill program. Additional "post completion" test(s) may be required if changes in water quality are identified during follow-up testing. The Director of the Commission may require further water well sampling, which may include water quantity monitoring, at any time in response to complaints from water well owners.

Within three (3) months of collecting the samples used for the test, copies of all test results described above shall be provided to the Commission and the County and the landowner where the water quality testing well is located.

Plugged and Abandoned Wells/Soil Gas Vapor Survey A soil gas vapor-monitoring program shall be designed to determine a possible lack of zonal isolation along wellbores of plugged and abandoned wells. BP shall attempt to identify any plugged and abandoned wells located within one quarter ($\frac{1}{4}$) mile of the bottom hole location of any Infill Well. Any plugged and abandoned well within one quarter ($\frac{1}{4}$) mile of the bottom hole of an Infill Well shall be assessed for risk, taking into account cementing practices reported in the plugged and abandoned reports. BP shall notify the Commission of all results of all risk assessments of plugging procedures. The Commission may appropriate funds under Rule 701. (the Environmental Response Fund) to conduct soil gas monitoring tests to further define the risks. If the monitoring reveals a possible lack of zonal isolation, the Commission may then conduct or order any necessary remediation or other authorized activities.

IT IS FURTHER ORDERED, that the following terms, conditions and provisions

of Order No. 112-157 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable existing Commission Rules and Regulations:

Well Permit Limitations A Commission hearing shall be required before a drilling permit may be issued for a well site located within one and one-half (1½) miles of the outcrop contact between the Fruitland and Pictured Cliffs Formations. The purpose of the hearing shall be to address potential adverse impacts to the Fruitland outcrop.

Annual Drilling Plan The Director shall survey the operator as to its drilling plans for the remainder of the year 2005 and for 2006, and annually thereafter. The survey results shall be reported to the Commission for its consideration with respect to the conditions attached to this order.

Wildlife The operator shall notify the Colorado Division of Wildlife ("CDOW") of the location of any proposed additional well site and advise the Director of the date such notice was provided. If the Director receives comments from the CDOW within ten (10) days of the date notice was provided, such comments may be considered in applying Rule 508.j.(3)B. conditions.

Emergency Preparedness Plan The operator submitting an Application for Permit-to-Drill for a proposed additional well under this order shall file and maintain a digital Emergency Preparedness Plan ("EPP") with La Plata County. The EPP shall include as-built facilities maps showing the location of wells, pipelines and other facilities, except control valve locations that which may be held confidential. The EPP shall include an emergency personnel contact list.

Gas and Oil Regulatory Team The Director shall ensure that the La Plata County Gas and Oil Regulatory Team ("GORT") continues to meet as appropriate, but no less than semiannually. GORT meetings may be scheduled more frequently if the members believe a meeting is appropriate. (GORT includes invited member representatives from La Plata County, BLM, SUIT, industry operators and Commission. Its meetings are open and typically attended by interested area residents.)

3M Mapping, Modeling and Monitoring Project The Director shall ensure that the 3M Technical Peer Review Team is invited to meet as appropriate, but no less than semiannually to review proposals and results related to the 3M Mapping, Modeling and Monitoring Project. 3M Technical Peer Review Team meetings may be scheduled more frequently if the members believe a meeting is appropriate.

Post Completion Pressure Build-Up Tests In addition to obtaining a bottom hole pressure on all wells drilled under this order, the operator shall conduct pressure build-up two (2) to three (3) months after initial production begins and once every three (3) years thereafter. The operator shall provide the data acquired, an evaluation of the data and the procedures utilized to conduct the pressure build-up tests to the Director within thirty (30) days of the conclusion of each test. After reviewing the quality of the pressure buildup data and the adequacy of the geographic distribution of the data, the Director may reduce the number of wells for

which pressure build-up testing is required.

IT IS FURTHER ORDERED, that the following Rule 508.j.(3)B. conditions from Order No. 112-157 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable Commission Rules and Regulations:

Prior to approving any Application for Permit-to-Drill, the Director shall conduct an onsite inspection if the surface well location is proposed to be sited within any subdivision that has been approved by La Plata County. The Director shall conduct an onsite inspection if the surface well location is within two (2) miles of the outcrop contact between the Fruitland and Pictured Cliffs Formations and an onsite inspection is requested by the surface owner, LGD, operator, or Director.

Prior to approving any Application for Permit-to-Drill, the Director shall conduct an onsite inspection if the operator and the surface owner have not entered into a surface use agreement. If the reason the surface use agreement has not been executed is related to surface owner compensation, property value diminution, or any private property contractual issues between the operator and the surface owner, then no onsite inspection shall be required.

The purpose of the onsite inspection shall be to identify any potential public health, safety and welfare or significant adverse environmental impacts within Commission jurisdiction regarding the proposed surface location that may not be adequately addressed by Commission rules or orders. The onsite inspection shall not address matters of surface owner compensation, property value diminution, or any private party contractual issues between the operator and the surface owner.

When the Director conducts onsite inspections under the conditions in 1.) and 2.) above, the Director shall invite the representatives of the surface owner, the operator and LGD to attend. The Director shall attempt to select a mutually acceptable time for the representatives to attend. The inspection shall be conducted within ten (10) days, or as soon as practicable thereafter, of either the date the LGD advises the Director in writing that the proposed surface well site location falls within an approved subdivision or the date the operator advises the Director in writing that a surface use agreement has not been reached with the surface owner. If requested by the operator, the Director may delay the onsite inspection to allow for negotiation between the operator and surface owner or other parties.

Following the onsite inspection, the Director shall apply appropriate site specific drilling permit conditions if necessary to prevent or mitigate public health, safety and welfare or significant adverse environmental impacts taking into consideration cost-effectiveness and technical feasibility and relevant geologic and petroleum engineering conditions as well as prevention of waste, protection of correlative rights, and promotion of development.

Examples of the types of impacts and conditions that might be applied if determined necessary by the Director in 5.) above include (this list is not

prescriptive or all inclusive):

visual or aesthetic impacts - moving the proposed surface well site location or access road to take advantage of natural features for screening; installing low profile artificial lift methods; constructing artificial features for screening

surface impacts – moving or reducing the size, shape, or orientation of the surface well site location or access road to avoid disturbance of natural features or to enhance the success of future reclamation activities; utilizing an existing surface well site location or access road to avoid the impacts of new construction; utilizing a closed drilling fluid system instead of reserve pits to avoid impacts to sensitive areas

noise impacts – installing electric motors where practicable; locating or orienting motors or compressors to reduce noise; installing sound barriers to achieve compliance with Commission rules; confining cavitation completion operations (excluding flaring) to the hours of 7 a.m. to 7 p.m. and notifying all area residents within one-half (½) mile at least seven (7) days before cavitation is commenced

dust impacts – watering roads as necessary to control dust during drilling and completion operations

ground water impacts – collecting and analyzing water and gas samples from existing water wells or springs; installing monitoring wells, collecting samples, and reporting water, gas and pressure data

safety impacts – soil gas sampling and analysis; residential crawl space gas sampling and analysis; installing security fencing around wellheads and production equipment

outcrop impacts – performing outcrop gas seep surveys; performing produced water quality analysis; periodic pressure transient testing of high water/gas ratio wells; limiting water production in wells with anomalously high water rates and water/gas ratios; funding investigative reservoir modeling under the Director's supervision

wildlife impacts – limiting drilling and completion operations during certain seasonal time periods when specific site conditions warrant

If the operator objects to any of the conditions of approval applied under 6.) above, the Director shall stay the issuance of the drilling permit and properly notice and set the matter for the next regularly scheduled Commission hearing at which time the Commission may determine conditions of drilling permit approval.

If the Director has reasonable cause to believe that any existing or proposed oil and gas operations are causing, or are likely to cause, public health, safety and welfare or significant adverse environmental impacts within Commission jurisdiction that may not be adequately addressed by Commission rules or orders, the Director may properly notice and set the matter for the next regularly scheduled Commission hearing to order appropriate investigative or remedial action. Reasonable cause

may include, but is not limited to, information from the 3M Mapping, Modeling and Monitoring Project.

IT IS FURTHER ORDERED, that the provisions contained in the above order shall become effective forthwith.

IT IS FURTHER ORDERED, that the Commission expressly reserves its right, after notice and hearing, to alter, amend or repeal any and/or all of the above orders.

IT IS FURTHER ORDERED, that under the State Administrative Procedure Act the Commission considers this order to be final agency action for purposes of judicial review within thirty (30) days after the date this order is mailed by the Commission.

IT IS FURTHER ORDERED, that an application for reconsideration by the Commission of this order is not required prior to the filing for judicial review.

