

State of Colorado
Oil and Gas Conservation Commission

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NOTICE OF ALLEGED VIOLATION - ISSUED

Per Rule 522, the Director has reasonable cause to believe that a violation of the Act, or of any Commission rule, order, or permit has occurred, the Director will require the operator to remedy the violation and may commence an enforcement action seeking penalties by issuing a Notice of Alleged Violation (NOAV). Per Rule 523, an operator who violates the Act, or a Commission rule, order, or permit may be subject to a penalty imposed by Commission order.

OPERATOR INFORMATION

OGCC Operator Number: 10490

Name of Operator: ENERGY QUEST II LLC

Address: 4526 RESEARCH FOREST DR #200

City: THE WOODLANDS State: TX Zip: 77381

Contact Name and Telephone:

Name: JEFF YOESSEL

Phone: (281) 875-6200 Fax: ()

Email: jeff.yoesel@energyquest.us

Well Location, or Facility Information (if applicable):

API Number: 05-125-06895-00

Facility or Location ID:

Name: MOELLENBERG

Number: 16-28

QtrQtr: SESE Sec: 28 Twp: 4S Range: 44W Meridian: 6

County: YUMA

ALLEGED VIOLATION

Rule: 309

Rule Description: Operator's Monthly Report of Operations

Initial Discovery Date:

Was this violation self-reported by the operator? No

Date of Violation:

Approximate Time of Violation:

Was this a discrete violation of obvious duration? No

Description of Alleged Violation:

Pursuant to Rule 309., ENERGY QUEST II LLC ("Operator") shall report every existing oil and gas well that is not plugged and abandoned on the Operator's Monthly Report of Operations ("Form 7"), within 45 days after the end of each month. Operator shall report such well every month from the month it is spud until it has been reported for one month as abandoned. Operator is required to report each formation that is completed in a well every month from the time that it is completed until one month after abandonment.

COGCC Staff had reason to believe Operator had committed one or more violations of COGCC Rules, and issued Warning Letter No. 401622272 to Operator on April 27, 2018, requiring Operator to resolve Operator's Form 7 inadequacies by July 31, 2018.

On September 27, 2018, COGCC Staff conducted an audit of Operator's records for the well(s) in the attached table ("Well"), and found persistent inadequacies in Operator's Form 7 reporting.

Operator failed to submit Form 7, or filed incomplete or inaccurate Form 7 information, for at least one Well for one or more months, violating Rule 309.

Abatement or Corrective Action Required to be Performed by Operator:

Corrective Action Due Date: 11/05/2018

Proper and timely abatement does not preclude the assessment of penalties and an Order Finding Violation.

In its Rule 522.d.(2) Answer, due within 28 days of the Operator's receipt of the NOAV, Operator shall provide the following to COGCC:

- Operator shall perform an audit of its Form 7 reporting for all its wells in Colorado, and submit a summary of the number of late, missed, incomplete, and/or inaccurate Form 7 reports for each month starting twelve months prior to September 27, 2018 , through the most current month that was due as of NOAV issuance.

By the Corrective Action Due Date, Operator shall submit all delinquent Form 7 reports, and shall submit revised Form 7 reports with the correct information for any months identified in Operator's audit as incomplete or inaccurate.

Rule: 326.b

Rule Description: Shut-in Wells

Initial Discovery Date: _____

Was this violation self-reported by the operator? No

Date of Violation: _____

Approximate Time of Violation: _____

Was this a discrete violation of obvious duration? No

Description of Alleged Violation:

Pursuant to Rule 326.b., ENERGY QUEST II LLC ("Operator") is required to perform a Mechanical Integrity Test ("MIT") on Shut-in ("SI") wells within two (2) years of the initial shut-in date and then at five (5) year intervals after an initial successful MIT. COGCC Rules do not permit placing a well back on production to fulfill, or in lieu of, the requirements to conduct an MIT.

COGCC Staff had reason to believe Operator had committed one or more violations of COGCC Rules, and issued Warning Letter No. 401622272 to Operator on April 27, 2018 , requiring Operator to conduct MIT or plug and abandon delinquent wells by July 31, 2018 .

