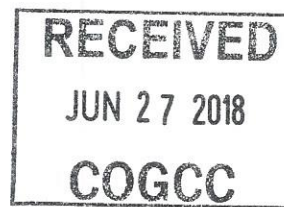


COGCC Secretary
1120 Lincoln Street, Suite 801
Denver, CO 80203



June 27, 2018

VIA E-MAIL

COGCC Secretary
1120 Lincoln Street, Suite 801
Denver, CO 80203

Re: NOAV # 401655540 Operator Response

Dear Secretary:

On behalf of our client, John Morgan as Receiver for Gadeco, LLC ("Gadeco" or "the Operator") this correspondence serves as the Operator's response to the Notice of Alleged Violation ("NOAV") document number 401655540 issued on May 30, 2018, in accordance with COGCC Rule 522.d.(2). This response is intended to memorialize the unique circumstances surrounding the ownership and operation of the particular well pad involved, as well as to document the corrective actions taken to achieve a compliant status since work first started at the pad in October 2017. We appreciate the COGCC's thoughtful consideration of all facts and circumstances regarding this matter, and look forward to continuing to work in a good-faith, cooperative manner with the COGCC to operate in strict compliance with COGCC rules.

Background: Unique Operation and Control of Grynberg Stateline Federal

The facility subject to the above referenced NOAV is the Grynberg Stateline Federal (No. 24-12-65-4 Pad) well pad, location ID 441995. This pad exists on a federal lease that was acquired by Jack Grynberg DBA Grynberg Petroleum Company.

In 2016, litigation over the control of Mr. Grynberg's ("Jack's") various oil and gas assets and companies resulted in (among other things) the appointment of John Morgan ("Receiver") as Receiver for two of Jack's companies, including Gadeco. By order of the District Court of Arapahoe County dated December 22, 2016 (case No. 2016 cv 30959) the Receiver's primary charge is to control, preserve and maintain Gadeco's assets (which include the Stateline Federal Lease) pending the outcome of the underlying litigation (currently anticipated to occur on or about July 2018).

Immediately following his appointment, the Receiver and his team (the "Receiver Team") conducted an inventory of Gadeco's assets. In doing so, the Receiver Team discovered that the Stateline Federal lease was in jeopardy of expiring. In response, on October 10, 2017, our client

submitted Form 42 to the COGCC to provide Notice of Construction of a New Location for Grynberg Stateline Federal 24-12-65-4-NH Pad.¹ Site work began on October 12, 2017.

As of the date of this letter, the well has not been completed. Although the vertical wellbore was drilled, the parties to the underlying litigation have differing opinions as to the strategic plan for the Stateline Federal well. Their disagreement has resulted in an operational delay which is pending resolution.

Inspection and Response History

The NOAV issued on May 30, 2018 alleges violations of Rules 1002.f.(2), and 1002.e.(1). The first inspection by the COGCC of the Grynberg Stateline Federal well pad occurred on October 24, 2017. COGCC alleged noncompliance with both of the rules cited in the NOAV.

Following the October 24, 2017 COGCC inspection, the Receiver Team, in accordance with the Stormwater Management Plan for Construction Activities (the "SWMP") prepared in October 2017 by the Receiver Team's stormwater consultant, LT Environmental, Inc. ("LTE"), directed their stormwater contractor, Warbonnet Construction, along with LTE, to perform activities necessary to achieve compliance. Specifically:

- LTE performed bi-weekly site inspections compliant with the Permit starting on October 26, 2017.
- Starting on October 30, 2017, and continuing for a week until November 6, 2017, Warbonnet Construction performed more than \$75,000 of site and stormwater maintenance activities.
- Starting November 1, 2017, a water truck was working at the very dry, windy, and sparsely vegetated site to control windblown dust.
- The next day, on November 2, 2017, new sediment traps and check dams were installed.
- On November 6, 2017, to further complement the installed sediment traps and check dams, hydromulch with a Natural Resource Conservation Service (NRCS) approved seed mixture was applied to all cut slopes, the fill slope, and cut ditches. LTE followed this with a bi-weekly stormwater and erosion site inspection on November 8, 2017.
- On November 13, 2017, the Receiver Team requested that their surveyor deploy to the well pad to generate a survey of the area of disturbance to aid in performing interim reclamation. The survey was completed on November 17, 2017. On

¹ Doc. No. 401425452.