ENTERED this _____ day of October, 2005, as of September 26, 2005.

COMMISSION

OIL AND GAS CONSERVATION

OF THE STATE OF COLORADO

By _____ 9:

Patricia C. Beaver, Secretary

Dated at Suite 801

1120 Lincoln Street

Denver, Colorado 80203

October 25, 2005

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

IN THE MATTER OF THE PROMULGATION) CAUSE NO. 112
AND ESTABLISHMENT OF FIELD RULES TO)
GOVERN OPERATIONS IN IGNACIO-BLANCO) ORDER NO. 112-
190)
FIELD, LA PLATA COUNTY, COLORADO)

REPORT OF THE COMMISSION

This cause came on for hearing before the Commission at 9:00 a.m. on July 10, 2006, in Suite 801, The Chancery Building, 1120 Lincoln Street, Denver, Colorado, for an order to allow an optional third or fourth well, for a total of up to four (4) wells, to be drilled in each 320-acre drilling and spacing unit for certain lands in Townships 32 through 34 North, Ranges 6 through 9 West, N.M.P.M., for production from the Fruitland coal seams.

FINDINGS

The Commission finds as follows:

1. BP America Production Company ("BP") and the Southern Ute Indian Tribe, d/b/a Red Willow Production Company ("Red Willow"), as applicant herein, are interested parties in the subject matter of the above-referenced hearing.
2. Due notice of the time, place and purpose of the hearing has been given in all respects as required by law.
3. The Commission has jurisdiction over the subject matter embraced in said Notice, and of the parties interested therein, and jurisdiction to promulgate the hereinafter prescribed order pursuant to the Oil and Gas Conservation Act and the terms of the Memorandum of Understanding ("MOU") between the Commission and the Bureau of Land Management ("BLM").
4. On June 17, 1988, the Commission issued Order No. 112-60, which established 320-acre drilling and spacing units for production of gas from the Fruitland coal seams, with the permitted well to be located no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line, including certain lands in Townships 32 through 34 North, Ranges 6 through 9 West, N.M.P.M.
5. On May 15, 2000 the Commission issued Order No. 112-157, which allowed an optional second Fruitland coal seam well to be drilled in each 320-acre drilling and spacing unit with such additional well being located no closer than 990 feet to any outer boundary of the unit, nor closer than 130 feet to any interior quarter section line, including certain lands in Townships 32 through 34 North, Ranges 6 through 9 West, N.M.P.M.
6. On May 22, 2006, BP and Red Willow, by their attorney, filed with the Commission a verified application for an order to allow an optional third or fourth well, for a total of up to four (4) wells, to be drilled in each 320-acre drilling and spacing unit for production of gas from the Fruitland coal seams, with the permitted well to be located no closer than six hundred sixty (660) feet from the unit boundary, with no interior section line setback for the below-listed lands. The surface location of each of the optional wells shall be located on a common or expanded pad with the existing well such that a total

of four (4) Fruitland coal well pads shall be authorized in each governmental section.

Township 32 North, Range 6 West, N.M.P.M.

Section 3: All

Section 8: E½

Sections 9 and 10: All

Section 15: W½

Section 16: All

Township 32 North, Range 7 West, N.M.P.M.

Section 3: N½

Section 5: S½

Sections 7 and 8: All

Sections 17 thru 19: All

Township 32 North, Range 8 West, N.M.P.M.

Sections 1 through 24: All

Township 32 North, Range 9 West, N.M.P.M.

Section 1: All

Sections 12 and 13: All

Section 24: All

Township 33 North, Range 6 West, N.M.P.M.

Sections 6 and 7: All

Township 33 North, Range 7 West, N.M.P.M.

Section 1: S½, N½

Section 4: All

Sections 7 and 8: All

Section 9: W½

Section 14: W½

Section 16: S½

Section 17: All

Section 18: E½

Sections 19 through 21: All

Section 26: W½

Sections 27 and 28: All

Section 29: E½

Section 30 N½

Section 34: All

Section 35: W½

Township 33 North, Range 8 West, N.M.P.M.

Section 2: S½

Section 3: N½

Section 4: All

Section 5: N½

Section 6: N½

Section 10: N½

Section 11: E½

Sections 12 and 13: All

Section 14: E½

Section 19: S½

Section 22: N½

Section 23: N½

Section 25: N½

Section 30: E½

Sections 31 and 32: All

Section 33: W½

Township 33 North, Range 9 West, N.M.P.M.

Section 1: All

Section 4: All

Sections 6 through 11: All

Section 12: W½

Section 13: W½

Section 14: All

Section 15: E½

Section 16: All

Section 19: E½

Section 21: All

Section 22: W½

Sections 23 through 25: All

Section 29: All

Township 34 North, Range 7 West, N.M.P.M.

Sections 2 and 3: All

Sections 10 and 11: All

Section 15: All

Sections 22 and 23: All

Section 24: S½

Section 25: W½, E½

Sections 26 and 27: All

Section 33: S½

Section 34: All

Section 35: N½

Section 36: N½

Township 34 North, Range 9 West, N.M.P.M.

Section 4: All

Section 9: All

Sections 16 and 17: All

Section 18: S½

Sections 19 through 21: All

Section 28: All

Section 30: N½

Section 31: All

Section 33: E½

Applicants further state that the requested additional wells can be developed in a manner consistent with protection of public health, safety and welfare. To this end, Co-Applicant BP shall propose a Health, Safety and Welfare Plan which is likely to be a portion of a Memorandum of Understanding by and between BP and La Plata County, Colorado ("HS&W Plan") which shall apply to operations on lands not within the jurisdiction of the Southern Ute Indian Tribe. The Applicants request a finding by the Commission that such HS&W Plan adequately addresses concerns related to the environment and public health, safety and welfare not otherwise addressed by Commission rule on such non-tribal lands. Moreover, new compressor installations shall use the best available emission control technology and Co-Applicant BP shall also provide a plan to the Southern Ute Indian Tribe to evaluate the modification of older compression installation emission technology in the field over the next five (5) years.

7. On June 20, 2006, La Plata County, by its attorney, filed with the Commission an intervention on the application. The County's intervention is regarding potential impacts to public health, safety, welfare and the environment, and it did not object to the technical merits of the application being heard at an administrative hearing.

8. On June 26, 2006, the San Juan Citizens Alliance filed with the Commission a request to intervene on the application.

9. On June 29, 2006, a prehearing conference was held and the intervention request of the San Juan Citizens Alliance was denied.

10. Testimony and exhibits presented at the administrative hearing showed that in order to minimize surface disturbance the 80-acre infill wells are proposed to be drilled directionally from four (4) existing well pad locations in the section.

11. Testimony and exhibits presented at the administrative hearing showed that coals in the Fruitland Formation are present throughout the application area, that the Fruitland coals exhibit highly variable reservoir properties both vertically and laterally because of barriers to vertical and lateral flow, and that more wells are needed to adequately drain the gas contained in this reservoir.

12. Testimony and exhibits presented at the administrative hearing showed that the average virgin reservoir pressure in the application area is 1,482 PSIA and that when the reservoir has been depleted to 50% of the original virgin pressure 80% of the original gas in place remains.

13. Testimony and exhibits presented at the administrative hearing showed that 80-acre infill is needed to improve recovery efficiency, that 80-acre infill will recover additional reserves, and that 80-acre infill is economic to develop in the application area.

14. Testimony and exhibits presented at the administrative hearing showed that current 160-acre well density in the application area will recover less than 50% of the original gas in place, that 80-acre infill wells are planned to be directionally drilled from four (4) well pads per section, that the drilling window setbacks should be reduced to six hundred sixty (660) feet from spacing unit boundary, and that BP America and La Plata County have negotiated a Memorandum of Understanding covering public health, safety and welfare issues which will be voted on by the La Plata County Commission in late in July/early August.

15. Letters of support for this application have been provided by the Bureau of Land Management and the Southern Ute Indian Tribe.

16. BP America Production Company and the Southern Ute Indian Tribe, d/b/a Red Willow Production Company agreed to be bound by oral order of the Commission.

17. Based on the facts stated in the verified application, having received no protests and having been heard by the Hearing Officer who recommended approval, the Commission should enter an order to allow an optional third or fourth well, for a total of up to four (4) wells, to be drilled in each 320-acre drilling and spacing unit for certain lands in Townships 32 through 34 North, Ranges 6 through 9 West, N.M.P.M., for production from the Fruitland coal seams.

