

CITY OF LONGMONT
OIL AND GAS
PROPOSED NO-SURFACE-USE AGREEMENT

CITY COUNCIL REGULAR SESSION

MAY 8, 2018



PRESENTATION OUTLINE

- The City Strives to Protect Its Residents and the Environment from Oil and Gas Operations.
 - Oil and Gas Regulations
 - Top Operating Master Contract
 - Litigation
 - Environmental Stewardship
- Proposed Cub Creek Energy and Top Operating Site Relinquishment and Lease Agreement

NEW AGREEMENT, MAIN POINTS

- Move potential well sites out of the City.
- Plug and abandon existing wells promptly.
- Lease minerals to Cub Creek.
- Avoid imminent force pooling.
- Compensate TOP for its release of rights, to be paid from the lease royalties.

Longmont well site had benzene levels almost 100 times state limit

Contamination came years ago, but neighbors say no new wells until this one's clean

By Scott Rochat Longmont Times-Call

POSTED: 12/19/2011 09:48:25 PM MST | UPDATED: 3 YEARS AGO



The Rider well site sits north of Trail Ridge Middle School in Longmont on Monday, Dec. 19, 2011. For at least two years, the site recorded benzene levels that were above the maximum allowed. The site is of concern to fracking opponents, especially since a proposed consolidated well site is within a quarter to a half-mile of both Trail Ridge and Fall River Elementary. (Richard M. Hackett / Times-Call)

LONGMONT -- A TOP Operating gas well near Trail Ridge Middle School had higher-than-allowed benzene levels for at least three years, at one point measuring almost 100 times the state limit, according to documents from the Colorado Oil and Gas Conservation Commission.

Groundwater testing near the Rider No. 1 well in 2006 found 491 parts per million of benzene in one site, far above the Colorado limit of five parts per million. The same testing site still showed 43 parts per million in 2009, the last tests completed. Updated test results are expected in about two to three weeks, according to TOP.

JULY 17, 2012 COUNCIL MEETING

The Council approved:

