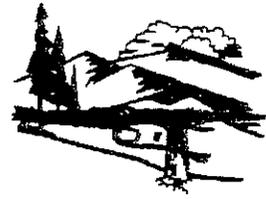




Department of Environmental Quality



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

June 20 2007

Mr. Jim Kostrzewa
Federated Oil and Gas Properties
PO Box 964
Traverse City MI 49685

RE: Notice of Violation, Docket Number 4055-07

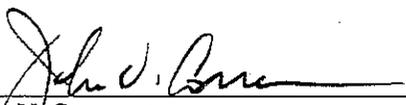
Dear Mr. Kostrzewa:

Enclosed is a copy of Notice of Violation, Docket Number 4055-07, for the unpermitted discharge of coal bed methane (CBM) produced water into waters of the state by Federated Oil and Gas Properties (Federated). The unpermitted discharges from outfalls associated with expired WYPDES permits WY0045829 and WY0046469. These discharges are violations of the Wyoming Environmental Quality Act (Act), the Wyoming Water Quality Rules and Regulations (WWQRR).

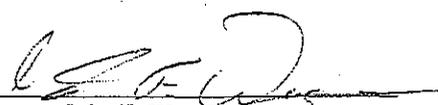
While neither the attached Notice of Violation nor this letter constitutes an order, it is the recommendation of this office that you take action to eliminate the alleged violations as follows:

1. Federated should inform the Water Quality Division (WQD) in writing of the steps taken to ensure that there will be no further discharge of CBM produced water without proper permit authorization. This information should be received by the WQD on or before July 1, 2007.

The WQD has the authority to resolve violations with an out-of-court settlement agreement through the payment of a penalty by Federated. If Federated wishes to pursue resolution of the previously noted violations through such an agreement, please contact Mr. Kevin M. Wells, WYPDES Compliance & Enforcement Coordinator at (307) 777-8669, or Mr. Brian K. Lovett, WYPDES Inspection & Compliance Supervisor at (307) 777-5630, on or before July 1, 2007 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/KMW/bb/7-0505.LTR

Enclosure: Notice of Violation
4/2/07 WQD Initial Pollution Incident Report

cc: Aaron Urdiales, 8ENF-W-NP, EPA Region 8 (PDF)
James B. Eisenhauer, WYPDES Inspection Coordinator, Sheridan DEQ Office (PDF)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 4055-07
Keith Guille, DEQ Public Information Officer (PDF)

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

ADMIN/OUTREACH (307) 777-7937 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 777-5973	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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BEFORE THE
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF WYOMING

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

Federated Oil and Gas Properties)
PO Box 964)
Traverse City MI 49685)

DOCKET NUMBER 4055-07

NOTICE OF VIOLATION

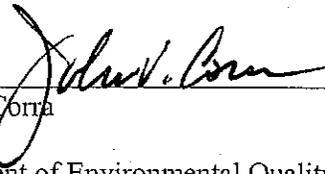
NOTICE IS HEREBY GIVEN THAT:

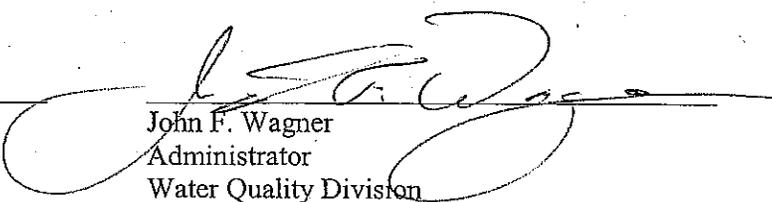
1. Federated Oil and Gas Properties (Federated) operates coal bed methane (CBM) production facilities located in Sections 2 and 12, Township 54 North, Range 75 West, and Section 28, Township 55 North, Range 752 West, Campbell County, Wyoming;
2. On March 23, 2007 the Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) conducted an inspection of several Federated facilities. CBM produced water was observed discharging to waters of the state from outfalls 001, 002, and 004 associated with expired WYPDES permit WY0045829 (which expired on September 27, 2006), and outfalls 001 and 002 associated with expired WYPDES permit WY0046469 (which expired on October 8, 2006);
3. The inspector informed Federated of the un-permitted discharges and a letter was faxed to Federated on March 23, 2007 indicating the unpermitted discharges needed to cease until coverage under a new WYPDES permit was obtained. The inspector met with a contractor for Federated on March 27, 2007 who confirmed with photo documentation that the unpermitted discharges had been stopped;
4. CBM produced water is considered "pollution" as defined in W.S. 35-11-103 (c)(i);
5. The discharges referenced above entered "waters of the state" as defined under W.S. 35-11-103 (c)(vi) through previously permitted discharge points;
6. By discharging pollution into waters of the state, Federated 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;
7. 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;
8. 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 20 day of June, 2007.


John V. Corra
Director
Department of Environmental Quality


John F. Wagner
Administrator
Water Quality Division

PLEASE DIRECT ALL INQUIRIES TO: Kevin M. Wells., 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/KMW/bb/7-0505.NOV

cc: Aaron Urdiales, 8ENF-W-NP, EPA Region 8 (PDF)
James B. Eisenhauer, WYPDES Inspection Coordinator, Sheridan DEQ Office (PDF)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 4055-07
Keith Guille, DEQ Public Information Officer (PDF File Only)
DEQ Director