



September 2, 2016

VIA EMAIL AND CERTIFIED MAIL WITH RETURN RECEIPT

Barbara Westerdale
Colorado Oil and Gas Conservation Commission
Attn: Commission Secretary
1120 Lincoln Street, Suite 801
Denver, CO 80202
dnr_cogccenforcement@state.co.us

RE: Responses to Notices of Alleged Violation, issued on August 5, 2016

Document No. 401089682, API Number: 05-123-40263-00 ("Wind #1 well")
Document No. 401089686, API Number: 05-123-40265-00 ("Wind #2 well")
Document No. 401089672, API Number: 05-123-40260-00 ("Wind #3 well")
Document No. 401089692, API Number: 05-123-40267-00 ("Wind #4 well")
Document No. 401089657, API Number: 05-123-40253-00 ("Wind #5 well")
Document No. 401089667, API Number: 05-123-40259-00 ("Wind #6 well")
Document No. 401089661, API Number: 05-123-40254-00 ("Wind #7 well")
Document No. 401089697, API Number: 05-123-40268-00 ("Wind #8 well")
Document No. 401066622, API Number: 05-123-40251-00 ("Wind #9 well")
Document No. 401089675, API Number: 05-123-40261-00 ("Wind #11 well")
Document No. 401089701, API Number: 05-123-40273-00 ("Wind #12 well")

Dear Ms. Westerdale:

Extraction Oil & Gas, LLC ("Extraction") hereby submits its response to the eleven (11) Notices of Alleged Violation ("NOAVs") regarding document numbers referenced above for Extraction's Wind 31-P pad wells also referenced above. The NOAVs were issued on August 5, 2016, by Barbara Westerdale of the Colorado Oil and Gas Conservation Commission ("Commission" or "COGCC"). As per the NOAVs, the response is due 28 days of receipt or on or about September 5, 2016. The corrective action required to be performed by Extraction was due on August 5, 2016, and was completed by the Operator on July 14, 2016, prior to the issuance of the NOAVs.

Extraction Oil & Gas, LLC's Response to Notice of Alleged Violation

I. COGCC Allegations

Each of the above-referenced NOAV's were issued as a result of Extraction's alleged violation of COGCC Rule 603.a.(1). COGCC Rule 603.a.(1) states that "at the time of drilling, a Well shall be located not less than two hundred (200) feet from buildings, public roads, major above ground utility liens, or railroads. Rule 604 setback requirements apply with respect to Building units and Designated Outside activity area."

Document No. 401089682 for the Wind #1 well states that the COGCC approved a Form 2 [Document No. 400642153] for the Wind #1 to be drilled at a distance of 202 feet from the overhead utility and the well was spudded on March 21, 2016 at a distance of 192 feet from the overhead utility.

Document No. 401089686 for the Wind #2 well states that the COGCC approved a Form 2 [Document No. 400642155] for the Wind #2 to be drilled at a distance of 202 feet from the overhead utility and the well was spudded on March 22, 2016 at a distance of 192 feet from the overhead utility.

Document No. 401089672 for the Wind #3 well states that the COGCC approved a Form 2 [Document No. 400642156] for the Wind #3 to be drilled at a distance of 203 feet from the overhead utility and the well was spudded on March 10, 2015 at a distance of 192 feet from the overhead utility.

Document No. 401089692 for the Wind #4 well states that the COGCC approved a Form 2 [Document No. 400642157] for the Wind #4 to be drilled at a distance of 203 feet from the overhead utility and the well was spudded on March 23, 2016 at a distance of 192 feet from the overhead utility.

Document No. 401089657 for the Wind #5 well states that the COGCC approved a Form 2 [Document No. 400642158] for the Wind #5 to be drilled at a distance of 203 feet from the overhead utility and the well was spudded on March 24, 2016 at a distance of 191 feet from the overhead utility.

Document No. 401089667 for the Wind #6 well states that the COGCC approved a Form 2 [Document No. 400642159] for the Wind #6 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 4, 2015 at a distance of 191 feet from the overhead utility.

Document No. 401089661 for the Wind #7 well states that the COGCC approved a Form 2 [400642160] for the Wind #7 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 24, 2016 at a distance of 191 feet from the overhead utility.

Document No. 401089697 for the Wind #8 well states that the COGCC approved a Form 2 [Document No. 400642161] for the Wind #8 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 25, 2016 at a distance of 191 feet from the overhead utility.

Document No. 401066622 for the Wind #9 well states that the COGCC approved a Form 2 [Document No. 400642162] for the Wind #9 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 6, 2015 at a distance of 190 feet from the overhead utility.

Document No. 401089675 for the Wind #11 well states that the COGCC approved a Form 2 [Document No. 400642164] for the Wind #11 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 7, 2015 at a distance of 190 feet from the overhead utility.