- New City Regulations
- Top Operating Master Contract



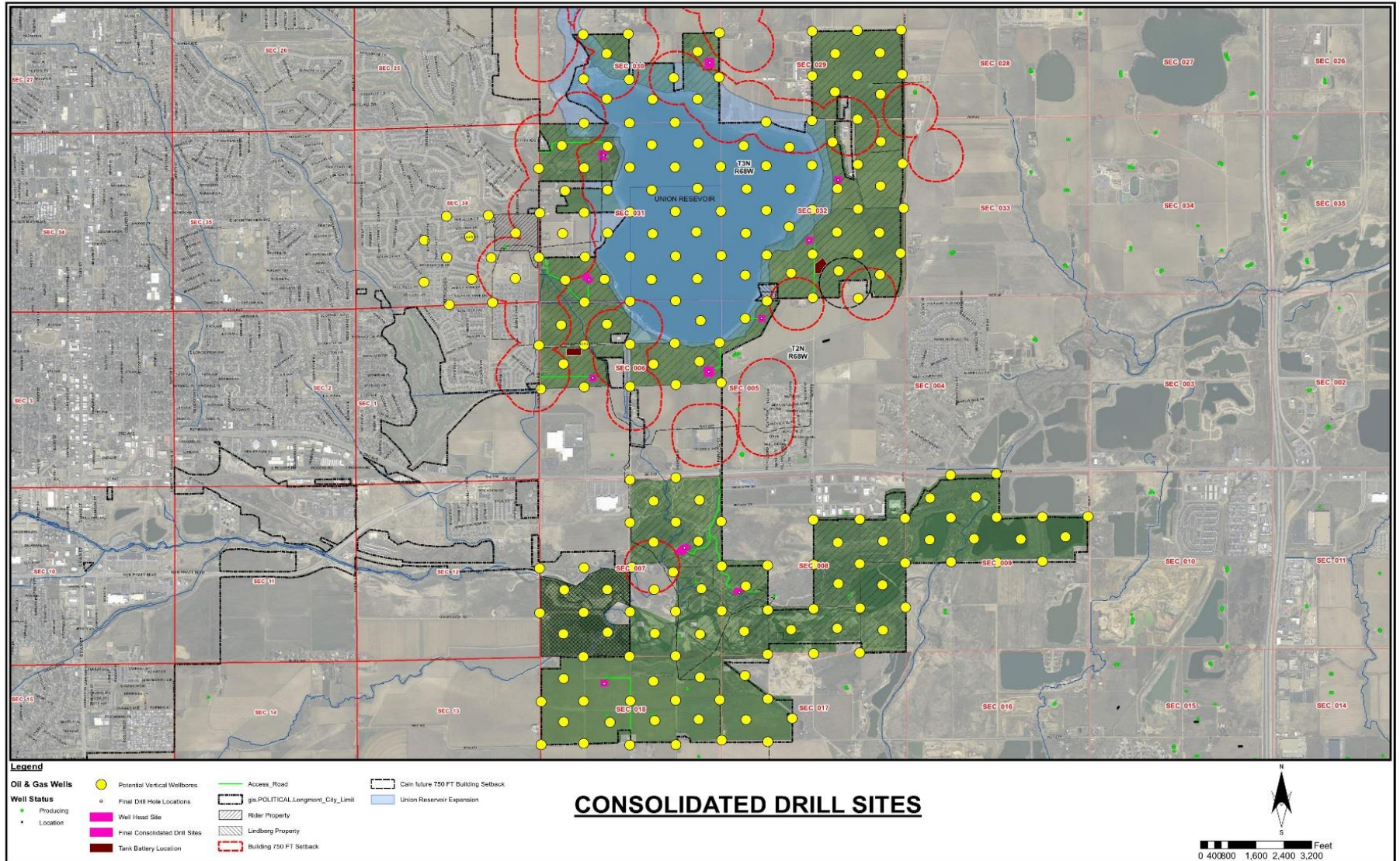
OIL AND GAS REGULATIONS

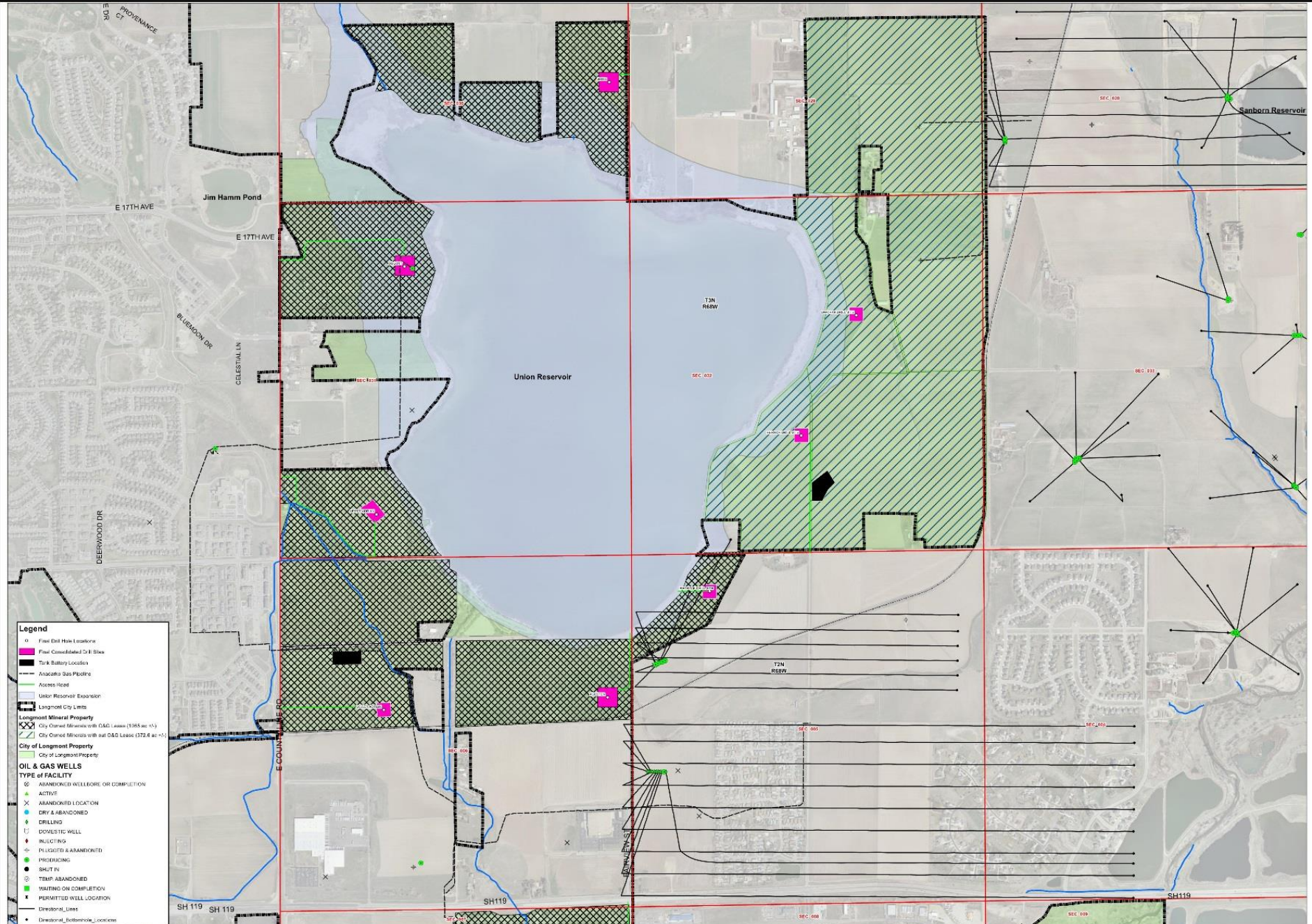
Voluntary Standard – Fast Track Review	Mandatory Standards – P&Z Hearing
750' Setback from Occupied Buildings	Residential Zoning Restriction
300' Setback from Water Bodies	Groundwater Monitoring
Closed Loop/Pitless Systems	Consolidated Well Sites and Horizontal Drilling Whenever Appropriate
Noise Mitigation	Visual Mitigation – Low Profile Tanks, Color and Relocation
	Cultural resources report, emergency planning, no temporary housing

