

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (“DEQ/AQD”), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Merit Energy Company, LLC (“Merit”), 13727 Noel Road, Suite 500, Dallas, TX 75240, enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 4867-11 (“NOV”). As more fully set forth below, the NOV generally alleges that Merit failed to comply with permit conditions for engine catalyst record keeping requirements and the control of storage tank vapor emissions at the North Brady Compressor Station facility (“Facility”) located in Sweetwater County, Wyoming, thereby violating the Wyoming Environmental Quality Act (“Act”), applicable Wyoming Air Quality Standards and Regulations (“WAQSR”) and DEQ/AQD Permit MD-1582.

Wyo. Stat. Ann. § 35-11-901(a)(ii)(West 2010) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Merit and the DEQ/AQD hereby stipulate and agree as follows:

1. Merit is a Delaware limited liability company that owns and/or operates the Facility.
2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR and permits issued thereunder, including DEQ/AQD Permit MD-1582.
3. Wyo. Stat. Ann. § 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.”
4. Chapter 6, Section 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming’s construction and modification permitting program.
5. On or about May 29, 2007, the DEQ/AQD issued Permit MD-1582 to Anadarko E&P Company for the Facility. On or about June 10, 2010, Merit acquired the Facility. Condition 8 of Permit MD-1582 requires that the Cooper Superior engine inlet catalyst temperature and pressure drop across the catalyst be measured and recorded monthly and records be maintained and available to the DEQ/AQD for a period of 5 years. Condition 9 of Permit MD-1582 requires that vapors from the eight 400-barrel condensate storage tanks be routed to a vapor recovery unit (VRU) for 98% control of volatile organic compound emissions, and during periods when the VRU is not operational, vapors are to be directed to the backup flare. Condition 11 of Permit MD-

1582 requires that the VRU and backup flare be maintained and operated during all periods of active operation such that each remains effective as a viable control device and requires records be maintained of periods when the VRU and backup flare are not operating.

6. On June 29, 2011, the DEQ/AQD Inspector inspected the Facility and noted that no records were available to demonstrate Merit's compliance with the catalyst temperature and pressure drop across the catalyst permit requirements. The DEQ/AQD Inspector also observed that neither the VRU or backup flare were operating, thereby venting volatile organic compounds to the atmosphere. Further investigation also revealed that the pilot flame auto-igniter system was not functional because the solar power system failed. The DEQ/AQD Inspector noted that no records were available document VRU and backup flare downtime.

7. On July 22, 2011, the DEQ/AQD issued the NOV to Merit alleging that Merit failed to maintain certain records and failed to route vapors from the condensate storage tanks to an emission control device as required by conditions 8, 9, and 11 of Permit MD-1582 for the Facility.

8. In lieu of litigation, the DEQ/AQD and Merit agree to resolve the violations alleged in the NOV for a total amount of forty thousand dollars and no cents (\$40,000.00) as a stipulated civil penalty. Within thirty (30) days after Merit has been notified by the DEQ/AQD that the final signature has been affixed to this Agreement, Merit shall make full payment by check made payable to the DEQ/AQD. Merit shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

9. Merit, by entering into this Agreement, neither admits nor denies the validity of any allegation contained in the NOV, nor does Merit concede or admit to any liability or fault, and this Agreement constitutes no admission of fault or non-compliance.

10. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Merit based on the NOV and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Merit for this particular violation.

11. Merit waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in the NOV in the event that Merit fails to fulfill its obligations under this Agreement.

12. This Agreement shall be admissible by either Merit or DEQ/AQD (hereinafter Merit and DEQ/AQD may be referred to individually as "Party" and collectively as "Parties") without objection by the other Party only in an action between

these Parties relating to the violations alleged herein; provided, however, that nothing herein constitutes an admission by Merit of liability or fault.

~~13. Neither Party hereto shall have any claim against the other for attorneys' fees or other costs incurred with the allegations resolved hereby, including costs incurred in the preparation of this Agreement. Each Party shall bear its own attorney fees and costs, if any, incurred through the date this Agreement is signed by both Parties. Each Party assumes the risk of any liability arising from its own conduct. Neither Party agrees to insure, defend or indemnify the other.~~

14. Any changes, modifications, revisions or amendments to this Agreement which are mutually agreed upon by the Parties shall be incorporated by written instrument, executed and signed by all Parties to this Agreement.

15. The construction, interpretation and enforcement of this Agreement shall be governed by the laws of the State of Wyoming. The Courts of the State of Wyoming shall have jurisdiction over this Agreement and the Parties, and the venue shall be the First Judicial District, Laramie County, Wyoming.

16. This Agreement, consisting of four (4) pages, represents the entire and integrated agreement between the Parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

17. The State of Wyoming and DEQ/AQD do not waive sovereign immunity by entering into this Agreement and specifically retain immunity and all defenses available to them as sovereign pursuant to Wyo. Stat. Ann. § 1-39-104(a) and all other state law.

18. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in this Agreement shall operate only between the Parties to this Agreement, and shall inure solely to the benefit of the Parties to this Agreement. The Parties to this Agreement intend and expressly agree that only Parties signatory to this Agreement shall have any legal or equitable right to seek to enforce this Agreement, to seek any remedy arising out of a Party's performance or failure to perform any term or condition of this Agreement, or to bring an action for the breach of this Agreement.

19. Each Party represents that they are authorized to enter into this Agreement and agree to be bound hereby. This Agreement shall become binding upon the Parties once executed by all Parties.

IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

MERIT ENERGY COMPANY, LLC:

By: Christopher S. Hagge 10/28/11
Chris Hagge Date
Title: Christopher S. Hagge

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By: Steven A. Dietrich 11-3-11
Steven A. Dietrich Date
AQD Administrator

By: John Corra 11/7/11
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

Nancy E. Vehr 10/18/11
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD