GUIDE FOR SUBMISSIONS PURSUANT TO

THE TEXAS ENVIRONMENTAL, HEALTH, AND SAFETY AUDIT PRIVILEGE ACT

TEX. CIV. STAT. art. 4447cc

RAILROAD COMMISSION OF TEXAS

Office of General Counsel

Last Updated: August 2016

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INTRODUCTION

Under the Texas Environmental, Health, and Safety Audit Privilege Act ("Audit Act"), TEX. CIV. STAT. art. 4447cc, persons that conduct voluntary environmental or health and safety audits of regulated facilities and operations can claim immunity from administrative penalties for violations discovered, disclosed, and corrected within a reasonable amount of time. The Audit Act also provides a limited privilege for audit reports developed in accordance with the Audit Act. An audit that qualifies for protection under the Audit Act is defined as "a systematic voluntary evaluation, review, or assessment of compliance with environmental or health and safety laws or with any permit issued under an environmental health and safety law conducted by an owner or operator." Audit Act §3(a)(4). An audit conducted for the purposes of a merger or acquisition of a regulated facility or operation qualifies for protection under the Audit Act, but special rules apply to those types of audits (please see the special rules section on page 11 for more information).

This guide serves as a resource for those who wish to provide notice of an audit to the Railroad Commission of Texas (the "Commission") and voluntarily disclose violations of environmental or health and safety ("EHS") laws, rules and regulations under the Commission's jurisdiction pursuant to the Audit Act. The Commission's goal is to increase compliance for all persons subject to the jurisdiction of the Commission by providing a clear framework for the audit process.

This guide is not a legal regulation and focuses exclusively on the Audit Act as it relates to persons and matters within the Commission's jurisdiction. All references to terms that are specifically defined in the Audit Act have the same meaning when used herein. To the extent this guide conflicts with provisions in the Audit Act, the provisions in the Audit Act shall control.

SUBMISSIONS UNDER THE AUDIT ACT

There are three types of documents a person may submit to the Commission under the Audit Act: (1) a notice of audit letter; (2) a disclosure of violations letter; and (3) a request for an extension. In most situations a person must give notice to the Commission before commencing an audit, and to qualify for immunity a person must disclose to the Commission all violations for which immunity is sought and correct the violations within a reasonable amount of time. Audit Act §10(a)-(b).

All submissions to the Commission pursuant to the Audit Act should be addressed to the General Counsel, Office of General Counsel, Railroad Commission of Texas, 1701 N. Congress Avenue, Austin, Texas 78711-2967. A disclosure of violations letter (discussed below on page 3) must be sent to the General Counsel by certified mail, but all other hard copy submissions may be sent by regular mail or courier. The Commission requests that a courtesy copy of any and all submissions be emailed to the Commission's General Counsel at audit.notice@rrc.texas.gov.

Notice of Audit Letter

A person must submit a notice of audit letter (the "notice letter") to the Commission before commencing an audit. The notice letter must be submitted in accordance with the Audit Act to successfully obtain the immunity from administrative penalties for any violations of EHS laws, rules and regulations disclosed as a result of the audit. Audit Act §10(g). Please see **Appendix A** for a model notice letter.

A notice letter should include the following information:

- The name of the person conducting the audit as it appears on the P-5 Organization Report (Commission Form P-5), including the P-5 operator number;

- The specific date and time that the audit will commence; and
- A description of the properties, leases or facilities to be audited:
    - For oil and gas leases, this includes the county name(s), lease identification number(s), the well identifier(s), and the permit number(s).
    - For other facilities permitted or regulated by the Commission, this includes relevant permit number(s) and the physical location(s) associated with that facility or operation. The physical location may be identified by reference to maps, permits, or other documents on file with the Commission.

If it is impractical to include the entire scope of the audit in the body of the notice letter, include an addendum listing the required information in a table format for each lease or facility audited. Please see **Appendix B** for a model addendum to a notice letter.