MASTER CONTRACT WITH TOP

- Consolidated potential oil and gas development on City properties in eastern Longmont.
- Complex business deal: property purchases, leases, reciprocal compensation, covenant not to sue, operating agreement.

Potential wells locations per COGCC regulations





Legend

- Final Drill Hole Locations
- Final Consolidated Drill Sites
- Tank Battery Location
- Anacostia Gas Pipeline
- Access Road
- Union Reservoir Excavation
- Longmont City Limits

Longmont Mineral Property

- City-Cancelled Minerals with O&G Lease (1985 ac +/-)
- City-Cancelled Minerals with O&G Lease (372.6 ac +/-)

City of Longmont Property

- City of Longmont Property

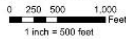
OIL & GAS WELLS

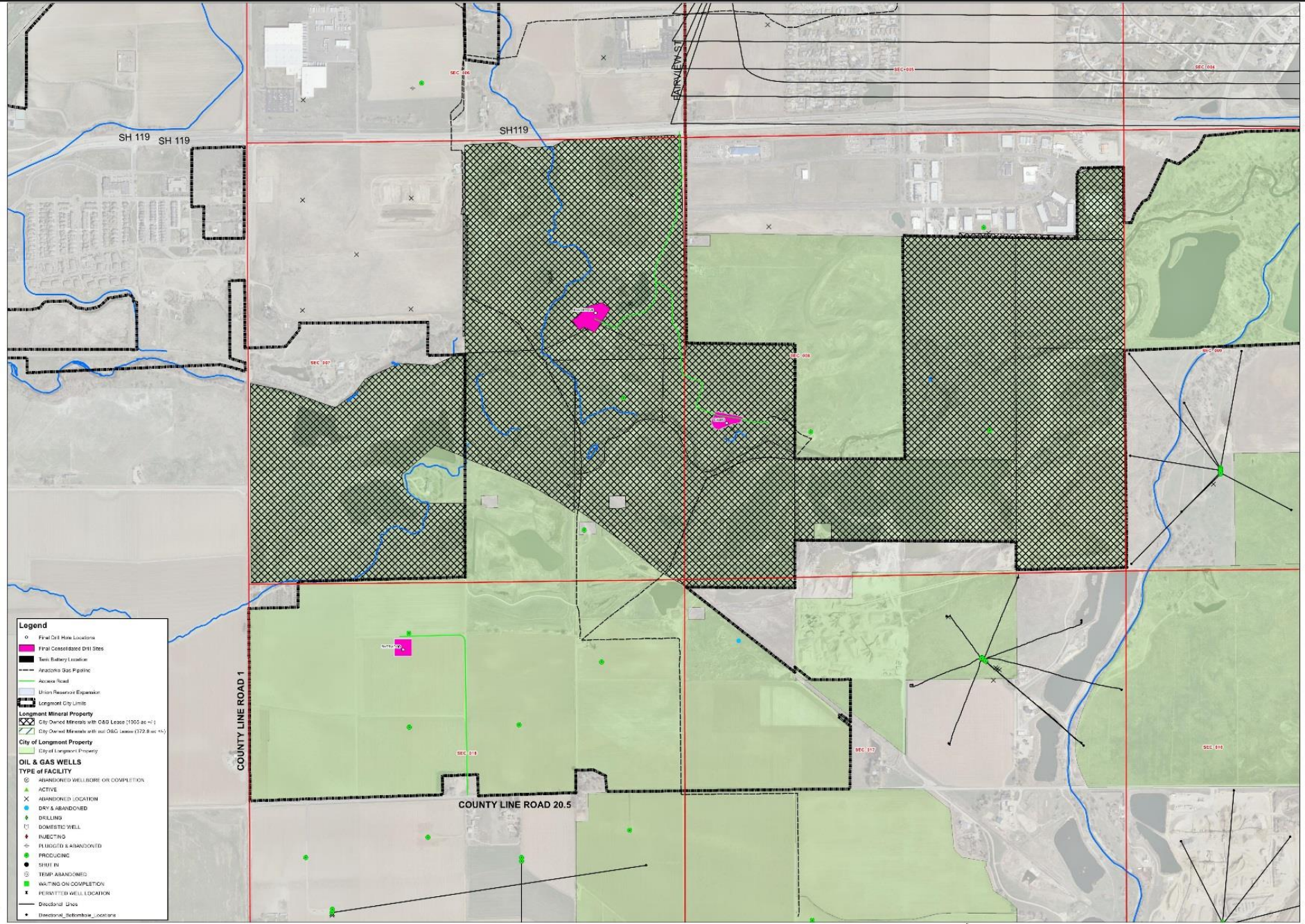
TYPE OF FACILITY

- ⊗ ABANDONED WELLBORE OR COMPLETION
- ⊕ ACTIVE
- ⊗ ABANDONED LOCATION
- DRY & ABANDONED
- ⊕ DRILLING
- ⊕ DOMESTIC WELL
- ⊕ INJECTING
- ⊕ IN LEGISLIT & ABANDONED
- ⊕ PRODUING
- ⊕ SHUT IN
- ⊕ TEMP ABANDONED
- ⊕ WAITING ON COMPLETION
- ⊕ PERMITTED WELL LOCATION

— Directional Lines
 ● Directional_Bottomhole_Location

EXISTING TOP MASTER AGREEMENT DRILL SITES NORTH OF HWY. 119





Legend

- Final Oil Hole Locations
- Final Consolidated DHI Sites
- Test Battery Location
- Atadocia Gas Pipeline
- Access Road
- Union Reservoir Expansion
- Longmont City Limits

Longmont Mineral Property

- City-Owned Minerals with O&G Lease (1993 ac +/-)
- City-Owned Minerals with out O&G Lease (372.8 ac +/-)

City of Longmont Property

- City of Longmont Property

OIL & GAS WELLS

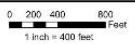
TYPE OF FACILITY

- ABANDONED WELLBORE OR COMPLETION
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- WAITING ON COMPLETION
- PERMITTED WELL LOCATION

Directional Ups

Directional Bottomhole Locations

EXISTING TOP MASTER AGREEMENT DRILL SITES SOUTH OF HWY. 119



MASTER CONTRACT: KEY POINTS

- Rider well closure.
- Reduced potential drill locations to 11.
- 750-foot buffers from occupied buildings.
- Water quality monitoring; performance standards.
- New leases to TOP, and lease ratifications.
- \$1.1 million net reimbursement to TOP for added costs, to be paid from lease royalties as they accrued.

