

FORM
NOAV
Rev 6/99

State of Colorado
Oil and Gas Conservation Commission

1120 Lincoln Street, Suite 801, Denver, Colorado 80203 (303) 894-2100 Fax (303) 894-2109



FOR OGCC USE ONLY

12/22/2011

200334881

*** NOTICE OF ALLEGED VIOLATION ***

OGCC Operator Number: 100200
Name of Operator: LONE PINE GAS INC
Address: 6704 E LONG AVE ATTN: GILMER MICKEY
City: ENGLEWOOD State: CO Zip: 80112
Company Representative: STEVEN SHUTE

Date Notice Issued:

12/22/2011

*Location ID
3-24-6-34*

Well Name: MARGARET SPAULDING Well Number: 15 Facility Number: 212219
Location (QtrQtr, Sec, Twp, Rng, Meridian): SESE 28 9N 81W 6 County: JACKSON
API Number: 05 057 06112 00 Lease Number:

COGCC Representative: NEIDEL KRIS Phone Number: 970 819-9609

THE FOLLOWING ALLEGED VIOLATION WAS FOUND BY THE COGCC REPRESENTATIVE FOR THE SITE LISTED

Date of Alleged Violation: 12/20/2011 Approximate Time of Violation:

Description of Alleged Violation:

Discharge from pits is in violation of water quality standards. Treatment of produced water; crude oil/condensate is present in the last two pits prior to discharge. Labels of tanks inside containment are not in compliance (200 series rules). Venting of gas has not been approved by Director per Form 4 (900 series rules).

RECEIVED
FEB 14 2013
COGCC

Act, Order, Regulation, Permit Conditions Cited:
324A.b, 907.c(1),210.d, 912.b,

Abatement or Corrective Action Required to be Performed by Operator:*

Cease operations until it can be demonstrated that the produced water can be treated in a way that prevents free product from accumulating in last two pits and in discharge stream. Install sign at Tank Battery to comply with rule 210.b. Label all tanks per rule 210.d. Submit sundry for venting of gas, per rule 912.b.

Abatement or Corrective Action to be Completed by (date): 01/31/2011

* Proper and timely abatement does not necessarily preclude the assessment of penalties and an Order Finding Violation.

TO BE COMPLETED BY OPERATOR - When alleged violation is corrected, sign this notice and return to above address:

Company Representative Name: Vernetta L Mickey Title: President
Signature: [Signature] Date: 2/12/13
Company Comments:

See attached Simple Answer to NOAV- 3pp.

*** THIS NOTICE CONSTITUTES A SEPARATE NOTICE OF ALLEGED VIOLATION FOR EACH VIOLATION LISTED ***

WARNING

Abatement and reporting time frames for Notices of Alleged Violation begin upon receipt of the Notice or five days after the date it is mailed, whichever is earlier. Each violation must be abated within the prescribed time upon receipt of this Notice, reported to the Colorado Oil and Gas Conservation Commission at the address shown above, and postmarked no later than the next business day after the prescribed time for abatement. Should abatement or corrective action fail to occur, the Director may make application to the Commission for an Order Finding Violation. Proper and timely abatement does not necessarily preclude the assessment of penalties and an Order Finding Violation.

PENALTY PROPOSED BY THE DIRECTOR PER RULE 523

The Director may propose a penalty as listed in the table below, not to exceed a maximum of \$1,000.00 per day per violation. Such proposed penalty amount will be limited to \$10,000.00 per violation if the violation does not result in significant waste of oil and gas resources, damage to correlative rights, or a significant adverse impact on public health, safety, or welfare. Such proposed penalty amount may be increased if aggravating factors indicate the violation was intentional or reckless, had, or threatened to have, a significant negative

VERIFICATION

[This verification does not need to be completed if this Answer to NOAV is signed by a Colorado licensed attorney below.]



STATE OF COLORADO)
) ss.
COUNTY OF Grand)

Vernette L. McKay, of lawful age, being first duly sworn upon oath, deposes and says that he is PRESIDENT for Lone Pine GAS INC and that (s)he has read the foregoing Simple Answer to NOAV and that the matters therein contained are true to the best of his/her knowledge, information and belief.

Subscribed and sworn to before me this 12th day of FEBRUARY, 2013.

Witness my hand and official seal.

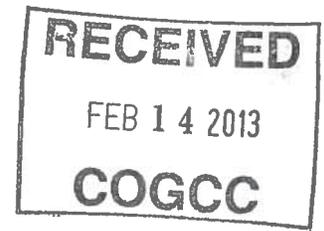
My commission expires: 7/17/2014



My Commission Expires 7/17/2014

[Signature]
Notary Public

If prepared by and signed by a licensed Colorado attorney, the attorney shall sign this pleading in conformance with Rule 11, Colorado Rules of Civil Procedure.



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

IN THE MATTER OF NOTICE OF ALLEGED) NOAV NO. 200334881
VIOLATIONS (NOAV) OF THE COMMISSION RULES)
BY Kris Neidel IN Jackson COUNTY, COLORADO) DOCKET NO. _____
)

I. Identifying Information

Operator: Lone Pine Gas, Inc., ("Lone Pine")

NOAV no. 200334881

Date of NOAV: 12/22/2011

Staff Contact Information:

Kris Neidel, cell 970-819-9609, email kris.neidel@state.co.us

Operator Contact Information:

Name: Steve Shute

Title/Capacity: Vice President

Address: 4505 S. Broadway, Englewood, CO 80113

Telephone Number: 970-928-9208

Email address: pipeline@rof.net

II. Response to Alleged Violations:

Alleged Violation 1. Presence of crude oil/condensate in last two pits prior to discharge.

