STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:	*	**Settlement Tracking No.**
	*	**SA-AE-14-0020**
CHESAPEAKE OPERATING, INC.	*	
	*	**Enforcement Tracking No.**
AI # 32475, 32477, 32483, 32487,	*	**AE-PP-10-01572**
32488, 32489, 52001, 85601,	*	**AE-PP-10-01572A**
91243, 126444, 135125, 137537,	*	
139039, 139308, 139960, 139971,	*	
140529, 140909, 141371, 144121,	*	
160125, 160580, 160767, 162219,	*	
162220, 162602, 162801, 163277, 165145	*	
	*	
PROCEEDINGS UNDER THE LOUISIANA	*	
ENVIRONMENTAL QUALITY ACT	*	
LA. R.S. 30:2001, ET SEQ.	*	

SETTLEMENT

The following Settlement is hereby agreed to between Chesapeake Operating, Inc. ("Respondent") and the Department of Environmental Quality ("DEQ" or "the Department"), under authority granted by the Louisiana Environmental Quality Act, La. R.S. 30:2001, et seq. ("the Act").

I

Respondent is a corporation that owns and/or operates facilities located in Natchitoches, Bossier, Rapides, Caddo, Lincoln, DeSoto, Jackson, Bienville, and Sabine Parishes, Louisiana ("the Facilities").

II

On May 31, 2011, the Department issued to Respondent a Notice of Potential Penalty (NOPP), Enforcement No. AE-PP-10-01572, which was based upon the following findings of fact:

"On or about January 26, 2011, file reviews of multiple facilities owned and/or operated by

CHESAPEAKE OPERATING, INC. (RESPONDENT), were performed to determine the degree of compliance with the Louisiana Environmental Quality Act (the Act) and the Air Quality Regulations.

While the investigation by the Louisiana Department of Environmental Quality (the Department) is not yet complete, the following violations were noted during the course of the file reviews:

A. According to the Name/Ownership/Operator Change Form (NOC-1 Form) dated October 27, 2006, the Respondent became the owner and/or operator of the following facilities on December 1, 2004.

AI Number	Facility Name
32475	Black Lake Satellite #4
32477	Black Lake Satellite #3
32483	Black Lake Satellite #5
32487	Edenborn #23 Wellsite Black Lake Field
32488	Edenborn #26 Wellsite Black Lake Field
32489	Hefner #1 Wellsite Black Lake Field

Each incident of the Respondent's failure to submit a complete NOC-1 form to the Department within 45 days after the ownership change is a violation of LAC 33:I.1905.A, LAC 33:III.517.G and La. R.S. 30:2057(A)(2).

B. The Respondent became the owner and/or operator of the following facilities on December 1, 2004, and each facility's air permit was transferred on August 27, 2009.

AI Number	Facility Name
32475	Black Lake Satellite #4
32477	Black Lake Satellite #3
32483	Black Lake Satellite #5
32487	Edenborn #23 Wellsite Black Lake Field
32488	Edenborn #26 Wellsite Black Lake Field
32489	Hefner #1 Wellsite Black Lake Field

Each incident of the unauthorized operation of each facility between the time the Respondent became the owner and/or operator and the date of permit transfer is a violation of LAC 33:III.501.C.2 and La. R.S. 30:2057(A)(1) and 30:2057(A)(2).

C. According to the NOC-1 Form dated March 20, 2007, the Respondent became the owner and/or operator of the following facilities on December 22, 2006.

AI Number	Facility Name
135125	Clingman 1 #1 Tank Battery
137537	Hunter 26 #1 Tank Battery
139039	William 22 #1 Tank Battery
139308	Brown 14 #1 Tank Battery
139971	Copeland 12 #1 Tank Battery
140529	Walton 23 #1 Tank Battery
140909	Soaring Ridge 15 #1 Tank Battery
141371	Adams 24-1 Tank Battery
144121	West 13 #1 Tank Battery

Each incident of the Respondent's failure to submit a complete NOC-1 form to the Department within 45 days after the ownership change is a violation of LAC 33:I.1905.A, LAC 33:III.517.G and La. R.S. 30:2057(A)(2).