CITIZEN INITIATIVE, Nov. 2012

- By citizen initiative, Article XVI of the Longmont Municipal Charter prohibited fracking and the storage or disposal of fracking waste.
- City Council announced that the City would vigorously defend the charter amendment.

Two Cases

- *COGCC v. Longmont*, challenging the ordinance
 - COGA joined.
- *COGA v. Longmont*, challenging the citizen-initiated charter amendment.
 - COGCC and TOP Operating Co. join.
- Citizen groups join the City to defend the lawsuits.

City's Arguments in the Fracking Case

- Home rule authority:
 - Health/Environmental Impacts:
 - Air quality – asthma, cancer, birth defects
 - Water pollution, spills
 - Traffic fatalities, fires
 - Property values, quality of life
 - The City's Interest in Protecting Its Citizens and the Environment Outweighed the State's Interest in Allowing Fracking.

City's Arguments in the Fracking Case

- The Charter Amendment Did Not Conflict with State Law.
 - Fracking is just one method for extraction.
 - The State does not expressly authorize fracking.
 - State law *also* requires protection of people and the environment. Now *see Martinez*.
- The City Demanded a Jury Trial on these Issues.

Supreme Court

- Supreme Court Oral Arguments, Dec. 2015
- Supreme Court Opinion May 2, 2016
- Holding: State law preempts Longmont's fracking ban due to operational conflict.
- Result: Ban overturned.

Back to the Regulations Case

- Governor's Compromise, October 2014; the State and the industry dismiss all their claims and **covenant never to sue on them again.**
 - Would not likely apply to regulatory amendments.
- **Drilling and fracking under the Council-adopted regulations (the ones the State and industry originally sued over) has been possible since May 2016.**

Negotiations Continue

- Master Contract once again front and center.
- TOP and its new partner, Cub Creek Energy, approach the City about mineral development soon after the Supreme Court decision.
- We've now been negotiating for almost two years.
- TOP and Cub Creek started with some demonstrations of good faith...

