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August 31, 2012

Mr. Alex Fischer
Colorado Oil and Gas Conservation Commission
1120 Lincoln St., Ste. 801
Denver, CO 80202-1129

RE: Facility #335618
Piceance Produced Water Transfer Facility / Valley Transfer Facility
NESW Section 4 – T6S – R96W
Garfield County, Colorado

Dear Mr. Fischer:

As you are aware, the subject facility was approved via Form 4 – Sundry Notice on April 21, 2011. The associated E&P Waste Management Plan states that PDC Energy, Inc. (PDC) will provide the Colorado Oil and Gas Conservation Commission (COGCC) with an annual report.

The purpose of the facility is for the temporary storage of produced water from PDC tank battery locations prior to off-site disposal. The facility was designed to receive produced water from tank batteries located along Garden Gulch, Starkey Gulch, Riley Gulch and the Parachute Creek valley. Vacuum trucks (80 barrel capacity) make scheduled runs to these tank batteries to collect produced water from storage vessels. The fluid is transported and unloaded into the 500 barrel tanks for short-term storage at the facility. At regularly scheduled intervals, 120 barrel trucks transfer produced water to the designated disposal location at Danish Flats in Utah. Transporting the produced water in larger capacity trucks to the final disposal location reduces transportation costs and reduces heavy vehicle traffic on CR 215 and Interstate 70.

Summary of Spills, Incidents or Upset Conditions

A reportable spill of 30-35 barrels of produced water and condensate occurred on 8/10/11. The spill event was completely contained within the lined secondary containment. A Form 19 – Spill/Release Report was submitted to the COGCC on or about 8/20/11. A spill number has not yet been assigned.

The Valley Transfer Facility (VTF) is located on the west side of the Unocal 5 multi-well pad which also contains five (5) producing wells and ancillary equipment. A spill/release was reported at the Unocal 5 tank battery facility on 7/27/09. During tank battery upgrade operations, a leak in the produced water tank was discovered which released an unknown quantity into the subsurface. A Form 19 – Spill/Release Report was submitted on 8/12/09 (Spill #2607806) and a Form 27 – Site Investigation and Remediation Workplan was subsequently submitted on 10/26/10 (Remediation #5631).

Changes to the Operating Plan or Equipment

The following modifications have been made to the subject facility:

- A security gate is in operation that requires the use of a four digit access code.
- A diesel fueled generator is on location to operate heat trace elements in the tanks and lighting for the facility.
- The loading and unloading points have been redesigned and re-plumbed to ease fluid transfer operations.
- All tanks have been insulated to a height of 8 feet as a preventative freezing measure.
- Automated tank gauges were added to all tanks.

Facility-Specific Training

The EHS Department at PDC provides monthly training at each field office location on a variety of issues and topics. General site awareness and specific policy training sessions have been conducted for the subject facility. This included the requirement of manual tank gauging prior to any fluid transfer operations.

During 2011, PDC also developed the Contractor's Expectations Manual for EH&S. As such, all service contractors are required to execute a Master Services Agreement (MSA) and acknowledge receipt of the EHS manual. As part of the manual implementation, service contractors were invited to attend orientation sessions presented by PDC staff and others.

Results of Third Party Inspections or Audits

Stormwater inspections were conducted during construction and post-construction at this facility. Olsson Associates performs the stormwater inspections for the PDC Piceance operations. Any deficiencies or needed repairs identified during an inspection are addressed in a timely manner. There were no incidents of off-site sediment transport.

Spill Prevention, Countermeasures and Contingency (SPCC) inspections are conducted at PDC facilities on a periodic basis. SPCC inspections were conducted by Jehn Environmental in July 2011, October 2011, December 2011, and March 2012. The subject facility was still under construction during the 7/1/11 inspection. No deficiencies were identified during post-construction inspections. There have been no incidents of off-site impacts due to spill/releases.

Summary of Throughput Waste

As previously stated, the Form 4 – Sundry Notice for the facility was approved in late April 2011. Construction of the subject facility was completed during July 2011. The following volumes represent throughput at the VTF to the Danish Flats disposal facility in Utah from July 2011 through June 2012.

<u>MONTH</u>	<u>VOLUME</u>
July 2011	18,132
August 2011	39,328
September 2011	21,670
October 2011	14,185

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November 2011	19,404
December 2011	12,818
January 2012	31,181
February 2012	23,257
March 2012	16,682
April 2012	23,118
May 2012	37,091
June 2012	3,108

The Puckett 22B-24D injection well located in the SWNW Section 24 – T6S – R97W was approved by the COGCC on 6/16/10. Injection tests were conducted until the Garfield County land use permit was approved in February 2011. Initially, only produced water from Puckett leases was allowed to be injected as per the Surface Use Agreement (SUA). As of 5/1/11, produced water from any PDC lease is allowed to be injected as per the amended SUA. This accounts for the significant decrease in the throughput volumes for June 2012. Also please note that monthly fluctuations in the above volume transfer summary are partly due to shut-in or down-time periods of the injection well operations.

If there are any questions, please contact me at (303) 831-3904.

Respectfully Submitted,



Randall H. Ferguson
Environmental Compliance Specialist

Cc: Adell Heneghan – EHS Director
Nathan Anderson – Asset Director
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Ed Winters – EHS Professional