

## SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) and Lance Oil & Gas Company, Inc (Lance), a wholly owned subsidiary of Western Gas Resources, Inc. (WGR), a company and corporation, respectively, 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 3852-06 dated March 23, 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, Lance 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 Wyoming Environmental Quality Act (Act) including all provisions of the Wyoming Water Quality Rules and Regulations (WWQRR).

2. Since receiving the NOV, Lance has provided the DEQ with documentation demonstrating the steps taken to address the violation in Campbell County, Wyoming covered by this NOV in a letter dated March 3, 2006, including the ongoing operational programs designed to prevent/minimize violations in the future. Lance agrees to conduct an internal audit in accordance with and pursuant to W.S. 35-11-1105 and W.S. 35-11-1106 and to provide the WQD with the results of the audit in accordance with and pursuant to W.S. 35-11-1105 and W.S. 35-11-1106 to ensure a violation of this nature does not occur again. The audit shall begin within 30 days of full execution of this settlement agreement.

3. Lance agrees to pay a penalty of thirty thousand dollars and no cents (\$30,000.00) as a stipulated settlement to resolve the above referenced NOV in lieu of litigation under W.S. §35-11-901(a)(ii). In addition, Lance agrees to pay seventy thousand dollars and no cents (\$70,000.00) 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, or by October 2, 2006, whichever 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 4<sup>th</sup> Floor West, 122 West 25<sup>th</sup> Street, Cheyenne, Wyoming 82002. The check or checks should reference Docket Number 3852-06.

4. This signed Settlement Agreement and payment by Lance as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against Lance based on the violation alleged in NOV Docket Number 3852-06. Contingent upon Lance's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Lance for this particular violation. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket Number 3852-06.

5. Lance waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in NOV Docket Number 3852-06 in the event that Lance fails to fulfill its obligations under this Settlement Agreement.

6. Subject to the parties' agreement as set out in Paragraph 2 herein regarding the internal audit that is being conducted in accordance with W.S. 35-11-1105 and W.S. 35-11-1106, nothing in this agreement precludes DEQ from taking additional enforcement action, including the issuance of a NOV, Order, or pursuit of other remedies including a penalty, should Lance violate the Act or applicable rules and regulations in the future. The internal audit being conducted is to cover a certain time frame. Any violations occurring after that time frame are subject to additional action.

7. 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 Lance or a retraction by the DEQ of the specific allegations in NOV Docket Number 3834-05.

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 Lance 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 Lance Oil & Gas Company, 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: LANCE OIL & GAS COMPANY, INC.**

Signed: David Keenan

Date: 8/31/06

Typed: DAVID KEENAN

Title: VP ENGINEERING

**FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:**

John V. Corra

Date: 8/23/06

John V. Corra  
Director  
Department of Environmental Quality

John F. Wagner

Date: 8/22/06

John F. Wagner  
Administrator  
Water Quality Division

JVC/JFW/BRB/bb/6-0762.SA

cc: 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 ► Brian R. Bohlmann  
IPS (for scanning) ► Docket 3852-06  
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties only)