D. According to the NOC-1 Form dated October 26, 2007, the Respondent became the owner and/or operator of the following facilities on May 7, 2007.

Agency Interest (AI) Number	Facility Name
85601	USA Miss Murphy South Compressor Facility
126444	USA Miss Murphy North Compressor Facility

Each incident of the Respondent's failure to submit a complete NOC-1 form to the Department within 45 days after the ownership change is a violation of LAC 33:I.1905.A, LAC 33:III.517.G and La. R.S. 30:2057(A)(2).

E. Air Permit No. 2360-00123-00, issued on October 23, 2002, includes a VRU compressor engine (EQT2) and combustion flare (EQT3) at the Tower Land Facility (Agency Interest No. 91243). According to the permit modification application dated February 4, 2008, the VRU compressor engine and flare were never installed and should be removed from Air Permit No. 2360-00123-00. Each incident of the Respondent's failure to control emissions as specified in Air Permit No. 2360-00123-00 is a violation of LAC 33:III.905.A, Air Permit No. 2360-00123-00, LAC 33:III.501.C.4 and La. R.S. 30:2057(A)(2).

F. A permit modification application dated November 15, 2007, requested the addition of two (2) compressor engines (COMP2 and COMP3) at the Rutledge CDP Compressor Station (Agency Interest No. 139960). According to a stack test report dated March 19, 2008, a stack test was conducted on February 22,

2008, for COMP2. Air Permit No. 1720-00178-01, issued on May 21, 2008, included the requested emission points. According to the Respondent's correspondence dated October 6, 2010, COMP2 began operating on November 1, 2007. According to the Respondent's correspondence dated October 6, 2010, COMP3 operated between the time period of November 6, 2007, and June 15, 2008. Each incident of the unauthorized operation of each compressor engine is a violation of LAC 33:III.501.C.2, and La. R.S. 30:2057(A)(1) and 30:2057(A)(2).

G. In a variance request dated August 21, 2008, the Respondent requested to install a replacement engine at the South Sligo Compressor Station (Agency Interest No. 52001). According to the Respondent's correspondence dated October 6, 2010, actual installation of the engine occurred on August 22, 2008. On September 12, 2008, the Department issued a variance authorizing the installation and operation of the compressor engine. The unauthorized operation of the engine during the time period of August 22, 2008, through September 12, 2008, is a violation of LAC 33:III.501.C.2 and La. R.S. 30:2057(A)(1) and 30:2057(A)(2).

H. According to the Respondent's correspondence dated October 6, 2010, and October 29, 2010, the Respondent failed to submit a permit application prior to construction, reconstruction, or modification of the following facilities.

AI Number	Facility Name
160125	Sellers 22 #1 Facility
160580	Johnson 31 No. 1 Production Facility
160767	Davis Brothers 36 #1
162219	Hays 10 #1 Facility
162220	Goree 4 #1 Facility
162602	Calahan 3 #1- Alt Facility
163277	Nabors Logan 34- H-1
165145	Prescott Family LLC 35 H-1

Each incident of the Respondent's failure to submit a permit application prior to construction, reconstruction, or modification of each facility is a violation of LAC 33:III.501.C.1 and La. R.S. 30:2057(A)(2).

I. According to the Respondent's correspondence dated October 6, 2010, and October 29, 2010, the following facilities operated without a valid air permit for a period of time.

AI Number	Facility Name
160125	Sellers 22 #1 Facility
160580	Johnson 31 No. 1 Production Facility
160767	Davis Brothers 36 #1
162219	Hays 10 #1 Facility
162220	Goree 4 #1 Facility

AI Number	Facility Name
162602	Calahan 3 #1- Alt Facility
162801	Jones 3 #1-Alt Facility
163277	Nabors Logan 34- H-1
165145	Prescott Family LLC 35 H-1

Each incident of the Respondent's unauthorized operation of each facility is a violation of LAC 33:III.501.C.2 and La. R.S. 30:2057(A)(1) and 30:2057(A)(2)."

