

STATE OF COLORADO

John W. Hickenlooper, Governor
Christopher E. Urbina, MD, MPH
Executive Director and Chief Medical Officer

Dedicated to protecting and improving the health and environment of the people of Colorado

4300 Cherry Creek Dr. S. Laboratory Services Division
Denver, Colorado 80246-1530 8100 Lowry Blvd.
Phone (303) 692-2000 Denver, Colorado 80230-6928
Located in Glendale, Colorado (303) 692-3090

<http://www.cdphe.state.co.us>



Colorado Department
of Public Health
and Environment

June 25, 2013

John Teff, Business Manager
CM Production LLC
600 17th St., Suite 2800 South
Denver, CO 80202-5428

Certified Mail Number: 7005 1820 0000 3212 8526

RE: Compliance Order on Consent, Number: IC-130624-1

Dear Mr. Teff:

On June 24, 2013, the Colorado Department of Public Health and Environment's Water Quality Control Division (the "Division") signed a Compliance Order on Consent (the "Consent Order") between the Division and CM Production LLC. In accordance with paragraph 38 of the Consent Order, the Consent Order constitutes a final agency action upon the date signed by the last party. The Division is hereby providing CM Production LLC notice that it considers the Consent Order to be fully effective, enforceable and final. A copy of the Consent Order, with original signatures, is enclosed for your records.

If you have any questions, please don't hesitate to contact me at (303) 692-3634 or by electronic mail at kelly.morgan@state.co.us.

Sincerely,

Kelly Morgan
Clean Water Compliance & Enforcement Unit
WATER QUALITY CONTROL DIVISION

Enclosure(s)

cc: Enforcement File

ec: Patrick Pfaltzgraff, Colorado Department of Law
Natasha Davis, EPA Region VIII
Kent Crowder, Jackson County Public Health Agency
Doug Camrud, Engineering Section, CDPHE
Kelly Jacques, Field Services Section, CDPHE
Erin Scott, Permits Section, CDPHE
Tania Watson, Compliance and Enforcement Unit, CDPHE
Kent Kuster, CDPHE
Matt Lepore, COGCC



COLORADO DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT
DIVISION OF ADMINISTRATION
WATER QUALITY CONTROL DIVISION

COMPLIANCE ORDER ON CONSENT

NUMBER: IC-130624-1

IN THE MATTER OF: CM PRODUCTION, LLC
LONE PINE OIL FIELD
CDPS PERMIT NO. CO-0048712
JACKSON COUNTY, COLORADO

The Colorado Department of Public Health and Environment (“Department”), through the Water Quality Control Division (“Division”), issues this Compliance Order on Consent (“Consent Order”), pursuant to the Division’s authority under §§25-8-602 and 605, C.R.S. of the Colorado Water Quality Control Act (“the Act”) §§25-8-101 to 803, C.R.S., and its implementing regulations, with the express consent of CM Production, LLC (“CM Production”). The Division and CM Production may be referred to collectively as “the Parties.”

STATEMENT OF PURPOSE

1. The mutual objectives of the Parties in entering into this Consent Order are:
 - a. To establish compliance requirements and criteria for the continued operation of CM Production’s Lone Pine Oil Field and associated produced water treatment works, located approximately ten (10) miles west of the Town of Walden, Jackson County, Colorado (the “Facility”); and
 - b. To resolve the compliance issue(s) that will occur upon transfer of the Colorado Discharge Permit System (“CDPS”) permit, Permit Number: CO-0048712 from Lone Pine Gas, Inc. to CM Production; and
 - c. To establish an enforceable compliance schedule for CM Production to eliminate the surface water discharge from the Facility.

DIVISION’S FINDINGS OF FACT AND DETERMINATION OF VIOLATIONS

2. Based upon the Division’s investigation into and review of the compliance issues identified herein, and in accordance with §§25-8-602 and 605, C.R.S., the Division has made the following determinations regarding CM Production, the Facility and CM Production’s compliance with the Act and discharge permit.

