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COLORADO OIL AND GAS CONSERVATION COMMISSION

OIL AND GAS PRODUCTION REPORTING



AUGUST 2021

PERFORMANCE AUDIT

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August 26, 2021

KERRI L. HUNTER, CPA

STATE AUDITOR

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado Oil and Gas Conservation Commission (COGCC) within the Department of Natural Resources. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government, and Section 2-7-204(5), C.R.S., which requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments for purposes of the SMART Government Act. The report presents our findings, conclusions, and recommendations, and the responses of the COGCC.

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REPORT HIGHLIGHTS



OIL AND GAS PRODUCTION REPORTING PERFORMANCE AUDIT, SEPTEMBER 2021

DEPARTMENT OF NATURAL RESOURCES COLORADO OIL AND GAS CONSERVATION COMMISSION

CONCLUSION

The Colorado Oil and Gas Conservation Commission (COGCC), within the Department of Natural Resources, could make improvements to its oil and gas production reporting process to gain efficiencies and reduce the administrative burden on staff and operators.

KEY FINDINGS

- There are 14 data fields on the Operator's Monthly Report of Operations (Form 7) that COGCC requires operators to complete every month for each well, though there is no business need for this information to be reported monthly. We calculated that errors in these 14 fields accounted for 61 percent of all errors staff and operators spent time correcting during Calendar Year 2020.
- If any Form 7 data field contains an error, COGCC staff will delete all of the data the operator submitted for the well; the operator must then re-enter and resubmit all of the data and COGCC staff must re-review it, including data that was already determined to be error-free. COGCC staff spend about 25 percent of their time, which totals about 1,000 hours each year, addressing errors in reports, and it has taken upwards of 8 months to have the operator resubmit the corrected information.
- COGCC treats all delinquent reports the same when it comes to following up with operators to obtain the reports and processing the reports when they are submitted. As of April 2021, about 215,000 of the more than 280,000 reports (77 percent) that COGCC listed as delinquent—and intended to follow up on with operators—were more than 5 years old, with some dating back to 1999. However, this does not align with the statutory requirement that operators retain production data for 5 years [Section 34-60-106(1)(e), C.R.S.]. Additionally, staff review all reports in the order received rather than prioritizing more recent reports; in 2020, about 48,000 reports submitted (6 percent) were for reporting periods prior to Calendar Year 2016 and, therefore, contained production data that was more than 5 years old and outside the statutory data retention timeframe.
- COGCC does not track whether the production reports listed in its eForms system as delinquent were never submitted at all, or if they had been submitted, but due to errors, the reports had been rejected and the information deleted from the system, which could impact the type of enforcement action warranted for a particular report.

BACKGROUND

- COGCC monitors all aspects of oil and gas production in Colorado, and requires oil and gas operators to submit production data on every well monthly. In 2020 there were about 51,000 active wells, run by about 300 operators.
- Operators use the online system, eForms, to submit approximately 77,000 well production reports monthly.
- COGCC-approved reports are provided publicly on the Department of Natural Resources' website and used by state and federal agencies responsible for oil and gas regulation.
- COGCC maintains a record of reports that are past due or submitted with errors that need correction, to help it enforce reporting requirements and ensure that it collects and maintains accurate and complete production data.

KEY RECOMMENDATIONS

- Evaluate whether all fields on the Form 7 need to be reported monthly or if some can be eliminated and how to better use the automated functionality of eForms to collect production information more efficiently.
- Prioritize delinquent production reports that are within the statutory 5-year record retention period for operators and distinguish between reports never submitted and those needing to be resubmitted due to errors when determining the appropriate enforcement actions.

The Colorado Oil and Gas Conservation Commission agreed with the audit recommendations.



CHAPTER 1

OVERVIEW

Oil and gas is the largest mineral extraction industry in Colorado. In Calendar Year 2020, there were approximately 51,000 active wells in the state, run by about 300 operators. During this time, operators produced 171 million barrels of oil and 2.3 billion MCFs (i.e., thousands of cubic feet) of natural gas.