On January 2, 2013, the Department issued to Respondent an Amended Notice of Potential Penalty (NOPP), Enforcement No. AE-PP-10-01572A, which was based upon the following findings of fact:

"The Department hereby amends Paragraphs E, H, and I of the Notice of Potential Penalty to read as follows:

E. Air Permit No. 2360-00123-00 issued on October 23, 2002, includes a VRU compressor engine (EQT2) and combustion flare at the Tower Land Facility (Agency Interest No. 91243). A permit modification application dated February 4, 2008, states the VRU and flare were never installed. The Respondent's correspondence dated July 14, 2011, states, "...records were discovered indicating that the VRU compressor engine was installed and operated at the Tower Land Facility...and the permit modification application dated February 4, 2008 incorrectly stated that the equipment had not been installed. Invoices from the compressor rental company show that the engine was on-site through April 7, 2007..." The Respondent's failure to control emissions as specified in Air Permit No. 2360-00123-00 is a violation of LAC 33:III.905.A, LAC 33:III.501.C.4, and La. R.S. 30:2057(A)(2). Air Permit No. 2360-00123-01 issued on November 14, 2008, addresses the removal of the VRU and flare from this facility.

H. According to the Respondent's correspondence dated October 6, 2010, and October 29, 2010, the Respondent failed to submit a permit application prior to construction, reconstruction, or modification of the following facilities.

AI Number	Facility Name
160125	Sellers 22 #1 Facility
160580	Johnson 31 No. 1 Production Facility
162219	Hays 10 #1 Facility
162220	Goree 4 #1 Facility
162602	Calahan 3 #1- Alt Facility

Each incident of the Respondent's failure to submit a permit application prior to construction, reconstruction, or modification of each facility is a violation of LAC 33:III.501.C.1 and La. R.S. 30:2057(A)(2).

I. According to the Respondent's correspondence dated October 6, 2010, and October 29, 2010, the following facilities operated without a valid air permit.

AI Number	Facility Name
160125	Sellers 22 #1 Facility
160580	Johnson 31 No. 1 Production Facility
162219	Hays 10 #1 Facility
162220	Goree 4 #1 Facility
162602	Calahan 3 #1- Alt Facility
162801	Jones 3 #1-Alt Facility

Each incident of the Respondent's unauthorized operation of each facility is a violation of LAC 33:III.501.C.2 and La. R.S. 30:2057(A)(1) and 30:2057(A)(2).

The Department hereby amends the Notice of Potential Penalty to add Paragraphs J and K as follows:

J. In correspondence dated July 14, 2011, the Respondent reported the 2007 VOC emissions from the Tower Land Facility to be 47.48 tons. Air Permit No. 2360-00123-00 issued on October 23, 2002, permited the facility to emit 26.79 tons per year of VOCs. This exceedance is a violation of Air Permit No. 2360-00123-00, LAC 33:III.501.C.4, La. R.S. 30:2057(A)(1) and 30:2057(A)(2). Air Permit No. 2360-00123-01, issued on November 14, 2008, increased the VOC emissions for this facility.

K. The Respondent failed to report the 2007 VOC permit limit exceedance for the Tower Land Facility. At the time of this exceedance, the Respondent was required to submit a written report within 7 days of any emission in excess of permit requirements, regardless of the amount, where such emission occurs over a period of seven days or longer. The failure to report this exceedance is a violation of Air Permit No. 2360-00123-00, LAC 33:III.501.C.4, and La. R.S. 30:2057(A)(2).

The Department incorporates all of the remainder of the original **NOTICE OF POTENTIAL PENALTY, ENFORCEMENT TRACKING NO. AE-PP-10-01572** and **AGENCY INTEREST NOS. 32475, 32477, 32483, 32487, 32488, 32489, 52001, 85601, 91243,**

126444, 135125, 137537, 139039, 139308,139960, 139971, 140529, 140909, 141371, 144121, 160125, 160580, 162219, 162220, & 162602 as if reiterated herein."