3. CM Production is a Nevada limited liability company in good standing and registered to conduct business in the state of Colorado.
4. CM Production is a “person” as defined by §25-8-103(13), C.R.S. and its implementing permit regulation, 5 CCR 1002-61, §61.2(73).
5. CM Production took ownership and operational control of the Facility on June 24, 2013 and has continuously operated since that date.
6. The Facility consists of produced water treatment works associated with the oil and gas production at the Lone Pine Oil Field. The Facility consists of a series of oil and gas production wells that are pumped to a central processing facility. After gas, oil, and water are withdrawn from the field wells, initial oil/water separation occurs in two horizontal free water knockout vessels designed to remove a majority of the produced water from the production stream. The water from the knockout tanks is directed to produced water tanks where any remaining oil is removed prior to being directed to the pond treatment system. The pond treatment system consists of five ponds that operate in series to provide treatment of the produced water. Aeration is provided in the second pond on a continual basis and an aerator is installed in the third pond and used periodically.
7. The Facility is the subject of Colorado Discharge Permit System, Permit Number CO-0048712 (the “Permit”). The Permit became effective January 1, 2011. The Permit was subsequently amended with: Amendment #1, effective November 1, 2011; Amendment #2 , effective May 1, 2012; Amendment #3, effective July 1, 2012; and Amendment #4, effective September 1, 2012 (collectively, the “Permit”). The Permit is scheduled to expire on December 31, 2015.
8. Under current operating capacity and using current treatment systems, immediately upon Permit transfer CM Production will likely be unable to comply with certain effluent limitations specified in Part I.A.2. of the Permit.
9. The Parties agree that the accepted long-term compliance solution is the elimination of the surface water discharge from the Facility. The Division recognizes that underground injection is the preferred option for disposal of the produced water from the Facility, and CM Production will need additional time to investigate the integrity of the Lone Pine Oil Field and implement the significant Facility modifications necessary to dispose of the produced water via underground injection and cease the surface water discharge.

ORDER AND AGREEMENT

10. Based on the foregoing factual and legal determinations, pursuant to its authority under §§25-8-602 and 605, C.R.S., the Division orders CM Production to comply with all provisions of this Consent Order, including all requirements set forth below.

11. CM Production agrees to the terms and conditions of this Consent Order. CM Production agrees that this Consent Order constitutes an order issued pursuant to §§25-8-602 and 605, C.R.S., and is an enforceable requirement of the Act. CM Production also agrees not to challenge directly or collaterally, in any judicial or administrative proceeding brought by the Division or by CM Production against the Division:
 - a. The issuance of this Consent Order;
 - b. The factual and legal determinations made by the Division herein; and
 - c. The Division's authority to bring, or the court's jurisdiction to hear, any action to enforce the terms of this Consent Order under the Act.
12. Notwithstanding the above, CM Production does not admit to any of the factual or legal determinations made by the Division herein, and any action undertaken by CM Production pursuant to this Consent Order shall not constitute evidence of fault and liability by CM Production with respect to the conditions of the Facility.

Compliance Requirements

13. Effective immediately upon CM Production taking ownership and operational control of the Facility, CM Production shall assume all rights and responsibilities of CDPS Permit Number: CO-0048712. CM Production shall submit the proper documentation and information to the Division to affect the transfer of the Permit as soon as practicable after CM Production takes ownership of the Facility. CM Production shall properly operate and maintain the pond treatment system. CM Production shall not take any action which may result in increased effluent emissions from the Facility and shall utilize best industry standards to ensure all possible reduction of effluent emissions from the system.
14. Effective immediately upon CM Production taking ownership and operational control of the Facility, and lasting until October 31, 2013, CM Production shall comply with the effluent limitations specified in Part I.A.2. of the Permit that were in effect prior to April 1, 2013 (the "pre- April 2013 effluent limitations"). In no case shall CM Productions exceed the pre-April 2013 effluent limitations. CM Production understands that a discharge of pollutants that exceeds the pre-April 2013 effluent limitations constitutes a violation of this Consent Order. CM Production also understands that after October 31, 2013, a discharge of pollutants that exceeds the effluent limitations that became effective April 1, 2013 constitutes a violation of the Permit.
15. In accordance with 5 CCR 1003-2, §100.18.1(a), effective immediately upon CM Production taking ownership and operational control of the Facility, CM Production shall utilize the services of an operator-in-responsible-charge certified as a Class "C" or higher as specified in the *Water and Wastewater Facility Operators Certification Requirements*, 5 CCR 1003-2.
16. Within twenty-one (21) calendar days from the date CM Production takes ownership and operational control of the Facility, CM Production shall submit to the Division the information specified in 5 CCR 1003-2, §100.18.4(a), documenting that the Facility is being operated under the supervision of an operator with the proper certification(s).

