

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

IN THE MATTER OF ALLEGED VIOLATIONS OF THE)	CAUSE NO. 1V
RULES AND REGULATIONS OF THE COLORADO OIL)	
AND GAS CONSERVATION COMMISSION BY)	DOCKET NO. 0809-OV-17
STAR ACQUISITION VIII, LLC,)	
LA PLATA COUNTY, COLORADO)	

NOTICE OF HEARING

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On August 20, 1979, Pyramid Oil Company completed the Dakota Formation in the Dyehard #3 Well (API #05-067-06230), located in the NE¼ NW¼ of Section 13, Township 33 North, Range 12 West, N.M.P.M., which had been drilled between December 18, 1978 and August 15, 1979.

From 1979 to the present, operation of the Dyehard #3 Well has been transferred to various companies including Hathaway Company or Hathaway Operators, Inc. (November 30, 1986), Terra Exploration & Production Company (December 23, 2000), and to Star Acquisition VIII, LLC ("Star"), as of September 1, 2006. On December 13, 2007, Red Mesa Holdings/O&G LLC took over operations on the Dyehard #3 Well.

On April 9, 2007, the COGCC staff ("Staff") received a complaint about dust, wildlife concerns, and mud deposited on county roads from vehicular traffic in the vicinity of the Dyehard #3 Well.

On April 10, 2007, Staff inspected Star's oil and gas operations at the Dyehard #3 Well and the Dyehard #3A Well (API #05-067-09356-00), also located in the NE¼ NW¼ of Section 13, Township 33 North, Range 12 West, N.M.P.M., approximately 20 to 30 feet northeast of the Dyehard #3 Well. There was a pump jack on the Dyehard #3 Well and a centralized tank battery about 150 yards north along County Road 133. There was a drilling rig on the Dyehard #3A Well.

Although the drilling rig on the Dyehard #3A Well was shut down and the rig hands were conducting maintenance work, the rig was set up over a cellar of corrugated pipe (approximately six feet in diameter) and conductor pipe (13⅜-inch outside diameter) set in a wellbore. Other equipment indicative of commencement of drilling operations were a diverting head with top seals mounted on the conductor pipe and a blooie line running to an unlined and unfenced earthen pit.

On April 11, 2007, as a result of a landowner's concern about protection of shallow fresh water sands and Star's deviation from historical drilling practices, Staff attempted to examine Star's wellbore designs in Star's Applications for Permits-to-Drill ("APDs"), discussed with Star personnel the company's field-wide strategic plans and individual well analyses, including recently completed remedial work, and discovered that Star had commenced drilling operations on the Dyehard #3A Well without submitting an APD and without prior COGCC approval and planned to continue drilling operations without an approved APD.

On April 12, 2007, Staff determined to issue a cease and desist order and that a technically safe time for halting Star's drilling of the Dyehard #3A Well would be when Star reached the Mancos shale and installed and cemented casing, which was estimated to occur around mid-day April 12, 2007.

By 4:30 p.m. on April 12, 2007, drilling on the Dyehard #3A Well had reached only 930 to 960 feet, and the Mancos shale was estimated to be at 1,600 feet; Staff issued a cease and desist order at 4:45 p.m. on April 12, 2007 but allowed Star the option to run and cement casing to a depth of 880 feet (top of the Menefee coal) in order to maintain well integrity and not lose equipment downhole; deeper drilling operations ceased at 6:15 p.m.

On April 13, 2007, Star submitted an APD for the Dyehard #3A Well, and Mr. Tom L. Stover ("Mr. Stover"), Star's General Manager, met with Staff in the Denver COGCC office to discuss COGCC Rules and the order issued to cease and desist drilling operations on the Dyehard #3A Well. After the discussions, the APD was reviewed by Staff and approved by the Director.

On April 14, 2007, Star notified Staff in COGCC's Durango office that drilling operations would re-commence 48 hours later, *i.e.*, on April 16 or 17, 2007.