Disclosure of Violations Letter

A person must submit a disclosure of violations letter (the "disclosure letter") to gain immunity under the Audit Act. Audit Act §10(a). The disclosure letter is a voluntary disclosure of violations of EHS laws, rules and regulations identified as a result of the audit. The Audit Act requires that the disclosure letter be sent by certified mail to gain immunity from administrative penalties. Audit Act §10(b)(2). The General Counsel will deliver a copy of the disclosure letter to the Enforcement Section and, when applicable, Division staff and/or District Office staff. An audit must be completed within "a reasonable time not to exceed six months" unless an extension is approved by the Commission "based on reasonable grounds." Audit Act §4(e). Please see **Appendix C** for a model disclosure letter.

The disclosure letter will identify a single violation or multiple violations and should include the following:

- The name of the person conducting the audit as it appears on the P-5 Organization Report (Commission Form P-5), including the P-5 operator number;
- The certified mail reference number of the disclosure letter;
- A reference to the date of the relevant notice letter and its certified mail reference number (if applicable);
- The specific date and time that the audit began and was completed;
- An affirmative assertion that a violation has been discovered during the audit period;
- A description of the violation, including a reference to the relevant statutory, regulatory, and permit provisions;
- The duration of the violation;
- The status and scheduled completion date of corrective action; and
- A description of the properties, leases or facilities where violations were discovered.
    - For oil and gas leases, this includes the county name(s), lease identification number(s), the well identifiers(s), and the permit number(s).
    - For other facilities permitted or regulated by the Commission, this includes the relevant permit number(s) and the physical location(s) associated with that facility or operation. The physical location may be identified by reference to maps, permits, or other documents on file with the Commission.

If the number of disclosed violations is too large to be included in the body of the disclosure letter, include an addendum listing the required information in a

table format for each lease or facility audited. Please see **Appendix D** for a model addendum to a disclosure letter.

Request for an Extension

The Audit Act explicitly limits the audit period to "a reasonable time not to exceed six months," unless an extension is approved "based on reasonable grounds." Audit Act §4(e). A person that has submitted a notice letter may submit a letter requesting an extension of the time period allowed for the completion of the audit.

A request for an extension must be submitted to the General Counsel before the end of the audit along with sufficient information to determine whether reasonable grounds exist to grant an extension. Audit Act §4(e). The privilege and immunity from administrative penalties apply only to audit reports compiled and disclosed violations that were discovered during an audit period. Continuation of an audit after the initial six-month period without prior written approval from the Commission may limit the availability of privilege and immunity.

IMMUNITY UNDER THE AUDIT ACT

Section 10 of the Audit Act provides immunity from administrative or civil penalties relating to certain disclosed violations. Section 3(a)(6) of the Audit Act describes a penalty as "an administrative, civil, or criminal sanction imposed by the state to punish a person for a violation of a statute or rule. The term does not include a technical or remedial provision ordered by a regulatory authority." This limited immunity does not affect the Commission's authority to seek injunctive relief, make technical recommendations, or otherwise enforce compliance. Audit Act §3(a).

To receive immunity pursuant to the Audit Act, the disclosure must be voluntary, preceded by a proper notice letter, and set forth in a disclosure letter in

accordance with this guide. Audit Act §§10(a), (g). If a violation is properly disclosed in a disclosure letter but is submitted without a prior corresponding notice letter, the audit report will remain privileged under the Audit Act but the person disclosing the violation will not receive immunity from administrative penalties. Audit Act §10(g).

A disclosure will be considered voluntary only if the following conditions apply:

- The disclosure is identified in a timely disclosure letter;
- The disclosure is made promptly after knowledge of the disclosed information is obtained;
- The disclosure is made in writing to the Commission as prescribed herein;
- The disclosure is made prior to the Commission's commencement of an investigation or independent detection of the violation;
- The violation is noted and disclosed as the result of an audit;
- The person who makes the disclosure initiates an appropriate effort to achieve compliance, pursues that effort with due diligence, and corrects the noncompliance within a reasonable time;
- The person who makes the disclosure cooperates with the Commission in the investigation of the issues identified in the disclosure;
- The violation did not result in injury or imminent and substantial risk of injury to one or more persons at the site or off-site substantial actual harm or imminent and substantial risk of harm to persons, property or the environment; and
- The disclosure is not required by an enforcement order or decree.

