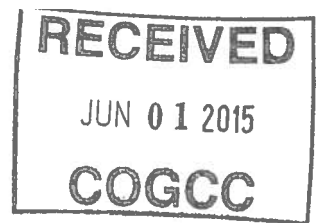




## FINAL ANSWER TO NOAV



**Operator:** Smith Energy, LLC (COGCC Operator #10536)

**Well Name:** Hillman 35-1, 05-125-06871

**Alleged Violation:** Rule 326 b.

### **Corrective Action:**

An MIT was successfully performed on May 13, 2015.

It should be noted that this test was successfully performed as fast as humanly possible following the receipt of the NOAV. We received the NOAV by email on Monday May 4, 2015. On that same date we filed Form 42 (Field Operations Notice) to schedule the MIT. With the Form 42 ten day notice, the test was performed as quickly as the rules would allow. Because of the large amount of rain received in the month of May, we "catted" in and out the work-over rig and all ancillary equipment necessary to perform the MIT. We incurred considerable expense to ensure the test was done quickly.

We didn't receive the certified letter containing official notification of the NOAV until Monday May 11, 2015. The MIT was performed just two days after receiving certified letter.

### **Background:**

The Hillman 35-1 was owned and operated by Rosewood Resources until November 24, 2014. On November 24, 2014 Smith Energy Corp assumed the role as operator of this well. On January 1, 2015 the operator was changed to Smith Energy, LLC. The Hillman well was shut in prior to November 24, 2014 for the previous 31 months. On that same date, Smith Energy Corp. began producing the well. It has produced every month since.

The NOAV states "The well was shut in for 31 months without performing an MIT. COGCC Rule 326 b. The MIT was not completed within 24 months of the Shut In status." **This violation occurred during the time that Rosewood owned and operated the well.**

### **Reply:**

First, and most importantly, the MIT was successfully performed. Again, this was done as fast as humanly possible

We were unaware that we were violating rule 326 b. .As recently as September of 2012 we were informed that to return a well to compliance that we a). Return it to production, b). Pass an MIT or, c). Plug and abandon. (See attached letter dated September 4, 2012 from COGCC to Smith Energy Corp). We assumed that returning the Hillman to production would be sufficient to returning it to compliance. Since receiving the NOAV we have had conversations with several of the inspection staff. From what they tell us, it has been under the inspector's discretion to add returning the well to production for compliance. We are a small family company. We don't have a staff to monitor the rules

and rule changes. We often times rely on our experience in dealing with the commission and conversations with the staff. Had we known we were in violation of rule 326 b, we would have performed the necessary MIT in 2014.

We purchased the Hillman 35-1 on November 24, 2014. On that date, we observed the shut-in pressure to be in excess of 500 psi. We were confident of casing integrity due to that pressure. As part of our due diligence, we inspected Rosewood Resources records as well and the online COGCC records. Nothing in those files indicated any problem. Further, Rosewood did not advise us of this violation. We have since discovered that a letter from COGCC was sent to Rosewood on September 22, 2014. That letter was not in the Rosewood files. It wasn't in the COGCC files until after the NOAV was issued in May of 2015. None the less, we were unaware the letter had been issued.

We request that the commission waive penalties associated with this NOAV. We responded to perform the MIT as quickly as humanly possible. Further, we had no knowledge of a violation of rule 326 b. As stated previously, we relied on previous experience with COGCC and assumed were correctly returning the well to compliance by returning it to production. We are a small family business trying to maintain our production in light of the reduction in oil and gas price structure. A fine would impair our ability to continue.



Chris Smith  
Manager  
Smith Energy LLC



123-09011

DEPARTMENT OF NATURAL RESOURCES  
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Smith Energy Corporation  
Attn: Mr. Glenn Smith, President  
12706 Shiloh Road  
Greeley, CO. 80631

September 4, 2012

Dear Mr. Smith,

Colorado Oil and Gas Conservation Commission (COGCC) records indicate that the State # 3 well, API # 05-123-09011 operated by Smith Energy Corporation is out of compliance with COGCC Rules 319.b.1 and 319.b.3 for Temporary Abandonment (TA) and/or Rule 326.b.1 for Mechanical Integrity Testing of Shut-In (SI) Wells. Rule 326.b.1 requires that SI wells pass a mechanical integrity test (MIT) within two (2) years of the last reported production and then at five (5) year intervals after that the first successful MIT. The well last passed an MIT on April 26, 2006. COGCC applies the same testing periods to TA wells when they are recognized.

In order to avoid enforcement action you are required to provide by October 5, 2012 (30 days) a general plan specifying how you will bring the well into compliance with Rules 319 and 326. The work must be completed, not just started, within three (3) months - by December 5, 2012.

Your options for returning a well to compliance are:

- a.) Proving production,
- b.) Passing an MIT, or
- c.) Plugging and abandoning the well.

Wells that are returned to production under a packer system must still pass valid MIT to verify tubing-casing annulus integrity and therefore, compliance with Rule 326.d, which requires that all wells shall maintain integrity.

To comply with Rules 319/326 either:

- a.) Return the well to production and report sales on COGCC Form 7 - Operator's Monthly Report of Operations; or
- b.) Pass an MIT and submit a Form 21 including an original pressure chart; or
- c.) Get an approved Form 6 - Notice of Intent to Abandon prior to performing the work. Plug and abandon the well. And then, get an approved Form 6 - Subsequent Report of Abandonment upon completion.

Any well, incapable of production because of a downhole plug or missing surface equipment is considered to be Temporarily Abandoned by COGCC. If the status of the wells per COGCC records is incorrect you are required to file a Form 5A-Completed Interval Report to update the well status. In addition to the corrective action requirements specified above, Temporarily Abandoned wells also require *annual* Form 4 - Sundry Notices requesting Continued Temporarily Abandoned Status. These Sundry Notices must contain a brief statement of future plans for the well *and* a declaration of how the well is closed to the atmosphere.

If you are not responsible for the activities required to bring your wells into compliance please forward this letter to the person who is responsible.

Thank you for your help and please feel free to contact me if you have any questions.

Sincerely,

Robert P. Kochler  
Engineering/Environmental Technician

Telephone: 303-894-2100 x5147 Email: [Bob.Kochler@state.co.us](mailto:Bob.Kochler@state.co.us) Website: [www.colorado.gov/cogcc](http://www.colorado.gov/cogcc)