ORDER

NOW, THEREFORE IT IS ORDERED, that an optional third or fourth well, for a total of up to four (4) wells, is hereby approved in each 320-acre drilling and spacing unit for the below-listed lands for production of gas from the Fruitland coal seams, with the permitted well to be located no closer than six hundred sixty (660) feet from the unit boundary, with no interior section line setback.

Township 32 North, Range 6 West, N.M.P.M.

Section 3: All

Section 8: E½

Sections 9 and 10: All

Section 15: W½

Section 16: All

Township 32 North, Range 7 West, N.M.P.M.

Section 3: N½

Section 5: S½

Sections 7 and 8: All

Sections 17 thru 19: All

Township 32 North, Range 8 West, N.M.P.M.

Sections 1 through 24: All

Township 32 North, Range 9 West, N.M.P.M.

Section 1: All

Sections 12 and 13: All

Section 24: All

Township 33 North, Range 6 West, N.M.P.M.

Sections 6 and 7: All

Township 33 North, Range 7 West, N.M.P.M.

Section 1: S $\frac{1}{2}$, N $\frac{1}{2}$

Section 4: All

Sections 7 and 8: All

Section 9: W $\frac{1}{2}$

Section 14: W $\frac{1}{2}$

Section 16: S $\frac{1}{2}$

Section 17: All

Section 18: E $\frac{1}{2}$

Sections 19 through 21: All

Section 26: W $\frac{1}{2}$

Sections 27 and 28: All

Section 29: E $\frac{1}{2}$

Section 30 N $\frac{1}{2}$

Section 34: All

Section 35: W $\frac{1}{2}$

Township 33 North, Range 8 West, N.M.P.M.

Section 2: S $\frac{1}{2}$

Section 3: N $\frac{1}{2}$

Section 4: All

Section 5: N $\frac{1}{2}$

Section 6: N $\frac{1}{2}$

Section 10: N½

Section 11: E½

Sections 12 and 13: All

Section 14: E½

Section 19: S½

Section 22: N½

Section 23: N½

Section 25: N½

Section 30: E½

Sections 31 and 32: All

Section 33: W½

Township 33 North, Range 9 West, N.M.P.M.

Section 1: All

Section 4: All

Sections 6 through 11: All

Section 12: W½

Section 13: W½

Section 14: All

Section 15: E½

Section 16: All

Section 19: E½

Section 21: All

Section 22: W½

Sections 23 through 25: All

Section 29: All

Township 34 North, Range 7 West, N.M.P.M.

Sections 2 and 3: All

Sections 10 and 11: All

Section 15: All

Sections 22 and 23: All

Section 24: S½

Section 25: W½, E½

Sections 26 and 27: All

Section 33: S½

Section 34: All

Section 35: N½

Section 36: N½

Township 34 North, Range 9 West, N.M.P.M.

Section 4: All

Section 9: All

Sections 16 and 17: All

Section 18: S½

Sections 19 through 21: All

Section 28: All

Section 30: N½

Section 31: All

Section 33: E½

IT IS FURTHER ORDERED, that the surface location of each of the optional wells shall be located on a common or expanded pad with the existing well such that a total of four (4) Fruitland coal well pads shall be authorized in each governmental section.

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with the terms and provisions of all of the Commission's health, safety, welfare and environmental rules and regulations now or hereafter in effect.

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with all applicable regulations of the BLM, Bureau of Indian Affairs and the Southern Ute Indian Tribe when conducting operations on lands subject to the respective jurisdiction of each agency.

IT IS FURTHER ORDERED, that wells drilled in the above-described lands shall comply with certain provisions of the MOU between BP America Production Company and La Plata County, and shall comply with all terms, conditions and provisions of prior Commission Orders in Cause No. 112,

including without limitation, the specific provisions of Order No. 112-157 including the Rule 508.j.(3)B. conditions attached thereto, to the extent they do not duplicate the provisions of the MOU. For convenience and ease of reference, the relevant conditions of the MOU and Order No. 112-157, including Rule 508.j.(3)B conditions, are set forth below. Conflicts between the conditions of the MOU set forth herein and the terms, conditions and provisions of Order No. 112-157 shall be resolved in favor of the MOU.

IT IS FURTHER ORDERED, that the following provisions of the MOU between BP America Production Company and La Plata County found in Article V, VI and Subsections 2.1 and 2.2 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable existing Commission Rules and Regulations or orders:

Surface Density The density of Fruitland Coal Well Pads within the Infill Application Area shall not exceed four (4) within any single 640-acre governmental section of real property. Notwithstanding the foregoing, nothing contained in this provision shall be construed so as to require the closure or abandonment of any existing gas well. "Fruitland Coal Well" means a gas well drilled for the purpose of producing gas from the Fruitland coal seams under the lands described in this Order No. 112-190. "Well Pad" means the flat graveled portion of the pad area in which permanent operations for the gas well take place and shall always include, at a minimum, that portion of the pad area occupied by the drilling rig anchors. "Infill Application Area" means the lands described in this Order No. 112-190.

Well Location; Exceptions The Commission may grant a special exception allowing for a greater density of Fruitland Coal Well Pads (i.e., more than 4 per 640-acre section), at the request of BP America Production Company and after consultation with the Local Governmental Designee ("LGD"), based upon a finding by the Commission that one or more of the following factors apply in a manner such that use of an existing Well Pad is rendered impractical:

- a. topographic characteristics of the site;
- b. natural resource constraints (e.g., wetlands);
- c. the location of utilities or similar services;
- d. geologic factors or where issues concerning distances between wells are present;
- e. other site conditions beyond the control of BP America Production Company; or
- f. safety concerns.

Storm Water Management and Spill Prevention Containment and Control Even if not required to do so by any applicable regulation or law, BP America Production Company agrees to utilize best management practices for all pad expansions and new pads and for road and pipeline development or improvements. "Best management practices" means schedules of activities, prohibitions of practices, maintenance procedures, and other management practices intended to prevent or reduce the pollution of waters of the State of Colorado as described in the regulations of the Colorado Department of Public Health and Environment, as amended from time to time.

Water Well Monitoring If a conventional gas well exists within one quarter ($\frac{1}{4}$) mile of the bottom hole location of a proposed Infill Well, then the two (2) closest water wells within a one-half ($\frac{1}{2}$) mile radius of a conventional gas well shall be sampled by BP America

Production Company as water quality testing wells. If possible, the water wells selected shall be on opposite sides of the existing conventional gas well not exceeding one-half ($\frac{1}{2}$) mile radius. "Infill Well" means wells drilled pursuant to this Order No. 112-190. "Conventional gas well" means a well producing from a non-coalbed methane formation found in the San Juan Basin, such as the Mesaverde or Dakota Sandstone Formation.

If water wells on opposite sides of the conventional gas well cannot be identified, then the two (2) closest wells within one-half ($\frac{1}{2}$) mile radius shall be sampled. If two (2) or more conventional gas wells are located within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well, then the conventional gas well closest to a proposed Infill Well shall be used for selecting water wells for sampling.

If no conventional gas wells are located within one quarter ($\frac{1}{4}$) mile radius of the bottom hole location of the proposed Infill Well, then the selected water wells shall be within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well. In areas where two (2) or more water wells exist within one quarter ($\frac{1}{4}$) mile of the bottom hole location of the proposed Infill Well, then the two (2) closest water wells shall be sampled by BP America Production Company. Ideally, if possible, the water wells selected shall be on opposite sides of the bottom hole location of the proposed Infill Well.

If water wells on opposite sides of the bottom hole location of the proposed Infill Well cannot be identified, then the two (2) closest wells within one quarter ($\frac{1}{4}$) mile radius shall be sampled by BP America Production Company. If two (2) water wells do not exist within one quarter ($\frac{1}{4}$) mile radius, then the two closest single water wells within either a one quarter ($\frac{1}{4}$) mile radius or within a one-half ($\frac{1}{2}$) mile radius shall be selected. If no water well is located within a one quarter ($\frac{1}{4}$) mile radius area or if access is denied, a water well within one-half ($\frac{1}{2}$) mile of the bottom hole location of the Infill Well shall be selected. If there are no water quality testing wells meeting the foregoing criteria, then sampling shall not be required. If the BLM or the Commission have already acquired data on a water well within one quarter ($\frac{1}{4}$) mile of the conventional gas well, but it is not the closest water well, it shall be given preference in selecting a water quality testing well. The "initial baseline testing" described in this paragraph shall include all major cations and anions, total dissolved solids ("TDS"), iron and manganese, nutrients (nitrates and nitrites), selenium, dissolved methane, pH, presence of bacteria and specific conductance and field hydrogen sulfide.