III

Respondent denies it committed any violations or that it is liable for any fines, forfeitures and/or penalties.

IV

Nonetheless, Respondent, without making any admission of liability under state or federal statute or regulation, agrees to pay, and the Department agrees to accept, a payment in the amount of THIRTY-THREE THOUSAND ONE HUNDRED SEVENTY-SIX AND NO/100 DOLLARS ($33,176.00), of which Two Thousand One Hundred Five and 74/100 Dollars ($2,105.74) represents the Department's enforcement costs, in settlement of the claims set forth in this agreement. The total amount of money expended by Respondent on cash payments to the Department as described above, shall be considered a civil penalty for tax purposes, as required by La. R.S. 30:2050.7(E)(1).

V

Respondent further agrees that the Department may consider the permit record(s), the NOPPs and this Settlement for the purpose of determining compliance history in connection with any future enforcement or permitting action by the Department against Respondent, and in any such action Respondent shall be estopped from objecting to the above-referenced documents being considered as proving the violations alleged herein for the sole purpose of determining Respondent's compliance history.

VI

This agreement shall be considered a final order of the Secretary for all purposes, including, but not limited to, enforcement under La. R.S. 30:2025(G)(2), and Respondent hereby waives any

right to administrative or judicial review of the terms of this agreement, except such review as may be required for interpretation of this agreement in any action by the Department to enforce this agreement.

VII

This settlement is being made in the interest of settling the state's claims and avoiding for both parties the expense and effort involved in litigation or an adjudicatory hearing. In agreeing to the compromise and settlement, the Department considered the factors for issuing civil penalties set forth in La. R. S. 30:2025(E) of the Act and the rules relating to beneficial environmental projects set forth in LAC 33:I.Chapter 25.

VIII

The Respondent has caused a public notice advertisement to be placed in the official journal of the parish governing authority in Natchitoches, Bossier, Rapides, Caddo, Lincoln, DeSoto, and Bienville Parishes, Louisiana. The advertisement, in form, wording, and size approved by the Department, announced the availability of this settlement for public view and comment and the opportunity for a public hearing. Respondent has submitted an original proof-of-publication affidavit and an original public notice from the newspaper of each affected parish to the Department and, as of the date this Settlement is executed on behalf of the Department, more than forty-five (45) days have elapsed since publication of the notice.

IX

Payment is to be made within ten (10) days from notice of the Secretary's signature. If payment is not received within that time, this Agreement is voidable at the option of the Department. Payments are to be made by check, payable to the Department of Environmental Quality, and mailed or delivered to the attention of Accountant Administrator, Financial Services Division, Department

of Environmental Quality, Post Office Box 4303, Baton Rouge, Louisiana, 70821-4303. Each payment shall be accompanied by a completed Settlement Payment Form (Exhibit A).

X

In consideration of the above, any claims for penalties are hereby compromised and settled in accordance with the terms of this Settlement.

XI

Each undersigned representative of the parties certifies that he or she is fully authorized to execute this Settlement Agreement on behalf of his or her respective party, and to legally bind such party to its terms and conditions.

CHESAPEAKE OPERATING, INC.

BY: _____
(Signature)

_____
(Printed)

TITLE: _____

THUS DONE AND SIGNED in duplicate original before me this _____ day of _____, 20 _____, at _____.

_____
NOTARY PUBLIC (ID #_____)

_____
(stamped or printed)

LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY
Peggy M. Hatch, Secretary

BY: _____
Cheryl Sonnier Nolan, Assistant Secretary
Office of Environmental Compliance

THUS DONE AND SIGNED in duplicate original before me this _____ day of _____, 20_____, at Baton Rouge, Louisiana.

_____
NOTARY PUBLIC (ID # _____)

_____
(stamped or printed)

Approved: _____
Cheryl Sonnier Nolan, Assistant Secretary