The Colorado Oil and Gas Conservation Commission (COGCC), established in statute as a division within the Department of Natural Resources (Department), is responsible for monitoring the production of Colorado's non-renewable oil and gas resources. COGCC is also the only source for comprehensive oil and gas production information in the State of Colorado.

COLORADO OIL AND GAS CONSERVATION COMMISSION

COGCC includes five commissioners who have industry expertise and are appointed by the Governor. The commissioners promulgate rules and regulations, and may issue orders and develop guidance regarding all aspects of oil and gas production in Colorado. COGCC has an annual budget of about \$20 million and about 150 staff whose responsibilities include reviewing and approving permits from oil and gas operators asking to drill and operate wells; inspecting wells to ensure they meet safety and environmental standards; and collecting, reviewing, approving, and publishing information reported by operators on their oil and gas production.

OIL AND GAS PRODUCTION REPORTING

Statute [Section 34-60-106(1), C.R.S.] grants COGCC the authority to require “The making and filing with the [C]ommission of copies of well logs, directional surveys, and reports on well location, drilling, production...[and provides] [t]hat every person who produces, sells, purchases, acquires, stores, transports, refines, or processes oil or gas in this state shall keep and maintain...complete and accurate records of the quantities thereof.” COGCC has promulgated rules that require monthly reporting of production information within 45 days after the month end [Commission Rule 413, as codified in 2 C.C.R. 404-1-413]. COGCC has a standardized form that operators use when reporting their oil and gas production, which is generally submitted to COGCC for review using the Department’s online eForms system (eForms). COGCC has two full-time equivalent (FTE) production team staff members who are responsible for reviewing and approving all oil and gas production reporting. Approved reports are made publicly available on the Department’s website.

AUDIT PURPOSE, SCOPE, AND METHODOLOGY

We conducted this performance audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of the state government, and Section 2-7-204(5), C.R.S., the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act. The audit was conducted in response to a legislative request, which expressed concerns with the efficiency of COGCC's monthly oil and gas production reporting requirements and process. Audit work was performed from January 2021 through August 2021. We appreciate the cooperation and assistance provided by the management and staff of the Department and COGCC during this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The key objectives of this audit were to evaluate the production reporting process to assess whether or not COGCC collects only the information necessary to track oil and gas production in the state in accordance with COGCC's statutory responsibilities; and evaluate if COGCC's electronic reporting system, eForms, is designed and monitored to allow operators to submit data and COGCC staff to process data efficiently and with minimal administrative burden of monthly reporting on staff and operators.

The scope of the audit did not include a review of the accuracy of the production reports received by COGCC, the effectiveness of COGCC's enforcement efforts related to production reporting, or the use of production reports by other COGCC divisions.

To accomplish our audit objectives, we performed the following audit work:

- Reviewed relevant statutes, rules, agency policies and procedures, and external guidance to operators related to production reporting.
- Interviewed Department and COGCC staff and management, Colorado Governor’s Office of Information Technology (OIT) staff, operators, and stakeholders within the oil and gas industry.
- Reviewed the business processes of eForms and the Colorado Oil and Gas Information System (COGIS), the COGCC’s database for all oil and gas information.
- Reviewed other state and federal agencies’ use of oil and gas production data, including Memorandums of Understanding between COGCC and other entities.
- Analyzed COGCC staff processes and hours worked as they relate to production reporting responsibilities, compared to overall job responsibilities and duties.
- Analyzed all submitted oil and gas production reports and data for Calendar Year 2020.
- Analyzed all available data on production report errors, submissions, and processing from Calendar Year 2020, and all available current and historical delinquency data.

As required by auditing standards, we planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Details about the audit work supporting our findings and conclusions, including any deficiencies in internal control that were significant to our audit objectives, are described in the remainder of this report.

A draft of this report was reviewed by COGCC and we have incorporated its comments into the report where relevant. The written responses to the recommendations and the related implementation dates are the sole responsibility of COGCC.



