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

Todd Parfitt, Director

January 11, 2013

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 requirements for routing vapors to the combustor for the Petrogulf State 36-9, Petrogulf State 36-10, Petrogulf State 36-1.5D PAD and Petrogulf State 36-1 facilities located in Sublette County, Wyoming. These violations of permits CT-4513, CT-6846, CT-7545 and CT-4500 were observed by Ms. Brandi O'Brien on November 1, 2012.

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
Brandi O'Brien
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. 5106-13**
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-4513, CT-6846, CT-7545 and CT-4500. These permits were 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 for the Petrogulf State 36-9, Petrogulf State 36-10, Petrogulf State 36-1.5D PAD and Petrogulf State 36-1 facilities 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-4513 was issued to Pinedale Energy, LLC on January 23, 2007 for the Petrogulf State 36-9 facility. This facility and applicable permits transferred to Rosetta Resources Operating LP, which then transferred to Caerus Oil and Gas LLC on or about March 30, 2011. Condition 10 requires that emission control equipment be maintained and operated during any time the wells are producing such that emissions are controlled at all times as follows:

> "Emission control devices...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..."

5. On November 1, 2012, Ms. Brandi O'Brien, Air Quality Division Engineer/Inspector, observed that the combustor was not lit and one tank had an open thief hatch. Venting vapors from the tank and not routing vapors to the emission control device is a violation of condition 10 of permit CT-4513.

6. Permit CT-6846 was issued to Pinedale Energy, LLC on December 12, 2007 for the Petrogulf State 36-10 facility. This facility and applicable permits transferred to Rosetta Resources Operating LP, which then transferred to Caerus Oil and Gas LLC on or about March 30, 2011. Condition 10 requires that emission control equipment be maintained and operated during any time the wells are producing such that emissions are controlled at all times as follows:

> "Emission control devices...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..."

7. On November 1, 2012, Ms. Brandi O'Brien, Air Quality Division Engineer/Inspector, observed venting vapors from three thief hatches, an Enardo valve and pipes. Venting vapors from the tanks, valves and pipes and not routing vapors to emission control devices are violations of condition 10 of permit CT-6846.

8. Permit CT-7545 was issued to Rosetta Resources Operating LP on November 2, 2010 for the Petrogulf State 36-1.5D PAD facility. This facility and applicable permits transferred to Caerus Oil and Gas LLC on or about January 5, 2011. Conditions 12 and 13 of permit CT-7545 dictate control of emissions as follows:

> Condition 12:
> "Vapors from the condensate tanks, including flash tank and S/W/B vapors, shall be routed to the combustion devices..."
>
> Condition 13:
> "For the TEG dehydration units with condensers, reboiler still vent vapors shall be routed to the condensers. Condensed reboiler still vent liquids shall be collected and routed to a liquids storage tank. The non-condensable reboiler still vent vapors shall be routed to the combustion device..."

9. On November 1, 2012, Ms. Brandi O'Brien, Air Quality Division Engineer/Inspector, observed venting vapors from a thief hatch, the dehydration unit was venting into a pot and two unlit combustors at well 36-2D. At well 36-1-3 the inspector observed vapors venting from the Enardo valves and the dehydration unit closest to the combustors was routed to a pot. At well 36-1.5 the inspector observed leaking thief hatches from tanks 2, 3, 4, 5, 7 and 8. Tank 6 was venting from the base of a probe in the top of the tank. Venting vapors and not routing vapors to emission control devices are violations of conditions 12 and 13 of permit CT-7545.

10. Permit CT-4500 was issued on January 17, 2007 to Pinedale Energy, LLC for the Petrogulf State 36-1 facility. This facility and applicable permits transferred to Rosetta Resources Operating LP, which then transferred to Caerus Oil and Gas LLC on or about March 30, 2011. Conditions 6 and 10 of permit CT-4500 dictate control of emissions as follows:

> Condition 6:
> "For the one (1) 4.0 MMCFD TEG dehydration unit, reboiler still vent vapors shall be routed to the combustion device..."
>
> Condition 10:
> "Emission control devices...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..."

11. On November 1, 2012, Ms. Brandi O'Brien, Air Quality Division Engineer/Inspector, observed venting vapors from a thief hatch, the dehydration unit was routed to a pot and two unlit combustors. Venting vapors and not routing vapors to emission control devices are violations of conditions 6 and 10 of permit CT-4500.

12. Said violations consist of venting vapors to the atmosphere from tanks and/or dehydration units and not routing vapors to emission control systems at the Petrogulf State 36-9, Petrogulf State 36-10, Petrogulf State 36-1.5D PAD and Petrogulf State 36-1 facilities. Venting vapors and not routing vapors to control devices are violations of permits CT-4513, CT-6846, CT-7545 and CT-4500.

13. 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.

14. 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 11th day of JANUARY, 2013.

Steven A. Dietrich
Administrator
Air Quality Division

Todd Parfitt
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.)