If free gas or a methane concentration level greater than 2 milligrams/liter ("mg/L") is detected in a water quality testing well, compositional analysis and carbon isotopic analyses of methane carbon shall be performed to determine gas type (thermogenic, biogenic or an intermediate mix of both). If the testing results reveal biogenic gas, no further isotopic testing shall be done. If the carbon isotope test results in a thermogenic or intermediate mix signature, annual testing shall be performed thereafter and an action plan shall be drafted by BP America Production Company to determine the source of the gas. If the methane concentration level increases by more than 5 mg/L between sampling periods, or increase to more than 10 mg/L, an action plan shall be drafted to determine the source of the gas.

The initial baseline testing shall occur prior to the drilling of the proposed Infill Well. Within one (1) year after completion of the proposed Infill Well, a "post completion" test shall be performed for the same parameters above and repeated three (3) and six (6) years thereafter. If no significant changes from the baseline have been identified after the third test (the six year test), no further testing shall be required. The testing schedule shall restart after the drilling of a new Infill Well on an existing Well Pad if the wells to be tested include those tested for the 160 acre infill program. Additional "post completion" test(s) may be required if changes in water quality are identified during follow-up testing. The Director of the Commission may require further water well sampling, which may include water quantity monitoring, at any time in response to complaints from water well owners.

Within three (3) months of collecting the samples used for the test, copies of all test results described above shall be provided to the Commission and the County and the landowner where the water quality testing well is located.

Plugged and Abandoned Wells/Soil Gas Vapor Survey A soil gas vapor-monitoring program shall be designed to determine a possible lack of zonal isolation along wellbores of plugged and abandoned wells. BP America Production Company shall attempt to identify any plugged and abandoned wells located within one quarter ($\frac{1}{4}$) mile of the bottom hole location of any Infill Well. Any plugged and abandoned well within one quarter ($\frac{1}{4}$) mile of the bottom hole of an Infill Well shall be assessed for risk, taking into account cementing practices reported in the plugged and abandoned reports. BP America Production Company shall notify the Commission of all results of all risk assessments of plugging procedures. The Commission may appropriate funds under Rule 701. (the Environmental Response Fund) to conduct soil gas monitoring tests to further define the risks. If the monitoring reveals a possible lack of zonal isolation, the Commission may then conduct or order any necessary remediation or other authorized activities.

IT IS FURTHER ORDERED, that the following terms, conditions and provisions of Order No. 112-157 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable existing Commission Rules and Regulations:

Well Permit Limitations A Commission hearing shall be required before a drilling permit may be issued for a well site located within one and one-half ($1\frac{1}{2}$) miles of the outcrop contact between the Fruitland and Pictured Cliffs Formations. The purpose of the hearing shall be to address potential adverse impacts to the Fruitland outcrop.

Annual Drilling Plan The Director shall survey the operator as to its drilling plans for 2006, and annually thereafter. The survey results shall be reported to the Commission for its consideration with respect to the conditions attached to this order.

Wildlife The operator shall notify the Colorado Division of Wildlife ("CDOW") of the location of any proposed additional well site and advise the Director of the date such notice was provided. If the Director receives comments from the CDOW within ten (10) days of the date notice was provided, such comments may be considered in applying Rule 508.j.(3)B. conditions.

Emergency Preparedness Plan The operator submitting an Application for Permit-to-Drill for a proposed additional well under this order shall file and maintain a digital Emergency Preparedness Plan ("EPP") with La Plata County. The EPP shall include as-built facilities maps showing the location of wells, pipelines and other facilities, except control valve locations that which may be held confidential. The EPP shall include an emergency personnel contact list.

Gas and Oil Regulatory Team The Director shall ensure that the La Plata County Gas and Oil Regulatory Team ("GORT") continues to meet as appropriate, but no less than semiannually. GORT meetings may be scheduled more frequently if the members believe a meeting is appropriate. (GORT includes invited member representatives from La Plata County, BLM, SUIT, industry operators and Commission. Its meetings are open and typically attended by interested area residents.)

3M Mapping, Modeling and Monitoring Project The Director shall ensure that the 3M Technical Peer Review Team is invited to meet as appropriate, but no less than semiannually to review proposals and results related to the 3M Mapping, Modeling and Monitoring Project. 3M Technical Peer Review Team meetings may be scheduled more

frequently if the members believe a meeting is appropriate.

Post Completion Pressure Build-Up Tests In addition to obtaining a bottom hole pressure on all wells drilled under this order, the operator shall conduct pressure build-up two (2) to three (3) months after initial production begins and once every three (3) years thereafter. The operator shall provide the data acquired, an evaluation of the data and the procedures utilized to conduct the pressure build-up tests to the Director within thirty (30) days of the conclusion of each test. After reviewing the quality of the pressure buildup data and the adequacy of the geographic distribution of the data, the Director may reduce the number of wells for which pressure build-up testing is required.

IT IS FURTHER ORDERED, that the following Rule 508.j.(3)B. conditions from Order No. 112-157 shall be applied to additional wells where the surface location is proposed to be sited on lands subject to Commission jurisdiction, in addition to any requirements of applicable Commission Rules and Regulations:

Prior to approving any Application for Permit-to-Drill, the Director shall conduct an onsite inspection if the surface well location is proposed to be sited within any subdivision that has been approved by La Plata County. The Director shall conduct an onsite inspection if the surface well location is within two (2) miles of the outcrop contact between the Fruitland and Pictured Cliffs Formations and an onsite inspection is requested by the surface owner, LGD, operator, or Director.

Prior to approving any Application for Permit-to-Drill, the Director shall conduct an onsite inspection if the operator and the surface owner have not entered into a surface use agreement. If the reason the surface use agreement has not been executed is related to surface owner compensation, property value diminution, or any private property contractual issues between the operator and the surface owner, then no onsite inspection shall be required.

The purpose of the onsite inspection shall be to identify any potential public health, safety and welfare or significant adverse environmental impacts within Commission jurisdiction regarding the proposed surface location that may not be adequately addressed by Commission rules or orders. The onsite inspection shall not address matters of surface owner compensation, property value diminution, or any private party contractual issues between the operator and the surface owner.

When the Director conducts onsite inspections under the conditions in 1.) and 2.) above, the Director shall invite the representatives of the surface owner, the operator and LGD to attend. The Director shall attempt to select a mutually acceptable time for the representatives to attend. The inspection shall be conducted within ten (10) days, or as soon as practicable thereafter, of either the date the LGD advises the Director in writing that the proposed surface well site location falls within an approved subdivision or the date the operator advises the Director in writing that a surface use agreement has not been reached with the surface owner. If requested by the operator, the Director may delay the onsite inspection to allow for negotiation between the operator and surface owner or other parties.

Following the onsite inspection, the Director shall apply appropriate site specific drilling permit conditions if necessary to prevent or mitigate public health, safety and welfare or significant adverse environmental impacts taking into consideration cost-effectiveness and technical feasibility and relevant geologic and petroleum engineering conditions as well as prevention of waste, protection of correlative rights, and promotion of development.

Examples of the types of impacts and conditions that might be applied if determined necessary by the Director in 5.) above include (this list is not prescriptive or all inclusive):

visual or aesthetic impacts - moving the proposed surface well site location or access road to take advantage of natural features for screening; installing low profile artificial lift methods; constructing artificial features for screening

surface impacts – moving or reducing the size, shape, or orientation of the surface well site location or access road to avoid disturbance of natural features or to enhance the success of future reclamation activities; utilizing an existing surface well site location or access road to avoid the impacts of new construction; utilizing a closed drilling fluid system instead of reserve pits to avoid impacts to sensitive areas

noise impacts – installing electric motors where practicable; locating or orienting motors or compressors to reduce noise; installing sound barriers to achieve compliance with Commission rules; confining cavitation completion operations (excluding flaring) to the hours of 7 a.m. to 7 p.m. and notifying all area residents within one-half (½) mile at least seven (7) days before cavitation is commenced

dust impacts – watering roads as necessary to control dust during drilling and completion operations

ground water impacts – collecting and analyzing water and gas samples from existing water wells or springs; installing monitoring wells, collecting samples, and reporting water, gas and pressure data

safety impacts – soil gas sampling and analysis; residential crawl space gas sampling and analysis; installing security fencing around wellheads and production equipment

outcrop impacts – performing outcrop gas seep surveys; performing produced water quality analysis; periodic pressure transient testing of high water/gas ratio wells; limiting water production in wells with anomalously high water rates and water/gas ratios; funding investigative reservoir modeling under the Director's supervision

wildlife impacts – limiting drilling and completion operations during certain seasonal time periods when specific site conditions warrant

If the operator objects to any of the conditions of approval applied under 6.) above, the Director shall stay the issuance of the drilling permit and properly notice and set the matter for the next regularly scheduled Commission hearing at which time the Commission may determine conditions of drilling permit approval.

