

STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:
PETROQUEST ENERGY, L.L.C.
AI# 104537

* Settlement Tracking No.
* SA-AE-06-0014

AND

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AMERICAN EXPLORER, INC.
AI # 104537

* Enforcement Tracking Nos.
* AE-CN-03-0385
* AE-CN-05-0040

PROCEEDINGS UNDER THE LOUISIANA
ENVIRONMENTAL QUALITY ACT
LA. R.S. 30:2001, ET SEQ.

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* Docket No. 2005-3350-EQ

SETTLEMENT

The following Settlement is hereby agreed to between Petroquest Energy, L.L.C. and American Explorer, Inc. ("Respondents", "Petroquest" or "American Explorer") 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

Petroquest is a corporation who owns and/or operates an oil field production facility known as Turtle Bayou Field Production Facility #1, located approximately nine miles southwest of Oak Forest in Terrebonne Parish, Louisiana. Petroquest took control of the facility on or about September 1, 1998, operating under Air Quality Permit No. 2880-00100-00, effective December 5, 1994. On or about November 26, 2002, Petroquest submitted an air permit modification that reflects the current operations and emissions from each source at the facility. Petroquest currently operates under Air Quality Permit No. 2880-00100-01, effective February 13, 2004.

II

On April 7, 2004, the Department issued to Petroquest a Consolidated Compliance Order & Notice of Potential Penalty, Enforcement No. AE-CN-03-0385, which was based upon the following findings of fact:

On or about February 6, 2004, a file review of the Respondent's facility was conducted to determine the degree of compliance with the Act and Air Quality Regulations.

While the Department's investigation is not yet complete, the following violations were noted during the course of the review:

- A. The Respondent failed to submit a notification of change of ownership to the Department within ninety (90) days of acquiring the facility. The Respondent submitted the change request on or about February 11, 2003. The failure to submit the notification of change of ownership within ninety (90) days is a violation of Air Permit No. 2880-00100-00, LAC 33:III.517.G, and Section 2057(A)(2) of the Act.
- B. During the review process of the permit modification application submitted for the facility, it was discovered that emissions from the Glycol Dehydrator Vent Stack, Emission Point 1-05, were uncontrolled since the facility transfer to the Respondent on September 1, 1998. As a result, the uncontrolled emissions were above the major source threshold for Louisiana Toxic Air Pollutants. The Respondent failed to submit an initial Part 70 permit application prior to operation of a stationary source that emits, or has the potential to emit, in aggregate, ten tons per year or more of any hazardous air pollutant which has been listed pursuant to Section 112 of the Clean Air Act, or 25 tons per year or more of any combination of such hazardous air pollutants in violation of LAC 33:III.507.C.1, LAC 33:III.5111.A.4, and Sections 2057(A)(1) and 2057(A)(2) of the Act.
- C. The Respondent has not submitted historical Emissions Inventory Statement (EIS) reports, since taking control of the facility on September 1, 1998. As a major source of air toxics, the Respondent's failure to report actual emissions data annually is a violation of LAC 33:III.919.E and Section 2057(A)(2) of the Act.

- D. The Respondent has not submitted historical Toxic Emission Data Inventory (TEDI) reports, since taking control of the facility on September 1, 1998. As a major source of air toxics, the Respondent's failure to report the actual quantity of emissions annually for any TAP emitted is a violation of LAC 33:III.5107.A.2 and Section 2057(A)(2) of the Act.
- E. Based on a review of the Respondent's air permit modification, the Respondent has historically operated the Glycol Dehydrator Vent Stack, Emission Point 1-05, with actual emissions above the major source threshold for Louisiana Toxic Air Pollutants. The Respondent's failure to submit a certification of compliance or a compliance plan for achieving compliance with Maximum Available Control Technology (MACT) requirements prior to the operation of the Glycol Dehydrator Vent Stack is a violation of LAC 33:III.5109.A.1, LAC 33:III.5109.D.1, and Section 2057(A)(2) of the Act.
- F. Based on a review of the Respondent's air permit modification, the Respondent has historically operated the Glycol Dehydrator Vent Stack, Emission Point 1-05, with actual emissions above the major source threshold for Louisiana Toxic Air Pollutants. The Respondent's failure to submit a certification of compliance with applicable ambient air standards prior to the operation of the Glycol Dehydrator Vent Stack is a violation of LAC 33:III.5109.B.1, LAC 33:III.5109.D.1, and Section 2057(A)(2) of the Act.
- G. The Respondent failed to achieve compliance with 40 CFR 63 Subpart HH by June 17, 2002. This is a violation of 40 CFR 63.760(f)(1), which language has been adopted as a Louisiana regulation in LAC 33:III.5122.

III

In response to the Consolidated Compliance Order & Notice of Potential Penalty, Enforcement No. AE-CN-03-0385, Petroquest made a timely request for a hearing.

IV

American Explorer, Inc. had previously owned and/or operated Turtle Bayou Facility #1. American Explorer operated this facility under Air Permit No. 2880-00100-00 issued on December

5, 1994. As a result of certain contractual arrangements between American Explorer, Inc. and Respondent, the facility was later acquired by the current owner, Petroquest Energy, L.L.C., on September 1, 1998.

