

RECEIVED

MAR 13 2007

WATER QUALITY DIVISION

**SETTLEMENT AGREEMENT**

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD), and Zephyr Production, Inc. (Zephyr), 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 3986-06 dated November 30, 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, Zephyr 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. Zephyr accepts responsibility for the violations alleged in NOV Docket Number 3986-06 which occurred in Crook County, Wyoming.

3. Since receiving NOV Docket Number 3986-06, Zephyr has provided the WQD with documentation indicating the steps to be taken, to prevent the violation from occurring again. This includes a request to modify WYPDES permit WY0047295 to reflect the actual constructed location of the discharge point in the permit. The permit was placed into the January 16, 2007 public notice. Zephyr has agreed to construct a single pit to aid in reducing the discharge temperature of the water, and to remove other pollutants prior to the discharge. Due to permitting requirements with the Wyoming Oil & Gas Conservation Commission (WOGCC), the new pit shall be constructed and operational on or before September 30, 2007. A written report, including photo documentation of the completed pit, shall be received by the WQD within fifteen (15) days of the completion of the pit.

4. Zephyr agrees to pay a total penalty of two thousand nine hundred dollars and no cents (\$2,900.00) as a stipulated settlement to resolve this matter in lieu of litigation under W.S. §35-11-901(a)(ii). Zephyr shall pay \$2,900.00 directly to the DEQ and shall be due and payable within thirty (30) days of the full execution of this Settlement Agreement or by March 31, 2007, whichever 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., 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 should reference NOV Docket Number 3986-06.

5. Except as provided in paragraphs 3 and 4 above, this signed Settlement Agreement and payment by Zephyr as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against Zephyr based on the violations alleged in Notice of Violation Docket Number 3986-06. Contingent upon Zephyr's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement actions against Zephyr for these particular violations. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket Number 3986-06.

6. Zephyr 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 3986-06 in the event that Zephyr fails to fulfill their obligations under this Settlement Agreement.

7. 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 Zephyr 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 Zephyr 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 Zephyr, 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.

13. Full execution of this Settlement Agreement shall be determined by the latest date when signed by all parties.

**FOR: ZEPHYR PRODUCTION, INC.**

Signed: Robert Vergnani

Typed: Robert Vergnani

Title: President

Date: 3-11-2007

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

John V. Corra  
John V. Corra  
Director  
Department of Environmental Quality

Date: 2/27/07

John F. Wagner  
John F. Wagner  
Administrator  
Water Quality Division

Date: 2/27/07

JVC/JFW/BRB/bb/7-0154.SA

cc: Aaron Urdiales, 8ENF-W-NP, EPA Region 8 (signed copy by all parties only)  
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator  
James B. Eisenhauer, WYPDES Inspection Coordinator (signed copy by all parties only)  
Bill DiRienzo ► Brian K. Lovett ► Leah J. Krafft  
IPS (for scanning) ► Docket 3986-06  
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties only)