Immunity is limited for certain violations. Immunity does not apply, and an administrative penalty may be imposed, if the violation was: (1) intentionally or

knowingly committed; (2) recklessly committed; or (3) resulted in a "substantial economic benefit which gives the violator a clear advantage over its business competitors." Audit Act §10(d). Furthermore, immunity does not apply if a court or administrative law judge finds that the person claiming immunity has repeatedly or continuously committed significant violations and has not attempted to bring the regulated facility or operation into compliance, resulting in a pattern of disregard of EHS laws, rules or regulations. Audit Act §10(h). A three-year period will be reviewed to determine whether such a pattern exists. Audit Act §10(h).

The Commission's enforcement authority is not restricted or impaired by the Audit Act other than for the exclusion of penalties. If an administrative enforcement action seeking penalties is brought against a person who submitted a disclosure letter to the Commission for the violations in question, the person claiming immunity has the burden of establishing that the disclosure was voluntary. Audit Act §10(f). After the person claiming the immunity establishes a prima facie case of voluntary disclosure, the Commission has the burden of rebutting the presumption by a preponderance of the evidence. Audit Act §10(f).

PRIVILEGE UNDER THE AUDIT ACT

Audit reports developed in accordance with the Audit Act are granted a limited evidentiary privilege. Audit Act §5. An audit report is defined as "a report that includes each document and communication…produced from an environmental or health and safety audit." Audit Act §4(a). The privilege applies to the admissibility and discovery of audit reports in civil and administrative proceedings. Audit Act §5(a)-(b).

Information contained in a disclosure letter is basic information required to be voluntarily disclosed for a person to claim immunity pursuant to section 10 of the Audit Act. Neither the notice letter nor the disclosure letter is included in the

Audit Act's definition of an audit report, and only an audit report is privileged under the Audit Act. Audit Act §§4, 5. As a result, the notice letter and the disclosure letter are not privileged audit reports under the Audit Act. Audit Act §4.

If review of an audit report is necessary to determine compliance status, the audit report and information derived from its use will remain privileged and inadmissible in administrative or civil proceedings. Where appropriate, such reviews may occur under the terms of a confidentiality agreement between the Commission and the person asserting the privilege, as discussed below.

Scope and Extent of the Privilege

The following are situations in which an audit report can be disclosed without waiver of the privilege under the Audit Act: (1) disclosure to government officials pursuant to a confidentiality agreement; (2) disclosure to governmental officials under a claim of confidentiality; (3) review of privileged documents by a governmental authority; (4) disclosure to nongovernmental parties to address matters raised by the audit; and (5) disclosure to nongovernmental parties pursuant to a confidentiality agreement. The Audit Act privilege does not apply if it is expressly waived by the person who prepared the audit report or caused the audit report to be prepared. Audit Act §6(a). Additionally, the privilege does not apply at all to certain materials, as discussed later in this guide.

Disclosure of an audit report to applicable Commission staff does not waive the privilege if the disclosure is made under the terms of a confidentiality agreement between the person for whom the report was prepared or the owner or operator of the regulated facility or operation and the Commission. Audit Act §6(b)(2)(D). A party that violates the terms of a confidentiality agreement will be liable for damages caused as a result of the disclosure. Audit Act §6(c).