Document No. 401089701 for the Wind #12 well states that the COGCC approved a Form 2 [Document No. 400642165] for the Wind #12 to be drilled at a distance of 204 feet from the overhead utility and the well was spudded on March 4, 2015 at a distance of 190 feet from the overhead utility.

II. Facts

On June 8, 2016, through a self-evaluation, Extraction learned that eleven (11) of the twelve planned wells on Extraction's Wind 31-P pad, location ID: 439018, were drilled at distances less than two hundred (200) feet setback as required per COGCC Rule 603.a.(1) from the overhead utility powerline. Extraction immediately began a detailed evaluation through its regulatory compliance program. Extraction identified the discrepancy in the setback distance while it prepared an amended Form 2A to add MLVT's to the site.

On June 9, 2016, Extraction immediately began to prepare a self-report to the COGCC but realized that the Wind 31-Pad Overhead Utility Exhibit also had discrepancies because it demonstrated that there were twelve wells drilled on the Wind 31-P pad when in fact it should have been eleven. Extraction and its surveyors returned to the site to determine the number of wells drilled and the distances from the utility. Extraction also began its investigation as to why

the wells had been drilled at a different distances than the distance that was planned and requested in the initial Form 2's.

Extraction's investigation revealed that the wells had been moved as an "in-field" decision immediately prior to commencement of drilling operations at the request of the surface owner in order to accommodate the surface owner's center-pivot irrigation. Once the wells were staked according to the initial Form 2's, the surface owner became concerned that pad may obstruct the center-pivot. Therefore, Extraction's team in the field determined that in order to conduct operations in a manner that accommodated the surface owner by minimizing intrusion upon and damage to the surface land, decided to move the wells to comply with C.R.S. §34-60-127. This negligible shift in the well location did not adversely impact or create a threat of impact to the public health, safety, welfare, the environment or wildlife.

Extraction's investigation also revealed that one of the proposed wells on the Wind 31-P pad was not drilled and the Wind 31-Pad Overhead Utility Exhibit needed to be revised. On June 10, 2016, Extraction obtained confirmation of the actual distances that the wells were drilled from the powerline which varied about 8-10 feet from the required setback of 200 feet and requested that a new "as-Built" Wind 31-Pad Overhead Utility Exhibit be prepared.

Upon identifying the source of the requested variance in the location of the wells, Extraction contacted the utility, Poudre Valley REA, to request approval of a variance to the setback rules. On June 20, 2016, Extraction obtained a signed waiver as to COGCC Rule 603.a.(1) from Poudre Valley REA. Following completion of its investigation, on June 22, 2016, Extraction submitted its self-report to Ms. Westerdale as expeditiously as possible and without unreasonable delay after investigating the circumstances.

Subsequently, Extraction was advised that the COGCC had already identified the discrepancy in the well distance to the utility powerline. Extraction contacted Ms. Westerdale and Mr. Steven Mah to discuss the self-report. Extraction was advised that it would likely receive an NOAV for each well. The final corrected Wind 31-P Pad Overhead Exhibit was not received by Extraction until July 8, 2016. On July 14, 2016, Extraction filed the following Form 4 Sundry Notices requesting COGCC Rule 603.a.(1) variances for each of the wells with the setback discrepancies:

Document No. 401077713 - Wind #1 well
Document No. 401077971 - Wind #2 well
Document No. 401077972 - Wind #3 well
Document No. 401078134 - Wind #4 well
Document No. 401078139 - Wind #5 well
Document No. 401078145 - Wind #6 well

Document No. 401078167 - Wind #7 well
Document No. 401078171 - Wind #8 well
Document No. 401078174 - Wind #9 well
Document No. 401078185 - Wind #11 well
Document No. 401078191 - Wind #12 well

On August 8, 2016, Extraction received the NOAVs listed above and each incorrectly noted that this violation was not self-reported by the operator.

III. Corrective Action

The NOAVs required, as a corrective action, that Extraction submit a Form 4, Sundry Notice, with a 502.b. variance request letter by August 5, 2016 for each well with the setback discrepancy. Extraction had complied with the submission of the Form 4, Sundry Notices prior to the NOAVs being issued. Extraction submitted the requisite Form 4s on July 14, 2016, prior to the NOAVs being issued and prior to the corrective action deadline.

Also, as corrective action, NOAV required the operator to institute an internal procedure to ensure that a COGCC Rule 603.a.(1) setback discrepancy does not occur again. Extraction is currently in an evaluation phase in order to develop and implement a better internal procedure to prevent a COGCC Rule 603.a.(1) violation. In its efforts to improve its internal procedure, Extraction is evaluating and testing software systems with stage gates built in for the development process. Extraction has consulted with two companies. Extraction has created and implemented a communication structure in the interim to help prevent setback violations which consists of team meetings between the Environmental, Regulatory, and Land teams both in the office and on site. Extraction anticipates that it will have in place a software system within three (3) months.