17. Within thirty (30) calendar days from the date CM Production takes ownership and operational control of the Facility, CM Production shall initiate a mechanical integrity testing program to assess the mechanical integrity of the each wellbore in the Lone Pine Oil Field that would be adequate for produced water injection, with the purpose of investigating underground injection for produced water disposal. Within forty-four (44) calendar days from the date CM Production takes ownership and operational control of the Facility, CM Production shall submit documentation to the Division that CM Production has commenced the mechanical integrity testing program. CM Production shall conduct the program consistent with the goal of completing the mechanical integrity testing program within sixty (60) calendar days from the date CM Production takes ownership and operational control of the Facility.
18. If at any time, the results of the mechanical integrity testing program outlined in paragraph 17 above reveal that produced water disposal by means of underground injection is not a viable option for the Lone Pine Oil Field, then CM Production shall immediately shut in the field and cease all surface water discharge from the Facility.
19. By no later than November 1, 2013, CM Production shall cease all surface water discharge from the Facility.
20. CM Production shall submit monthly progress reports to the Division outlining efforts taken to achieve compliance with this Consent Order and a description of the actions that CM Production considered and implemented to limit the extent/duration of the effluent discharge. The first report shall be submitted to the Division on or before July 30, 2013, and subsequent reports shall be submitted to the Division on or before the 30th calendar day of every month thereafter. At a minimum, each report shall outline activities undertaken in the current reporting period and planned activities for the next month to remain in compliance with this Consent Order.
21. All documents submitted under this Consent Order shall use the same titles as stated in this Consent Order, and shall reference both the number of this Consent Order and the number of the paragraph pursuant to which the document is required.

SCOPE AND EFFECT OF CONSENT ORDER

22. This Consent Order does not supersede or replace any terms, conditions or limitations imposed by the Permit, but creates an enforceable compliance schedule for CM Production to investigate the integrity of the Lone Pine Oil Field and implement Facility modifications necessary to dispose of the produced water via underground injection and cease the surface water discharge.
23. This Consent Order constitutes a final agency order or action upon execution by CM Production and the Division. Any violation of the provisions of this Consent Order by CM Production, including any false certifications, shall be a violation of a final order or action of the Division for the purpose of §25-8-608, C.R.S., and may result in the assessment of civil penalties of up to ten thousand dollars per day for each day during which such violation occurs.

24. The Parties' obligations under this Consent Order are limited to the matters expressly stated herein or in approved submissions required hereunder.
25. The Division's approval of any submission, standard, or action under this Consent Order shall not constitute a defense to, or an excuse for, any prior violation of the Act, or any subsequent violation of any requirement of this Consent Order or the Act.
26. This Consent Order does not relieve CM Production from complying with all applicable Federal, State, and/or local laws in fulfillment of its obligations hereunder and shall obtain all necessary approvals and/or permits to conduct the activities required by this Consent Order. The Division makes no representation with respect to approvals and/or permits required by Federal, State, or local laws other than those specifically referred to herein.

LIMITATIONS, RELEASES AND RESERVATION OF RIGHTS AND LIABILITY

27. The Division reserves the right to bring any action to enforce this Consent Order, including actions for penalties or the collection thereof, and/or injunctive relief.
28. This Consent Order does not grant any release of liability for any violations not specifically cited herein; except as noted in Paragraph 13 and 14 above.
29. Nothing in this Consent Order shall preclude the Division from imposing additional requirements in the event that new information is discovered that indicates such requirements are necessary to protect human health or the environment.
30. Upon the effective date of this Consent Order, CM Production releases and covenants not to sue the State of Colorado or its employees, agents or representatives as to all common law or statutory claims or counterclaims arising from, or relating to, the violations of the Act specifically addressed herein.
31. CM Production shall not seek to hold the State of Colorado or its employees, agents or representatives liable for any injuries or damages to persons or property resulting from acts or omissions of CM Production, or those acting for or on behalf of CM Production, including its officers, employees, agents, successors, representatives, contractors, consultants or attorneys in carrying out activities pursuant to this Consent Order. CM Production shall not hold out the State of Colorado or its employees, agents or representatives as a party to any contract entered into by CM Production in carrying out activities pursuant to this Consent Order. Nothing in this Consent Order shall constitute an express or implied waiver of immunity otherwise applicable to the State of Colorado, its employees, agents or representatives.

