

STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:

SOUTHERN BAY OPERATING, L.L.C.

AI # 4006

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

* Settlement Tracking No.

* SA-AE-07-0023

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* Enforcement Tracking No.

* AE-CN-06-0078

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SETTLEMENT

The following Settlement is hereby agreed to between Southern Bay Operating, L.L.C. ("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 who operates an oil and gas production facility located approximately two (2) miles northeast of Lottie in Pointe Coupee Parish, Louisiana ("the Facility"). The Respondent was issued ~~Title V~~ Air Permit No. 2260-00033-01 on March 13, 2007.

STANDARD OIL AND GAS CO
S.C. II

On October 27, 2006, the Department issued to Respondent a Consolidated Compliance Order & Notice of Potential Penalty, Enforcement No. AE-CN-06-0078, which was based upon the following findings of fact:

The Respondent owns and/or operates the Fordoche CF No. 3 Tank Battery No. 3, an oil and gas production facility, located approximately two (2) miles northeast of Lottie in Pointe Coupee Parish, Louisiana. At the time the Respondent assumed ownership and/or operational control of the

facility on March 1, 2005, the facility operated under Title V Permit No. 2260-00033-V1 issued on August 14, 2001. A permit modification application dated June 4, 2001, as well as a revision dated December 10, 2003, with additional information dated September 15, 2004, was submitted to the Department for review. The Respondent was issued Air Permit No. 2260-00033-00 on June 8, 2005. The Respondent submitted a modification application to the Department dated November 1, 2005. In the aforementioned application, the Respondent requested a Standard Oil and Gas Air (SOGA) permit and modification to Air Permit No. 2260-00033-00. In the application the Respondent proposed the deletion of two (2) 1000 BBL oil storage tanks-common vent (Emission Point Nos. 002 and 003), a waste gas vent (Emission Point No. 13-03-WG-V), and a gas operated pump (Emission Point No. 14-03-GOP).

In the November 1, 2005 modification application, the Respondent proposed the addition of the following previously un-permitted sources: two (2) 1000 BBL oil storage tanks (Emission Point Nos. 2a-05-OST-CV and 2b-05-OST-CV), a 1500 BBL gun barrel tank-common vent (Emission Point No. 2c-05-GBT-CV), a 210 BBL salt water suction tank-common vent (Emission Point No. 15-05-SWT-V), three (3) chemical injection gas operated pumps (Emission Point Nos. 17-05-GOP, 18-05-GOP, and 19-05-GOP), an internal combustion engine-exhaust stack (Emission Point No. 20-05-ICE-ES), a heater treater-waste gas (Emission Point No. 21-05-HT-WG), and a control flare (Emission Point No. 16-05-F).

The November 1, 2005, application also requested that the following previously un-permitted sources be added to the facility's air permit as insignificant sources: two (2) 110 gallon chemical storage tanks (Emission Point No. 22-05-ST), two (2) 120 gallon chemical storage tanks (Emission Point No. 23-05-ST), a 210 gallon lube oil tank (Emission Point No. 24-05-LOT), and a 320 gallon chemical storage tank.

The Respondent submitted an addendum to the November 1, 2005 application dated April 26, 2006, requesting coverage in the Part 70 program. In the application for approval of emissions dated April 26, 2006, the Respondent omitted the control flare (Emission Point No. 16-05-F), which was proposed to minimize emissions in conjunction with other sources. The aforementioned additions to the Respondent's facility evaluated with the aggregated emissions from contiguous sites demonstrate major source applicability according to LAC 33:III.507. In a letter to the Department dated April 25, 2006, the Respondent requested interim authorization to operate the facility according to the proposed limits in the Title V permit application dated April 26, 2006.

Pollutant	Requested Interim Limits (TPY)
PM10	0.09
SO2	0.01
NOX	25.15
CO	25.15
VOC	74.67

On May 10, 2006, a file review of the Respondent's facility was performed to determine the degree of compliance with the Act and the Air Quality Regulations.

