

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

IN THE MATTER OF ALLEGED VIOLATIONS OF	)	CAUSE NO. 1V
THE RULES AND REGULATIONS OF THE	)	DOCKET NO. 170300022
COLORADO OIL AND GAS CONSERVATION	)	TYPE: ENFORCEMENT
COMMISSION BY LILIS ENERGY, INC., ELBERT	)	ORDER NO. 1V-632
COUNTY, COLORADO	)	

**ADMINISTRATIVE ORDER BY CONSENT**

(Pursuant to Rule 522.e.(1) of the Rules and Regulations of the  
Colorado Oil and Gas Conservation Commission, 2 CCR 404-1)

**FINDINGS**

1. Lilis Energy, Inc. ("Lilis") (Operator No. 10495) is the operator of record of the Coggins 10-34 well ("Well") (API No. 05-039-06608) located in Elbert County, Colorado.
2. Lilis reported the Well as shut-in from January 2013 through May 2014, improperly reported the well as plugged and abandoned in June 2014, then continued to report the well as shut-in from July to November 2014.
3. Lilis then failed to timely submit Form 7s, Operator's Monthly Reports of Operations, for the Well for the months of December 2014 through October 2016.
4. Lilis has never conducted a mechanical integrity test ("MIT") on the Well.
5. On December 14, 2015, Colorado Oil and Gas Conservation Commission ("COGCC" or "Commission") Staff issued Warning Letter No. 2193070 to Lilis requiring it to submit any past due Form 4s or Form 7s for the Well no later than January 13, 2016 and perform a successful MIT or plug and abandon the Well no later than April 30, 2016.
6. Lilis did not timely perform the corrective actions required in the Warning Letter.
7. On November 16, 2016, Commission Staff issued Notice of Alleged Violation ("NOAV") (No. 401080843) to Lilis citing a violation of the following COGCC Rules of Practice and Procedure, 2 CCR 404-1 ("Rule" or "Rules"):
  - a. Rule 309 (Operator's Monthly Reports of Operations) for failing to timely submit Form 7s since November 2014; and
  - b. Rule 326.b. (Mechanical Integrity Testing, Shut-In Wells) for failing to perform a successful MIT on the Well within two years of shutting it in.
8. On December 2, 2016, Lilis submitted delinquent Form 7s for the Well.

9. On March 8, 2017, Lilis submitted a Form 6, Well Abandonment Report – Notice of Intent to Abandon, for the Well. (Doc No. 401225339) Staff approved the Form 6, with comments, on March 15, 2017.

10. On April 14, 2017, Lilis successfully plugged and abandoned the Well and on April 19 2017, Lilis submitted the requisite Form 6, Subsequent Report of Abandonment. (Doc. No. 2226472)

11. Following factual investigation and legal review of the violations alleged in the NOAV, Hearing Staff now asserts Lilis has committed the following violations:

Rule No.	Days of Violation	Start Date	End Date	Class	Impact	Daily Base Penalty	Total Penalty
309	376	11/22/2015	12/2/2016	1	Minor	\$200	\$4,158
326.b.	452	11/22/2015	2/16/2017	2	Minor	\$2,500	\$62,490
SUBTOTAL							\$66,648
Settlement Discount (25%):							-\$16,662
TOTAL PENALTY							\$49,986

12. Pursuant to Rule 523 and the Commission's Enforcement and Penalty Policy, Hearings Staff calculated a total penalty of \$49,986 for these violations. The penalty calculation is based on the following:

a. Rule 309:

- i. Calculated days of violation limited by one-year statute of limitations (§34-60-115, C.R.S.) and ending on December 2, 2016, when Lilis commenced corrective actions by submitting delinquent Form 7s;
- ii. Class 1, minor impact;
- iii. Daily base penalty of \$200;

b. Rule 326:

- i. Calculated days of violation limited by one-year statute of limitations (§34-60-115, C.R.S.) and ending on February 16, 2017, being the date that Lilis commenced corrective actions;
- ii. Class 2, minor impact;
- iii. Daily base penalty of \$2,500;

- c. Application of the Duration Matrix from the COGCC Enforcement Guidance and Penalty Policy January 2015 (corrected 4/8/2015);

- d. A settlement discount of 25%; and
- e. No aggravating factors, mitigating factors, pattern of violation, gross negligence, or knowing and willful misconduct.