Disclosure of an audit report to applicable Commission staff under a claim of confidentiality does not waive the privilege. Audit Act §6(b)(3). An audit report will be considered confidential and will not be subject to disclosure under the Public Information Act, Chap. 552, Tex. Gov't Code (the "Public Information Act"). Audit Act §6(d). All privileged information contained in an audit report should be clearly labeled: "COMPLIANCE REPORT: PRIVILEGED DOCUMENT".[1] Audit Act §6(d). The Commission will accept an audit report marked as such and will consider it to be privileged. A Commission employee who discloses privileged information is subject to any penalty provided in the Public Information Act. It is an affirmative defense to the clerical release of privileged documents pursuant to the Public Information Act that the report was not clearly labeled "COMPLIANCE REPORT: PRIVILEGED DOCUMENT". Audit Act §6(d).

Disclosure of information required under state or federal law to be made available to the Commission does not waive the privilege. The Commission may review information that is "required to be made available" under state or federal law and the review will not waive or eliminate the privilege where applicable.[2] Audit Act §9(b). If the Commission requests the review of information required to be made available under state or federal law and the request could result in public disclosure, Commission staff must affirmatively notify the person claiming the privilege before it obtains the material for review. Audit Act §9(c). Use of any information obtained by the Commission pursuant to section 9(b) of the Audit Act is strictly limited. Evidence that arises or is derived from review, disclosure, or use

[1] Please see Audit Act §4(b) for the general components of information that may be contained in a completed audit report.

[2] Please note that this waiver exception is in contrast to section 8(a) of the Audit Act, which states that the privilege does not apply at all to information required "to be collected, developed, maintained, or reported" under a federal or state EHS law, rule or regulation, as opposed to information required to be made available.

of such information can be suppressed in a civil or administrative proceeding. Audit Act §9(d).

Disclosure to certain nongovernmental parties for the purpose of addressing or correcting an issue identified through an audit does not waive the privilege. Audit Act §6(b)(1). The Audit Act authorizes the disclosure of privileged information to the following nongovernmental parties for such a purpose:

- A person employed by the owner or operator of the regulated facility or operation, including temporary and contract employees;
- A legal representative of the owner or operator of the regulated facility or operation;
- An officer or director of the regulated facility or operation, or a partner of the owner or operator of the regulated facility or operation;
- An independent contractor of the owner or operator of the regulated facility or operation; or
- A person considering the acquisition of the regulated facility or operation that is the subject of the audit or that person's employee, temporary employee, contract employee, legal representative, officer, director, partner, or independent contractor.

Disclosure to certain nongovernmental parties pursuant to the terms of a confidentiality agreement does not waive the privilege. Audit Act §6(b)(2). If the disclosure is made under the terms of a confidentiality agreement, the Audit Act authorizes disclosure of privileged information to the following nongovernmental parties:

- A partner or potential partner of the owner or operator of the regulated facility or operation;
- A transferee or potential transferee of the regulated facility or operation;
- A lender or potential lender for the regulated facility or operation; and

- A person or entity engaged in the business of insuring, underwriting, or indemnifying the regulated facility or operation.

The Audit Act privilege does not extend at all to a document, communication, datum, report or other information required by a regulatory agency to be collected, developed, maintained, or reported under a federal or state EHS law, rule or regulation. Audit Act §8(a)(1). Likewise, the privilege does not apply to information obtained by observation, sampling, or monitoring by the Commission or information obtained from a source not involved in the preparation of the audit report. Audit Act §8(a)(2)-(3).

SPECIAL RULES REGARDING THE ACQUISITION OF A REGULATED FACILITY OR OPERATION

A notice letter is not required for an audit initiated before the acquisition closing date[3] when a person is acquiring a regulated facility or operation. Audit Act §10(g). However, the disclosure of any violations found before the acquisition closing date must be set forth in a disclosure letter submitted to the Commission not more than 45 days after the acquisition closing date. Audit Act §10(b)(1)(B).

A person may continue an audit that began before the acquisition closing date only if the person notifies the Commission not more than 45 days after the acquisition closing date that the person intends to continue the audit. Audit Act §§4(d-1), 10(g-1). An audit that is continued after the acquisition closing date must be completed within a reasonable time not to exceed six months after the acquisition closing date. Audit Act §4(e)(2). At that point, the audit may only continue if the person requests an extension from the Commission. Audit Act §4(e).

