

May 16, 2011

Ms. Megan Tallent
Merchant Energy Partners, LLC.
10901 W. Toller Dr., Suite 200
Littleton, CO 80127

Re: Rule 502 Variance Request
Kenneth Gillham 4 (API 075-07166)
COGCC Remediation #5164
SWNW Sec 6, T-11-N, R-52-W
Logan County, Colorado

Dear Ms. Tallent,

The Colorado Oil & Gas Conservation Commission (COGCC) received the referenced variance request on April 7, 2011. The proposed variance to COGCC Rule 907.e. requested removal of oily waste from the Gillham 4 produced water pit complex and transportation to the existing land farm facility at the nearby Schwake A-2 lease (reference Remediation Project #4886). Oily waste is regulated by COGCC as an exploration and production (E&P) waste. COGCC Rule 907.e. outlines appropriate treatment and disposal alternatives for oily waste as follows:

- Disposal at a commercial solid waste disposal facility;
- Land treatment onsite;
- Land treatment at a centralized E&P waste management facility permitted in accordance with Rule 908.

COGCC understands the basis of the variance due to the proximity of the Schwake land farm and the logistics of transporting and treating the waste. However, removal of oily waste from the Gillham for treatment at the Schwake would only be allowed if the land farm was properly permitted as a centralized E&P waste management facility with appropriate financial assurance and an approved Form 28. As a result, the variance request is denied.

The Gillham Pit Closure remediation plan was approved by COGCC in August 2010 (reference Remediation Project #5164). During an inspection performed by COGCC in March 2011 (reference document #200300610 attached), it was discovered that work to close the Gillham Pit complex had not commenced. The field inspection report was forwarded to Merchant Energy Partners, LLC (Merchant) at that time requiring that the approved work plan for pit closure be implemented immediately with a corrective action due date of September 3, 2011, to meet the closure requirements.

Megan Tallent
Merchant Energy Partners, LLC.
May 16, 2011

If Merchant would like to permit the Schwake land farm as a centralized E&P waste management facility, COGCC will try to expedite review of the Form 28; however, preparation and submittal of the Form 28 will not justify delay in performing and documenting the Gillham pit closure by September 3, 2011.

If the Schwake land farm is not permitted as a centralized E&P waste management facility, the options for the Gillham oily waste are disposal at a commercial solid waste disposal facility or land treatment on site in accordance with COGCC Rule 907.e.(2).

If you have any questions or require additional information, please contact me by email at John.Axelson@state.co.us or by phone at 303-637-7178.

Sincerely,




John Axelson, PG
Environmental Protection Specialist

Attachment – Field Inspection Report #200300610

Cc. David Neslin – COGCC Director
Debbie Baldwin – COGCC Environmental Manager
Steve Lindblom – COGCC Environmental Supervisor

COGIS - Field Inspection Report

	
API Number: 05-075-07166	Name: Kenneth Gillham #4
Location: SWNW 6 11N 52W	Lat: 40.95925 Long: -103.22556
Operator #:	Operator Name: EAST CHEYENNE GAS STORAGE LLC
Inspection Date: 3/3/2011	Inspector: JOHN AXELSON

Inspection was: **Unsatisfactory**

Insp. Type: **ES** Insp. Stat: **PR** Reclamation (Pass, Interim or Fail): **P&A (Pass/Fail):**
 Brhd. Pressure: Inj. Pressure: T-C Ann. Pressure: UIC Violation Type:
 Violation: **Y** NOAV Sent: **Y** Date Corrective Action Due: **9/3/2011** Date Remedied:

Pit Inspection

Pit Type: **PW** Oil on Pit: **N** Freeboard:

Number of Pits: **4** Number covered or lined: **0** Number uncovered or unlined: **0**

Comments: **PITS ARE DRY AND REMAIN UNUSED. DISTURBANCE FROM RECENT SITE ASSESSMENT.**

Pit Type: **SS** Oil on Pit: Freeboard:

Number of Pits: **1** Number covered or lined: Number uncovered or unlined: **1**

Comments: **DRY REMAINS UNUSED. PIT COVER HAS BEEN REMOVED. DISTURBANCE FROM RECENT SITE ASSESSMENT.**

Field Inspection Comments and Observations

Insp. Comment	Inspection/Violation Comments
ACTION	IMMEDIATELY IMPLEMENT WORKPLAN FOR PIT CLOSURE AND REMEDIATION OF SITE WIDE OILY SOIL INCLUDING MATERIAL AT TANK BATTERY AND WATER PITS. SITE WORK TO BE COMPLETED NO LATER THAN 9/3/11. ALSO, SUBMIT REPORT DOCUMENTING REMEDIATION AND PIT CLOSURE NO LATER THAN 9/3/11.
FIREWALL	FAIR
GENHOUSE	OK
MISC	REMEDATION PLAN FOR PIT CLOSURE APPROVED ON 8/9/10 REFERENCE PROJECT #5164. ANTICIPATED REMEDIATION START DATE WAS LISTED AS AUGUST 2010. NO WORK HAS BEEN DONE AT LOCATION TO REMEDIATE OILY SOILS OR CLOSE PITS.
SPILCOM	STILL OILY SOIL IN PLACE AT BATTERY AND WATER PIT COMPLEX.
TANKBAT	2: 300 BBL STEEL PRODUCTION TANKS, 1: VERTICAL TREATER, METER, PROPANE TANK.