November 22, 2017, LTE performed a bi-weekly stormwater and erosion site inspection.

- On November 21, 2017, the Receiver Team submitted a Field Inspection Report Resolution (FIRR)² to the COGCC, which was “Approved pending re-inspection.”

Since the beginning of site construction on October 12, 2017, the Receiver Team has relied on LTE to provide stormwater consulting support. This has included bi-weekly inspections since construction started, as well as post-precipitation inspections, as required by the Colorado Department of Public Health and Environment (CDPHE) COR030000 permit. Based on LTE’s inspections conducted between October 26, 2017, and November 22, 2017, several maintenance items were identified related to the performance and installation of BMPs. Therefore:

- On November 29-30, 2017, Warbonnet Construction, utilizing the work order provided by LTE to the Operator, conducted additional site stormwater maintenance work;
- On December 5, 2017, the Receiver Team reviewed bids from three reputable stormwater contractors to perform additional maintenance activities of BMPs at the well pad;
- The next day, December 6, 2017, LTE conducted a routine stormwater and erosion inspection during which they documented that the sediment trap on the north side of the location and the straw wattles were reinstalled per SWMP and BMP specifications.
- On December 21, 2017, following the LTE inspection on December 20 in which LTE identified the need to remove windblown sediment from the east cut ditch, the Receiver Team authorized the stormwater contractor, Warbonnet Construction, to complete the work.

The first COGCC inspection following the initial inspection on October 24, 2017, occurred on January 3, 2018.³ The COGCC inspector determined that the sediment traps and ditches were not installed properly. The COGCC staff contacted the Receiver Team on January 5, 2018, to recommend the Receiver Team hire a qualified stormwater management contractor. Despite having relied on Warbonnet Construction since pad construction began in October 2017, on January 11, 2018, the Receiver Team followed the COGCC’s advice, and hired Western States Reclamation to perform future site reclamation work utilizing LTE’s consult, and in accordance with the SWMP. In sum total, by February 12, 2018, Gadeco had spent a total of \$174,556.00 on stormwater management activities, and budgeted \$220,000.00 for future pad stabilization and stormwater management activities.

² Doc. No. 401473698.

³ Doc. No. 682403162.

In March 2018, extensive soil stabilization activities were conducted based on the inspection reports and work orders provided by LTE, and in accordance with the SWMP. The activities included: removal of wind laden sediment from all ditches and areas east of the pad and west of the access road, grading and tracking of the cut and fill slopes, grading of the pad surface, reinstallation of both sediment traps, reinstallation of all cut ditches and check dams, installation of an additional ditch on the south side of the site to convey stormwater to the outfall, application of biotic soil amendments to the area east of the pad and west of the access road and to the area east of the site and access road, drill seeding all areas east and south of the pad, application of straw mulch and corn stalk to the area east of the pad and west of the access road, application of crimped straw mulch to all seeded areas east and south of the pad, application of hydromulch with tackifier and seed to all cut and fill areas, the topsoil stockpile, ditches, and sediment traps. Additionally, the application of a soil bonding amendment (Gorilla Snot) was applied to the unconsolidated areas on the north and south areas of the pad that were not stabilized by road base.

During the work referenced above, on March 12, 2018, activities were temporarily stopped after the surface owner notified the Receiver Team that he would be releasing 540 head of cattle into the area near the well. In light of that, the Receiver Team, in order to prevent damage to the BMPs by livestock, ceased hydromulch activities so a barrier fence could be built around the well pad. Starting on March 12, 2018, Western States Reclamation worked on site to remove all sediment that had blown off location; they installed and rebuilt all sediment traps, dug out all ditches surrounding the location, and reworked all of the check dams to confirm conformance with SWMP specs. Following a multi-day weather delay, the fence was completed on March 18, followed by the completion of hydromulching and additional reclamation work.

LTE performed bi-weekly site inspections on March 14 and March 28, 2018. Additionally, on March 22, 2018, the Receiver Team and LTE met on location to observe the BMP's installation by the stormwater contractor, Western States Reclamation. At that time, it was observed that the wind at the site was blowing at approximately 30 miles per hour (or more), and there was no evidence of wind erosion occurring. However, there was a small section of land east of the pad that needed additional stabilization where seeding practices had been previously conducted. Western States Reclamation completed the stabilization of this area on March 28, 2018.