If the Director has reasonable cause to believe that any existing or proposed oil and gas operations are causing, or are likely to cause, public health, safety and welfare or significant adverse environmental impacts within Commission jurisdiction that may not be adequately addressed by Commission rules or orders, the Director may properly notice and set the matter for the next regularly scheduled Commission hearing to order appropriate investigative or remedial action. Reasonable cause may include, but is not limited to, information from the 3M Mapping, Modeling and Monitoring Project.

IT IS FURTHER ORDERED, that the provisions contained in the above order shall become effective forthwith.

IT IS FURTHER ORDERED, that the Commission expressly reserves its right, after notice and hearing, to alter, amend or repeal any and/or all of the above orders.

IT IS FURTHER ORDERED, that under the State Administrative Procedure Act the Commission considers this order to be final agency action for purposes of judicial review within thirty

(30) days after the date this order is mailed by the Commission.

IT IS FURTHER ORDERED, that an application for reconsideration by the Commission of this order is not required prior to the filing for judicial review.

ENTERED this _____ day of August, 2006, as of July 10, 2006.

OIL AND GAS
CONSERVATION
COMMISSION

OF THE
STATE OF
COLORADO

By _____

Patricia C. Beaver, Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
August 7, 2006

MEMORANDUM OF UNDERSTANDING

THIS AGREEMENT is made and entered into this 2nd day of August, 2006, by and between the BOARD OF COUNTY COMMISSIONERS OF LA PLATA COUNTY, COLORADO, 1060 E. 2nd Avenue, Durango, Colorado 81301 and BP AMERICA PRODUCTION COMPANY, a Delaware corporation, 380 Airport Road, Durango, Colorado 81303.

DEFINITIONS

Abandonment or abandoned means the permanent abandonment of a well based on the operator's filing with the COGCC.

Best Management Practices means schedules of activities, prohibitions of practices, maintenance procedures, and other management practices intended to prevent or reduce the pollution of waters of the State of Colorado as described in the regulations of the Colorado Department of Public Health and Environment, as amended from time to time.

BLM means the Bureau of Land Management.

BP means BP America Production Company.

COGCC means the Colorado Oil and Gas Conservation Commission of the State of Colorado.

Conventional gas well means a well producing from a non-coalbed methane formation found in the San Juan Basin, such as the Mesa Verde or Dakota Sandstone formations.

County means the Board of County Commissioners of La Plata County.

County approved subdivision means any subdivision created pursuant to state law, which has received subdivision approval by the Board of County Commissioners since September 1, 1972.

Easement means express or implied authorization by a property owner for the use of a designated portion of his property by another, for a specified purpose.

The *Environmental Response Fund* or ERF is "an emergency reserve" of unobligated funds to be maintained by the COGCC in the amount of \$1,000,000 and used in accordance with Colorado's Oil and Gas Act and Rule 701 of the COGCC's Rules. As described in Rule 701, the ERF fund is a mechanism to plug and abandon orphan wells, perform orphaned site reclamation and remediation and to conduct other authorized environmental activities.

Fruitland Coal Well means a gas well drilled for the purpose of producing gas from the Fruitland coal seams underlying the lands described in the Infill Application.

Gas well means a well having a pressure and volume of natural gas; specifically, producing methane, often in combination with a variety of other substances such as butane, propane and carbon dioxide.

Green completion means a technique whereby gas is recovered for sale or use instead of being vented or flared during initial completion flow back operations.

Heavy equipment means individual truck/trailer combination vehicles with a gross vehicle weight exceeding 5 tons.

Infill Application means the application filed by BP with the COGCC on or about May 22, 2006 requesting an increase of the density (to one well per 80 acres) of Fruitland Coal Wells in portions of La Plata County, Colorado.

Infill Application Area means the area within La Plata County described in the Infill Application.

Infill County Permit means any permit the county issues pursuant to LPLUC for minor oil and gas facilities and major oil and gas facilities related to the Infill Application.

Infill Wells means those wells contemplated to be drilled by virtue of the Infill Application.

LPLUC means the La Plata County Land Use Code as of July 11, 2005.

Low bleed means pneumatic controllers installed on field equipment to replace high bleed devices that vent small amounts of methane continuously.

Major oil and gas facilities shall have the meaning set forth in Section 90-19 of LPLUC.

Minor oil and gas facilities shall have the meaning set forth in Section 90-19 of LPLUC.

Permanent operations means operations for an Infill Well after initial drilling, completion and interim reclamation and before abandonment.

Reasonable efforts means diligent and good faith efforts to accomplish a given objective.

Right-of-way means a tract or strip of land, separate and distinct from the underlying property, owned, occupied or intended to be occupied by an oil, gas and/or water pipeline.

Road Impact Fees means the County road impact fees described in Article 3 below.

Water quality testing wells means domestic water wells within the vicinity of gas wells tested for water quality.

Well Pad means the flat graveled portion of the pad area in which permanent operations for the gas well take place and shall always, include, at a minimum, that portion of the pad area occupied within the drilling rig anchors.

RECITALS

A. La Plata County is a political subdivision of the State of Colorado authorized to act through its Board of Commissioners.

B. BP is a gas producing operator which has filed the Infill Application with the COGCC requesting an increase in the density of Fruitland Coal Wells in parts of La Plata County, Colorado. The Infill Application requests authority for new BP 80 acre Infill Fruitland Coal Wells within the Infill Application Area.

C. The parties to this Agreement have differing legal positions regarding the degree and extent of the County's authority to regulate certain aspects of oil and gas operations. The parties prefer, if possible, to avoid expending their resources in advancing their legal positions. Notwithstanding these differences and in their desire to avoid protracted formal hearings, the County and BP are willing to agree to the terms contained herein.

D. The provisions of Chapter 90 of LPLUC require BP to obtain a county permit for the construction, installation and operation of oil and gas facilities within the unincorporated areas of the county except with respect to those lands where the County's jurisdiction is preempted by federal or state law, or by Southern Ute Indian Tribal jurisdiction.

E. The County seeks to facilitate the development of oil and gas resources within the above-described areas of the county while mitigating potential impacts from such development.

F. The County has determined that potential impacts attendant to future gas development would be best mitigated for the county as a whole if future Fruitland Coal Wells are drilled on existing well pads where practical and as prescribed in LPLUC despite the fact that, in some instances, the use of existing well pads may further affect certain property owners and neighboring properties.

G. C.R.S. § 43-2-147 allows the County to, and describes the manner in which, the County shall regulate vehicular access to and from any public highway under its jurisdiction and from or to property adjoining a public highway in order to protect the public health, safety and welfare, to maintain smooth traffic flow, to maintain highway right-of-way drainage and to protect the functional level of public highways.

H. The County, as a matter of right, may intervene in the adjudicatory proceedings before the COGCC related to the Infill Application to raise environmental or public health, safety and welfare concerns. In exchange for the agreements contained herein, the County will not protest BP's Infill Application, nor, if it intervenes in the adjudicatory proceedings related to the Infill Application, will it advocate any position inconsistent with any term contained in this Agreement.

I. BP and the County wish to have certain issues amicably resolved prior to the COGCC's adjudicatory proceedings on the Infill Application and they agree that certain provisions of this Agreement should be included (subject to COGCC approval) in the requested Infill order.

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AGREEMENT

In consideration of the mutual obligations and benefits set forth in this Agreement and for other good and valuable consideration, the receipt of which is acknowledged, BP and the County agree as follows:

ARTICLE I APPLICATION

This Agreement shall apply to lands presently within the unincorporated portions of the Infill Application Area within the County with the exception of those lands where the County's jurisdiction is preempted by federal or state law, or by Southern Ute Indian tribal jurisdiction.

ARTICLE II DENSITY AND USE OF EXISTING WELL PADS AND FACILITIES

2.1 *Density.* BP agrees that, except as provided in Article 2.2 herein or as may be otherwise permitted in the COGCC order approving BP's Infill Application, the density of Fruitland Coal Well Pads within the Infill Application Area shall not exceed four (4) within any single 640-acre governmental section of real property. Notwithstanding the foregoing, nothing contained in this Article II shall be construed so as to require the closure or abandonment of any existing gas well.