RIDER WELL

- Born: January 1982
- Put to Rest: August 2016



LONGMONT 8-10K WELL

- Born: October 1994
- Flood Damage: 2013
- Put to Rest: April 2017



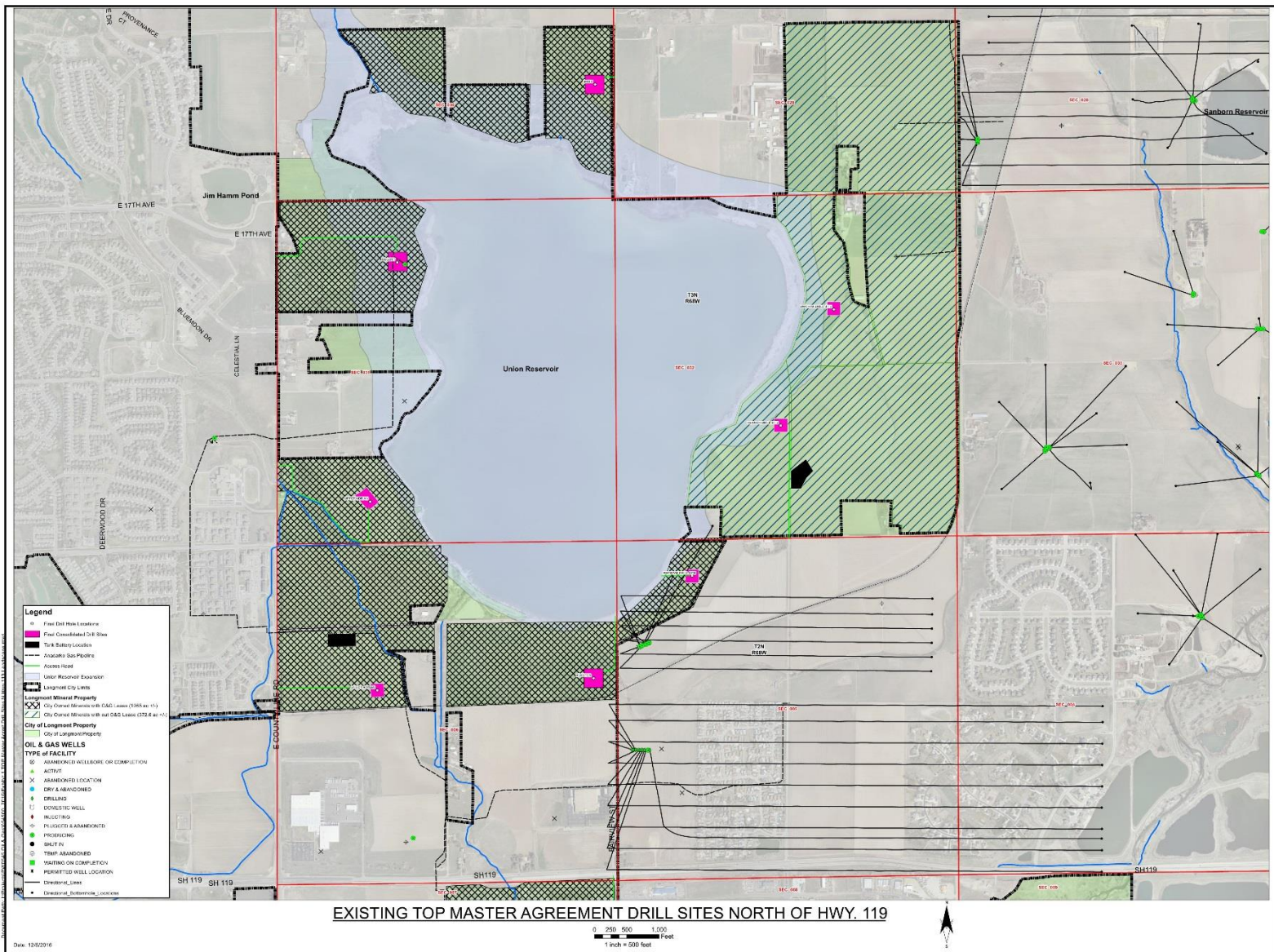
OTHER STEWARDSHIP

- Air Quality Monitoring
- Water Quality Monitoring
- Soil Sampling
- Plugged and Abandoned Well Assessment
- Flow & Gathering Line Assessments
- Seismic Review
- Monitor the state of the law. *See Thornton.*
- And these negotiations themselves.

