



Office of the Attorney General

Governor
Matthew H. Mead

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Peter K. Michael

Attorney General
Gregory A. Phillips

Division Deputy
Jay A. Jerde

ROUTING MEMO

TO: AQD file

THROUGH: Steve Dietrich, AQD Administrator *SD*

Bob Gill, AQD Compliance Program Manager *BG*

FROM: Nancy Vehr, Sr. Asst. Attorney General

DATE: 6/19/2012 *Nancy V.*

RE: *In re NOV Docket Nos. 4833-11, 4861-11 and 4897-11 Issued to Shell Western Exploration & Production*

Attached for the DEQ/AQD files are one original copy of the Settlement Agreement and a copy of the \$23,000.00 stipulated penalty payment. I would also like to draw your attention to the additional requirements in paragraph 11.B

I have sent EPA a copy of the Settlement Agreement.

I am closing my file on this matter. Please call me if you have any questions or need further assistance with this matter (7580).

SWEPI LP
200 NORTH DAIRY ASHFORD, WCK 5494
HOUSTON, TX 77079

62-20
311

Check No.: 0000980302

06/14/2012

PAY TO THE
ORDER OF
WYOMING AIR QUALITY DIVISION
122 WEST 25TH STREET
HERSCHLER BLDG 2E
CHEYENNE, WY 82002

Twenty three thousand and 00/100 Dollars

CITIBANK N.A.
ONE PENNS WAY, NEW CASTLE, DE 19720

*****\$23,000.00

NOT VALID AFTER 180 DAYS

COPY
AUTHORIZED SIGNATURE

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and SWEPI LP (Shell) successor in interest to Shell Rocky Mountain Production LLC, 4582 S. Ulster Street Parkway, Suite 1400, Denver, CO 80237, enter into this Settlement-Agreement (Agreement) to fully and finally resolve without litigation the alleged violations cited in DEQ Notices of Violation Docket Nos. 4833-11, 4861-11, and 4897-11 (NOVs). As more fully set forth below, the NOVs allege that Shell or its predecessors failed to timely complete initial performance testing, or failed to route condensate tank vapors to a combustion device at the Warbonnet Central Liquids Processing facility formerly known as the Warbonnet Water Handling facility, the Rainbow 32A PAD, Rainbow 7-31 PAD, Boulder 32A PAD, or Boulder 32B PAD facilities (Facilities) located in Sublette County, Wyoming, thereby violating the Wyoming Environmental Quality Act (Act), applicable Wyoming Air Quality Standards and Regulations (WAQSR), and various conditions of DEQ/AQD Permit Nos. MD-10457, MD-1365, MD-6164, MD-7851, or MD-8325.

Wyo. Stat. Ann. § 35-11-901(a)(ii)(West 2011) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Shell and the DEQ/AQD hereby stipulate and agree as follows:

1. Shell is a Delaware limited partnership that now owns and/or operates the Facilities.
2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR and permits issued thereunder, including permits MD-10457, MD-1365, MD-6164, MD-7851 and MD-8325.
3. Wyo. Stat. Ann. § 35-11-801(a) states: “[i]n 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 November 4, 2010, the DEQ/AQD issued Permit No. MD-10457 to Shell for the Warbonnet Water Handling facility located in Sublette County, Wyoming. Condition No. 9 of Permit MD-10457 requires performance testing be conducted no later than ninety days following initial startup. In April 2010, Shell started three Caterpillar G3412C LE engines (E1, E2 and E4) but did not conduct initial testing of these engines after installation at Warbonnet until December 1-3, 2010.
6. On April 28, 2011, the DEQ/AQD issued NOV No. 4833-11 to Shell, alleging that Shell’s failure to perform timely initial testing of three Caterpillar G3412C LE engines (E1, E2, and E-4) at the Warbonnet Water Handling facility violated the Act, the WAQSR, and Condition No. 9 of Permit No. MD-10457.