On March 23, 2018, the COGCC inspector inspected the site for the third time (Document No. 682403410). The COGCC inspector comments were updated by the COGCC on March 28, 2018 to reflect the stormwater and erosion compliance work completed at the site. On March 28, LTE conducted an onsite inspection while Western States Reclamation completed the stabilization work identified in the immediately preceding paragraph. Over the next several weeks, LTE conducted inspections, Western States Reclamation performed stormwater maintenance, as needed, and the Receiver Team responded to all COGCC requests in good faith.

On April 16, 2018, the COGCC conducted the fourth inspection of the site, which resulted in violations of Rules 1002.e.(1), and 1002.f.(2) being referred to enforcement. On April 19, 2018, the Receiver Team requested that LTE consult with Western States Reclamation to address the stormwater issues identified during the April 16, 2018 COGCC inspection. On April 23, 2018, LTE and the Receiver Team visited the site to develop a further scope of reclamation work. On

April 24, 2018, the COGCC approved the previously submitted Form 4 requesting an increase in the pad size.⁴ Furthermore, after recognizing the legal complexities with performing final reclamation on a well pad that a prevailing party in the Grynberg litigation may later choose to complete, the Receiver's Team submitted a Form 4 variance request to extend the interim reclamation period until November 30, 2018.⁵

On April 25, 2018, the Receiver Team requested that LTE collect an additional bid from the stormwater contractor to complete site reclamation and stormwater management activities. On May 8, 2018, the Receiver Team notified the landowner that Western States Reclamation would be on site starting May 11 to perform these additional reclamation and stormwater management activities. Additional site inspections and maintenance activities have been conducted since this site work in May, and continues to this day.

Summary

It is important to note that all of the actions taken by the Receiver Team to control erosion, stabilize the site and soils, and to select and install BMPs was done in accordance with the SWMP, and the support of LTE, a reputable, third party, environmental and engineering consulting company that performs work on thousands of oil and gas well sites in Colorado. Our client's selection of LTE was reasonable, as was their reliance on LTE's industry-recognized expertise. Regardless, as made clear in the meeting between the Receiver Team, the COGCC, and the Assistant Attorney General on June 19, 2018, the Receiver Team has been committed, and remains committed, to "operating" the Stateline Federal well pad in strictest compliance with all COGCC regulations.

As of this date, ongoing challenges with the site remain—the area is incredibly dry, and terribly windy. Trying to complete interim reclamation on a site under such conditions, through the very dry, windy, late winter and spring was challenging, at best. Nonetheless, the Receiver Team has repeatedly consulted with its stormwater consultant, LTE, and, based on those consults, has directed its stormwater contractors, first Warbonnet and, more recently, Western States Reclamation, to perform all work necessary to achieve and maintain compliance. The Receiver Team changed stormwater construction contractors after being advised to retain such assistance by the COGCC, with the intent of achieving and maintaining compliance. Further, every action the Receiver Team has taken has been reasonable, prudent, and in good faith. Our client remains optimistic that these actions will ultimately be successful, and they were encouraged to hear that, during a site visit on June 18, 2018, by Western States Reclamation, new vegetation was observed to have established on interim reclaimed lands. LTE continues to perform stormwater inspections in compliance with the CDPHE permit.

⁴ Jack Grynberg DBA Grynberg Petroleum Co. originally submitted the permit applications to the BLM and the COGCC. For some unknown reason, the pad sizes indicated were not consistent. After discovering that discrepancy, the Receiver team submitted the Form 4 to the COGCC to increase the pad size to be consistent with the BLM permit, and the pad as-built.

⁵ Doc. No. 401400578.

We appreciate the COGCC taking time to meet and confer with our client on June 19, 2018, as well as to consider all of the facts and circumstances provided herein. While the challenging site conditions continue to require an extreme level of management, the Receiver Team remains committed to exerting such efforts, as it has been since October 12, 2017, when construction began. We respectfully request that the COGCC consider rescinding the May 30, 2018, NOAV, in consideration of the substantial good faith efforts expended by our client.

Respectfully submitted,

HALL, ESTILL, HARDWICK, GABLE,
GOLDEN & NELSON, P.C.



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Attorneys for Gadeco, LLC

AMH:JPJ

cc: Ms. Kira Gillette, P.E., NOAV Specialist
Mr. Trent Green, Receiver Team
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