CHAPTER 2

OIL AND GAS PRODUCTION REPORTING

The Colorado Oil and Gas Conservation Commission (COGCC) is responsible for regulating the production of oil and gas in a manner that protects public health, safety, and welfare, including the protection of the environment and wildlife resources [Section 34-60-102, C.R.S.]. As a part of its effort to fulfill this mission, COGCC has established a production reporting process for oil and gas operators to submit well production data into eForms, its electronic reporting system. COGCC staff work with operators to ensure that production data is submitted accurately, then approved production reports are transferred to the Department of Natural Resources' database, Colorado Oil and Gas

Information System (COGIS). Production information is then published on the Department’s website, which is accessible to the public, including state and federal agencies responsible for various aspects of oil and gas regulation. Our audit work evaluated the effectiveness and efficiency of COGCC’s production reporting process and use of eForms for operator submittal, along with staff review and approval of monthly production reports. This chapter discusses our findings and recommendations regarding improvements that COGCC could implement to gain efficiencies and reduce the administrative burden on staff and operators for submitting production reports, as well as in following up on overdue, delinquent reports.

INEFFICIENCIES IN THE PRODUCTION REPORTING PROCESS

COGCC collects production information for every well in the state that produces oil and gas using a standardized form—the Operator’s Monthly Report of Operations—referred to as Form 7. Operators fill out Form 7 with data about each well, including the well’s surface and underground drilling locations; production, sales amounts, and quality; and safety-related information, such as the well’s status, the pressure at which the drilling equipment operates, and the wastewater used and produced.

Most operators submit their production information using eForms, while a small number of operators choose to submit hard copy Form 7s. When an operator submits their monthly report for each well, COGCC staff run a report in eForms that checks the information submitted against historical information to identify any reporting errors, such as a data-entry error of the well formation code or an incorrect geographic well location. If eForms does not identify errors for a well, COGCC staff approve the monthly report and the data is

automatically transferred from eForms into COGIS. The data in COGIS is publicly available on the Department's website, and anyone may run reports from this information on total monthly and yearly oil and gas production in Colorado.

If eForms identifies any errors with a well, COGCC staff reject all of the reported information for the individual well and notify the operator that Form 7 must be corrected and resubmitted.

In total, COGCC receives about 77,000 well reports from operators each month.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We reviewed COGCC's production reporting process, including related rules, the report submittal form, and eForms to (1) determine whether COGCC is collecting only the information necessary to track oil and gas production in the state, in accordance with its statutory responsibilities, and (2) to assess the efficiency of the process. COGCC Rule 413 requires all oil and gas operators to submit the Form 7 production report for every well's production each month, within 45 days after the end of the month being reported. Operators must complete all Form 7 data fields to report, for example, the name and unique identifying number of each well; the sidetrack and formation (i.e., layer of rock) being drilled; the number of days the well was active during the month; and the amount of oil and/or gas produced, sold, used, or flared (i.e., burned off after extraction) from the well.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY AND WHY DO THEY MATTER?

Overall, we confirmed that all of the information that COGCC collects, using its Form 7, can be tied to a statutory requirement or other established need, and that Form 7 collects all of the information that operators are required to report.

However, we identified two areas where the reporting process could be streamlined to reduce the administrative burden on operators and COGCC staff. Specifically, we found:

OPERATORS ARE REQUIRED TO SUBMIT SOME PRODUCTION DATA MORE FREQUENTLY THAN NEEDED. We identified 14 data fields on Form 7 that COGCC requires operators to complete monthly for each well, even though the information does not typically change from one month to the next. These 14 fields provide general information related to the operator and well, such as where the operator's headquarters is located, the geographic surface location of the well, and the operator's contact information. After an operator submits a Form 7 for the first time, COGCC stores the information in these 14 fields in its COGIS database, tied to a unique identification number for the operator and the well. Although COGCC staff stated that there is no business need for operators to continue to report this information each month, Form 7 requires that it be submitted.