[3] An acquisition closing date is defined in the Audit Act as "the date on which ownership of, or a direct and indirect majority interest in the ownership of, a regulated facility or operation is acquired in an asset purchase, equity purchase, merger, or similar transaction." Audit Act §3(a)(1).

A person who is acquiring a regulated facility or operation and who discovers a violation before the acquisition closing date must certify in the disclosure letter that before the acquisition closing date:

- The person was not responsible for the EHS compliance at the regulated facility or operation that is subject to disclosure;
- The person did not have the largest ownership share of the seller;
- The seller did not have the largest ownership share of the person acquiring the regulated facility or operation; and
- The person and the seller did not have a common corporate parent or a common majority interest owner.

Please see **Appendix E** for a model request for an extension beyond the acquisition closing date and **Appendix F** for a model disclosure letter for a newly acquired regulated facility or operation.

FREQUENTLY ASKED QUESTIONS

Q: Is a notice letter adequate if only the county name is given for the specific location of the audited facility?

A: No. A lease or facility name and a geographic location (physical address, description of physical location, or latitude and longitude) must be included in the notice letter. The physical location may be identified by reference to maps, permits, or other documents on file with the Commission. Failure to give proper notice may result in a specific denial of immunity for disclosed violations. For a notice letter covering multiple leases or sites, the required information for each site must be included as an addendum.

Q: Will sending a notice letter trigger inspectors to visit the leases or facilities that are part of the audit?

A: No. The Commission's inspection process is and will continue to be conducted independent of any audits initiated under the Audit Act. The notice letter is sent to the General Counsel only and will not be shared with the District Offices or Division Directors who oversee the Commission's inspectors. Additionally, pursuant to section 5(e) of the Audit Act, an inspector may not request, review, or otherwise use an audit report during an inspection of a regulated facility or operation.

Q: How will the Commission determine whether the corrective actions proposed in a disclosure letter are sufficient to ensure compliance, and how does the Commission communicate to the operator if those actions are deemed insufficient?

A: The review process of compliance actions and violations disclosed in a disclosure letter will include the Enforcement Section and any applicable Division staff. The review may also include Commission staff in Field Operations. If further actions are deemed necessary, the Office of General Counsel will notify the operator by letter and specify what additional action is required.

Q: Is it possible for a person to be in continuous audit status?

A: No, immunity does not attach unless both proper notice by a notice letter and a proper disclosure of violations by a disclosure letter are given according to the requirements of the Audit Act. Multiple requests for six-month extensions may be denied.

Q: If a Commission inspector finds a rule violation before a person submits a disclosure letter disclosing violations to the Commission, will that violation be immune from administrative penalties?

A: No, under section 10(b)(3) of the Audit Act, the disclosure must occur before an investigation by the Commission independently detects the violation. For audits of multiple leases and facilities or audits covering a wide range of applicable regulations, it is advisable to disclose the violations as they are discovered.

Appendix A: Model Notice of Audit Letter

[Date]

Via [physical delivery]
Via email to audit.notice@rrc.texas.gov

General Counsel
Office of General Counsel
Railroad Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

Re: Notice of Environmental, Health and Safety Audit;
ABC Corporation (P-5 Operator No. 12345);
ABC (12345) Lease;
Drilling Permit Nos. 123456 and 456789

Dear General Counsel:

Please be advised that in accordance with the Environmental, Health, and Safety Audit Privilege Act (Audit Act), the ABC Corporation's Corporate Audit Group intends to conduct an environmental, health and safety compliance audit at its ABC (12345) Lease located in [appropriate County]. Pursuant to section 10(g) of the Audit Act, which provides immunity for violations voluntarily disclosed as a result of a compliance audit, ABC Corporation is hereby notifying you that the planned audit will commence on [month day, year] at approximately [start time].