The COGCC inspector reported oil on and around the sides of ponds #4 and #5 on 12/20/2011. COGCC sent a NOAV letter dated 12/22/2011, and Lone Pine was first aware of this allegation mid-day on 12/23/11, when the Denver accounting office received the NOAV letter. Lone Pine immediately sent an environmental specialist to the field that afternoon. He confirmed a small amount of oil around the edges of the ponds, but did not see any oil on the surface. New snow cover made it impossible to determine the extent of the free oil. See additional narrative below for further information and the previously submitted Form 19 for responsive actions taken by Lone Pine.

Alleged Violation 2. Proper labeling of tanks inside tank battery at separation facility.

Lone Pine representatives discussed the signage issue with representatives of COGCC at an on-site meeting on January 11, 2012. Following that meeting and discussion, Lone Pine employees re-labeled tanks and equipment with signage complying with COGCC regulations.

Alleged Violation 3. Venting of gas without approval via Form 4.

Lone Pine's oil separation process results in a modest volume of gas venting, after use as fuel to heat the Treater. When the Plant was re-configured in March-April 2012, several overhead relief valves which could emit gas were consolidated into a single vessel. Lone Pine has not measured the net volume of gas after Treater fuel, which fluctuates greatly depending on which wells are produced. Lone Pine was not aware of the sundry requirements until the receipt and discussion of this NOAV. A Form 4 request is attached to this response.

The foregoing responses address the enumerated Alleged Violations 1, 2, and 3 that are listed in the pre-formatted Model Form for Responsive Pleading provided to Lone Pine by COGCC. To the extent the NOAV contains any further alleged violations or legal conclusions not contained within the pre-formatted Model Form document provided that require a response, Lone Pine reserves the right to supplement its response should the same be required, and nothing herein shall be deemed as an admission of any allegation. Lone Pine reserves the right to supplement or amend this response as needed following further discussions between Lone Pine and COGCC.

III. Additional Narrative

After the receipt of this NOAV, Lone Pine took immediate steps to greatly change the operation of the field. At the time of this NOAV in late December 2011, Lone Pine was already working with a process engineer on process changes to improve water quality for CDPHE permit compliance.

Lone Pine owners met onsite with COGCC on January 11, 2012 to discuss all aspects of the field and process. Lone Pine filed a Form 19 spill report. Lone Pine shut down the wells and field completely on March 21 to re-configure the plant. Over the course of several weeks, tanks and lines were cleaned, re-piped and replaced as necessary to improve oil-water separation. These changes included:

- Large and Small water knockout (KO) vessel float controls were adjusted to dump nearly pure oil to the Treater;
- The pressure relief valve on the large KO was at the outlet end of the vessel; any large gas influx could churn up the entire vessel and was slow to vent; the PRV was moved to the inlet end, and a Back Pressure Valve added to better regulate the pressure on the gas section and handle gas events more quickly and evenly;

- Treater mid-section between bubble trays was cleaned and excelsior “hay” (fine wood turnings) replaced to coalesce the oil droplets, as designed;
- Treater controls were adjusted for proper oil-water levels; the top relief valve and water back pressure valve were found to be leaking and were replaced;
- Relief valves from two KOs and Treater were piped to relieve into the lined Pit; a 400bbl Pop Tank was installed with new piping to capture all fugitive releases and recycle back into the KOs;
- Produced water tanks #2-3 were running in parallel, with Tank #1 isolated and unused; any upset could carry oil emulsion into the tanks, with only 1 step to catch oil before the ponds and little residence time to settle; the 3 tanks were piped in series to provide 3 levels of oil capture;
- The skimmer system on the produced water tanks was re-piped and the pump replaced with a much larger pump; operators changed from weekly skimming to several times per week;
- New stairs and manways were installed to all 3 tanks, to allow better access to the thief hatch and to check the skimming process;
- All retaining Ponds #1-5 were drained as far as practical and oil residue removed from sides and bottoms as found;
- Ponds #2 and #3 inlets were fitted with a fabricated filter box with excelsior to coalesce and collect any incoming oil to reduce the sheen; a similar filter was installed on the outlet weir;
- With all the inputs shut off, the Pit was drained of oil & water; the liner was removed for disposal; aprx 1600 cubic yards of sludge and contaminated soil were removed and stockpiled for disposal, and the Pit was permanently closed (Form 27 filed);
- At direction of COGCC, a long-unused pit near the Noffsinger well was excavated of about 400 cu yds of contaminated soil and drill mud, also stockpiled for disposal.

Lone Pine’s third party contract operator had operated the field since 2007. The contractor did not admit awareness of, nor the presence of, any spill or oil on or around the settling ponds, even after the COGCC inspection report and NOAV. Lone Pine terminated its relationship with the contractor on April 1 and started operations with 2 employee operators.

After the significant process & operating changes were made, Lone Pine operated the wells and field at about 50% of its previous production level. This is intended to reduce the risk of large gas events and high water volume that could over-exert the Plant and can cause carryover of oil through the process and settling ponds. Since these changes were implemented, there has been very little oil carried to Pond #1, which is easily removed. There has been no subsequent evidence of oil on other ponds nor the outlet weir.

Lone Pine is negotiating the sale of the wells and field to an experienced O&G operator, which plans to convert the field to re-injection of produced water to the same production zone. This project will eliminate the settling ponds and surface discharge of produced water.

IV. Supporting Documentation for denials stated in Section II.

[None].

List Attachments.

Simple Answer to NOAV—3 pp

Form 4: SUNDRY NOTICE

Form 4: Supplemental Information – 1 page