2.2 *Well Location; Exceptions.* The County believes that the potential impacts attendant to future gas development would be best mitigated for the County as a whole if future Fruitland Coal Wells are drilled on existing well pads ("Pad Drilling"). In support of this policy, in situations where reasonable efforts fail to produce a Surface Use Agreement concerning Pad Drilling between BP and the Surface Owner, the County, in its discretion, may approve the Infill County Permit for Pad Drilling. Special exceptions to Article 2.1 may be requested by BP in its applications for Infill County Permits. The County will grant special exceptions when the County finds that one or more of the following factors apply in a manner such that use of an existing Well Pad is rendered impractical:

- a. topographic characteristics of the site;
- b. natural resource constraints (e.g., wetlands);
- c. the location of utilities or similar services;
- d. geologic factors or where issues concerning distances between wells are present;
- e. other site conditions beyond the control of BP; or
- f. safety concerns.

In rare circumstances, the County may also, in its discretion, grant a special exception to Article 2.1 at the request of the Surface Owner and BP based upon other impacts that may arise from Pad Drilling. Nothing herein shall be construed or applied so as to result

in the complete preclusion of an Infill Well authorized by the COGCC. The limitation contained in Section 2.1 shall not apply in any instance in which the County denies a permit application to drill a well from an existing Well Pad or to expand an existing Well Pad.

2.3 Use of Existing Infrastructure. BP agrees, except as provided in Article 2.2, to use existing infrastructure, including but not limited to the use of existing roads, pipeline routes and Well Pads within the existing drilling windows in the Infill Application Area. Nothing contained in this Article 2.3 shall preclude BP from installing additional facilities within the existing roads, pipeline routes and Well Pads if reasonably required to produce and operate the Infill Wells. The County recognizes that some minor reconfiguration of the existing infrastructure or additional easements may be necessary due to the placement of multiple wells on existing Well Pads. With the exception of such circumstances and other operational requirements or limitations imposed by existing contractual agreements or government regulations (*e.g.*, CDOT access permits), with the installation of each Infill Well BP shall use existing roads, easements, and pipeline routes.

2.4 Legal Non-Conforming Uses and Setbacks. Section 90-122(b) of LPLUC establishes certain setback requirements. In some instances, existing minor oil and gas facilities which initially met such requirements would not meet the requirements if a current application were filed due to (i) the encroachment of other development into the setback area, (ii) because the regulation was not in effect when the original installation occurred or (iii) because a waiver previously was obtained. Because the County believes that the policy of utilizing existing well pads is critical to the mitigation of the overall impact of the Infill Wells on the county as a whole, the County agrees that in those instances where the setback requirements of Sections 90-122 (b)(1) and (2) cannot be met currently, the County will consider the use of the existing Well Pad site a legal nonconforming use not subject to the requirements of Sections 90-122 (b)(1) and (2), provided that the degree of the nonconformity is not in any way increased by the placement of the Infill Well on the existing Well Pad site. The degree of existing nonconformity shall be measured from the edge of the existing Well Pad to the nearest residential structure and/or county approved subdivision as applicable. The degree of nonconformity for the new proposed Infill Well shall be measured from the edge of the new proposed Well Pad to the nearest residential structure and/or county approved subdivision as applicable. The increase, if any, in degree of nonconformity shall be the net difference between the two above measured values.

2.5 Expansion of Existing Well Pads. In those instances where an existing Well Pad is used for an Infill Well, BP agrees to use reasonable efforts to minimize the expansion of the area of the existing Well Pad. The reasonableness of the expansion under the circumstances shall be demonstrated by BP to the County with its Infill County Permit application. BP agrees to exercise reasonable efforts to expand existing well pads away from nearby existing impacted residential structures.

**ARTICLE III
PRIVATE ROADS AND ROAD IMPACT FEES**

3.1 *Road Impact Fees.* County and BP have determined that specific land use activities by BP within the Infill Application Area may create impacts on County roads and, therefore, mitigation in the form of negotiated road impact fees is proper and necessary. The parties recognize that impact fees are not always a reliable or sufficient source of funds and that the County's ability to actually perform such work may be limited or hampered by reasons beyond its control. However, the County agrees to exercise good faith in its efforts to carry out the intent of this Agreement and to perform such work to the extent that monies are available and appropriated. The County shall control the sequencing and timing of such work and BP hereby waives its rights, if any, to insist upon completion of the work or to dictate the manner, sequencing and timing of the same. The County recognizes and acknowledges that the monies collected hereunder must be collected and spent in a manner consistent with the accounting practices set forth in C.R.S. § 29-1-801 *et seq.* and that such monies may only be spent on facilities that are directly and reasonably related to the mitigation of impacts related to the activities described in the Infill Application.

3.2. *Road Impact Fees Calculation and Payment.* Based upon certain agreed upon assumptions, BP and the County have agreed to estimated Road Impact Fees for minor oil and gas facilities and major oil and gas facilities with respect to the Infill Application as follows:

(a) Tier 1 facilities are those with respect to which BP will transport produced water by pipe during normal production operations (not including emergency situations and periods in which drilling, completion or well servicing operations are being conducted) and the Road Impact Fee for Tier 1 facilities shall be in the amount of \$4,116.00 per facility;

(b) Tier 2 facilities are those with respect to which BP will haul the above described produced water for temporary periods not to exceed two (2) years from the date the facility is placed in service, and the Road Impact Fee for Tier 2 facilities shall be \$5,261.00 per facility; and

(c) Tier 3 facilities are those with respect to which BP likely will haul such produced water for the long-term, and the Road Impact Fee for Tier 3 facilities shall be \$7,501.00 per facility.

BP shall pay the County the Road Impact Fee due and owing for the prescribed activity prior to the County's final approval of the Infill County Permit.

3.3 *Adoption of Road Impact Fee Program.* The County is presently undertaking a feasibility study for the imposition of a county-wide impact fee program. To the extent legally permissible, the County shall use reasonable efforts to adopt a road impact fee program applicable to those eligible properties and uses upon which the

County can legally impose an impact fee pursuant to constitutional and statutory parameters. If such a program is adopted by the County and, as adopted applies to minor oil and gas facilities and major oil and gas facilities, BP's obligation to pay the fees described in Article 3.2, other than those already paid, shall terminate.

3.4 *Submission of Information.* The County seeks to efficiently and effectively schedule maintenance and improvement projects on its county roads. The use of such roads by heavy equipment related to construction or production activities in the Infill Application Area could have an effect on such projects. The County seeks and BP agrees to provide the County, on a quarterly basis, a forecasted activity plan setting forth the expected location and duration of minor oil and gas facilities and major oil and gas facilities operations within the county for the upcoming quarter as well as the county roads to be accessed and general proposed travel or haul routes. The disclosure of such plans and routes is for informational purposes only and shall not be construed as creating any obligation on the part of BP, including, without limitation, to conduct such operations, to limit the location and duration of such operations or to follow such routes. The first submission of such information shall occur within thirty (30) days after the COGCC order approving the Infill Application. The County agrees to reciprocate and provide notice to BP of its intended projects and its expected schedule for same.

3.5 *Use of Subdivision Roads.* BP agrees that in those instances where it accesses Infill Wells in the Infill Application Area through a road or roads within a county-approved subdivision and a governing entity exists (e.g., homeowners' association) with legal authority to bind the entity and its members, and with the authority to grant access rights over such roads and/or negotiate agreements with respect to their use, BP will use reasonable efforts to negotiate a fair and reasonable road maintenance or road improvement agreement with such entity for the purpose of paying or making in-kind contributions for its pro rata share of the cost of maintaining or improving the affected road(s). Such agreements or a memorandum thereof shall be recorded with the Clerk and Recorder of La Plata County. The existence, or lack thereof, of such executed and recorded agreements shall be noted in the Infill County Permit application for informational purposes only.

3.6 *Use of Equipment.* BP agrees that:

- a. it will remove or require the removal of chains from its heavy equipment before entering a county road;
- b. all new roads associated with the Infill Wells within the Infill Application Area shall have gravel access and Well Pads with a minimum of four inches (4") of Class 6 Aggregate Base Course as defined by the Colorado Department of Transportation Standard Specifications for Road and Bridge Construction over a stabilized base, both of which shall be maintained throughout permanent operations of the Well Pad; and
- c. if mud and/or debris is tracked onto the county road by BP's equipment, BP shall remove same and restore the condition of the road as promptly as is reasonable under the circumstances.

3.7 *Produced Water Hauling.* Except in emergency situations of which the County shall be provided notice, and except during drilling, completion and well servicing operations, BP shall transport produced water by pipe except within Tier 2 or 3 facilities areas. In those instances where a water hauling truck is utilized, BP agrees to strictly comply with the weight restrictions set forth in Chapter 42, Article V of the LPLUC.

