

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Chesapeake Operating, Inc., (Chesapeake) 6100 North Western Avenue, Oklahoma City, OK 73118, enter into this Settlement Agreement (Agreement) to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 5130-13 (Notice of Violation). As more fully set forth below, the Notice of Violation alleged that Chesapeake did not control emissions at all times and/or maintain adequate records at the Sims 33-71 26-1H PAD, Sims 33-71 25-1H PAD, and Clausen Ranch Unit 34-70 16-1H PAD facilities (Facilities) located in Converse County, Wyoming, thereby violating the Wyoming Environmental Quality Act (Act), applicable Wyoming Air Quality Standards and Regulations (Air Quality Rules), and air quality permits CT-12890, CT-12287, and CT-12357.

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

1. Chesapeake Operating, Inc. is an Oklahoma corporation that owns and/or operates various oil and gas production wells and facilities, including these Facilities.
2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Act and the Air Quality Rules.
3. Wyo. Stat. Ann. § 35-11-201 states, “[n]o person shall cause, threaten or allow the discharge or emission of any air contaminant in any form so as to cause pollution which violates rules, regulations and standards adopted by the council.”
4. 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.”
5. Chapter 6, Section 2 of the Air Quality Rules prescribes the applicability and procedures for issuing permits to sources under Wyoming’s construction and modification permitting program.
6. Chapter 6, Section 2(f) of the Air Quality Rules provides that the DEQ/AQD, “may impose any reasonable conditions upon an approval to construct, modify or operate[.]”

7. DEQ/AQD Permit CT-12890

A. On March 20, 2012, DEQ/AQD issued Permit No. CT-12890 to Chesapeake for the Sims 33-71 26-1H PAD facility. Condition No. 10 of Permit CT-12890 requires Chesapeake to maintain and operate emission control equipment during well site production, including the combustor, so that emissions are controlled at all times. Condition No. 10 also requires Chesapeake to maintain records “noting dates and duration of times during such operation when any VOC or HAP emissions control system or device or the associated containment and collection equipment is not functioning to control emissions[.]”

B. On December 13, 2012, a DEQ/AQD Engineer/Inspector noted that the Facility’s combustor and flare data for the months of June through November 2012 showed that Chesapeake failed to control emissions at all times. The Inspector also noted that during that same time frame, Chesapeake failed to maintain accurate records regarding the functioning of the emission control equipment.

C. On February 25, 2013, the DEQ/AQD issued the Notice of Violation to Chesapeake alleging in part that Chesapeake violated the Act, the Air Quality Rules, and Condition No. 10 of Permit CT-12890 for failing to control emissions at all times and for failing to maintain accurate records regarding the functioning of emission control equipment at its Sims 33-71 26-1H PAD facility. The DEQ/AQD requested records for the months of June through November 2012. Chesapeake records indicated no unauthorized emissions occurred during the specified time period.

8. DEQ/AQD Permit No. CT-12287

A. On January 3, 2012, DEQ/AQD issued Permit No. CT-12287 to Chesapeake for the Sims 33-71 25-1H PAD facility. Condition No. 16 of Permit CT-12287 requires Chesapeake to maintain and operate emission control equipment during well site production, including the combustor, so that emissions are controlled at all times. Condition No. 16 also requires Chesapeake to maintain records “noting dates and duration of times during such operation when any VOC or HAP emissions control system or device or the associated containment and collection equipment is not functioning to control emissions[.]”

B. On December 13, 2012, a DEQ/AQD Engineer/Inspector noted that the Facility’s combustor and flare data for the months of June through November 2012 showed that Chesapeake failed to control emissions at all times. The Inspector also noted that during that same time frame, Chesapeake failed to

maintain accurate records regarding the functioning of the emission control equipment.

C. On February 25, 2013, the DEQ/AQD issued the Notice of Violation to Chesapeake alleging in part that Chesapeake violated the Act, the Air Quality Rules, and Condition No. 16 of Permit CT-12287 for failing to control emissions at all times and for failing to maintain accurate records regarding the functioning of emission control equipment at its Sims 33-71 25-1H PAD facility. The DEQ/AQD requested records for the months of June through November 2012. Chesapeake records indicated some unauthorized emissions occurred during the month of November.