The scope of the audit will be to evaluate compliance with all applicable environmental, health, and safety regulations, as well as Drilling Permit Nos. 123456 and 456789. Pursuant to section 4(e) of the Audit Act, the audit will be completed no later than six months after the date of its commencement, unless, pursuant to a written request, we receive your written approval of an extension before the end of the six-month period.

Please do not hesitate to contact me at (512) 123-4567 or at [e-mail address] if you have any questions or require further information regarding this matter.

Sincerely,
[Printed name]
[Title]

Appendix B: Model Addendum to Notice of Audit Letter

Lease/Facility Name	**ID No. OR Latitude/Longitude**	**County**	**Well Nos.**
Johnson Estate Lease	12345	Midland	1, 2, 3
Smith, A.B & C.D Lease	654321	Midland	1, 1A, 2, 2A
Johnson Estate Tank Battery	31.123456 / -102.123456	Midland	None

Appendix C: Model Disclosure of Violations Letter

[Date]

Via **CERTIFIED MAIL, RETURN RECEIPT REQUESTED**, no. _____
Via email to audit.notice@rrc.texas.gov

General Counsel
Office of General Counsel
Railroad Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

Re: Disclosure of violations;
ABC Corporation (P-5 Operator No. 12345);
ABC (12345) Lease;
Drilling Permit Nos. 123456 and 456789;
Notice letter dated [month day, year]

Dear General Counsel:

ABC Corporation has conducted an audit of its ABC (12345) Lease, located in [appropriate County]. Advance notice of the audit was given to you by letter dated [month day, year]. The audit began on [month day, year] and was completed on [month day, year]. This letter is to notify you of several violations discovered in the audit. Accordingly, ABC Corporation hereby invokes the immunity from civil and administrative penalties provided by section 10 of the Audit Act.

The enclosed addendum summarizes the violations discovered, the time periods during which the violations occurred, the specific rule or permit provision violated, and the status and schedule of corrective actions.

Please do not hesitate to contact me at (512) 123-4567 or at [e-mail address] if you have any questions or require further information regarding this matter.

Sincerely,
[Printed name]
[Title]

Enclosure

Appendix D: Model Addendum to Disclosure of Violations Letter

Lease/Facility Name[4]	Violations Discovered	Citation	Violation Start Date	Corrective Action Plan	Proposed Completion Date	Actual Completion Date
Johnson Estate Lease	No Signs at Lease Entrance or Wells	16 TAC 3.3(1), (2)	1/1/2014	Post the signs as required	2/15/2014	2/1/2014
Smith, A.B. & C.D. Lease	Hydrocarbon leakage at wellhead	16 TAC 3.8(d)(1)	1/15/2014	Remediate affected soil, seal off leak at wellhead	2/28/2014	2/1/2014
Johnson Estate Tank Battery	No bird netting on top of tank	16 TAC 3.22(b)(1)	1/1/2014	Install the required netting	1/30/2014	2/15/2014

[4] Please ensure that information describing the physical location of the lease/facility as instructed on page 4 is included.

Appendix E: Model Notice of Audit Letter for Continuing Audit and Disclosure of Violations for a Newly Acquired Regulated Facility or Operation

[Date]

Via **CERTIFIED MAIL, RETURN RECEIPT REQUESTED**, no. _____
Via email to audit.notice@rrc.texas.gov

General Counsel
Office of General Counsel
Railroad Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

Re: Notice of audit and voluntary disclosure of violations discovered before acquisition;
XYZ Oil Company (P-5 Operator No. 12345);
ABC (12345) Lease;
Drilling Permit Nos. 123456 and 456789;

Dear General Counsel:

XYZ Oil Company acquired the ABC (12345) Lease from the ABC Corporation on [month day, year]. In accordance with section 10(g-1) of the Environmental, Health, and Safety Audit Privilege Act (Audit Act), the XYZ Oil Company's Corporate Audit Group began an environmental, health, and safety compliance audit prior to the acquisition of the ABC (12345) Lease located in [appropriate County] on [month day, year].