Extraction is committed to the protection of the public health, safety and welfare of the communities in which it operates. Extraction has designed a Regulatory Program for Permitting and Pad Construction. Prior to the start of a construction, the location will be staked. All staking will be completed by a professional surveyor and, at a minimum, will consist of staking the limits of the disturbed area per the approved Location Assessment and may include additional cut/fill stakes. After staking is complete, an on-site preconstruction meeting will be held with all applicable parties, which may include the surface owner, earthwork contractors, mitigation contractors, and Extraction employees from our land, regulatory, environmental, drilling, construction, completions and engineering departments. Topics covered at the preconstruction meetings shall include the limits of the disturbed area, stormwater controls, construction sequencing such as location of stockpiles, and a discussion on key cultural

setbacks. Regulatory staff will outline all key setbacks to surrounding cultural features including buildings, building units, property lines, above ground utilities, and public roads.

IV. Defenses and Mitigation

Within a reasonable amount of time after discovering the COGCC Rule 603.a.(1) setback discrepancy, Extraction submitted Voluntary Disclosure for Consideration pursuant to COGCC Rule 523.e. Extraction began its investigation process as to the discrepancy through its own regulatory program prior to the COGCC identifying the discrepancy. Extraction also acted to resolve the discrepancy by seeking to obtain a waiver from Poudre Valley REA and submitting the Form 4s. Extraction demonstrated prompt, effective and prudent response to the alleged violations, including providing notice and assistance to the impacted parties (Poudre Valley REA). The discrepancy in the setback distance was about 8-10 feet which is a negligible distance and Extraction made a good faith effort to comply with applicable requirements prior to the COGCC learning of the violation. Extraction has demonstrated a history of compliance with the Oil and Gas Conservation Act, the Commission rules, and all permits. Therefore, Extraction requests that the Director and the Commission consider not imposing a fine, suspension of part of the fine or a reduction in the penalty.

Pursuant to COGCC Rule 522.c.(1), when the Director has reasonable cause to believe a violation has occurred, the Directors may resolve the alleged violation without seeking a penalty if all of the following apply:

- A. The rule allegedly violated is not a Class 3 rule and the degree of actual or threatened impact is minor or moderate under the Commission's Penalty Schedule, Rule 523.c.(1);
- B. The operator has not received a previous Warning Letter or Corrective Action Required Inspection Report regarding the same violation;
- C. The Director determines the alleged violation can be corrected without undue delay; and
- D. The operator timely performs all corrective actions required by the Director and takes any other actions necessary to promptly return to compliance.

Here, the Director can resolve these NOAVs without a penalty because the alleged violation of COGCC Rule 603.a.(1) is classified as a Rule Class 2 according to the Commission Rule Classification Appendix A. According to the Penalty Schedule, a Class 2 Rule includes "[r]ules related at least indirectly to protecting public health, safety, and welfare, including the

environment and wildlife resources, a violation of which presents a possibility of distinct, identifiable actual or threatened adverse impacts to those interests. “

Next, Extraction has not previously received a Warning Letter or Corrective Action Required Inspection Report for a COGCC Rule 603.a.(1) violation. In fact, Extraction submitted the self-report along with the new survey exhibits followed by an amended 2A and then was notified that the Commission Staff had also found the alleged violation simultaneously.

The Director can determine that the alleged violation can be corrected without undue delay because Extraction remedied it prior to being issued the NOAVs. Extraction promptly self-reported after re-surveying the site, it obtained a waiver from Poudre Valley REA, it submitted a variance request letter and Form 4. All corrective actions occurred prior to the NOAVs being issued. Extraction has taken a number of other actions in order to prevent any future non-compliance.

Furthermore, the setback from the powerlines is, in part, to prevent a risk to the powerlines in the event that a rig is to fall over. The risk was never a concern since the rig was 177 feet tall which was less than the approximate 192 foot distance from the wells to the powerlines. Additionally, drilling operations have been concluded, thus there was no actual impact to the public health, safety, welfare, environment or wildlife.

Lastly, the negligible shift in the well location was in response to a surface owner request. An operator has a duty to comply with a surface owner request as per C.R.S. §34-60-127(1)(a) which states “[a]n operator shall conduct oil and gas operations in a manner that accommodates the surface owner by minimizing intrusion upon and damage to the surface of the land.” Further, an operator may assert as an affirmative defense, that it conducts its operations or any variance thereof, consistent with the regulatory requirements and the contractual agreement with the surface owner which lead to the variance in the setback distance from the powerlines pursuant to C.R.S. § 32-60-127.