We spoke with COGCC staff and reviewed eForms data from Calendar Year 2020 to assess the frequency that errors occur in Form 7 well data. On average, staff estimated that errors are found in about 1,500 well reports received each month, which amounts to about 18,000 well reports with errors annually. We calculated that errors in the 14 fields we noted as providing general information accounted for 61 percent of all errors. COGCC staff have to spend time reviewing the reports and notifying operators when there are errors; operators must then spend time correcting the errors and resubmitting the Form 7 information for the well(s). Since the errors relate to information that is not essential for monthly reporting, COGCC could potentially eliminate these 14 data fields from Form 7 after the initial reporting, which could reduce the amount of time both operators and COGCC staff spend on submitting and reviewing reports.

OPERATORS MUST REENTER ALL OF A WELL'S DATA WHEN ANY ERROR IS FOUND. COGCC staff run an automated system error report for all Form 7 submissions to identify which data fields contain errors and

which data fields are correct; staff will flag any field that has an error. If any Form 7 data field contains an error, staff will delete *all* of the data that the operator has submitted for the well. This means that operators must then reenter and resubmit all of the data for the well and COGCC staff must re-review all of the data, including data that was already determined to be error-free.

We spoke to five operators that submitted monthly production reports in Calendar Year 2020, and they stated that it can take up to 8 or more hours each month entering all of the information for their wells into Form 7. Additionally, these operators and COGCC staff who review and approve the production reports confirmed that any errors in the data entered leads to both parties spending additional time making corrections and re-reviewing the information. According to COGCC management, the two production team staff members currently spend about 25 percent of their time, which totals about 1,000 hours each year, addressing errors. When data fields contain any errors, and staff delete all of the information submitted for the well, it has taken upwards of 8 months to have the operator resubmit the Form 7 for the well, and then have the COGCC staff member re-review and approve the information.

These delays also impact other COGCC staff who rely on the information for other purposes and their ability to fulfill their oversight responsibilities. We identified six COGCC divisions that rely on Form 7 data. For example, COGCC's Underground Inspection Control Team uses six of the Form 7 data fields—none of which are the 14 general information data fields identified above—to monitor whether safety tests and inspections take place in accordance with COGCC rules and Environmental Protection Agency (EPA) regulations. If a Form 7 is rejected due to an error in any field, then staff on this team may not be able to timely verify that the appropriate safety tests and inspections have occurred. Delays in obtaining complete data can also impact other state and federal agencies that rely on Form 7 data for their own administrative responsibilities, including the Department of Revenue's

Field Audit division, the EPA, and the U.S. Energy Information Administration.

WHY DID THESE PROBLEMS OCCUR?

COGCC has not made any significant changes to the content of Form 7 since 1999, when it was first created, nor has it revisited whether changes could be made to the form to streamline the production reporting process to gain efficiencies and reduce the administrative burden on staff and operators. COGCC's current version of Form 7 is the same as the hard-copy version from 1999, which COGCC stated was designed to collect production information from operators who were submitting the form for the first time. In 2015, when COGCC implemented eForms for online report submittal, it uploaded the same version of Form 7 that had been created as a hard-copy document, without considering whether changes were warranted to account for the ability to now collect the information electronically. Additionally, COGCC established business rules for eForms based on the manual submission and review process it already had in place, which included rejecting all of the Form 7 information for a well when any errors were identified. COGCC did not design business rules for eForms that take into account automated or other electronic capabilities not previously available.

RECOMMENDATION 1

The Colorado Oil and Gas Conservation Commission (COGCC), within the Department of Natural Resources, should improve its production reporting process to gain efficiencies and reduce the administrative burden on staff and operators by:

- A Evaluating whether all fields on the Operator's Monthly Report of Operations, Form 7, need to be re-reported every month or if any fields can be eliminated after an operator's first submission, and revising the form based on the results of this evaluation, taking into account stakeholder input and needs.
- B Evaluating how COGCC can better utilize the automated functionality of the eForms system to collect production information more efficiently, such as only deleting data fields with errors, and maintaining all of the other data for a well and making it available for other uses.

RESPONSE

COLORADO OIL AND GAS CONSERVATION COMMISSION

- A AGREE. IMPLEMENTATION DATE: JULY 2022.

COGCC has identified fourteen repetitive fields that can be eliminated based on stakeholder input and will initiate a project with the Governor's Office of Information Technology (OIT) to revise the Form 7. There is potentially a fifteenth field that can also be eliminated, but that will require some additional analysis that will be done as part of implementing this recommendation. We believe the recommendation can be implemented within nine months of the project initiation with OIT.

