



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

IN THE MATTER OF INACTIVE WELL FINANCIAL ) CAUSE NO. 1  
ASSURANCE WAIVER BY THE COLORADO OIL AND GAS )  
CONSERVATION FOR KLABZUBA OIL & GAS, INC. FOR THE ) ORDER NO. 1-145  
ADENA FIELD, MORGAN COUNTY, COLORADO )

REPORT OF THE COMMISSION

This cause came on for hearing before the Commission on November 30, 2009, at 9:00 a.m., in Suite 801, The Chancery Building, 1120 Lincoln Street, Denver, Colorado, for an order to: (1) Approve an agreement with the Director, as provided for by Rule 707., regarding financial assurance for "excess inactive wells", and (2) Approve an agreement with the Director, under Rule 326.b., regarding a plan to plug and abandon, perform a mechanical integrity test, or return to production, a list of 158 shut-in wells.

FINDINGS

The Commission finds as follows:

1. Klabzuba Oil & Gas, Inc. ("Klabzuba"), as applicant herein, is an interested party in the subject matter of the above-referenced hearing.
2. The Commission has jurisdiction over the subject matter and the interested party herein, and jurisdiction to promulgate the hereinafter prescribed order.
3. Klabzuba operates a total of 171 wells within the Adena Field, of which 110 wells are shut-in and 48 wells are temporarily abandoned (158 wells that are classified as "inactive".)
4. As is required by Rule 706.b. of the Rules and Regulations of the Colorado Oil and Gas Conservation Commission ("COGCC"), Klabzuba has submitted statewide blanket financial assurance in the amount of \$100,000 for the drilling and operation of 100 or more wells. Under Rule 707.a., the amount of financial assurance posted by an operator divided by \$20,000 determines whether the operator has "excess inactive wells". For the Adena Field, Klabzuba's financial assurance of \$100,000 divided by \$20,000 equals five wells; therefore, Klabzuba has 153 "excess inactive wells" (158 inactive wells minus the five allotted wells.) Accordingly, Klabzuba's required financial assurance requirement, under Rule 707., is \$3,060,000 (\$20,000 for each well multiplied by 153 excess inactive wells.) Klabzuba has requested that this \$3,060,000 requirement be modified by the Commission approving its plan for reducing said requirement by returning the inactive wells to production in a timely manner, or by plugging and abandoning such wells on an acceptable schedule.
5. Klabzuba has entered into an Agreement with the Director (said Agreement attached hereto as Exhibit A and incorporated herein by reference), effective November 30, 2009, to plug and abandon, perform a mechanical integrity test, or return to production its 158 inactive wells in the Adena Field by the end of 2010, said Agreement modifies the mechanical testing requirements set forth in Rule 326.b. Klabzuba has identified 34 shut-in or temporarily abandoned wells which warrant primary consideration to plug and abandon, or return to production. Further, under the terms of said Agreement, Klabzuba agreed to submit and maintain an additional \$400,000 financial assurance (for a total of \$500,000) for said excess inactive wells set forth in Finding No. 4 above.
6. Accordingly, the Director requests that the Commission enter an order approving the Agreement between the Director and Klabzuba, as is referenced in Finding No. 5 above. The Commission hereby finds that the additional \$400,000 financial assurance (for a total of \$500,000) for the excess inactive wells is sufficient. In accordance therewith, COGCC Staff should continue to monitor the number of wells being plugged and abandoned, or returned to production, and make recommendations to the Commission regarding the implementation of the schedule referred to in Finding No. 4 above and the adequacy of the financial assurance posted thereon. Further, Klabzuba should provide an annual written report to COGCC Staff detailing operations and the results of any mechanical integrity tests performed pursuant to terms of the Agreement. Furthermore, under the terms of said Agreement, COGCC Staff expressly reserves the right to take enforcement action consistent with violations of the Rules as modified herein.

ORDER

NOW, THEREFORE, IT IS ORDERED, that the Agreement between the Director and Klabzuba Oil & Gas, Inc., effective November 30, 2009 and attached hereto as Exhibit A, is hereby approved, and, accordingly, Klabzuba's financial assurance requirement, set forth in Rule 707.a. is hereby modified, and Klabzuba shall submit and maintain an additional \$400,000 financial assurance for those excess inactive wells referenced in Finding No. 4 above.

IT IS FURTHER ORDERED, that the mechanical testing requirements set forth in Rule 326.b. are hereby modified under the terms of said Agreement, and, accordingly, Klabzuba is hereby required to plug and abandon, perform a mechanical integrity test, or return to production its 158 inactive wells in the Adena Field by the end of 2010.

IT IS FURTHER ORDERED, that COGCC Staff shall continue to monitor the number of wells being plugged and abandoned, or returned to production, and make any recommendations to the Commission regarding the implementation of the schedule referred to in Finding No. 4 above and the adequacy of the financial assurance posted thereon.

IT IS FURTHER ORDERED, that Klabzuba shall provide an annual written report to COGCC Staff, on or before January 30 of each year that this Agreement remains in effect, detailing operations and the results of any mechanical integrity tests performed pursuant to terms of the Agreement for the yearly periods ending December 31 of each year.

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.

ENTERED this -16<sup>th</sup>- day of December, 2009, as of November 30, 2009.

OIL AND GAS CONSERVATION COMMISSION  
OF THE STATE OF COLORADO

By \_\_\_\_\_

  
Robert A. Willis, Acting Secretary

Dated at Suite 801  
1120 Lincoln Street  
Denver, Colorado 80203  
December 16, 2009