Department of Environmental Quality

To protect, conserve and enhance the quality of Wyoming's environment for the benefit of current and future generations.

Matthew H. Mead, Governor

John Corra, Director

April 14, 2011

Mr. Matthew A. Wurtzbacher
President
Caerus Oil and Gas
600 17th Street, Suite 1600N
Denver, CO 80202

RE: Notice of Violation

Dear Mr. Wurtzbacher:

Enclosed you will find a Notice of Violation (NOV) issued to Caerus Oil and Gas, LLC by the Department of Environmental Quality, Air Quality Division, for failing to comply with the permit requirement for routing vapors to the combustor for the Petrogulf State 36-1.5D PAD, Lovatt Draw State 36-12.2 PAD and Lovatt Draw State 36-5 PAD located in Sublette County, Wyoming. These violations of permits CT-7545, CT-7525 and MD-8384 were observed by Ms. Jennifer Frazier and Ms. Brandi O'Brien on March 29, 2011.

As the Department and this Division consider the failure to comply with air quality permit conditions to be a serious matter, I am considering recommending the Department refer this violation to the State Attorney General's office requesting a suit be filed in District Court to recover appropriate penalties. If you would like to discuss settlement of this Notice of Violation prior to referral to the Attorney General's office, please contact Ms. Karen Godman, Air Quality Compliance Program Principal, at 307-777-8601 no later than ten (10) days after receipt of this letter.

Should you have any questions or comments regarding this matter, please feel free to contact me or Ms. Karen Godman.

Sincerely,

Steven A. Dietrich

Steven A. Dietrich
Administrator
Air Quality Division

cc: Robert Gill
Jennifer Frazier
Tony Hoyt
Nancy Vehr
Keith Guille

BEFORE THE
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF WYOMING

IN THE MATTER OF THE NOTICE OF VIOLATION	)
ISSUED TO CAERUS OIL AND GAS LLC,	) **DOCKET NO. 4828-11**
MR. MATTHEW A. WURTZBACHER, PRESIDENT	)
600 17TH STREET, SUITE 1600N	)
DENVER, COLORADO 80202	)

NOTICE OF VIOLATION

NOTICE IS HEREBY GIVEN THAT:

1. The Department of Environmental Quality, Division of Air Quality, has found Caerus Oil and Gas, LLC to be in violation of permits CT-7545, CT-7525 and MD-8384 issued in accordance with W.S. 35-11-801 of the Wyoming Environmental Quality Act and Chapter 6, Section 2 of the Wyoming Air Quality Standards and Regulations at the Petrogulf State 36-1.5D PAD, Lovatt Draw State 36-12.2 PAD and Lovatt Draw State 36-5 PAD located in Sublette County, Wyoming.

2. W.S. 35-11-801(a) states, "In granting permits, the Director may impose such conditions as may be necessary to accomplish the purpose of this act which are not inconsistent with the existing rules, regulations and standards."

3. Chapter 6, Section 2 of the Wyoming Air Quality Standards and Regulations prescribes the applicability and procedures for issuing permits to sources under Wyoming's construction and modification permitting program.

4. Permit CT-7545 was issued to Rosetta Resources on November 2, 2010 for the Petrogulf State 36-1.5D PAD. This facility and applicable permits transferred to Caerus Oil and Gas LLC on January 5, 2011. Condition 16 requires that emission control equipment be maintained and operated during any time the wells are producing such that emissions are controlled at all times:

> "Emission control equipment, including the VOC and HAP emission control systems or devices, reboiler overheads condensers and all vent lines, connections, fittings, valves, relief valves, hatches or any other appurtenance employed to contain and collect vapors and transport them to the emission control system or device, shall be maintained and operated during any time the wells are producing such that the emissions are controlled at all times..."

