



Department of Environmental Quality



To protect, conserve and enhance the quality of Wyoming's environment for the benefit of current and future generations.

Dave Freudenthal, Governor

John Corra, Director

CERTIFIED MAIL

July 25, 2006

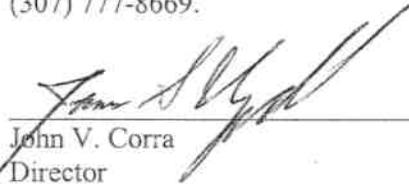
Mr. Peter G. Schoonmaker
CEO, President
Pinnacle Gas Resources, Inc.
1 East Alger Street, Suite 206
Sheridan, Wyoming 82801

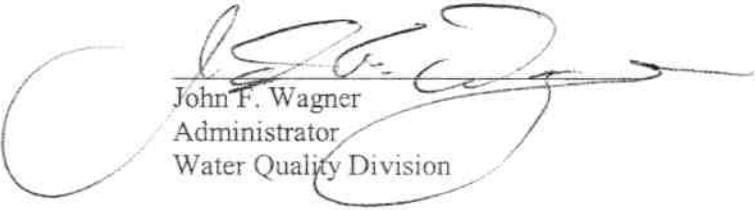
RE: Settlement Agreement for Notice of Violation Docket Number 3858-06

Dear Mr. Schoonmaker:

Enclosed is one (1) copy of the Settlement Agreement for Notice of Violation Docket Number 3858-06, issued to Pinnacle Gas Resources, Inc. (Pinnacle) for the unauthorized discharge of coal bed methane (CBM) produced water into waters of the state. The Settlement Agreement has been signed by all parties and is your copy to keep.

If you have any questions or comments concerning this matter, please contact Mr. Brian R. Bohlmann at (307) 777-8669.


John V. Corra
Director
Department of Environmental Quality


John F. Wagner
Administrator
Water Quality Division

JVC/JFW/BRB/bb/6-

Enclosure: Settlement Agreement

cc: Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
Colleen Gillespie, 8ENF-W-NP, EPA Region 8 (signed copy by all parties only)
James B. Eisenhauer, Sheridan DEQ Office (signed copy by all parties only)
Steve Toalson, Jr., DEQ Accounting Manager (signed copy by all parties only)
John Barns, Surface Water Administrator, SEO (signed copy by all parties only)
Bill J. DiRienzo ▶ Brian K. Lovett ▶ Leah J. Krafft
✓IPS (for scanning) ▶ Docket 3858-06
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties only)

Herschler Building • 122 West 25th Street • Cheyenne, WY 82002 • <http://deq.state.wy.us>

ADMIN/OUTREACH
(307) 777-7758
FAX 777-3610

ABANDONED MINES
(307) 777-6145
FAX 777-6462

AIR QUALITY
(307) 777-7391
FAX 777-5616

INDUSTRIAL SITING
(307) 777-7369
FAX 777-6937

LAND QUALITY
(307) 777-7756
FAX 777-5864

SOLID & HAZ WASTE
(307) 777-7752
FAX 777-5973

WATER QUALITY
(307) 777-7781
FAX 777-5973



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SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) and Pinnacle Gas Resources, Inc. (Pinnacle), a company authorized to do business in Wyoming, enter into this Settlement Agreement to fully and finally resolve without litigation the violations alleged in **Notice of Violation Docket (NOV) Number 3858-06 dated May 2, 2006.**

W.S. §35-11-901(a)(ii) authorizes the DEQ to negotiate a stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions, in lieu of litigation. To that end, Pinnacle and the DEQ hereby stipulate and agree as follows:

1. The DEQ, pursuant to W.S. §35-11-104, is a department in the executive branch of the state government of Wyoming and is principally situated in Cheyenne, Wyoming. The DEQ is the agency with the responsibility for administering the Wyoming Environmental Quality Act (Act) including all provisions of the Wyoming Water Quality Rules and Regulations (WWQRR).
2. Since receiving the NOV, Pinnacle has provided the DEQ with documentation demonstrating the steps taken to address the alleged violation in Campbell County, Wyoming covered by this NOV in a letter dated May 12, 2006, including the ongoing operational programs designed to prevent/minimize violations in the future.
3. Pinnacle agrees to pay a penalty of twenty-two thousand five hundred dollars and no cents (\$22,500.00) as a stipulated settlement to resolve the above referenced NOV in lieu of litigation under W.S. §35-11-901(a)(ii). In addition, Pinnacle agrees to pay fifty-two thousand five hundred dollars and no cents (\$52,500.00) for a supplemental environmental project (SEP) for the development of assimilative capacity allocation and administration for support of watershed based permitting. All payments are due and payable within thirty (30) days of the full execution of this Settlement Agreement, or by August 31, 2006, which ever occurs first. Payment shall be made by check payable to the Wyoming Department of Environmental Quality, Water Quality Division and shall be sent to: Mr. Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator, Department of Environmental Quality, Water Quality Division, Herschler Building 4th Floor West, 122 West 25th Street, Cheyenne, Wyoming 82002. The check or checks should reference Docket Number 3858-06.
4. This signed Settlement Agreement and payment by Pinnacle as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against Pinnacle based on the violation alleged in NOV Docket Number 3858-06. Contingent upon Pinnacle's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Pinnacle for this particular violation. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket Number 3858-06.
5. Pinnacle waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in NOV Docket Number 3858-06 in the event that Pinnacle fails to fulfill its obligations under this Settlement Agreement.
6. Nothing in this agreement precludes DEQ from taking additional enforcement action, including the issuance of a NOV, Order, and/or pursuing additional penalties, should Pinnacle violate the Act or applicable rules and regulation in the future.
7. This Settlement Agreement shall be admissible by either party without objection by the other party in any subsequent action between these parties. Pinnacle accepts responsibility for the specific allegations in NOV Docket Number 3858-06.
8. Notwithstanding any other language in this Settlement Agreement, the State of Wyoming and DEQ do not waive sovereign immunity by entering into this Settlement Agreement with Pinnacle and specifically retain all immunity and all defenses available as sovereigns under state and federal law.
9. Each party shall bear its own attorney fees and costs, if any incurred, through the date this Settlement Agreement is signed by all parties.
10. This Settlement Agreement is binding upon Pinnacle Gas Resources, Inc., its successors and assigns, and upon the DEQ.

11. The persons signing this Settlement Agreement certify that they are duly authorized to bind their respective parties to this Settlement Agreement.

12. Full execution of this Settlement Agreement shall be determined by the latest date signed by all parties.

FOR: PINNACLE GAS RESOURCES, INC.

Signed:  _____

Date: July 21, 2006 _____

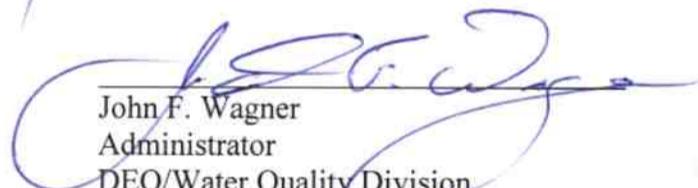
Typed: Peter G. Schoonmaker _____

Title: CEO, President _____

FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

 _____
John V. Corra
Director
Department of Environmental Quality

Date: 7/25/06 _____

 _____
John F. Wagner
Administrator
DEQ/Water Quality Division

Date: 7/25/06 _____

JVC/JFW/BRB/bb/06-

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