It is at the discretion of the Director to impose any penalty. A COGCC Rule 603.a.(1) alleged violation does not require a mandatory penalty. Extraction asserts that the degree classification should be minor because “there is no actual adverse impact and little or no threat on adverse impacts.” Extraction has not committed a Class 3 Rule violation; therefore, the Director can resolve this alleged violation without seeking a penalty.

Conclusion

Because Extraction has met all of the elements of COGCC Rule 522.c.1, the Director can resolve the NOAV without a penalty. Extraction respectfully requests that no penalty be

assessed for the alleged COGCC Rule 603.a.(1) violation as there is no harm or threat of harm to public health, safety, or welfare, including the environment and wildlife resources at the time of the operations given the fact that the rig was shorter than the setback or at the present. Also, the discrepancy to the setback was to accommodate a surface owner consistent with the Oil and Gas Conservation Act and COGCC Rules. Last, the alleged violation was found on June 8, 2016 by Extraction and after completing its diligent investigation it was timely self-reported without undue delay following an investigation on June 22, 2016 with accompanying exhibits and waivers from the utility.

Extraction submits this response in good faith and such demonstrates Extractions efforts to respond to all the issues addressed in the above-referenced NOAVs expeditiously. Extraction reserves the right to amend its response to the eleven (11) NOAVs, if necessary.

Please contact Erin Mathews at (720) 557-8308 or John Tonello at (720) 382-2696, if you need further information.

Sincerely,



Erin Mathews
Regulatory Manager
Extraction Oil & Gas, LLC

Attachments:

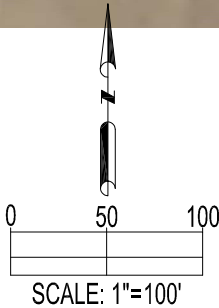
Wind 31-P Pad Overhead Exhibit dated July 8, 2016
Waiver Letter to Poudre Valley REA

WIND 31-P PAD
OVERHEAD UTILITY EXHIBIT



LEGEND

- = PROPOSED WELL
◆ = EXISTING WELL
—OHU— = OVERHEAD UTILITY



PREPARED BY:



FIELD DATE:
06-02-16

DRAWING DATE:
07-08-16

BY:
KAD

CHECKED BY:
MLP

SITE NAME:
WIND 31-P PAD

SURFACE LOCATION:
LOT 2 SW 1/4 SEC. 31, T5N, R67W, 6TH P.M.
WELD COUNTY, COLORADO

PREPARED FOR:





VIA EMAIL

June 20, 2016

Poudre Valley REA
7649 REA Parkway
Ft. Collins, CO 80528

**RE: COGCC Rule 603.a. Statewide Location Requirements
COGCC Rule 603.a.(1) Setback Waiver for Above Ground Utility Line
Wind 31-P Pad/Wells
Lot 2 SW/4 Section 31, Township 5 North, Range 67 West
Weld County, Colorado**

Ladies and Gentlemen:

Extraction Oil & Gas, LLC (Extraction) has drilled twelve (12) wells on the Wind 31-P Pad referenced above. The wells were drilled at a distance less than the required 200 feet from an above ground utility line.

Colorado Oil and Gas Conservation Commission (COGCC) Rule 603.a.(1) states that "At the time of initial drilling, a Well shall be located not less than two hundred (200) feet from buildings, public roads, major above ground utility lines, or railroads. Rule 604 setback requirements apply with respect to Building Units and Designated Outside Activity Areas". The wells associated with the Wind 31-P Pad have already been drilled, and are approximately 194 feet east of your utility line that runs along County Road 1.

Extraction respectfully requests your acceptance of waiver to COGCC Rule 603.a.(1) in order to bring this oil and gas location into compliance. Please sign and return one copy of this letter via email to emathews@ExtractionOG.com at your earliest convenience.

Should you have any questions or require additional information, please do not hesitate contacting me at 720.557.8308 or via email at emathews@extractionog.com. Many thanks for your attention to this matter.

Sincerely,

Erin Mathews
Regulatory Manager
Extraction Oil & Gas, LLC

EM:als




Poudre Valley REA
June 20, 2016
Page Two

Poudre Valley REA

RE: COGCC Rule 603.a. Statewide Location Requirements
COGCC Rule 603.a.(1) Setback Waiver for Above Ground Utility Line
Wind 31-P Pad/Wells
Lot 2 SW/4 Section 31, Township 5 North, Range 67 West
Weld County, Colorado

I/We hereby accept waiver of COGCC Rule 603.a.(1) as it applies to the Wind 31-P Pad/Wells.

Signed by: 
Name: JOHN BOWERFIN
Date: 6/21/16