9. DEQ/AQD Permit No. CT-12357

A. On November 7, 2011, DEQ/AQD issued Permit No. CT-12357 to Chesapeake for the Clausen Ranch Unit 34-70 16-1H PAD facility. Condition No. 15 of Permit CT-12357 requires Chesapeake to maintain and operate emission control equipment during well site production, including the combustor, so that emissions are controlled at all times. Condition No. 15 also requires Chesapeake to maintain records “noting dates and duration of times during such operation when any VOC or HAP emissions control system or device or the associated containment and collection equipment is not functioning to control emissions[.]”

B. On December 13, 2012, a DEQ/AQD Engineer/Inspector noted that the Facility’s combustor and flare data for the months of June through November 2012 showed that Chesapeake failed to control emissions at all times. The Inspector also noted that during that same time frame, Chesapeake failed to maintain accurate records regarding the functioning of the emission control equipment.

C. On February 25, 2013, the DEQ/AQD issued the Notice of Violation to Chesapeake alleging in part that Chesapeake violated the Act, the Air Quality Rules, and Condition No. 15 of Permit CT-12357 for failing to control emissions at all times and for failing to maintain accurate records regarding the functioning of emission control equipment at its Clausen Ranch Unit 34-70 16-1H PAD facility. The DEQ/AQD requested records for the months of June through November 2012. Chesapeake records indicated some unauthorized emissions occurred during the months of July, September, and October.

10. Without admitting liability, and in lieu of litigation under Wyo. Stat. Ann. § 35-11-901(a)(ii), Chesapeake agrees to pay to the DEQ/AQD a total amount of eight thousand four hundred dollars and no cents (\$8,400.00) as a stipulated penalty amount to resolve the violations alleged above and in the Notice of Violation. Chesapeake shall

make full payment by check made payable to the Wyoming DEQ/AQD within thirty (30) days after Chesapeake has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Chesapeake shall mail the payment to Jeremiah I. Williamson, Assistant Attorney General, 123 State Capitol, Cheyenne, Wyoming 82002.

11. Chesapeake, by entering into this Agreement, does not concede or admit to any liability or fault, and this Agreement constitutes no admission of liability, fault or noncompliance with any allegations, findings, determinations or conclusions contained in this Agreement or in the Notice of Violation.

12. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Chesapeake based on the Notice of Violation and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Chesapeake for these particular alleged violations. By this Settlement Agreement, the Parties intend to resolve all allegations that were asserted in the Notice of Violation.

13. In the event that Chesapeake fails to fulfill its obligations under this Agreement, Chesapeake waives any statute of limitation claims that may apply in an enforcement action by the DEQ/AQD involving the specific matters described in the Notice of Violation.

14. This Agreement shall be admissible by either Chesapeake or the DEQ/AQD (hereinafter Chesapeake 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 violations alleged herein.

14. Neither Party hereto shall have any claim against the other for attorneys' fees or other costs incurred with the allegation 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.

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

16. 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.

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

18. 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.

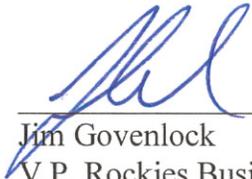
19. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in this Agreement shall operate only between the Parties to this Agreement 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.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

20. 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.

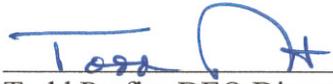
IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

CHESAPEAKE OPERATING, INC.:

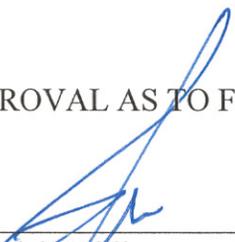
By:  10/21/13
Jim Govenlock Date
V.P. Rockies Business Unit

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By:  11-21-13
Steven A. Dietrich, AQD Administrator Date

By:  11/21/13
Todd Parfitt, DEQ Director Date

APPROVAL AS TO FORM:

 11/14/13
Jeremiah Williamson, Assistant Attorney General Date
Attorney for DEQ/AQD