On April 16, 2007, Staff issued Notice of Alleged Violation #200109042 ("NOAV") to Star (Operator #10192) for violation of the following Rules at the Dyehard #3A Well:

- a. Rule 303.a., which requires filing an APD, Form 2, prior to commencing drilling operations;
- b. Rule 303.d.(1), which requires filing a Drill Site Access/Road Reclamation Form, Form 2A, as an attachment to the APD;
- c. Rule 303.d.(2), which requires filing Form 2 and 2A with the local governmental designee at the same time or before the forms are filed with the COGCC;
- d. Rule 305.b.(1), which requires providing written notice to the surface owner and local governmental designee of drilling operations at least 30 days prior to the estimated date of commencement of drilling operations;
- e. Rule 306.a., which requires consulting in good faith with the surface owner prior to commencement of drilling operations;
- f. Rule 306.a.(1), which requires providing the surface owner specific information as part of good-faith consultation efforts;
- g. Rule 306.a.(3), which requires consultation with the local governmental designee prior to commencement of drilling operations;
- h. Rule 317.c., which requires posting a copy of the approved APD at the drilling rig; and
- i. Rule 318., which requires specific distances between wells drilled to a common source of supply.

The NOAV required Star to submit a copy of all drilling records, a Form 2 and Form 2A and all necessary attachments for COGCC approval by April 30, 2007.

Star signed the NOAV on April 16, 2007 and returned it to the COGCC on May 21, 2007.

Star's response to the NOAV explained that it drilled the Dyehard #3A Well without prior filing and approval of an APD as an emergency measure to protect a fresh water zone. Star believed this process was permitted by Rule 317.d.

Rule 317.d., part of the general drilling rules applicable to all wells that are drilled or deepened, specifies as follows:

Casing program to protect hydrocarbon horizons and ground water. The casing program adopted for each well must be so planned and maintained as to protect any potential oil or gas bearing horizons penetrated during drilling from infiltration of injurious waters from other sources, and to prevent the migration of oil, gas or water from one (1) horizon to another, that may result in the degradation of ground water. A Sundry Notice, Form 4, including a detailed work plan and a wellbore diagram, shall be submitted and approved by the Director prior to any routine or planned casing repair operations. During well operations, prior verbal approval for unforeseen casing repairs followed by the filing of a Sundry Notice, Form 4, after completion of operations shall be acceptable.

Star alleged that it re-entered the Dyehard #3 Well and discovered that little to no cement was used and that the casing was corroded. Star believed that Rule 317.d. allowed it to conduct an emergency skid of the rig and drill the Dyehard #3A Well to protect a fresh water zone.

Rule 317.d., quoted above, does not allow an operator to skid a rig and commence drilling a new well without prior approval of the Director, irrespective of a perceived emergency to protect ground water.

Star responded quickly to file an APD for the Dyehard #3A Well and to meet with Staff to discuss COGCC Rules. To date, however, COGCC has not received drilling records or a Form 2A for the Dyehard #3A Well, as required by the NOAV, Rule 308A. (Drilling completion Report, Form 5), and Rule 308B. (Completed Interval Report, Form 5A).

On April 15, 2008, Staff attempted to deliver a proposed Administrative Order by Consent ("AOC") to Star at Star's business address (1099 18th Street, Suite #600, Denver, Colorado 80202) on file with the COGCC and the Colorado Secretary of State and discovered that there was no business in Suite #600 at that location. The AOC proposed to find Star in violation of the nine Rules enumerated above, and to assess Star a total fine of \$9,000.

On or about April 15 and 16, 2008, Staff attempted to contact Star by telephone and discovered that all of Star's telephone numbers on file with the COGCC had been disconnected. Staff also attempted to contact Mr. Stover by cell phone, using a telephone number he had provided to Staff, but that number had been disconnected.

On April 16, 2008, Staff attempted to deliver the proposed AOC and cover letters to Mr. Stover at his residential address and requested a change of address for Star for COGCC's records. The messenger was unable to obtain a signature indicating the AOC and cover letters had been received.

On April 21, 2008, Staff sent the proposed AOC and cover letters to Mr. Stover at his residential address via U.S. Mail, Certified, Return Receipt Requested. On April 24, 2008, the COGCC received confirmation from J. Stover that the proposed AOC and cover letters had been delivered and received on April 22, 2008.

To date, Mr. Stover has not contacted the COGCC to discuss or accept the AOC.

Star should be found in violation of Rule 303.a.(1) for failure to file an APD, Form 2, prior to commencing drilling operations.