B AGREE. IMPLEMENTATION DATE: SEPTEMBER 2022.

Implementing Part A of this Recommendation is expected to remove most if not all of the data fields that have historically been the source of “errors” and will therefore significantly reduce the amount of data validation that is required. Adding the recommended functionality of rejecting only data fields with an “error” is fairly complicated. COGCC will have to work through the data management process and rewrite the stored procedures used to validate the submitted data. We believe the recommendation can be implemented within two months of implementing Part A of this Recommendation.

DELINQUENT PRODUCTION REPORTS

The eForms system maintains a record of production reports that are either past due or submitted with errors that the operator must correct. COGCC refers to these reports collectively as “delinquent reports,” and every month, staff work with operators to obtain the missing reports and the reports that operators had to correct and resubmit. The record of delinquent reports that eForms generates is a key control that COGCC relies on to ensure that it collects and maintains accurate and complete production data.

In response to the 2020 *Severance Tax* performance audit that our office conducted, COGCC implemented an enforcement process to have eForms automatically notify operators of reports that were due in Calendar Year 2020, but had been flagged as delinquent. Under this new process, during the first 60 days that a report is delinquent, COGCC will send up to two emails to the operator notifying them of the delinquency and requesting that the report be submitted. If an operator does not submit the required report within those 60 days, COGCC will send a formal Notice of Alleged Violation (NOAV), which notifies the operator of their alleged violation of a Department requirement, and may propose corrective action and a resolution timeline. If an operator fails to answer an NOAV or take appropriate action, a fine may be imposed. COGCC reported that it began notifying operators using this automated notification process beginning in January 2020, and that this process helps COGCC ensure that it meets the statutory provision that limits COGCC’s ability to take enforcement action for violations “unless [enforcement action] has been commenced within one year from the date of the alleged violation” [Section 34-60-115, C.R.S.].

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

According to statute, COGCC is responsible for regulating the development and production of oil and gas in a manner that protects public health, safety, and welfare [Section 34-60-102, C.R.S.]. This includes ensuring that operators submit a production report each month, within 45 days of the month being reported, for each well that they are operating until a well is plugged or abandoned [Commission Rule 413]. Operators are also required by statute to keep and maintain production reporting information for 5 years [Section 34-60-106(1)(e), C.R.S.]. COGCC's ability to meet its objective of collecting and maintaining current oil and gas production reports relies, in part, on the production team staff who are responsible for processing submitted production reports and working with operators to timely resolve delinquencies.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY AND WHY DID THIS PROBLEM OCCUR?

We reviewed COGCC's processes for monitoring operator compliance with production reporting requirements and found that, overall, COGCC does not have an effective or efficient process for following up on delinquent production reports. Specifically, we reviewed production and delinquent report data for Calendar Year 2020 and found that, although COGCC implemented the new notification process for delinquent reports as of January 2020, COGCC treats all delinquent reports the same when it comes to following up with operators to obtain the reports and processing the delinquent reports when they are submitted. According to COGCC, as of April 2021, there were over 280,000 delinquent production reports, some of which dated back to 1999. As shown in Exhibit 2.1, 77 percent of these delinquent reports were more than 5 years old, which does not align with the statutory

record retention requirement that operators retain production data for 5 years [Section 34-60-106(1)(e), C.R.S.].

EXHIBIT 2.1. COLORADO OIL AND GAS CONSERVATION COMMISSION eFORMS RECORD OF DELINQUENT REPORTS				
Number of Years Delinquent	Number of Delinquent Reports Listed	Percentage	Percentage of Delinquent Reports Still within Statutory Requirement	Percentage of Delinquent Reports Past Statutory Requirement
0-1 year	15,976	6%	23%	-
2-5 years	48,722	17%		
6-10 years	78,857	28%	-	77%
11-22 years	136,486	49%		
TOTAL	280,041	100%		

SOURCE: Office of the State Auditor analysis of COGCC eForms data.

