

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
02/21/2012
200344034

*** NOTICE OF ALLEGED VIOLATION ***

OGCC Operator Number: 100122
Name of Operator: GUNNISON ENERGY CORPORATION
Address: 1801 BROADWAY #1200 ATTN: BRAD ROBINSON
City: DENVER State: CO Zip: 80202
Company Representative: BRAD ROBINSON

Date Notice Issued:
03/21/2012

Well Name: HOTCHKISS 12-90 Well Number: 1-34 Facility Number: 283918
Location (QtrQtr, Sec, Twp, Rng, Meridian): SWSE 1 12S 90W 6 County: GUNNISON
API Number: 05 051 06074 00 Lease Number:

COGCC Representative: SPRY OROURKE LINDA Phone Number: 970 625-2794

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

Date of Alleged Violation: 02/09/2012 Approximate Time of Violation:
Description of Alleged Violation:
On the morning of 2/9/2012 the wellhead was observed by non-GEC personnel passing the pad to be discharging gas and produced water into a puddle estimated to be 20' x 20' x 1' deep on the pad. Impacts to Waters of the State in an un-named drainage tributary to West Muddy Creek occurred by produced water reportedly discharging from the southern end of the pad, based on undercutting and slumping of the snow bank covering the intermittent drainage. The observer estimated > 20 bbls of released fluid. The high-elevation pad was reported as snow-covered with no tracks at discovery time. The well was still discharging gas and fluid later that afternoon when photos were collected but tracks present in snow on pad. The observer reported the operator was notified of release on 2/9/2012, but a Form 19 had not been submitted as of 3/5/2012. The well was reported by the operator to be shut in for the winter. Since the duration of release is unknown, West Muddy Creek was threatened.

Act, Order, Regulation, Permit Conditions Cited:
324.A.a , 324.A.b, 901.f, 906.a, 906.b.(1), 906.b.(2), 906.b.(3), 906.b.(5), 907.a.(1), 907.a.(2)

Abatement or Corrective Action Required to be Performed by Operator:*
1. Provide written explanation documenting why release was not reported verbally in a timely manner as required by Rule 906.b
2. Provide written explanation of why Spill/Release Reports (Form 19) were not submitted to the COGCC as required by Rule 906.b. 3. Submit written explanation of how reporting will occur in the future to avoid similar violations.
3. Submit a Form 19 containing all information known about the 2-9-2012 release.
4. Report spill to the Environmental Release/Incident Report Hotline as required by Rule 906.b.4 and provide the tracking number
5. Consult with, and mitigate impacts to, surface owners and surface lessees including those located along tributaries to West Muddy Creek.
6. Provide documentation and timeline for all activities that occurred on the wellpad after GEC was notified of the release
Abatement or Corrective Action to be Completed by (date): 04/05/2012
* 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: _____ Title: _____
Signature: _____ Date: _____
Company Comments:

*** 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 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 impact on public health, safety, or welfare; resulted in significant waste of oil and gas resources; had a significant negative impact on correlative rights of other parties; resulted in, or threatened to result in, significant loss or damage to public or private property; involved recalcitrance or recidivism upon the part of the violator; involved intentional false reporting or record keeping; resulted in economic benefit to the violator. Such proposed penalty amount may be decreased if mitigating factors indicate the violator: self-reported; promptly, effectively and prudently responded to the violation; cooperated with the Commission or other agencies with respect to the violation; could not reasonably control, or be responsible for, the cause of the violation; made a good faith effort to comply with applicable requirements prior to the Commission learning of the violation; had any economic benefit reduced or eliminated due to the cost of correcting the violation; has demonstrated a history of compliance with Commission rules, regulations and orders. The Commission has final authority over the penalty amount assessed.
the Commission or other agencies with respect to the violation: could not reasonably control, or be responsible for, the cause of the violation; made a good faith effort to comply with applicable requirements prior to the Commission learning of the violation; had any economic benefit reduced or eliminated due to the cost of correcting the violation; has demonstrated a history of compliance with Commission rules, regulations, and orders. The Commission has final authority over the penalty amount assessed.

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 impact on public health, safety, or welfare; resulted in significant waste of oil and gas resources; had a significant negative impact on correlative rights of other parties; resulted in, or threatened to result in, significant loss or damage to public or private property; involved recalcitrance or recidivism upon the part of the violator; involved intentional false reporting or record keeping; resulted in economic benefit to the violator. Such proposed penalty amount may be decreased if mitigating factors indicate the violator: self-reported; promptly, effectively and prudently responded to the violation; cooperated with the Commission or other agencies with respect to the violation; could not reasonably control, or be responsible for, the cause of the violation; made a good faith effort to comply with applicable requirements prior to the Commission learning of the violation; had any economic benefit reduced or eliminated due to the cost of correcting the violation; has demonstrated a history of compliance with Commission rules, regulations and orders. The Commission has final authority over the penalty amount assessed.
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BASE FINE \$250.00 PER DAY PER VIOLATION: RULES 210, 307, 311, 312, 313, 314A, 315, 403, 405, 803, 804
BASE FINE \$500.00 PER DAY PER VIOLATION: RULES 205, 206, 207, 208, 302, 308, 309, 310, 316A, 321, 322, 328, 329, 330, 331, 332, 401
BASE FINE \$750.00 PER DAY PER VIOLATION: RULES 605, 606A, 606B, 607
BASE FINE \$1,000.00 PER DAY PER VIOLATION: RULES 208, 301, 303, 305, 306, 316B, 317, 317A, 318, 319, 320, 323, 324, 325, 326, 327, 333, 404, 602, 603, 604, 703, 704, 705, 706, 707, 708, 709, 711, 802, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 1002, 1003, 1004, 1101, 1102, 1103

In accordance with Rule 523.a.(4), fines for violations for which no base fine is listed shall be determined by the Commission at its discretion.

Signature of COGCC Representative: Linda Spry O'Rourke Date: 3/21/2012 Time: 21:00
Resolution Approved by: _____ Date: _____

NOAV 200344034 Abatement Actions

GEC Hotchkiss 12-90 1-34 produced water release 2/9/2012

1. Provide written explanation documenting why release was not reported verbally in a timely manner as required by Rule 906.b
2. Provide written explanation of why Spill/Release Reports (Form 19) were not submitted to the COGCC as required by Rule 906.b. 3. Submit written explanation of how reporting will occur in the future to avoid similar violations.
3. Submit a Form 19 containing all information known about the 2-9-2012 release.
4. Report spill to the Environmental Release/Incident Report Hotline as required by Rule 906.b.4 and provide the tracking number
5. Consult with, and mitigate impacts to, surface owners and surface lessees including those located along tributaries to West Muddy Creek.
6. Provide documentation and timeline for all activities that occurred on the wellpad after GEC was notified of the release
7. Provide documentation regarding produced water capture and disposal method, including haul tickets.
8. Submit analytical data for Table 910-1 analytes for produced water from well.
9. Submit a Site Investigation and Remediation Work Plan (Form 27) in accordance with Rule 909.b.(5) for COGCC review and approval.
10. Provide an engineering evaluation of the wellhead failure and description of actions taken to remedy the wellhead failure.
11. Provide written description of operating procedures that will be taken to keep similar releases from occurring in the future.