Proposed Cub Creek Energy and Top Operating Site Relinquishment Agreement

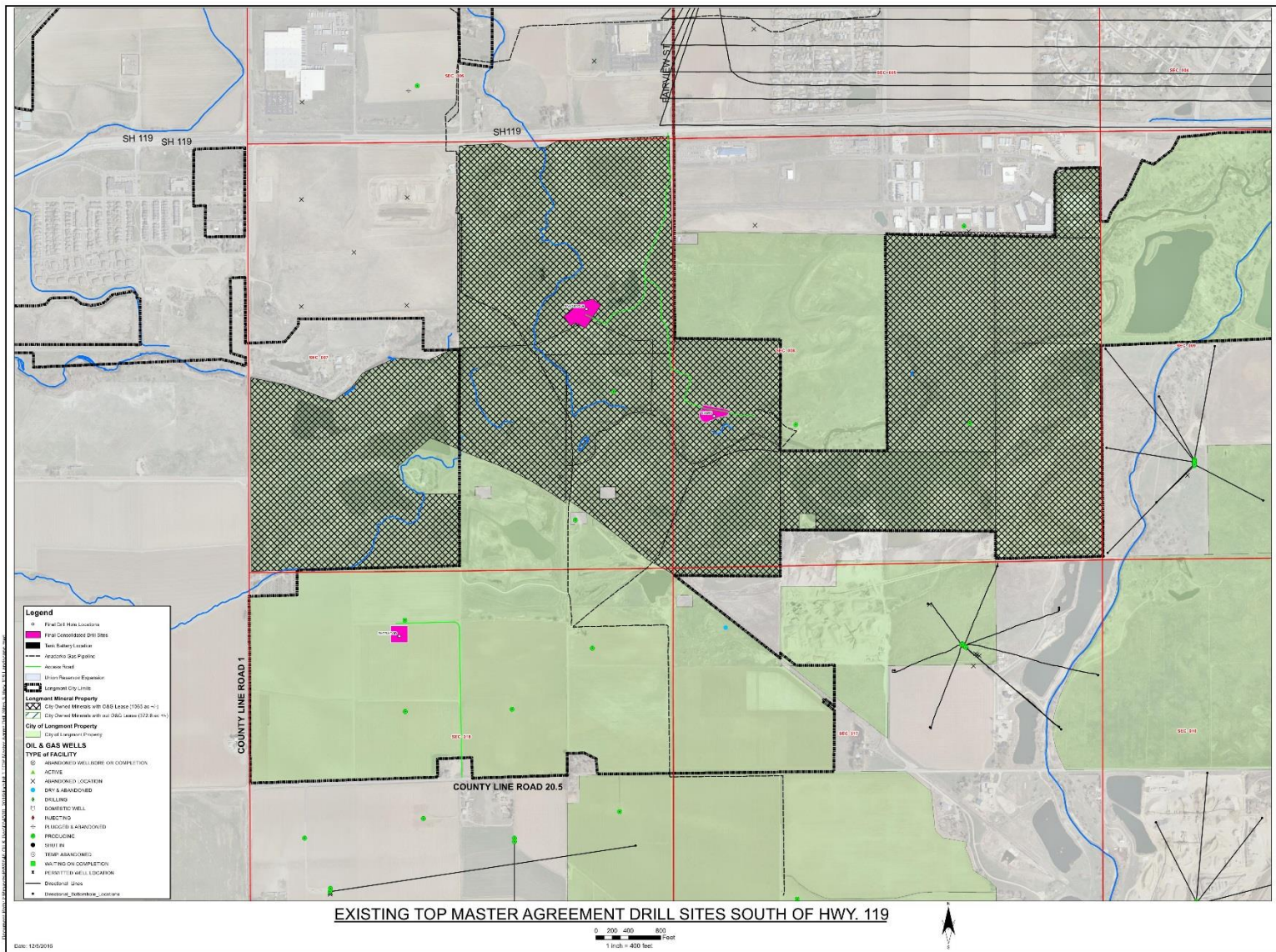
YOU BELONG IN
LONGMONT
COLORADO





Date: 12/02/16





CUB CREEK & TOP NO DRILL PROPOSAL

- **Desired Outcome:** Protect the Public Health of Our Community
- **Proposed Solution:** End oil and gas operations within the Longmont city limits, in return for a cash payment to TOP of \$3 million from future mineral royalties, and a lease of City-owned mineral rights to Cub Creek

RELINQUISHMENT OF WELL SITES

- **Phase I:** Sandstone, Evans and Sherwood
- **Phase II:**
 - Hernor and Lower Adrian Tank Batteries
 - Bogott, Lower and Upper Adrian, Koester, Pietrzak, Hernor and Dworak drill sites
- **Phase III:** Effective upon production from a well from the Knight site – relinquishment the remaining Smith site

KNIGHT SITE ACCESS ROAD

- Providing an access road and revocable permit to cross the City owned Smith Property to the Cub Creek drill pad located outside of the City

Knight Site Access Road

- Crosses the northern portion of the City Owned Smith Property
- Connects with County Road 3
- Provides for safer access than access from State Highway 66



PLUG AND ABANDON EXISTING ACTIVE WELLS

- **Phase I:** Plug and abandon the Powell well within 120 days of the execution of the agreement
- **Phase II:** Plug and abandon the Serafini well within two years of the execution of the agreement
- **Phase IV:** P&A Remaining 7 wells
 - Deactivate or remove all flow lines, gathering lines, and other facilities associated with the above wells