ARTICLE IV AIR QUALITY

4.1 *Electrification.* BP agrees that with respect to Infill Wells within the Infill Application Area requiring long-term artificial lift, it shall utilize electric motors for all artificial lift installations provided the Well Pad is within 1320 feet of distribution voltage and the ability to do so is not cost prohibitive due to the demands of property owners from whom easements are required, topography or other physical features (e.g., the presence of a river). BP agrees that if distribution voltage is not currently within 1320 feet of the proposed Well Pad, it will contact and provide the surface owner an opportunity at the surface owner's cost to extend distribution voltage to within 1320 feet of the proposed Well Pad. It is understood that gas powered artificial lift equipment may be used prior to the time that La Plata Electric Association brings power to the site. BP agrees to request that La Plata Electric Association place the power lines underground except in areas where the topography or subsurface conditions render it infeasible or in situations in which the landowner requests overhead lines.

4.2 *Greenhouse Gas Reduction.* BP agrees to utilize reasonable efforts to minimize methane emissions by using "green completion" techniques, and the installation of "low bleed" pneumatic instrumentation, when feasible.

4.3 *Emission Control Equipment.* BP will comply with existing EPA rules and any future regulations validly adopted by an authority with appropriate jurisdiction, including regulations that may be adopted by the Southern Ute Indian Tribe.

ARTICLE V WATER QUALITY

5.1 *Storm Water Management and Spill Prevention Containment and Control.* Even if not required to do so by any applicable regulation or law, BP agrees to utilize Best Management Practices for all pad expansions and new pads and for road and pipeline development or improvements.

5.2 *Water Well Monitoring.* If a conventional gas well exists within one quarter (1/4) mile of the bottom hole location of a proposed Infill Well, then the two (2) closest water wells within a one-half (1/2) mile radius of the conventional gas well shall be sampled by BP as water quality testing wells. If possible, the water wells selected shall be on opposite sides of the existing conventional gas well not exceeding one-half

(1/2) mile radius. If water wells on opposite sides of the conventional gas well cannot be identified, then the two (2) closest wells within one-half (1/2) mile radius shall be sampled. If two (2) or more conventional gas wells are located within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well, then the conventional gas well closest to a proposed Infill Well shall be used for selecting wells for sampling.

If no conventional gas wells are located within one quarter (1/4) mile radius of the bottom hole location of the proposed Infill Well, then the selected water wells shall be within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well. In areas where two (2) or more water wells exist within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well, then the two (2) closest water wells shall be sampled by BP. Ideally, if possible, the water wells selected should be on opposite sides of the bottom hole location of the proposed Infill Well. If water wells on opposite sides of the bottom hole location of the proposed Infill Well cannot be identified, then the two (2) closest wells within one quarter (1/4) mile radius shall be sampled by BP. If two (2) water wells do not exist within one quarter (1/4) mile radius, then the closest two water wells within a one-half (1/2) mile radius shall be selected.

If no water well is located within a one quarter (1/4) mile radius area or if access is denied, a water well within one-half (1/2) mile of the bottom hole location of the Infill Well shall be selected. If there are no water quality testing wells meeting the foregoing criteria, then sampling shall not be required. If the BLM or the COGCC have already acquired data on a water well within one quarter (1/4) mile of the conventional gas well, but it is not the closest water well, it shall be given preference in selecting a water quality testing well. The "initial baseline testing" described in this paragraph shall include all major cations and anions, TDS, iron and manganese, nutrients (nitrates, nitrites, selenium), dissolved methane, pH, presence of bacteria and specific conductance and field hydrogen sulfide.

If free gas or a methane concentration level greater than 2 mg/L is detected in a water quality testing well, compositional analysis and carbon isotopic analyses of methane carbon shall be performed to determine gas type (thermogenic, biogenic or an intermediate mix of both). If the testing results reveal biogenic gas, no further isotopic testing shall be done. If the carbon isotope test results in a thermogenic or intermediate mix signature, annual testing shall be performed thereafter and an action plan shall be drafted by BP to determine the source of the gas. If the methane concentration level increases by more than 5 mg/L between sampling periods, or increase to more than 10 mg/L, an action plan shall be drafted to determine the source of the gas.

The initial baseline testing shall occur prior to the drilling of the proposed Infill Well. Within one (1) year after completion of the proposed Infill Well, a "post completion" test shall be performed for the same parameters above and repeated three (3) and six (6) years thereafter. If no significant changes from the baseline have been identified after the third test (the six year test), no further testing shall be required. The testing schedule will restart after the drilling of a new Infill Well on an existing Well Pad if the wells to be tested include those tested for the 160 acre infill program. Additional "post completion" test(s) may be required if changes in water quality are identified during

follow-up testing. The Director of the COGCC may require further water well sampling at any time in response to complaints from water well owners.

Within three (3) months of collecting the samples used for the test, copies of all test results described above shall be provided to the COGCC and the County and the landowner where the water quality testing well is located.

ARTICLE VI PLUGGED AND ABANDONED WELLS/SOIL GAS VAPOR SURVEY

A soil gas vapor-monitoring program is designed to determine a possible lack of zonal isolation along wellbores of plugged and abandoned wells. BP will attempt to identify any plugged and abandoned wells located within 0.25 miles of the bottom hole location of any Infill Well. Any plugged and abandoned well within 0.25 miles of the bottom hole of an Infill Well will be assessed for risk, taking into account cementing practices reported in the plugged and abandoned reports. BP shall notify the COGCC of all results of all risk assessments of plugging procedures. The COGCC may appropriate funds under Rule 701 (the Environmental Response Fund) to conduct soil gas monitoring tests to further define the risks. If the monitoring reveals a possible lack of zonal isolation, the COGCC may then conduct or order any necessary remediation or other authorized activities.

ARTICLE VII INCLUSION INTO COGCC ORDER

BP and the County agree to jointly request that certain conditions, as set forth in attached Exhibit A, be incorporated into the COGCC order approving the Infill Application.

ARTICLE VIII SITE SPECIFIC DEVELOPMENT PLAN AND FUTURE REGULATIONS

This Agreement shall not grant or create any common law or statutory vested development rights or exempt BP from any applicable County development review regulations or processes. The County reserves the right in the future to enact and apply prospectively oil and gas regulations that are general in nature and are applicable to all similarly situated oil and gas activities subject to land use regulation by the County, even though such regulations may be more or less stringent than the standards applicable to the Infill Wells by virtue of this Agreement.

ARTICLE IX PRESERVATION OF RIGHTS

The parties acknowledge, understand and agree that this Agreement shall not operate as a bar, constitute a waiver of any rights of the parties, or in any respect affect the ability of any party to this Agreement to assert its claims concerning the validity of

the County's land use jurisdiction. Nothing in this Agreement shall be construed as an admission regarding the existence of proper jurisdictional authority or waiver by either party of any legal right or obligation, nor shall anything be construed as a bar to either party to seek any legal remedy available to it.

ARTICLE X GENERAL PROVISIONS

The following general provisions shall govern the relationship between the parties with respect to Infill Fruitland Coal Wells within the Infill Application Area.

10.1 *Effective Date and Term.* This Agreement shall be effective upon entry of the COGCC's order approving the Infill Application.

10.2 *Entire Agreement.* Except as otherwise expressly set forth herein, this Agreement embodies the complete agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

10.3 *Successors and Assigns.* Except as otherwise provided herein, BP shall have the absolute right to transfer or sell any or part of its interest in the Infill Wells; provided, however, that in the event of transfer, BP's transferees, sublessees, successors and assigns shall be bound to comply with all terms hereof.

10.4 *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which when taken together shall constitute a single agreement.

10.5 *Amendment.* All covenants, representations and warranties herein and all other obligations, responsibilities and terms hereof shall continue to be fully binding and enforceable on the parties until expressly superseded by written agreement of the parties. No amendment to this Agreement shall be effective unless in writing, signed by all parties who are then subject to this Agreement.

10.6 *Waiver.* No failure on the part of any party hereto to exercise and no delay in exercising any right hereunder shall operate as a waiver of such right. The remedies provided herein are cumulative and not exclusive of any remedies provided by law. No waiver of, or failure to exercise any right hereunder shall operate to prevent future enforcement of such right.

10.7 *Notices.* Notices hereunder may be given by certified mail, return receipt requested, or by facsimile or electronic mail transmission. Notices shall be effective on receipt, provided, however, that confirmation of receipt shall be required in all instances. Notice to the respective parties shall be given to:

To the County at:

Nancy Lauro, Director
Community Development Services
La Plata County
1060 E. 2nd Avenue
Durango, Colorado 81301

With copies to:

Goldman, Robbins & Rogers, P.C.
P.O. Box 2270
Durango, Colorado 81301

To BP at:

Chad Tidwell
BP America Production Company
380 Airport Road
Durango, Colorado 81303

With copies to:

Thomas Dugan
900 Main Avenue, Suite A
Durango, Colorado 81301

or to any other addresses as either party hereto may, from time to time, designate in writing and deliver in a like manner.

