



John C. Dill
Senior Director - Corporate Development and Government Relations

September 7, 2012

Director Matthew Lepore
Colorado Oil and Gas Conservation Commission
1120 Lincoln Street, Suite 801
Denver, CO 80203

Re: Chesapeake Energy Corporation – Comments on Anticipated Colorado Oil and Gas Conservation Commission Setback Rulemaking

Dear Director Lepore:

Chesapeake Energy Corporation (“Chesapeake”) respectfully submits this letter to the Colorado Oil and Gas Conservation Commission (“COGCC”) in response to your request for recommendations and/or comments to the setback stakeholder process and the anticipated setback rulemaking. Chesapeake has followed the stakeholder process closely since its inception in February 2012. Based on statements made at the August 20, 2012 COGCC hearing, a rulemaking to modify the current COGCC setback rules appears imminent. Chesapeake desires to work in good faith with the COGCC and other stakeholders to address the issues identified in the setback stakeholder process, however, Chesapeake also desires to protect its mineral, contract, and economic interests in the State of Colorado as well as those of its lessors. In this spirit, Chesapeake submits the following comments to the anticipated setback rulemaking.

A. The COGCC Must Abide By Its Statutory Obligations.

When reviewing the prospect of increased setbacks, COGCC must honor the obligations placed upon it by the by the General Assembly. Specifically, the COGCC must prevent waste of the state’s hydrocarbon resources. *See* C.R.S. § 34-60-102. An increase in any setback distance from occupied structures, in urban or rural areas, will cause direct harm to the contract, leasehold, and economic interests held by Chesapeake and its lessors, because a substantial amount of proven hydrocarbon reserves will remain undeveloped, or wasted.

B. A Rulemaking to Modify Existing Setbacks is Unwarranted at the Current Time.

It is Chesapeake’s understanding that the anticipated rulemaking will seek to increase various setbacks set forth in COGCC Rule 603, as well as other rules, for the location of wells, tank batteries, production facilities, and/or other necessary equipment near occupied residences in high-density areas, as well as in all urban and rural areas statewide.

Chesapeake opposes any rulemaking at the current time because the past seven months of stakeholder meetings have failed to produce any evidence proving any historical deficiencies

with the current rules or any scientific studies or technical analysis that supports the need to modify the existing setbacks. Any change to existing setbacks must be justified and supported by peer-reviewed and proven science, not on draft health assessments, unsubstantiated concerns, or junk science. This evidence must be provided to and analyzed by the COGCC, as well as the stakeholders, before any rulemaking occurs. To justify the inevitable waste of hydrocarbons that increased setbacks will cause and the concurrent infringement upon the rights of operators, mineral owners, and lessors, at a minimum, the evidence must prove that increased setbacks will address or alleviate the identified impacts of oil and gas operations in a demonstrable and quantifiable way.

Furthermore, a rulemaking at this point is not economic or efficient for any of the stakeholders involved. That said, Chesapeake assumes that the COGCC will undertake the necessary regulatory analysis as provided by the Colorado Administrative Procedure Act. *See* C.R.S. § 24-4-103.

C. A Policy Based on Best Management Practices Provides A Better Alternative To Rulemaking and Will Maximize The Role Of The Local Government Designee.

The stakeholder process identified certain issues, such as noise, odor, lighting, dust, traffic, air emissions, pits and water quality protections, that could arise when locating a site near a residence or other occupied structure. Most, if not all, of these issues could be addressed by site-specific mitigation measures that are developed through early and frequent communications between surface owners (residents), operators, COGCC representatives, and the local government designee (“LGD”).

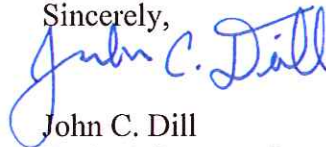
Chesapeake agrees with the Colorado Oil and Gas Association’s comments that certain key tools to identify impacts and corresponding mitigation methods would include:

- A summary of the noise, odor, dust, lighting, air emissions, water quality protection and other COGCC rules that address public health, safety and welfare issues associated with setback distances.
- To the extent that operator “best management practices” (“BMPs”), in addition to existing COGCC BMPs, may be appropriate, they should be developed through a meaningful dialogue between operators, surface owners, LGD’s and COGCC staff, applied on a site-specific basis, and designed to provide for the best overall mitigation of effects. The COGCC Onsite Inspection Policy provides a template in this regard.
- When site-specific impacts and BMPs are considered as part of the Location Assessment (Form 2A) process, operators, surface owners, COGCC Oil and Gas Location Assessment (OGLA) staff and local government designees (LGDs) have an opportunity to engage consistent with the recommendations of the Governor’s Task Force on Collaborative State and Local Regulation. This type of collaboration would identify sensible, relevant and appropriate site-specific solutions for setback-distance-related concerns.

BMPs and the COGCC, as well as operators, should aim to retain the flexibility necessary to resolve surface use conflicts efficiently and economically.

Chesapeake values its successful working relationship with the COGCC and is committed to working through this setback review process with all stakeholders involved. Furthermore, Chesapeake applauds the efforts and leadership of Mr. Kerr during this stakeholder process appreciates the opportunity to comment on this matter and looks forward to seeing the recommendations made by the COGCC staff upon conclusion of this process.

Sincerely,



John C. Dill

Senior Director– Corporate Development &
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cc: Thom Kerr – COGCC