7. On or about May 2, 2006, the DEQ/AQD issued Permit No. MD-1365 to Shell Rocky Mountain Production LLC for the Rainbow 32 PAD facility located in Sublette County Wyoming. On or about October 16, 2007, the DEQ/AQD issued Permit No. MD-6164 to Shell Rocky Mountain Production LLC for the Rainbow 7-31 PAD facility located in Sublette County, Wyoming. Shell Rocky Mountain Production LLC subsequently transferred Permit Nos. MD-1365 and MD-6164 to Shell. Condition No. 7 of Permit MD-1365 requires condensate tank vapors to be routed to a combustion device. Condition Nos. 7 and 10 of Permit MD-6164 requires condensate tank vapors to be routed to a combustion device. On May 13, 2011, a DEQ/AQD Engineer/Inspector observed vapors venting from leaking thief hatches at both the Rainbow 32A PAD and Rainbow 7-31 PAD facilities and notified Shell. On May 14, 2011, Shell notified the DEQ/AQD that Shell had replaced the gaskets on both thief hatches.

8. On July 12, 2011, the DEQ/AQD issued NOV No. 4861-11 to Shell, alleging that Shell's failure to route vapors from the condensate tanks to combustion devices at the Rainbow 32A PAD and Rainbow 7-31 PAD facilities violated the Act, the WAQSR, Condition No. 7 of Permit No. MD-1365 and Condition Nos. 7 and 10 of Permit No. MD-6164.

9. On or about April 23, 2009, the DEQ/AQD issued Permit No. MD-7851 to Shell Rocky Mountain Production LLC for the Boulder 32A PAD facility located in Sublette County, Wyoming. On or about April 23, 2009, the DEQ/AQD issued Permit No. MD-8325 to Shell Rocky Mountain Production LLC for the Boulder 32B PAD facility located in Sublette County, Wyoming. Shell Rocky Mountain Production LLC subsequently transferred Permit Nos. MD-7851 and MD-8325 to Shell. Condition No. 13 of Permit No. MD-7851 requires condensate tank vapors to be routed to a combustion device. Condition No. 13 of Permit No. MD-8325 requires condensate tank vapors to be routed to a combustion device. On July 26, 2011, a DEQ/AQD Engineer/Inspector observed vapors venting from an open thief hatch at the Boulder 32A PAD and a leaking thief hatch at the Boulder 32B PAD and notified Shell. On July 27, 2011, Shell notified the DEQ/AQD that Shell had closed the thief hatch and replaced the gasket on the leaking thief hatch.

10. On September 29, 2011, the DEQ/AQD issued NOV No. 4897-11 to Shell, alleging that Shell's failure to route vapors from the condensate tanks to the combustion devices at the Boulder 32A and 32B PAD facilities violated the Act, the WAQSR, Condition No. 13 of Permit No. MD-7851, and Condition No. 13 of Permit MD-8325.

11. Without admitting liability and in lieu of litigation under Wyo. Stat. Ann. § 35-11-901(a)(ii), Shell agrees to resolve the alleged violations described above and also set forth in the NOV's for a total amount of forty six thousand dollars and no cents (\$46,000.00) payable as follows:

A. Shell agrees to pay the DEQ/AQD, twenty three thousand dollars and no cents (\$23,000.00) as a stipulated civil penalty. Shell shall make full payment of this amount by check made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after Shell has been notified by the DEQ/AQD that the final signature has been affixed to this Agreement. Shell shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

B. In lieu of paying the remaining balance of twenty three thousand dollars and no cents (\$23,000.00) (Remaining Balance), Shell agrees to complete the following Pneumatic Controller Change Out Supplemental Environmental Project (SEP):

i. A SEP is a project that is beneficial for the environment and is otherwise not required by applicable statutes, regulations, permits or orders.

ii. For this SEP, Shell agrees to change out 184 high-bleed liquid level pneumatic controllers to low bleed at 43 single and multiple well-site facilities as reflected in Attachment A to this Agreement. Shell estimates that completion of this SEP will result in a total emission reduction of approximately 98 tons per year (TPY) of volatile organic compounds (VOCs) and 4 TPY of hazardous air pollutants (HAPs).

iii. Shell agrees to complete this SEP by July 1, 2012. Within thirty (30) days after Shell has completed this SEP, Shell agrees to submit a SEP Completion Report to the DEQ/AQD, Attn: Mr. Robert Gill, 122 West 25th Street, Cheyenne, WY 82002. The SEP Completion Report shall describe the completed SEP and include itemized costs and certification that the SEP has been fully implemented pursuant to the provisions of this Agreement.