10.8 *Headings.* The descriptive headings of the sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

10.9 *Further Acts.* Each of the parties shall promptly and expeditiously execute and deliver any and all documents and perform any and all acts as reasonably necessary, from time to time, to carry out the matters contemplated by this Agreement.

10.10 *No Partnership; Third Party Beneficiaries.* It is not intended by this Agreement to, and nothing contained in this agreement shall, create any partnership, joint venture or other arrangement between BP and the County. No term or provision of this Agreement is intended to or shall be for the benefit of any person, firm, organization or corporation not a party hereto and no other person, firm, organization or corporation shall have any right or cause of action hereunder.

10.11 *Severability.* The provisions of this Agreement are deemed material and nonseverable. If an action is brought that results in any provision of this Agreement being determined or declared by a Court to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, the parties shall negotiate in good faith for an equivalent or substitute provision or other appropriate adjustment to this Agreement. If the parties cannot reach agreement, or if so desired by the parties, then the issues in dispute shall be submitted to a mediator acceptable to both parties for nonbinding mediation. Unless otherwise agreed to by the parties, such mediation shall occur within sixty (60) days of a party's receipt of a notice to mediate from the other party.

BP AMERICA PRODUCTION COMPANY

By: Terry R. Gerhart *can*
Terry R. Gerhart
Attorney-In-Fact

BOARD OF COUNTY COMMISSIONERS
LA PLATA COUNTY, COLORADO

Wallace L. White
Wallace L. White, Chair

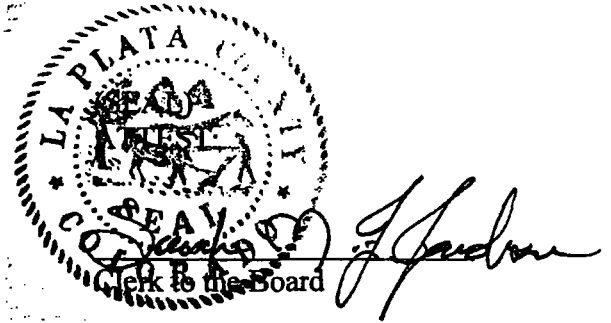


EXHIBIT A

PROPOSED CONDITIONS OF APPROVAL

Applicant BP America Production Company ("BP") and Intervenor La Plata County, Colorado ("La Plata County") respectfully request that an Order issued by the Commission in Cause No. 112, Docket No. 0509-AW-16 be made subject to and conditional upon the following:

1. Compliance with all terms, conditions and provisions of prior Commission Orders in Cause No. 112, including without limitation, the specific provisions of Order No. 112-157 including the Rule 508j.(3)B conditions attached thereto.

2. Compliance with the terms and provisions of all of the Commission's health, safety, welfare and environmental rules and regulations now or hereafter in effect.

3. Those certain provisions as set forth in Exhibit A of the Memorandum of Understanding between BP and La Plata County as follows:

- ***Surface Density***

The density of Fruitland Coal Well Pads within the Infill Application Area shall not exceed four (4) within any single 640-acre governmental section of real property. Notwithstanding the foregoing, nothing contained in this provision shall be construed so as to require the closure or abandonment of any existing gas well.

- ***Well Location; Exceptions***

The Commission may grant a special exception allowing for a greater density of Fruitland Coal Well Pads (i.e., more than 4 per 640-acre section), at the request of BP and after consultation with the Local Governmental Designee, based upon a finding by the Commission that one or more of the following factors apply in a manner such that use of an existing Well Pad is rendered impractical:

- a. topographic characteristics of the site;
- b. natural resource constraints (e.g., wetlands);
- c. the location of utilities or similar services;
- d. geologic factors or where issues concerning distances between wells are present;
- e. other site conditions beyond the control of BP; or
- f. safety concerns.

- ***Storm Water Management and Spill Prevention Containment and Control.***

Even if not required to do so by any applicable regulation or law, BP agrees to utilize best management practices for all pad expansions and new pads and for road and pipeline development or improvements.

- ***Water Well Monitoring.***

If a conventional gas well exists within one quarter (1/4) mile of the bottom hole location of a proposed Infill Well, then the two (2) closest water wells within a one-half (1/2) mile radius of the conventional gas well shall be sampled by BP as water quality testing wells. If possible, the water wells selected shall be on opposite sides of the existing conventional gas well not exceeding one-half (1/2) mile radius. If water wells on opposite sides of the conventional gas well cannot be identified, then the two (2) closest wells within one-half (1/2) mile radius shall be sampled. If two (2) or more conventional gas wells are located within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well, then the conventional gas well closest to a proposed Infill Well shall be used for selecting wells for sampling.

If no conventional gas wells are located within one quarter (1/4) mile radius of the bottom hole location of the proposed Infill Well, then the selected water wells shall be within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well. In areas where two (2) or more water wells exist within one quarter (1/4) mile of the bottom hole location of the proposed Infill Well, then the two (2) closest water wells shall be sampled by BP. Ideally, if possible, the water wells selected should be on opposite sides of the bottom hole location of the proposed Infill Well. If water wells on opposite sides of the bottom hole location of the proposed Infill Well cannot be identified, then the two (2) closest wells within one quarter (1/4) mile radius shall be sampled by BP. If two (2) water wells do not exist within one quarter (1/4) mile radius, then the two closest single water wells within either a one quarter (1/4) mile radius or within a one-half (1/2) mile radius shall be selected.

If no water well is located within a one quarter (1/4) mile radius area or if access is denied, a water well within one-half (1/2) mile of the bottom hole location of the Infill Well shall be selected. If there are no water quality testing wells meeting the foregoing criteria, then sampling shall not be required. If the BLM or the COGCC have already acquired data on a water well within one quarter (1/4) mile of the conventional gas well, but it is not the closest water well, it shall be given preference in selecting a water quality testing well. The "initial baseline testing" described in this paragraph shall include all major cations and anions, TDS, iron and manganese, nutrients

(nitrates, nitrites, selenium), dissolved methane, pH, presence of bacteria and specific conductance and field hydrogen sulfide.

If free gas or a methane concentration level greater than 2 mg/L is detected in a water quality testing well, compositional analysis and carbon isotopic analyses of methane carbon shall be performed to determine gas type (thermogenic, biogenic or an intermediate mix of both). If the testing results reveal biogenic gas, no further isotopic testing shall be done. If the carbon isotope test results in a thermogenic or intermediate mix signature, annual testing shall be performed thereafter and an action plan shall be drafted by BP to determine the source of the gas. If the methane concentration level increases by more than 5 mg/L between sampling periods, or increase to more than 10 mg/L, an action plan shall be drafted to determine the source of the gas.

The initial baseline testing shall occur prior to the drilling of the proposed Infill Well. Within one (1) year after completion of the proposed Infill Well, a "post completion" test shall be performed for the same parameters above and repeated three (3) and six (6) years thereafter. If no significant changes from the baseline have been identified after the third test (the six year test), no further testing shall be required. The testing schedule will restart after the drilling of a new Infill Well on an existing Well Pad if the wells to be tested include those tested for the 160 acre infill program. Additional "post completion" test(s) may be required if changes in water quality are identified during follow-up testing. The Director of the COGCC may require further water well sampling (which may include water quality monitoring) at any time in response to complaints from water well owners.

Within three (3) months of collecting the samples used for the test, copies of all test results described above shall be provided to the COGCC and the County and the landowner where the water quality testing well is located

- ***Plugged and Abandoned Wells/Soil Gas Vapor Survey***

A soil gas vapor-monitoring program is designed to determine a possible lack of zonal isolation along wellbores of plugged and abandoned wells. BP will attempt to identify any plugged and abandoned wells located within 0.25 miles of the bottom hole location of any Infill Well. Any plugged and abandoned well within 0.25 miles of the bottom hole of an Infill Well will be assessed for risk, taking into account cementing practices reported in the plugged and abandoned reports. BP shall notify the COGCC of all results of all risk assessments of plugging procedures. The COGCC may appropriate funds under Rule 701 (the Environmental Response Fund) to conduct soil gas monitoring tests to further define the risks. If the monitoring reveals a possible lack of zonal isolation, the COGCC may then conduct or order any necessary remediation or other authorized activities.

4. Compliance with all applicable regulations of the BLM, BIA and the Southern Ute Indian Tribe when conducting operations on lands subject such agency's jurisdiction.

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