The scope of the audit was to evaluate compliance with all applicable environmental, health and safety regulations, as well as Drilling Permit Nos. 123456 and 456789. Pursuant to section 4(d-1) of the Audit Act, XYZ Oil Company intends to continue the ongoing audit after the acquisition closing date and the audit will be completed no later than six months after the acquisition closing date, unless, pursuant to a written request for extension, we receive written approval of an extension before the end of the six-month period.

This letter is also to notify you of several violations discovered during the audit conducted before the acquisition closing date. Accordingly, XYZ Oil

Company hereby invokes the immunity from civil and administrative penalties provided by Section 10 of the Audit Act. The enclosed addendum summarizes the violations discovered, the time periods during which the violations occurred, the specific rule or permit provision violated, and the status and schedule of corrective actions.

In accordance with sections 10(g-1) and 10(b-1) of the Audit Act, XYZ Oil Company certifies that before the acquisition closing date:

- XYZ Oil Company was not responsible for the scope of the environmental, health, or safety compliance being audited at the ABC (12345) Lease;
- XYZ Oil Company was not responsible for the environmental, health, or safety compliance at the ABC (12345) Lease that is subject to the disclosure;
- XYZ Oil Company did not have the largest ownership share of the ABC Corporation;
- ABC Corporation did not have the largest ownership share of the XYZ Oil Company; and
- XYZ Oil Company and ABC Corporation did not have a common corporate parent or a common majority-interest owner.

Please do not hesitate to contact me at (512) 123-4567 or at [e-mail address] if you have any questions or require further information regarding this matter.

Sincerely,
[Printed name]
[Title]

Enclosure

Appendix F: Model Notice of Audit Letter for a Completed Audit and Disclosure of Violations for a Newly Acquired Regulated Facility or Operation

[Date]

Via **CERTIFIED MAIL, RETURN RECEIPT REQUESTED**, no. _____
Via email to audit.notice@rrc.texas.gov

General Counsel
Office of General Counsel
Railroad Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

Re: Notice of audit and voluntary disclosure of violations discovered before acquisition;
XYZ Oil Company (P-5 Operator No. 12345);
ABC (12345) Lease;
Drilling Permit Nos. 123456 and 456789;

Dear General Counsel:

XYZ Oil Company acquired the ABC Lease from the ABC Corporation on [month day, year]. In accordance with section 10(g-1) of the Environmental, Health, and Safety Audit Privilege Act (Audit Act), the XYZ Oil Company's Corporate Audit Group began an environmental, health, and safety compliance audit prior to the acquisition of the ABC lease located in [appropriate County] on [month day, year]. The scope of the audit was to evaluate compliance with all applicable environmental, health, and safety regulations, as well as Permit Nos. 123 and 456. XYZ Oil Company completed the audit before the acquisition closing date on [month day, year].

This letter is also to notify you of several violations discovered during the audit conducted before the acquisition closing date. Accordingly, XYZ Oil Company hereby invokes the immunity from civil and administrative penalties provided by section 10 of the Audit Act. The enclosed addendum summarizes the violations discovered, the time periods during which the violations occurred, the specific rule or permit provision violated, and the status and schedule of corrective actions.

In accordance with sections 10(g-1) and 10(b-1) of the Audit Act, XYZ Oil Company certifies that before the acquisition closing date:

- XYZ Oil Company was not responsible for the scope of the environmental, health, or safety compliance being audited at the ABC (12345) Lease;
- XYZ Oil Company was not responsible for the environmental, health, or safety compliance at the ABC (12345) Lease that is subject to the disclosure;
- XYZ Oil Company did not have the largest ownership share of the ABC Corporation;
- ABC Corporation did not have the largest ownership share of the XYZ Oil Company; and
- XYZ Oil Company and ABC Corporation did not have a common corporate parent or a common majority-interest owner.

Please do not hesitate to contact me at 512-123-4567 or at [e-mail address] if you have any questions or require further information regarding this matter.

Sincerely,
[Printed name]
[Title]

Enclosure