iv. Shell estimates that the costs of parts and labor to complete this SEP is approximately ninety thousand dollars and no cents (\$90,000.00). In the event that Shell does not spend at least forty six thousand dollars and no cents (\$46,000.00) to complete this SEP, Shell agrees to pay the DEQ/AQD the Remaining Balance by September 1, 2012.

v. Shell certifies that as of the date it signs this Agreement, Shell is not required to perform or develop this SEP by any federal, state or local law or regulation; nor is Shell required to perform or develop this SEP pursuant to any other agreement or relief in any other case. Shell further certifies that it has not received and is not presently negotiating to receive credit for this SEP in any other pending action.

12. Shell, by entering into this Agreement, does not concede or admit to any liability or fault, and this Agreement constitutes no admission of liability or fault.

13. Full compliance with this Agreement shall constitute full satisfaction and release for all claims by the DEQ/AQD against Shell and its predecessors and successors based on the NOV's and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Shell and its predecessors and successors for these particular alleged violations.

14. In the event that Shell fails to fulfill its obligations under this Agreement, Shell waives any statute of limitation claims which may apply in an enforcement action by the DEQ/AQD involving the specific matters described in the NOV's.

15. This Agreement shall be admissible by either Shell or the DEQ/AQD (hereinafter Shell and the 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 specific NOV's herein; provided, however, that nothing herein constitutes an admission by Shell of liability or fault.

16. 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.

17. 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.

18. 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.

19. This Agreement consisting of five (5) pages, and Attachment A, consisting of one (1) page, represents the entire and integrated agreement between the Parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

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

21. 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. 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 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.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

22. 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.

SWEPI LP:

By: 
Name: JAMES L. DURAN
Title: OPERATIONS MANAGER

Date: 5/8/2012

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

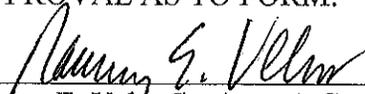
By: 
Steven A. Dietrich, AQD Administrator

Date: 5-8-12

By: 
John Corra, DEQ Director

Date: 5-8-12

APPROVAL AS TO FORM:


Nancy E. Velt, Sr. Asst. A.G.
Attorney for DEQ/AQD

Date: 3/27/2012

Facility Name	PU #1 Camco	PU #2 Camco	PU #3 Camco	PU #4 Camco
Antelope 11-4				
Antelope 14-4 Pad	1	1	1	
Antelope 2-8	1			
Antelope 8 Pad				
Big Piney	1			
Boulder 18 Pad	5			
Boulder 32A Pad	6	4		
Falcon 36 Pad	2	1	1	1
Federal 1-13H	2			
Jensen 11 Pad		2		
Jensen 14 Pad	2	5		
Jensen 2 Pad	3			
Jensen 8-11D				
Mesa 1-27	2	5		
Mesa 13-26	3			
Mesa 28 Pad		3	5	
Mesa 29A Pad	5	3		
Mesa 33B Pad	1	4	5	
Mesa 35A Pad		2		
Mesa 7-27	2			
N Mesa Pad		2		
New Fork 11-24				
New Fork 7-3				
Rainbow 11-31	3			
Rainbow 28 Pad	5			
Rainbow 31A Pad	5			
Rainbow 32 Pad	1	4	1	4
Riverside 13A Pad	4			
Riverside 13B Pad	3			
Riverside 14 Pad	2	2		
Riverside 23 Pad	5			
Riverside 24 Pad	4			
Riverside 25B Pad	4			
Riverside 3A Pad	3	1	5	
Riverside 3B & 3C		1		
Riverside 4 Pad				
Sage Grouse 1-13H	2			
Stewart Point	2	2		
Warbonnet 4 Pad	4	4		
Warbonnet 5 Pad	3	4		
Warbonnet 6 Pad	5	4		
Warbonnet 8A Pad	3	3		
Warbonnet 8B Pad	5	4		
Total per Unit	98	61	20	5
Grand Total	184			

Attachment A to Settlement Agreement between DEQ/AQD and Shell
DEQ NOV Nos. 4833-11, 4861-11, and 4897-11
January 2012 - Page 1 of 1