V

On or about January 19, 2005, a file review of American Explorer's facility was performed to determine the degree of compliance with the Act and Air Quality Regulations. On March 6, 2005, the Department issued to American Explorer a Consolidated Compliance Order & Notice of Potential Penalty, Enforcement No. AE-CN-05-0040, which was based upon the following findings of fact:

The Respondent previously owned and/or operated TURTLE BAYOU FACILITY #1 located approximately nine (9) miles southwest of Oak Forest in Terrebonne Parish, Louisiana. The Respondent operated the facility under Air Permit No. 2880-00100-00 issued on December 5, 1994. The facility was later acquired by the current owner, Petroquest Energy, L.L.C. on September 1, 1998.

While the Department's investigation is not yet complete, the following violation was noted during the course of the file review:

Air Permit No. 2880-00100-00 contained a Specific Condition requiring the Respondent to perform an actual test of emissions from the still column vent such that the proposed permit limits could be validated. The Respondent failed to test the Glycol Dehydrator Vent Stack, Emission Point 1-05, for hydrocarbon emissions within sixty (60) days after achieving normal production rate, but in no event later than 180 days after initial start-up. This is a violation of the Specific Condition of Air Permit No. 2880-00100-00, General Condition VIII of Air Permit No. 2880-00100-00, and Section 2057(A)(2) of the Act.

VI

The Respondents deny they committed any violations or that they are liable for any fines,

forfeitures and/or penalties.

VII

Nonetheless, the Respondents, without making any admission of liability under state or federal statute or regulation, agree to pay, and the Department agrees to accept, a payment in the amount of TWENTY FOUR THOUSAND AND NO/100 DOLLARS (\$24,000.00), of which FIVE HUNDRED AND NO/100 DOLLARS (\$500.00) represents DEQ's enforcement costs, in settlement of the claims set forth in this agreement. The total amount of money expended by Respondents on cash payments to DEQ as described above, shall be considered a civil penalty for tax purposes, as required by La. R.S. 30:2050.7(E)(1).

VIII

The Respondents further agree that the Department may consider the inspection report(s), the Consolidated Compliance Orders & Notices 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 either Respondent, and in any such action the Respondents 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. Respondents may urge any mitigating factors they believe applicable in any such future proceedings.

IX

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 Respondents hereby waive 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.

X

This settlement is being made in the interest of settling the state's claims and avoiding for all 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.

XI

Petroquest and American Explorer have each caused a public notice advertisement to be placed in the official journal of the parish governing authority in Terrebonne 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. Petroquest and American Explorer have submitted a proof-of-publication affidavit 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.

XII

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 Darryl Serio, Office of Management and Finance, 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).

XIII

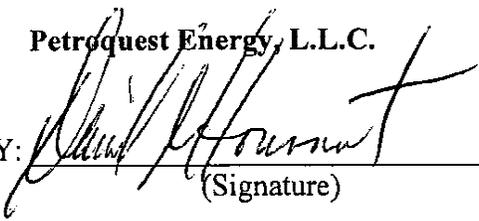
In consideration of the above, any and all claims against Petroquest and American Explorer in

connection with either or both of the above described Consolidated Compliance Orders and Notices of Potential Penalties, including any claims for penalties are hereby compromised and settled in accordance with the terms of this Settlement.

XIV

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

Petroquest Energy, L.L.C.

BY: 
(Signature)

Daniel G. Fournierat
(Printed or Typed)

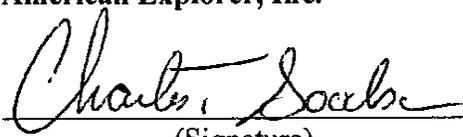
TITLE: Executive Vice President, General Counsel
& Secretary

THUS DONE AND SIGNED in duplicate original before me this 15th day of August, 20 06, at 11:00 am.


NOTARY PUBLIC (ID #

Desiree' D. Early
Notary Public No. 21073
(Printed or Typed) **Commissioned for Life**

American Explorer, Inc.

BY: 
(Signature)

Charles T. Erickson
(Printed or Typed)

TITLE: President

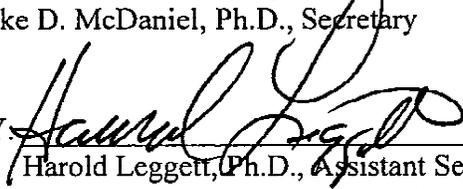
THUS DONE AND SIGNED in duplicate original before me this 22nd day of September, 20 06, at 2:50 p.m.


NOTARY PUBLIC (ID #

Desiree' D. Early
Notary Public No. 21073
(Printed or Typed) **Commissioned for Life**

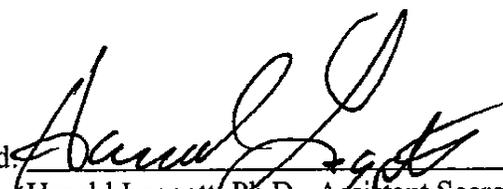
LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY

Mike D. McDaniel, Ph.D., Secretary

BY 
Harold Leggett, Ph.D., Assistant Secretary
Office of Environmental Compliance

THUS DONE AND SIGNED in duplicate original before me this 31st day of October, 2006, at Baton Rouge, Louisiana.


NOTARY PUBLIC (ID # 20151)
1st R. Bayle, Jr.
(Printed or Typed)

Approved: 
Harold Leggett, Ph.D., Assistant Secretary