State of Colorado
Oil and Gas Conservation Commission

1120 Lincoln Street, Suite 801, Denver, Colorado 80203 Phone: (303)894-2100 Fax: (303)894-2109



SUNDRY NOTICE

Submit original plus one copy. This form is to be used for general, technical and environmental sundry information. For proposed or completed operations, describe in full on Technical Information Page (Page 2 of this form.) Identify well or other facility by API Number or by OGCC Facility ID. Operator shall send an informational copy of all sundry notices for wells located in High Density Areas to the Local Government Designee (Rule 603b.)

RECEIVED
APR 07 2011
COGCC

1. OGCC Operator Number: 10322	4. Contact Name Megan Tallent (Merchant Energy Partner)	Complete the Attachment Checklist OP OGCC
2. Name of Operator: East Cheyenne Gas Storage LLC	Phone: 720-351-4000 Fax: 720-351-4200	
3. Address: 10901 West Toller Drive, Suite 200 City: Littleton State: CO Zip: 80127		
5. API Number 05-075-07166	OGCC Facility ID Number	Survey Plat
6. Well/Facility Name: Gillham	7. Well/Facility Number 116251	Directional Survey
8. Location (Qtr/Sec, Twp, Rng, Meridian): SENW Sec 6 T11N R52W		Surface Equip Diagram
9. County: Logen (075)	10. Field Name: Gillham	Technical Info Page
11. Federal, Indian or State Lease Number: N/A		Other

General Notice

<input type="checkbox"/> CHANGE OF LOCATION: Attach New Survey Plat (a change of surface qtr/qr is substantive and requires a new permit)	
Change of Surface Footage from Exterior Section Lines:	<input type="checkbox"/> PNLSL <input type="checkbox"/> FELFWL
Change of Surface Footage to Exterior Section Lines:	<input type="checkbox"/>
Change of Bottomhole Footage from Exterior Section Lines:	<input type="checkbox"/>
Change of Bottomhole Footage to Exterior Section Lines:	<input type="checkbox"/> attach directional survey
Bottomhole location Qtr/qr, Sec, Twp, Rng, Mer	
Latitude	Distance to nearest property line
Longitude	Distance to nearest bldg, public rd, utility or RR
Ground Elevation	Distance to nearest lease line
	Is location in a High Density Area (rule 603b)? Yes/No
	Distance to nearest well same formation
	Surface owner consultation date:
GPS DATA: Date of Measurement PDOP Reading Instrument Operator's Name	
<input type="checkbox"/> CHANGE SPACING UNIT Formation Formation Code Spacing order number Unit Acreage Unit configuration	
<input type="checkbox"/> Remove from surface bond Signed surface use agreement attached	
<input type="checkbox"/> CHANGE OF OPERATOR (prior to drilling): Effective Date: Plugging Bond: <input type="checkbox"/> Blanket <input type="checkbox"/> Individual	
<input type="checkbox"/> CHANGE WELL NAME From: To: Effective Date:	
<input type="checkbox"/> ABANDONED LOCATION: Was location ever built? <input type="checkbox"/> Yes <input type="checkbox"/> No Is site ready for inspection? <input type="checkbox"/> Yes <input type="checkbox"/> No Date Ready for inspection:	
<input type="checkbox"/> NOTICE OF CONTINUED SHUT IN STATUS Date well shut in or temporarily abandoned: Has Production Equipment been removed from site? <input type="checkbox"/> Yes <input type="checkbox"/> No MIT required if shut in longer than two years. Date of last MIT	
<input type="checkbox"/> SPUD DATE:	
<input type="checkbox"/> REQUEST FOR CONFIDENTIAL STATUS (6 mos from date casing set)	
<input type="checkbox"/> SUBSEQUENT REPORT OF STAGE, SQUEEZE OR REMEDIAL CEMENT WORK Method used Cementing tool setting/perf depth Cement volume Cement top Cement bottom Date	
<input type="checkbox"/> RECLAMATION: Attach technical page describing final reclamation procedures per Rule 1004. Final reclamation will commence on approximately Final reclamation is completed and site is ready for inspection.	

Technical Engineering/Environmental Notice

<input type="checkbox"/> Notice of Intent Approximate Start Date:		<input type="checkbox"/> Report of Work Done Date Work Completed:
Details of work must be described in full on Technical Information Page (Page 2 must be submitted.)		
<input type="checkbox"/> Intent to Recomplete (submit form 2)	<input type="checkbox"/> Request to Vent or Flare	<input type="checkbox"/> E&P Waste Disposal
<input type="checkbox"/> Change Drilling Plans	<input type="checkbox"/> Repair Well	<input type="checkbox"/> Beneficial Reuse of E&P Waste
<input type="checkbox"/> Gross Interval Changed?	<input checked="" type="checkbox"/> Rule 502 variance requested	<input type="checkbox"/> Status Update/Change of Remediation Plans
<input type="checkbox"/> Casing/Cementing Program Change	<input type="checkbox"/> Other:	for Spills and Releases

I hereby certify that the statements made in this form are, to the best of my knowledge, true, correct and complete.

Signed: Megan Tallent Date: Email:
Print Name: Megan Tallent Title:

COGCC Approved: Title: Date: 5/16/11

CONDITIONS OF APPROVAL, IF ANY:

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Variance is denied per Rule 907.e. ja