AGREEMENT WITH CUB CREEK

- Lease of City Mineral Rights to Cub Creek
 - 516 acres - Hernor; Hartman; and French properties at a
 - Competitive royalty rate at 20% & \$1000/acre bonus
 - Non-surface disturbance
 - 20 year term with right of first refusal
- Amend existing oil and gas leases on city owned properties to non-surface disturbance;
- Withdrawal by Cub Creek of forced pooling;

AGREEMENT WITH TOP OPERATING

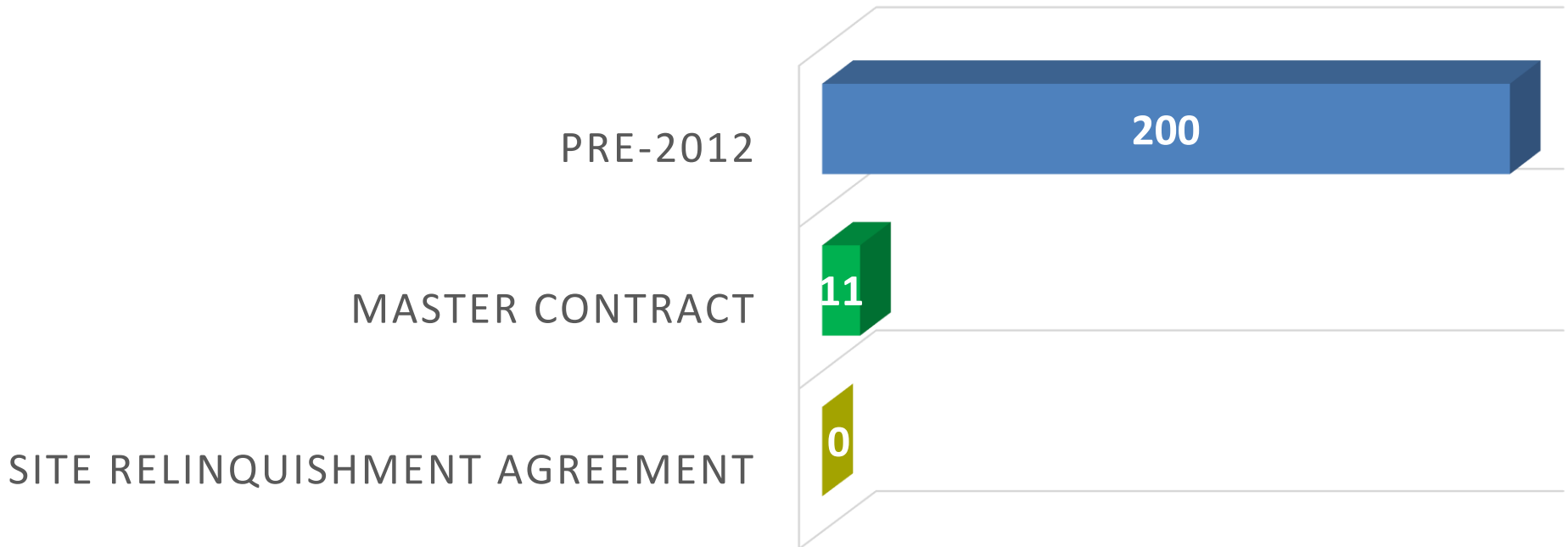
- Amend the Royalty Account
- City payment of \$3 million from future city royalty proceeds upon Relinquishment Date:
 - Relinquish all 11 consolidated drill sites located on City property;

AGREEMENT WITH TOP CONT'D

- Amend the leases to a non-surface disturbance status;
- Plug and abandon of all 8 active oil and gas wells; deactivate or remove all associated flow and gathering lines and facilities;
- Elimination of up to 80 new oil and gas wells in the City

A METRIC

POTENTIAL NUMBER OF NEW OIL AND GAS FACILITY LOCATIONS IN WELD COUNTY PORTION OF LONGMONT CITY PROPERTY



Council Questions and Discussion

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COLORADO