OFFSITE ACCESS

32. To the extent any plan submitted by CM Production requires access to property not owned or controlled by CM Production, CM Production shall use its best efforts to obtain site access from the present owners of such property to conduct required activities, and to allow Division access to such

property to oversee such activities. In the event that site access is not obtained when necessary, CM Production shall notify the Division in writing regarding its best efforts and its failure to obtain such access.

SITE ACCESS AND SAMPLING

33. The Division shall be authorized to observe any and all work being performed under this Consent Order. The Division shall be authorized access to the Facility property at any time work is being conducted pursuant to this Consent Order, and during reasonable business hours during any period work is not being conducted, for the purposes of determining CM Production's compliance with the Act, the Regulations, and this Consent Order. Pursuant to §25-8-306 C.R.S., the Division shall be authorized to inspect work sites, operating and field logs, contracts, purchasing/shipping records, and other relevant records and documents relating to this Consent Order or any requirement under this Consent Order and to interview CM Production personnel and contractors performing work required by this Consent Order. Nothing in this paragraph limits or impairs the Division's statutory authorities to enter and inspect the Facility.
34. The Division may conduct any tests necessary to ensure compliance with this Consent Order and to verify the data submitted by CM Production.

NOTICES

35. Unless otherwise specified, any report, notice or other communication required under the Consent Order shall be sent to:

For the Division:

Colorado Department of Public Health and Environment
Water Quality Control Division / WQCD-CWE-B2
Attention: Kelly Morgan
4300 Cherry Creek Drive South
Denver, Colorado 80246-1530
Telephone: 303.692.3634
E-mail: kelly.morgan@state.co.us

For CM Production, LLC:

John Teff, Business Manager
600 17th St. Suite 2800 South
Denver, CO 80202-5428
Telephone: 303.534-0199
E-mail: JohnT@cmproductionllc.com

MODIFICATIONS

36. This Consent Order may be modified only upon mutual written agreement of the Parties.

COMPLETION OF REQUIRED ACTIONS

37. CM Production shall submit a Notice of Completion to the Division upon satisfactory completion of all requirements of this Consent Order. The Division shall either accept or reject CM Production's Notice of Completion in writing within thirty (30) calendar days of receipt. If the Division rejects CM Production's Notice of Completion, it shall include in its notice a statement identifying the requirements that the Division considers incomplete or not satisfactorily performed and a schedule for completion. CM Production shall, within fifteen (15) calendar days of receipt of the Division's rejection, either:
- a. Submit a notice of acceptance of the determination; or
 - b. Submit a notice of dispute.

If CM Production fails to submit either of the above notices within the specified time, it will be deemed to have accepted the Division's determination.

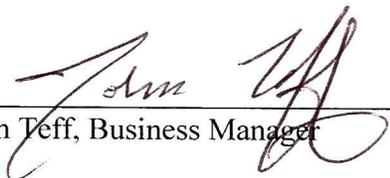
NOTICE OF EFFECTIVE DATE

38. This Consent Order shall be fully effective, enforceable and constitute a final agency action upon the date signed by the authorized representative of the last party.

BINDING EFFECT AND AUTHORIZATION TO SIGN

39. This Consent Order is binding upon CM Production and its officers, directors, employees, successors in interest, and assigns. The undersigned warrant that they are authorized to legally bind their respective principals to this Consent Order. In the event that a party does not sign this Consent Order within thirty (30) calendar days of the other party's signature, this Consent Order becomes null and void. This Consent Order may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same Consent Order.

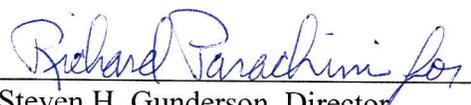
FOR CM PRODUCTION, LLC:



John Teff, Business Manager

Date: 6/24/13

FOR THE COLORADO DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT:



Steven H. Gunderson, Director
WATER QUALITY CONTROL DIVISION

Date: June 24, 2013