The following violations were noted at the time of the file review:

- A. The Respondent's facility currently operates under minor source Air Permit No. 2260-00033-00 issued June 8, 2005. The Respondent submitted an Air Permit Modification and request for Part 70 General Permit Coverage dated April 26, 2006. The Respondent is operating two (2) 1000 BBL oil storage tanks (Emission Point Nos. 2a-05-OST-CV and 2b-05-OST-CV), a 1500 BBL gun barrel tank-common vent (Emission Point No. 2c-05-GBT-CV), a 210 BBL salt water suction tank-common vent (Emission Point No. 15-05-SWT-V), three (3) chemical injection gas operated pumps (Emission Point Nos. 17-05-GOP, 18-05-GOP, and 19-05-GOP), an internal combustion engine-exhaust stack (Emission Point No. 20-05-ICE-ES), a heater treater-waste gas (Emission Point No. 21-05-HT-WG), two (2) 110 gallon

chemical storage tanks (Emission Point No. 22-05-ST), two (2) 120 gallon chemical storage tanks (Emission Point No. 23-05-ST), a 210 gallon lube oil tank (Emission Point No. 24-05-LOT), and a 320 gallon chemical storage tank without prior permit approval. The construction, modification, or operation of a facility which may ultimately result in the initiation or increase in air contaminants prior to the approval by the permitting authority is a violation of LAC 33:III.501.C.2, General Condition II of Air Permit No. 2260-00033-00, Specific Requirement No. 6 of Air Permit No. 2260-00033-00, and Sections 2057(A)(1) and 2057(A)(2) of the Act.

- B. According to LAC 33:III.507.C.2, the owner or operator of any source which will constitute a Part 70 source shall submit a permit application and await approval from the permitting authority prior to construction. The Respondent's failure to obtain approval from the permitting authority prior to the construction and/or operation of a major source, as defined in LAC 33:III.502.A, is a violation of LAC 33:III.507.C.2, and Sections 2057(A)(1) and 2057(A)(2) of the Act.

III

On December 18, 2006, a survey of the Fordoche CF No. 3 Tank Battery No. 3 was performed to determine the geographical center of emissions for each of the Respondent's two (2) active facilities in the field. The results of the survey evaluated with the Department's Interpretation of Contiguous Sites for Oil and Gas Facilities revised June 15, 2006, showed that the Respondent's facility is not contiguous with any other facility in the field and should be considered a minor source of emissions, not a major source. Accordingly, the Enforcement Division has determined that no further action will be taken on paragraph IV. Subpart B of the CONOPP as of March 2, 2007.

IV

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

V

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 TWO THOUSAND ONE HUNDRED AND NO/100 Dollars (\$2,100.00), of which Four Hundred Sixty-four and 98/100 Dollars (\$464.98) represents the Department's enforcement costs, in settlement of the claims set forth in this agreement.

VI

Respondent further agrees that the Department may consider the inspection report(s), the Consolidated Compliance Order and 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.

VII

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.

VIII

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.

IX

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

X

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).

XI

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

XII

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.

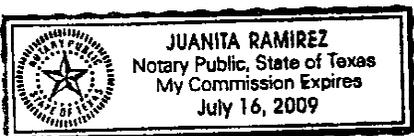
SOUTHERN BAY OPERATING, L.L.C.

BY: [Signature]
(Signature)

Steve Collins
(Print)

TITLE: VP Operations

THUS DONE AND SIGNED in duplicate original before me this 3rd day of August, 2007, at Houston, Tx.



[Signature]
NOTARY PUBLIC (ID # _____)

Juanita Ramirez
(Print)

LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY
Mike D. McDaniel, Ph.D., Secretary

BY: [Signature]
Harold Leggett, Ph.D., Assistant Secretary
Office of Environmental Compliance

THUS DONE AND SIGNED in duplicate original before me this 13th day of October, 2007, at Baton Rouge, Louisiana.

[Signature]
NOTARY PUBLIC (ID # 410539)

Jed B. Boyles, II
(Print)

Approved: [Signature]
Harold Leggett, Ph.D., Assistant Secretary