STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:

AETHON ENERGY OPERATING LLC

AI # 203690

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

SETTLEMENT

The following Settlement is hereby agreed to between Aethon Energy Operating 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 an oil and gas production facility located in DeSoto Parish, Louisiana ("the Facility").

II

On June 21, 2017, the Department issued to Respondent a Notice of Potential Penalty, Enforcement No. WE-PP-17-00210, attached as Exhibit A.

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 TWO THOUSAND THIRTY-FOUR AND 43/100 DOLLARS ($2,034.43), of which Four Hundred Thirty-Four and 43/100 Dollars ($434.43) 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)/permit record(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 La. R. S. 30:2025(E) of the Act.

VIII

As required by law, the Department has submitted this Settlement Agreement to the Louisiana Attorney General for approval or rejection. The Attorney General's concurrence is appended to this Settlement Agreement.

IX

The Respondent has caused a public notice advertisement to be placed in the official journal of the parish governing authority in DeSoto Parish, Louisiana. The advertisement, in form and wording 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.

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 B).

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.
Aethon Energy Operating LLC

BY: ________________
(Signature)

Paul Sander
(Printed)

TITLE: Chief Operating Officer

THUS DONE AND SIGNED in duplicate original before me this 5th day of
February, 2019, at 12371 Merito, #1200, Dallas, TX 75251.

Shannon LaPraile
NOTARY PUBLIC (ID #12057862)

LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY
Chuck Carr Brown, Ph.D., Secretary

BY: ________________
Lourdes Ituralde, Assistant Secretary
Office of Environmental Compliance

THUS DONE AND SIGNED in duplicate original before me this 25th day of
April, 2019, at Baton Rouge, Louisiana.

O. H. Phifer
NOTARY PUBLIC (ID #19781)

Approved: ________________
Lourdes Ituralde, Assistant Secretary
NOTICE OF POTENTIAL PENALTY

An authorized representative of the Department inspected the aforementioned facility or conducted a file review of the facility to determine the degree of compliance with regulations promulgated in the Louisiana Administrative Code, Title 33. The State regulatory citations for the violation(s) identified during the inspection and/or file review are indicated below.

I. The Respondent owns and/or operates an oil and gas production facility located on Lease Road one-half mile north of Gravel Point Road, approximately 1.6 miles east of Highway 175, Frierson, DeSoto Parish, Louisiana. The Respondent does not have a Louisiana Pollutant Discharge Elimination System (LPDES) permit or any other authority to discharge wastes and/or other substances to waters of the state.

II. Inspection(s)
   October 27, 2016
   & November 4, 2016
   Description of Violation
   The Respondent caused and/or allowed the discharge of produced water directly onto vegetated area, soil or intermittently exposed sediment surface. Specifically, the Respondent reported a release of approximately 15 barrels of produced water that occurred on or about October 29, 2016. According to the report from the Respondent dated October 28, 2016, the release occurred due to a saltwater pump failure, to inject water down the hole due to a bad diaphragm in the pump. Additionally, due to a frozen valve in the tank alarm system, the operator was not notified, resulting in the release. According to the Respondent, the release was contained on site, and there was no offsite impact. The inspection revealed dead vegetation in the impacted area along with stained soil on the pad and adjacent grass. At the time of the follow-up inspection on November 4, 2016, it was noted that excavation of the affected area was performed and the stained soil and dead vegetation appeared to have been removed from the affected area and stored on-site waiting for disposal. The excavated soil was disposed on or about November 11, 2016. (LAC 33:IX.708.C.2.II and La. R.S. 30:2075)

III. Inspection(s)
    October 27, 2016
    & November 4, 2016
    Description of Violation
    The Respondent failed to have an adequate Spill Prevention and Control (SPC) plan. Specifically, the SPC plan failed to include a description of the nearest potential receiving waterbody. (LAC 33:IX.907.B.6 and La. R.S. 30:2076(A)(3))

IV. Inspection(s)
    October 27, 2016
    & November 4, 2016
    Description of Violation
    The Respondent failed to implement its SPC plan. Specifically, the secondary containment was not sufficiently impervious as it allowed produced saltwater to leak underneath the containment on the west side of the tank battery on October 23, 2016. (LAC 33:IX.708.C.1.I and La. R.S. 30:2076(A)(3))

NOTICE OF POTENTIAL PENALTY

I. Pursuant to La. R.S. 30:2050.3(B), you are hereby notified that the issuance of a penalty assessment is being considered for the violation(s) described herein. Written comments may be filed regarding the violation(s) and the contemplated penalty. If you elect to submit comments, it is requested that they be submitted within ten (10) days of receipt of this notice.

II. Prior to the issuance of additional appropriate enforcement action(s), you may request a meeting with the Department to present any mitigating circumstances concerning the violation(s). If you would like to have such a meeting, please contact Richard Ober, Jr. at (225) 219-3135 within ten (10) days of receipt of this NOTICE OF POTENTIAL PENALTY.

