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 Anadarko Petroleum Corporation (Anadarko) and 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 (NOV) Docket Number 3967-06 dated November 13, 2006, and NOV Docket number 3987-06 dated November 21, 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, 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. Lance accepts responsibility for the unauthorized discharge of coal bed methane (CBM) produced water from an upper reservoir to a lower reservoir alleged in NOV Docket Number 3987-06. Additionally, Lance accepts responsibility for the unauthorized discharge of CBM produced water into the reservoir alleged in NOV Docket Number 3967-06 which occurred in Campbell County, Wyoming.

3. Lance will submit a permit application to the WQD requesting that WYPDES permit WY0049158 be modified. The permit application shall request the use of multiple on-channel reservoirs below each permitted outfall. Multiple on-channel reservoirs shall only be allowed for use where Lance can demonstrate that no irrigation activities occur between the reservoirs. The permit modification application shall be received by the WQD by March 31, 2007 to resolve NOV Docket 3987-06.

4. Lance agrees to pay a total penalty of five thousand four hundred dollars and no cents ($5,400.00) as a stipulated settlement to resolve NOV Docket 3967-06 in lieu of litigation under W.S. §35-11-901(a)(ii). Lance shall pay $5,400.00 directly to the DEQ/WQD. The payment is due and payable within thirty (30) days of the full execution of this Settlement Agreement or by March 31, 2007, which ever occurs first. Payment to DEQ shall be by check made 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 3987-06.**

5. Except as provided in paragraphs 3 and 4 above, 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 related to all allegations and all violations alleged in NOV Docket Numbers 3967-06 and 3987-06. Contingent upon Lance's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Lance for these alleged violations. By this Settlement Agreement, the parties intend to resolve with prejudice all claims related to all allegations that were asserted in NOV Docket Numbers 3967-06 and 3987-06.

6. Lance waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in NOV Docket Numbers 3967-06 and 3987-06, in the event that Lance fails to fulfill its obligations under this Settlement Agreement.

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

8. This Settlement Agreement shall be admissible by either party without objection by the other party in any subsequent action between these parties.

9. 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.

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

11. This Settlement Agreement is binding upon Lance Oil & Gas Company, Inc., its successors and assigns, and upon the DEQ.

12. 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: LANCE OIL & GAS COMPANY, INC.

Signed: _____ Date: 14 FEB 07

Typed: James A. Alsup

Title: GENERAL MANAGER – OPERATIONS

FOR THE WYOMING DEPTARTMENT OF ENVIRONMENTAL QUALITY:

_____ Date: 2/12/07
John V. Corra
Director
Department of Environmental Quality

_____ Date: 2/9/07
John F. Wagner
Administrator
Water Quality Division

JVC/JFW/BRB/bb/7-0125.SA

cc: Julie Orr, 8ENF-W-NP, EPA Region 8 (signed copy by all parties)
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
James B. Eisenhauer, Sheridan DEQ Office (signed copy by all parties)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3967-06
IPS (for scanning) ► Docket 3987-06
Keith Guille, DEQ Public Information Officer (PDF file of a signed copy by all parties)