AGREEMENT

NOW, THEREFORE, based on the Findings and pursuant to Rule 522.e.(1) and the Commission's Enforcement and Penalty Policy, the Director and Lilis request that the Commission approve the Order set forth below.

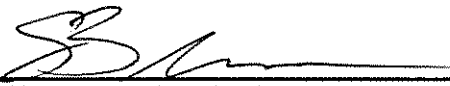
RECOMMENDED this 20th day of April, 2017.

OIL AND GAS CONSERVATION COMMISSION OF  
THE STATE OF COLORADO

By   
David A. Beckstrom, Enforcement Officer

AGREED TO AND ACCEPTED this 20<sup>th</sup> day of April, 2017.

LILIS ENERGY, INC.

By   
Signature of Authorized Company Representative  
Seth Blackwell  
Print Signatory Name  
EVP - Land & Business Development  
Title

ORDER

HAVING CONSIDERED the Agreement between the Director and Lilis Energy, Inc. to resolve the NOAV, the COMMISSION ORDERS:

1. Lilis is found in violation of Rules 309 and 326 as described above.
2. Penalty:

- a. Lilis is assessed a total penalty of \$49,986.
- b. Lilis will pay \$25,000 within 30 days after this approved AOC is mailed by the Commission.
- c. The remaining \$24,986 is suspended pending Lilis' timely completion of the following Corrective Actions:
  - i. No later than June 15, 2017, Lilis will complete all reclamation, site stabilization, decompaction, and reseeding requirements set forth in Rule 1004.a. at the Coggins 10-34 location and submit a Form 42 (Field Operations Notice) informing Staff of the completed work;
  - ii. No later than September 1, 2017, Lilis will either 1) accomplish a vegetative cover of four perennial seedlings per square foot of the entire location and submit a Form 42 informing Staff of such, or 2) should such vegetative cover not be present, submit to COGCC Staff a Final Reclamation plan detailing those actions it will take to achieve successful reclamation of the location no later than September 15, 2017 and then reseed the location no later than November 1, 2017;
  - iii. Lilis will maintain ongoing weed control at the Location in accordance with Rule 1004 until the Location passes a Final Reclamation Inspection.

3. If Lilis timely pays the penalty set forth in Paragraph 2.b. and timely completes the corrective actions required by Paragraph 2.c., the suspended penalty of \$24,986 will be vacated. If Lilis fails to comply with Paragraphs 2.b. or 2.c., the Director may require Lilis to pay the suspended penalty of \$24,986 and any overdue penalties required by Paragraph 2.b., without further action from the Commission. Lilis will pay any unsuspended or overdue penalties assessed pursuant to this Paragraph within 30 days of the mailing of the Director's demand for payment, unless an alternative deadline is granted by the Director for good cause.

4. Compliance dates specified in this Order may be extended only for good cause, as determined at the Director's sole discretion. A request for extension must be made, in writing, at least 35 days prior to the pertinent compliance deadline or as soon as possible if 35 days prior notice is not feasible. Failure to receive an extension prior to the compliance deadline or the failure to meet a compliance deadline may constitute a new violation subject to additional penalties.

5. This AOC does not relieve Lilis from undertaking and completing abatement or corrective actions that may be required by the Notice of Alleged Violation described in Finding No. 7, above, or any amendments or modifications thereto specified by the COGCC Staff.

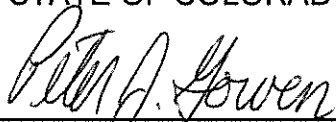
6. This Order is effective as of the date it is mailed by the Commission. It constitutes final agency action for purposes of judicial review.

7. The Commission expressly reserves its right after notice and hearing, to alter, amend, or repeal any and/or all of the above orders.

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ENTERED this 8<sup>th</sup> day of May, 2017 as of the 1st day of May, 2017.


OIL AND GAS CONSERVATION COMMISSION  
OF THE STATE OF COLORADO

By   
Peter Gowen, Acting Secretary

CERTIFICATE OF MAILING

On May 8<sup>th</sup>, 2017, a true and accurate copy of Commission Order 1V- 632 was mailed by first-class mail return receipt requested to the following:

Lilis Energy, Inc.  
Attn: Seth Blackwell  
300 E. Sonterra Blvd, Suite 1220  
San Antonio, TX 78258

  
Margaret Humecki