III. The Department is required by La. R.S. 30:2025(E)(3)(a) to consider the gross revenues of the Respondent and the monetary benefits of noncompliance to determine whether a penalty will be assessed and the amount of such penalty. Please forward the Respondent's most current annual gross revenue statement along with a statement of the monetary benefits of noncompliance for the cited violation(s) to the above named contact person within ten (10) days of receipt of this NOTICE OF POTENTIAL PENALTY. Include with your statement of monetary benefits the method(s) you utilized to arrive at the sum. If you assert that no monetary benefits have been gained, you are to fully justify that statement. If the Respondent chooses not to submit the requested most current annual gross revenue statement within ten (10) days, it will be viewed by the Department as an admission that the Respondent has the ability to pay the statutory maximum penalty as outlined in La. R.S. 30:2025.

IV. For each violation described herein, the Department reserves the right to seek civil penalties and the right to seek compliance with its rules and regulations in any manner allowed by law, and nothing herein shall be construed to preclude the right to seek such penalties and compliance.

V. To reduce document handling, please refer to the Enforcement Tracking Number and Agency Interest Number on the front of this document on all correspondence in response to this action.
**CONTACTS AND SUBMITTAL OF INFORMATION**

<table>
<thead>
<tr>
<th>Enforcement Division:</th>
<th>Physical Address (If hand delivered):</th>
</tr>
</thead>
</table>
| Louisiana Department of Environmental Quality  
Office of Environmental Compliance | Department of Environmental Quality  
602 N Fifth Street  
Baton Rouge, LA 70802 |
| Water Enforcement Division  
Post Office Box 4312  
Baton Rouge, LA 70821  
Attn: Richard Ober, Jr. | |

**HOW TO REQUEST CLOSURE OF THIS NOTICE OF POTENTIAL PENALTY**

To expedite closure of the NOTICE OF POTENTIAL PENALTY, the Respondent may offer a settlement amount to resolve any claim for civil penalties for the violation(s) described herein.

- The Department assesses civil penalties based on LAC 331:Subpart1:Chapter7.
- The Respondent may offer a settlement amount but the Department is under no obligation to enter into settlement negotiations. It is decided upon on a discretionary basis.
- The settlement offer amount may be entered on the attached "NOTICE OF POTENTIAL PENALTY REQUEST TO SETTLE" form. The Respondent must include a justification of the offer.
- **DO NOT** submit payment of the offer amount with the form. The Department will review the settlement offer and notify the Respondent as to whether the offer is or is not accepted.
- Before requesting closure of this NOTICE OF POTENTIAL PENALTY, please contact the Financial Services Division at 225-219-3865 or email them at DEQ-WWWFinancialServices@la.gov to determine if you owe outstanding fees.

If you have questions or need more information, you may contact Richard Ober, Jr. at (225) 219-3135 or richard.ober@la.gov.

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Lourdes Iturralde  
Assistant Secretary  
Office of Environmental Compliance

cc: Ms. Stefanie Scruggs, Regulatory/DOT Advisor  
Aethon Energy Operating LLC  
12377 Merit Drive, Suite 1200  
Dallas, TX 75251

Attachment(s):  
- Request to Close  
- Settlement Brochure

Date: 6-31-17
LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF ENVIRONMENTAL COMPLIANCE
ENFORCEMENT DIVISION
POST OFFICE BOX 4312
BATON ROUGE, LOUISIANA 70821-4312

NOTICE OF POTENTIAL PENALTY
REQUEST TO SETTLE (OPTIONAL)

Enforcement Tracking No.: WE-PP-17-00210
Agency Interest (A) No.: 203690
Alternate ID No.: LAU007982

Respondent:
Aethon Energy Operating LLC

Facility Name:
Hunt Plywood Carr 35 SWD #1 Tank Battery - Caspiana Field SN:973449

Physical Location:
Lease Road one-half mile north of Gravel Point Road, approximately 1.6 miles east of Highway 175

501 Louisiana Avenue
Baton Rouge, LA 70802

City, State, Zip:
Frierson, LA 71027

Parish:
DeSoto

The Respondent is not interested in entering into settlement negotiations with the Department with the understanding that the Department has the right to assess civil penalties based on LAC 33:1 Subpart1.Chapter7.

In order to resolve any claim for civil penalties for the violations in NOTICE OF POTENTIAL PENALTY (WE-PP-17-00210), the Respondent is interested in entering into settlement negotiations with the Department and would like to set up a meeting to discuss settlement procedures.

In order to resolve any claim for civil penalties for the violations in NOTICE OF POTENTIAL PENALTY (WE-PP-17-00210), the Respondent is interested in entering into settlement negotiations with the Department and offers to pay $ ___________ which shall include LDEQ enforcement costs and any monetary benefit of non-compliance.

- Monetary component: $ ___________
- Beneficial Environmental Project (BEP)/component (optional): $ ___________

DO NOT SUBMIT PAYMENT OF THE OFFER WITH THIS FORM- the Department will review the settlement offer and notify the Respondent as to whether the offer is or is not accepted.

The Respondent has reviewed the violations noted in NOTICE OF POTENTIAL PENALTY (WE-PP-17-00210) and has attached a justification of its offer and a description of any BEPs if included in settlement offer.