Star should be found in violation of Rule 303.d.(1) for failure to file a Drill Site Access/Road Reclamation Form, Form 2A, as an attachment to the APD, prior to commencing drilling operations.

Star should be found in violation of Rule 303.d.(2) for failure to file Form 2 and Form 2A with the La Plata County local governmental designee at the same time or before the forms are filed with the COGCC.

Star should be found in violation of Rule 305.b.(1) for failure to provide written notice to the surface owner and the La Plata County local governmental designee of its drilling operations at least 30 days prior to the estimated date of commencement of drilling operations.

Star should be found in violation of Rule 306.a. for failure to consult in good faith with the surface owner prior to commencement of drilling operations.

Star should be found in violation of Rule 306.a.(1) for failure to provide the surface owner the following specific information as part of good-faith consultation efforts: a description or diagram of the proposed drilling location, dimensions of the well site, and, if known, the location of associated production or injection facilities, pipelines, roads and any other areas to be used for oil and gas operations.

Star should be found in violation of Rule 306.a.(3) for failure to consult with the local governmental designee of La Plata County prior to commencement of drilling operations.

Star should be found in violation of Rule 317.c. for failure to post a copy of an approved APD at the drilling rig.

Star should be found in violation of Rule 318. for not drilling the Dyehard #3A Well at least 1,200 feet from the Dyehard #3 Well, another producing well from the common source of supply, without an order of the Commission after a hearing, or a variance under Rule 502.b.

Rule 523. provides for the assessment of a base fine of One Thousand dollars (\$1,000) per violation of each of the nine Rules cited above.

Star should be assessed a fine of One Thousand dollars (\$1,000) per violation for each of the nine Rules cited above, for commencing drilling operations at the Dyehard #3A Well prior to complying with obligations set forth in Rules 303.a.(1), 303.d.(1), 303.d.(2), 305.b.(1), 306.a., 306.a.(1), 306.a.(3), 317.c., and 318., for a total fine of Nine Thousand dollars (\$9,000).

The Commission should find that a knowing and willful pattern of violations exists because Star has failed to perform the abatement and corrective actions required by the NOAV, has failed to provide forwarding information to the COGCC, and has failed to contact the COGCC with respect to the proposed AOC. Until the fine assessed by this order is paid in full and all records required by the Rules are submitted to the COGCC for the Dyehard #3A Well, the Director should not approve any APD, any Certificate of Clearance and/or Change of Operator, Form 10, or other permit for conducting oil and gas operations for Star or any entity of which Mr. Stover is a principal, majority owner, operational or general manager, or which Mr. Stover otherwise controls.

NOTICE IS HEREBY GIVEN, that the Oil and Gas Conservation Commission of the State of Colorado, pursuant to the above, has scheduled the above-entitled matter for hearing on:

Date: Monday, September 22, 2008
Tuesday, September 23, 2008

Time: 9:00 a.m.

Place: Suite 801, The Chancery Building
1120 Lincoln Street
Denver, Colorado 80203

In accordance with the Americans with Disabilities Act, if any party requires special accommodations as a result of a disability for this hearing, please contact Margaret Humecki at (303) 894-2100 ext. 139, prior to the hearing and arrangements will be made.

Pursuant to said hearing in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter such orders as it deems appropriate to protect the health, safety and welfare of the public and to prevent the waste of oil and gas, either or both, in the operations of said field, and to carry out the purposes of the statute.

In accordance with Rule 509., any interested party desiring to protest the granting of the application or to intervene on the application should file with the Commission a written protest or intervention no later than August 25, 2008, briefly stating the basis of the protest or intervention. Such interested party shall, at the same time, serve a copy of the protest or intervention to the person filing the application. An original and 13 copies shall be filed with the Commission. **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of August 25, 2008.** Pursuant to Rule 503.f., if a party who has received notice under Rule 503.b. wishes to receive further pleadings in the above-referenced matter, that party must file a protest or intervention in accordance with these rules.

IN THE NAME OF THE STATE OF COLORADO

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By _____
Patricia C. Beaver, Secretary

Dated at Suite 801
1120 Lincoln St.
Denver, Colorado 80203
August 4, 2008