On September 27, 2018 , COGCC Staff conducted an audit ("Audit") of Operator's records for the well(s) in the attached table ("Well"). The Audit included reviewing records such as Operator's Form 7 Monthly Reports of Operations and Field Inspection Reports filed by COGCC Staff after inspecting the Well to determine the dates the Well was SI, and the COGCC database to determine whether Operator reported MIT(s) for the Well. Through this Audit, COGCC Staff determined that at least one Well in the attached table was overdue for performance of an MIT on a SI well.

Operator failed to conduct timely MIT(s) for at least one SI Well, violating Rule 326.b.

Abatement or Corrective Action Required to be Performed by Operator:

Corrective Action Due Date: 11/05/2018

Proper and timely abatement does not preclude the assessment of penalties and an Order Finding Violation.

In its Rule 522.d.(2) Answer, due within 28 days of the Operator's receipt of the NOAV, Operator shall provide the following to COGCC:

- Operator shall perform an audit of its Mechanical Integrity Testing and MIT reporting for all its wells in Colorado. Operator shall submit a detailed report to COGCC which shows the following information for each of its wells which has been in SI or TA status for at least one month starting 24 months prior to September 27, 2018 . Operator shall email a copy of this report as an unlocked (editable) spreadsheet to the COGCC Enforcement email address indicated in the Answer section below.

(1.) API and Well name

(2.) SI or TA status by month, for each month the Well was SI or TA

(3.) Date of last MIT ("n/a" if no MIT performed for that Well)

(4.) Due date of next required MIT, according to Rules 319 and 326. If the Well is delinquent on required MIT as of NOAV issuance, indicate the due date of the most recent missed MIT.

(5.) Date Operator has scheduled to resolve the delinquency (such as by MIT or plug and abandon), if applicable. ("n/a" if the Well is not delinquent; "none" if Well is delinquent, but Operator has not yet scheduled operations to resolve the delinquency)

(6.) (If TA) Whether Operator is current on the Form 4 TA Sundry submittal required by Rule 319.b.(1) & (3).

- A proposed compliance plan to resolve all delinquencies identified in Operator's audit. The proposed compliance plan will be subject to modification by the COGCC Engineering unit.

PENALTY

Penalties for violations alleged in this NOAV will be calculated pursuant to Rule 523, with daily penalties accruing pursuant to Section 34-60-121(1), C.R.S.

ANSWER

Pursuant to Rule 522.d.(2), the operator must file an Answer to this NOAV within 28 days of its receipt, or a default judgement may be entered. Hard copy answers are filed with the Commission Secretary at the Commission's Denver office and should also be emailed to dnr_cogccenforcement@state.co.us.

NOAV ISSUED

NOAV Issue Date: 10/04/2018

COGCC Representative Signature: _____

COGCC Representative: Kira Gillette

Title: NOAV Specialist

Email: kira.gillette@state.co.us

Phone Num: (303) 894-2100

CORRECTIVE ACTION COMPLETED

Rule: 309

Rule Description: Operator's Monthly Report of Operations

Corrective Action Start Date: _____

Corrective Action Complete Date: _____

Has corrective action for this violation been performed as required? _____

Description of Actual Corrective Action Performed by Operator

Rule: 326.b

Rule Description: Shut-in Wells

Corrective Action Start Date: _____

Corrective Action Complete Date: _____

Has corrective action for this violation been performed as required? _____

Description of Actual Corrective Action Performed by Operator

FINAL RESOLUTION

Cause #: _____ Order #: _____ Docket #: _____

Enforcement Action: _____ Final Resolution Date: _____

Final Resolution Comments:

ATTACHMENT LIST

View Attachments in Imaged Documents on COGCC website (<http://ogccweblink.state.co.us/>) - Search by Document Number.

| Document Number | Description |
|-----------------|-----------------------------|
| 401783908 | NOAV COVER LETTER |
| 401783909 | NOAV CERTIFIED MAIL RECEIPT |

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|-----------|--------------------|
| 401783910 | NOAV DOCUMENTATION |
| 401784818 | NOAV ISSUED |

Total Attach: 4 Files