Operators will automatically receive notice from eForms if the prior month's report is delinquent, but they will also receive information on older delinquencies from COGCC staff on an ad hoc basis if the operator requests to know all delinquent reports missing for their company. This includes delinquent reports that are more than 5 years old and outside of the statutory requirement.

Furthermore, when COGCC receives delinquent reports from operators, it does not prioritize these submissions to focus on the reports from the last 5 years. Instead, COGCC staff report that they process submissions in the order received. Of the 868,000 reports that COGCC received in Calendar Year 2020, about 48,000 (6 percent) were for reporting periods prior to Calendar Year 2016 and, therefore, provided production data that was more than 5 years old and outside the statutory data retention timeframe. As a result, COGCC staff may spend time processing delinquent reports that are older than 5 years before they process a delinquent report from the current year. COGCC staff reported there is not a known use for reports older than 5 years

other than historical data purposes. Additionally, we found that COGCC does not track whether the reports listed as delinquent were never submitted at all, or if they had been submitted, but due to errors, the reports had been rejected and the information deleted from the system, as discussed in the first finding.

COGCC management reported that they had not considered how the lack of prioritization when following up on delinquent reports affects COGCC's ability to meet its objective of collecting and maintaining current oil and gas production data. Management confirmed that although they had implemented a new enforcement process beginning with Calendar Year 2020 delinquent reports, neither staff nor management have considered prioritizing delinquent reports from the most recent 5-year period in the enforcement process and have continued to routinely work with operators to obtain older reports.

COGCC also confirmed that the eForms business rules were not designed to distinguish between reports that were never submitted and those that had been submitted, but needed to be resubmitted due to errors. If COGCC makes changes to eForms to maintain all submitted data that is correct and only delete data with errors, as discussed in Recommendation 1, then revising eForms to distinguish between delinquent reports that were never submitted versus those that were submitted but had errors, could allow COGCC to develop separate processes for following up on the different types of delinquencies. For example, COGCC could consider reports that had been submitted with errors to warrant a less formal follow-up and enforcement process since the operator had tried to comply with reporting requirements. Conversely, a report that had never been submitted may call for a more formal enforcement action, such as issuing an NOAV.

WHY DOES THIS PROBLEM MATTER?

When COGCC staff spend time following up on delinquent reports that are more than 5 years old, it may not be an effective or efficient use of their time or operators' time.

According to COGCC, it has not had the resources to fully complete the production reporting enforcement process that it established in January 2020 as a result of the *Severance Tax* performance audit. Specifically, COGCC reported that it provides email notices to operators to initiate getting delinquent reports that were due in 2020 and after; however, COGCC reported that, as of August 2020, it has not been sending out any NOAVs, which can result in litigation and penalty, for any delinquent production reports that operators fail to provide. COGCC reported that it has not prosecuted any NOAVs that were sent out between January and August 2020 because it does not have the staffing resources available to do so. Focusing staff resources to follow up only on delinquent reports that are less than 5 years old could free up staff time to continue the NOAV enforcement process, when appropriate.

RECOMMENDATION 2

The Colorado Oil and Gas Conservation Commission, within the Department of Natural Resources, should improve the effectiveness and efficiency of its processes for following up on delinquent production reports by:

- A Prioritizing its enforcement and processing efforts on delinquent reports that are within the 5-year record retention period.
- B Implementing changes to the eForms system to distinguish delinquent reports that have never been submitted from those that were submitted, but needed to be resubmitted due to errors, and using this information to determine what type of enforcement actions would be appropriate for each type of delinquency.

RESPONSE

COLORADO OIL AND GAS CONSERVATION COMMISSION

- A AGREE. IMPLEMENTATION DATE: DECEMBER 2021.

COGCC will reformat the Delinquent Production Report and change our business process used to review compliance to prioritize the review on delinquent Form 7s within the five year timeframe.

- B AGREE. IMPLEMENTATION DATE: DECEMBER 2021.

COGCC will also revise the Delinquent Production Report to distinguish between reports that have never been submitted and reports that were submitted but contained an error. COGCC staff will use that information to determine what level of enforcement to pursue.