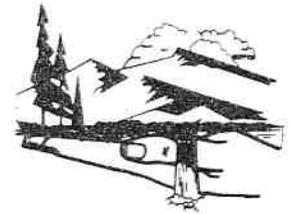




Department of Environmental Quality



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

November 8, 2006

Mr. Alan Williams
Environmental Health & Safety Manager
Anadarko Petroleum Corporation
1999 Broadway, Suite 3700
Denver, Colorado 80202

RE: Notice of Violation, Docket Number 3967-06

Dear Mr. Williams:

Enclosed is a Notice of Violation, Docket Number 3967-06, for the unpermitted discharge of coal bed methane (CBM) produced water into waters of the state by Lance Oil & Gas Company, Inc. (Lance), a wholly owned subsidiary of Anadarko Petroleum Corporation (Anadarko). On October 5, 2006, the Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) conducted an inspection of the SHF Odegard 9-1 Pit. A concern noted during the inspection was the presence of CBM produced water in the SHF Odegard 9-1 Pit prior to the issuance of WYPDES permit WY0054143. This is a violation of the Wyoming Environmental Quality Act (Act) and the Wyoming Water Quality Rules and Regulations (WWQRR).

While neither the attached Notice of Violation nor this letter constitutes an order, it is the recommendation of this office that you take action to eliminate the alleged violation as follows:

1. Lance should ensure that CBM produced water is only discharged to waters of the state through permitted discharge points in accordance with the WWQRR.
2. Lance should inform the WQD of the steps taken to prevent this type of an unpermitted discharge from occurring again in the future. This information should be received by the WQD on or before December 1, 2006.

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

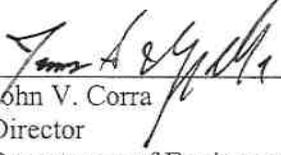
SOLID & HAZ. WASTE
(307) 777-7752
FAX 777-5973

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

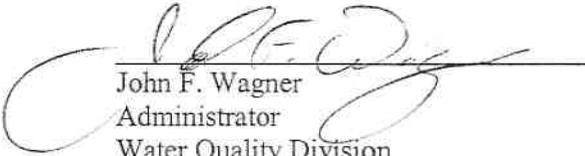


Mr. Alan Williams
November 8, 2006
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The WQD has the authority to resolve violations with an out-of-court settlement agreement through the payment of a penalty by Lance. If Lance wishes to pursue resolution of the previously noted violation through such an agreement, please contact Mr. Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator at (307) 777-8669, or Mr. Brian K. Lovett, WYPDES Inspection & Compliance Supervisor at (307) 777-5630, on or before November 27, 2006 to set up a meeting to discuss this matter.



John V. Corra
Director
Department of Environmental Quality



John F. Wagner
Administrator
Water Quality Division

JVC/JFW/BRB/bb/6-1061.LTR

Enclosure: Notice of Violation
10/25/06 Inspection Report

cc: Colleen Gillespie, 8ENF-W-NP, EPA Region 8
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
James B. Eisenhauer, WYPDES Inspection Coordinator, Sheridan DEQ Office
Mike Barrash, Senior Assistant Attorney General
Bill DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3967-06
Keith Guille, DEQ Public Information Officer (PDF File Only)
DEQ Director

Mr. Richard Waters
Senior Counsel
Anadarko Petroleum Corporation
1999 Broadway, Suite 3700
Denver, Colorado 80202

BEFORE THE
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF WYOMING

IN THE MATTER OF THE NOTICE OF)
VIOLATION ISSUED TO:)

Lance Oil & Gas Company, Inc.)
1999 Broadway, Suite 3700)
Denver, Colorado 80202)
)
)
)
)
)

DOCKET NUMBER 3967-06

NOTICE OF VIOLATION

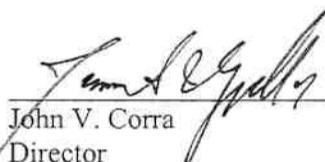
NOTICE IS HEREBY GIVEN THAT:

1. Lance Oil & Gas Company, Inc. (Lance), a wholly owned subsidiary of Anadarko Petroleum Corporation (Anadarko), is the owner/operator of the Spotted Horse Federal (SHF) CBM facility located in the Southwest Quarter of the Southwest Quarter of Section 9, Township 55 North, Range 75 West (SW ¼ SW ¼ Sec. 9, T55N, R75W), Campbell County, Wyoming;
2. On March 4, 2005, the Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) issued Notice of Violation (NOV) Docket Number 3712-05 to Lance for the unpermitted discharge of coal bed methane (CBM) produced water from frac tanks located at the above location. A settlement agreement was then reached between Lance and the DEQ to resolve the alleged violations;
3. On March 21, 2005, the WQD received WYPDES permit application WY0053288 from Lance for the discharge of CBM produced water into three (3) off-channel reservoirs. The reservoirs included the SHF Odegard 9-1 Pit to be constructed in the SW ¼ SW ¼ Sec. 9, T55N, R75W, Campbell County, next to the frac tanks referenced in paragraph 2 above. Proposed WYPDES permit WY0053288 was then placed into the July, 2005 public notice in accordance with the Wyoming Water Quality Rules and Regulations (WWQRR);
4. In a letter dated August 8, 2005, the WQD received comments on WYPDES proposed permit WY0053288 stating that SHF Odegard 9-1 Pit did not meet the WQD siting guidance for off-channel reservoirs. Upon review of additional information, the WQD determined this to be correct and removed outfall 001 and its associated CBM produced water reservoir, SHF Odegard 9-1 Pit, from proposed permit WY0053288 prior to signing the permit. The Statement of Basis for WYPDES permit WY0053288, which was issued on February 1, 2006, states the following: *"This permit was revised following its public notice period (July, 2005 WYPDES Public Notice). Outfall 001 has been removed from this permit because WDEQ has determined that the proposed containment unit associated with outfall 001 does not meet current WQD siting guidelines for off-channel CBM pits. Therefore, outfall 001 will be covered under a permit for on-channel discharge (WY0054143). ..."*;
5. In an e-mail to the consultant for Lance dated October 28, 2005, the WQD informed them that outfall 001 of WYPDES permit WY0053288 and its associated reservoir (SHF Odegard 9-1 Pit) would be removed from the permit and a new permit application for the on-channel reservoir would need to be submitted. On November 3, 2005, the WQD received WYPDES permit application WY0054143 from Lance for the discharge of CBM produced water into the SHF Odegard 9-1 Pit to be constructed in the SW ¼ SW ¼ Sec. 9, T55N, R75W, Campbell County, next to the frac tanks referenced in paragraph 2 above. Proposed WYPDES permit WY0054143 was then placed into the February, 2006 public notice in accordance with the WWQRR. This permit has not yet been issued;
6. On October 5, 2006, the WQD conducted an inspection of the SHF Odegard 9-1 Pit in response to a complaint stating that CBM produced water had been discharged into the reservoir prior to issuance of a WYPDES permit. As noted in the inspection report, water was not discharging into the reservoir at the time of the inspection, but had previously been discharged into the reservoir;

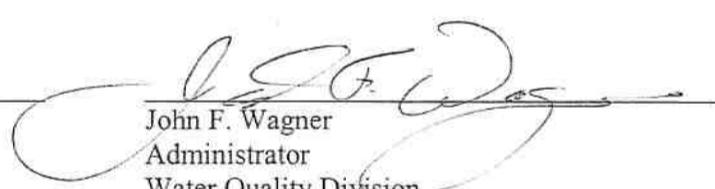
7. CBM produced water is considered "pollution" as defined in W.S. 35-11-103 (c)(i);
8. The discharges referenced above entered the SHF Odegard 9-1 Pit which is a "water of the state" as defined under W.S. 35-11-103 (c)(vi);
9. The Department of Environmental Quality has no record of permits authorizing the discharge to waters of the state from the locations referenced in the case described above;
10. By discharging pollution into waters of the state, Lance is in violation of W.S. 35-11-301 (a)(i) and Chapter 2 of the Wyoming Water Quality Rules and Regulations which state that no person, except when authorized by a permit issued by the Department of Environmental Quality, shall cause, threaten or allow the discharge of any pollution or wastes into the waters of the state;
11. This Notice is being sent to you pursuant to W.S. 35-11-701(c)(i), which requires that in any case of the failure to correct or remedy an alleged violation, the director of the Department of Environmental Quality shall cause a written notice to be issued and served upon the person alleged to be responsible;
12. Pursuant to Wyoming Statute 35-11-901(a), any person who violates, or any director, officer, or agent of a corporate permittee who willingly and knowingly authorizes, orders, or carries out the violation of any provision of the Environmental Quality Act (Act), or any rule, regulation, standard, or permit adopted hereunder or who violates any determination or order of the council pursuant to this act or any rule, regulation, standard, permit, license, or variance is subject to a penalty not to exceed ten thousand dollars and no cents (\$10,000.00) for each violation for each day during which the violation continues, a temporary or permanent injunction, or both a penalty and an injunction. The penalty may be recovered in a civil action brought by the Attorney General in the name of the People of the State of Wyoming. Nothing herein shall preclude the department from negotiating stipulated settlements involving the payment of a penalty, implementation of compliance schedules, or other settlement conditions, in lieu of litigation.

NOTHING IN THIS NOTICE OF VIOLATION (NOV) shall be interpreted to in any way limit or contravene any other remedy available under the Environmental Quality Act, nor shall this NOV be interpreted as being a condition precedent to any other enforcement action.

Signed this 13 day of November, 2006.



John V. Corra
Director
Department of Environmental Quality



John F. Wagner
Administrator
Water Quality Division

PLEASE DIRECT ALL INQUIRIES TO: Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator at the Wyoming Department of Environmental Quality, Water Quality Division, Herschler Building, 4th Floor West, 122 West 25th Street, Cheyenne, Wyoming 82002. Telephone 307-777-8669.

JVC/JFW/BRB/bb/6-1061.NOV

cc: Colleen Gillespie, 8ENF-W-NP, EPA Region 8
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
James B. Eisenhauer, WYPDES Inspection Coordinator, Sheridan DEQ Office
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