SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) and Yates Petroleum Corporation (Yates), a corporation 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 3845-06, dated March 6, 2006**.

W.S. §35-11-901(a)(ii) authorizes the DEQ to negotiate a stipulated settlement, including payment of a penalty, in lieu of litigation. To that end, Yates 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. DEQ is the agency with the responsibility for administering the Environmental Quality Act (Act) including all provisions of the Wyoming Water Quality Rules and Regulations (WWQRR).

2. Yates has provided the WQD with information demonstrating the steps taken to address the alleged violations covered by this NOV including the ongoing operational programs designed to prevent/minimize violations in the future.

3. As noted during the inspection conducted by the WQD on August 31, 2005, outfall 002 associated with WYPDES permit WY0037371 was discharging during the inspection. Discharge monitoring reports (DMRs) submitted by Yates for this outfall states that no discharge occurred from July 1, 2005 through December 31, 2005. Yates shall submit corrected DMRs for outfall 002 associated with WYPDES permit WY0037371 indicating that a discharge occurred along with all lab sheets from water samples collected, if any, for the July 1, 2005 through December 31, 2005 monitoring period. If sample data is not available for the monitoring period, this information shall also be stated in a letter to the WQD. This information shall be submitted to Mr. Brian R. Bohlmann at the address below. This information shall be received by Mr. Bohlmann on or before within 30 days of full execution of this Settlement Agreement.

4. Yates agrees to pay a penalty of sixteen thousand dollars and no cents ($16,000.00) as a stipulated settlement to resolve the above referenced NOV and DMR correction set forth in Paragraph 3, above, in lieu of litigation under W.S. §35-11-901(a)(ii). In addition, Yates agrees to pay thirty-six thousand dollars and no cents ($36,000.00) 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. 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 should reference Docket Number 3845-06.**

5. Yates agrees to implement an outfall inspection program for all currently permitted outfalls to identify outfalls with compliance issues. DEQ shall not take enforcement actions for allegedly deficient outfalls against Yates for 210 days after full execution of this Settlement Agreement while Yates undertakes the outfall inspection program. All outfalls will be constructed so that there is a free fall from a single point of at least twelve inches (12") for sample collection. All outfalls shall be located after the final treatment and prior to admixture with the receiving water as required by Chapter 2 of the WWQRR. All outfalls shall be safely assessable and clearly marked with a permit sign as close to the outfall as possible in accordance with Chapter 2 of the WWQRR.

6. Except as provided in paragraphs 3, 4 and 5 above, this signed Settlement Agreement and payment by Yates as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against Yates based on the violations alleged in NOV Docket Number 3845-06 and the DMR correction set forth in Paragraph 3 of this Agreement. Contingent upon Yates's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Yates for these particular violations. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket 3845-06, as well as submitting inaccurate information on the DMRs for outfall 002 of WYPDES permit WY0037371.

7. Yates waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in Notice of Violation Docket Number 3845-06 and the inaccurate information on the DMRs for outfall 002 of WYPDES permit WY0037371, in the event that Yates fails to fulfill its obligations under this Settlement Agreement.

8. Nothing in this agreement precludes DEQ from taking additional enforcement action, including the issuance of a Notice of Violation, Order, and/or pursuing additional penalties, should Yates violate the Act or applicable rules and regulations in the future.

9. This Settlement Agreement shall be admissible by either party without objection by the other party in any subsequent action between these parties. This Settlement Agreement does not constitute an admission by Yates or a retraction by the DEQ of the specific allegations in NOV Docket Number 3845-06.

10. 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 Yates and specifically retain all immunity and all defenses available as sovereigns under state and federal law.

11. Each party shall bear its own attorney fees and costs, if any incurred, through the date this Settlement Agreement is signed by both parties.

12. This Settlement Agreement is binding upon Yates Petroleum Corporation, its successors and assigns, and upon the DEQ.

13. The persons signing this Settlement Agreement certify that they are duly authorized to bind their respective parties to this Settlement Agreement. Full execution of this Settlement Agreement shall be determined by the latest date of all parties signing.

FOR YATES PETROLEUM CORPORATION:

Signed: _____ Date: 8/14/06

Typed: DAVID LANNING

Title: ASST. VICE PRESIDENT

FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

_____ Date: 8/7/06
John V. Corra
Director
Department of Environmental Quality

_____ Date: 8/4/06
John F. Wagner
Administrator
Water Quality Division

JVC/JFW/BRB/bb/6-0651.C-SA

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)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3845-06
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties only)