STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:	*	**Settlement Tracking No.**
	*	**SA-AE-0-10-0055**
DENALI OIL & GAS MANAGEMENT, LLC	*	
	*	**Enforcement Tracking No.**
AI # 154716	*	**AE-PP-09-0120**
	*	
PROCEEDINGS UNDER THE LOUISIANA ENVIRONMENTAL QUALITY ACT LA. R.S. 30:2001, ET SEQ.	*	

SETTLEMENT

The following Settlement is hereby agreed to between Denali Oil & Gas Management, LLC ("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 limited liability company that owns and/or operates a oil and gas production facility located southwest of Carlyss in Calcasieu Parish, Louisiana ("the Facility").

II

On October 15, 2009, the Department issued to Respondent a Notice of Potential Penalty, Enforcement No. AE-PP-09-0120, which was based upon the following findings of fact:

On or about February 9, 2009, an inspection of Stream #1 Production Facility – Clear Marais Field, owned and/or operated by Denali Oil & Gas Management, LLC (Respondent), was performed to determine the degree of compliance with the Louisiana Environmental Quality Act (the Act) and the Air Quality Regulations. The facility is located at 6.9 miles southwest of Carlyss in Calcasieu Parish, Louisiana. On April 29, 2009, the Respondent submitted an air permit modification

application to the Louisiana Department of Environmental Quality's (the Department).The facility currently operates under Air Permit No. 0520-00397-01, issued on May 20, 2009.

The following violations were noted during the course of the inspection:

A. The inspector noted that the vapor recovery unit and a salt water storage tank were no longer on site. During the course of the inspection, the inspector also noted that an emergency flare was operating on site and not listed in the facility's air permit. Each incident of the Respondent's failure to submit a permit application prior to construction, reconstruction, or modification is a violation of LAC 33:III.501.C.1 and La. R.S.30:2057(A)(1) and 30:2057(A)(2).

B. The inspector noted that an emergency flare was operating on site for an unknown number of hours and not listed in the facility's air permit. The Respondent's failure to submit a permit application and receive approval prior to operation of the facility's flare, which ultimately may result in an initiation or increase of air contaminants is a violation of LAC 33:III.501.C.2, and La. R.S. 30:2057(A)(1) and 30:2057(A)(2).

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 ONE THOUSAND AND NO/100 DOLLARS ($1,000.00), of which Two Hundred Fifty-Seven and 74/100 Dollars ($257.74) 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 inspection report(s), the Notice of Potential Penalty 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 LSA- R. S. 30:2025(E) of the Act.

VIII

The Respondent has caused a public notice advertisement to be placed in the official journal of the parish governing authority in Calcasieu Parish, 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 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.

DENALI OIL & GAS MANAGEMENT, LLC

BY: David R Montz
(Signature)

DAVID R. Montz
(Print)

TITLE: V.P. Drilling & Production

THUS DONE AND SIGNED in duplicate original before me this 21st day of October, 20 10, at Houston, TX.

JANNA CALHOUN
Notary Public, State of Texas
My Commission Expires
July 28, 2014

Janna Calhoun
NOTARY PUBLIC (ID # 00672849-1

JANNA CALHOUN
(Print)

LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY
Peggy M. Hatch, Secretary

BY: _____
Cheryl Sonnier Nolan, Assist. 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 # _____)

_____
(Print)

Preliminary Approval: _____
Beau James Brock, Assistant Secretary