5. On March 29, 2011, Ms. Jennifer Frazier and Ms. Brandi O'Brien, Air Quality Division Engineer/Inspectors, observed continuously venting vapors from the following locations and equipment:

> Petrogulf State 36-1.5D-Two leaking thief hatches, inoperable combustor and leaking liquids from tanks.
> Petrogulf 36-2.5D -Open valve on dehydrator and leaking liquids from tanks.
> Riverside 36-1-3- Venting vapors from thief hatch (found completely open), inoperable combustor (found lying on side with refractory lying next to the combustor) and leaking liquids from piping.
> Riverside 36-1-2-Reboiler still vent was venting and the combustor inoperable.

6. Permit CT-7525 was issued to Rosetta Resources on November 2, 2010 for the Lovatt Draw State 36-12.2 PAD. This facility and applicable permits transferred to Caerus Oil and Gas LLC on January 5, 2011. Condition 16 requires that emission control equipment be maintained and operated during any time the wells are producing such that emissions are controlled at all times:

> "Emission control equipment, including the VOC and HAP emission control systems or devices, reboiler overheads condensers and all vent lines, connections, fittings, valves, relief valves, hatches or any other appurtenance employed to contain and collect vapors and transport them to the emission control system or device, shall be maintained and operated during any time the wells are producing such that the emissions are controlled at all times..."

7. On March 29, 2011, Ms. Jennifer Frazier and Ms. Brandi O'Brien, Air Quality Division Engineer/Inspectors, observed continuously venting vapors from the following locations and equipment:

Lovatt Draw 36-13.2, Lovatt Draw 36-12.3& Lovatt Draw 36-12.4 –Two leaking thief hatches.
Lovatt Draw 36-12.2-Thief hatch venting and an inoperable combustor

8. Permit CT-8384 was issued to Rosetta Resources on November 15, 2010 for the Lovatt Draw State 36-5 PAD. This facility and applicable permits transferred to Caerus Oil and Gas LLC on January 5, 2011. Condition 16 requires that emission control equipment be maintained and operated during any time the wells are producing such that emissions are controlled at all times:

> "Emission control equipment, including the VOC and HAP emission control systems or devices, reboiler overheads condensers and all vent lines, connections, fittings, valves, relief valves, hatches or any other appurtenance employed to contain and collect vapors and transport them to the emission control system or device, shall be maintained and operated during any time the well is producing such that the emissions are controlled at all times…"

9. On March 29, 2011, Ms. Jennifer Frazier and Ms. Brandi O'Brien, Air Quality Division Engineer/Inspectors, observed continuously venting vapors from the following locations and equipment:

Lovatt Draw State 36-5-5:– All thief hatches were venting, the side of the dehydration unit was venting and the combustors for the tanks and dehydration units were not operational.

10. Said violations consist of venting vapors to the atmosphere and/or inoperable combustors from tanks and/or dehydration units emission control systems at the Petrogulf State 36-1.5D PAD, Lovatt Draw State36-12.2 Pad and the Lovatt Draw State 35-5 PAD. Venting vapors during well production are violations of permits CT-7545, CT-7525 and MD-8384.

11. Under W.S. 35-11-901(a), any person who violates any provision of Article 2 of [the Environmental Quality Act] ... or any rule, regulation, standard or permit adopted pursuant to those provisions, or who violates any determination or order of the council pursuant to Article 2 of [the Environmental Quality Act] ... is subject to a penalty not to exceed ten thousand dollars ($10,000.00) for each violation for each day during which the violation continues, a temporary or permanent injunction, or both a penalty and an injunction.

12. This notice is being sent to you pursuant to W.S. 35-11-701(c), which requires that, in any case of the failure to correct or remedy an alleged violation, the Director of the Department of Environmental Quality shall cause a written notice to be issued and served upon the person alleged to be responsible.

DATED this 15th day of APRIL, 2011.

Steven A. Dietrich
Administrator
Air Quality Division

John Corra
Director
Department of Environmental Quality

Please direct all inquiries to Steven A. Dietrich, Administrator, Division of Air Quality, Department of Environmental Quality, Herschler Building, 2nd Floor, 122 W. 25th Street, Cheyenne, Wyoming 82002. (Telephone: 307/777-7393.)