CERTIFICATION STATEMENT
I certify, under provisions in Louisiana and United States law that provide criminal penalties for false statements, that based on information and belief formed after reasonable inquiry, the statements and information attached and the compliance statement above, are true, accurate, and complete. I also certify that I do not owe outstanding fees or penalties to the Department for this facility or any other facility I own or operate. I further certify that I am either the Respondent or an authorized representative of the Respondent.

Respondent's Signature

Respondent's Printed Name

Respondent's Title

Respondent's Physical Address

Respondent's Phone #

Date

MAIL COMPLETED DOCUMENT TO THE ADDRESS BELOW:

Louisiana Department of Environmental Quality
Office of Environmental Compliance
Enforcement Division
Post Office Box 4312
Baton Rouge, LA 70821
Attn: Richard Ober, Jr.

If you have questions or need more information, you may contact Richard Ober, Jr. at (225) 219-3135 or richard.ober@la.gov.

WE-PP-17-00210
NOPP FORM 2
WHAT IS A SETTLEMENT AGREEMENT?

Once the Department has determined that a penalty is warranted for a violation, the Assistant Secretary of the Department, with the concurrence of the Attorney General, may enter into a settlement agreement with the Respondent as a means to resolve the Department's claim for a penalty.

HOW DOES THE SETTLEMENT AGREEMENT PROCESS WORK?

To begin the settlement agreement process, the Department must receive a written settlement offer. Once this offer is submitted, it is sent for approval by the Assistant Secretary of the Office of Environmental Compliance. The formal Settlement Agreement is drafted and sent to the Attorney General's office where the Attorney General has a 90 day concurrence period. During this time, the Respondent is required to run a public notice in an official journal and newspaper of general circulation in each affected parish. After which, a 45 day public comment period is opened to allow the public to submit comments. Once the Department has received concurrence, the settlement agreement is signed by both parties. The Department then forwards a letter to the responsible party to establish a payment plan and/or beneficial environmental project (BEP).

WHAT SHOULD I INCLUDE IN A SETTLEMENT AGREEMENT?

The Department uses the penalty determination method defined in LAC 33:1.705 as a guideline to accepting settlement offers. The penalty matrix is used to determine a penalty range for each violation based on the two violation specific factors, the nature and gravity of the violation and the degree of risk/impact to human health and property.

<table>
<thead>
<tr>
<th>Nature and Gravity of the Violation</th>
<th>Major</th>
<th>Moderate</th>
<th>Minor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major</td>
<td>$32,500 to $20,000</td>
<td>$20,000 to $15,000</td>
<td>$15,000 to $11,000</td>
</tr>
<tr>
<td>Moderate</td>
<td>$11,000 to $8,000</td>
<td>$6,000 to $5,000</td>
<td>$5,000 to $3,000</td>
</tr>
<tr>
<td>Minor</td>
<td>$3,000 to $1,500</td>
<td>$1,500 to $500</td>
<td>$500 to $100</td>
</tr>
</tbody>
</table>

Degree of Risk to Human Health or Property

Major: (actual measurable harm or substantial risk of harm) A violation of major impact to an environmental resource or a hazard characterized by high volume and frequent occurrence and/or high pollutant concentration.

Moderate: (potential for measurable detrimental impact) A violation of moderate impact and hazard may be one characterized by occasional occurrence and/or pollutant concentration that may be expected to have a detrimental effect under certain conditions.

Minor: (no harm or risk of harm) A violation of minor impact are isolated single incidences and that cause no measurable detrimental effect or are administrative in nature.

Nature and Gravity of the Violation

Major: Violations of statutes, regulations, orders, permit limits, or permit requirements that result in negating the intent of the requirement to such an extent that little or no implementation of requirements occurred.

Moderate: Violations that result in substantially negating the intent of the requirements, but some implementation of the requirements occurred.

Minor: Violations that result in some deviation from the intent of the requirement; however, substantial implementation is demonstrated.

The range is adjusted using the following violator specific factors:

1. History of previous violations or repeated noncompliance;
2. Gross revenues generated by the respondent;
3. Degree of culpability, recidivism, defiance, or indifference to regulations or orders;
4. Whether the Respondent has failed to mitigate or to make a reasonable attempt to mitigate the damages caused by the violation; and
5. Whether the violation and the surrounding circumstances were immediately reported to the department, and whether the violation was concealed or there was an attempt to conceal by the Respondent.
SETTLEMENT AGREEMENTS

Given the previous information, the following formula is used to obtain a penalty amount.

\[ \text{Penalty Event Total} = \text{Penalty Event Minimum} + (\text{Adjustment Percentage} \times (\text{Penalty Event Maximum} - \text{Penalty Event Minimum})) \]

After this, the Department adds any monetary benefit of noncompliance to the penalty event. In the event that a monetary benefit is gained due to the delay of a cost that is ultimately paid, the Department adds the applicable judicial interest. Finally, the Department adds all response costs including, but not limited to, the cost of conducting inspections, and the staff time devoted to the preparation of reports and issuing enforcement actions.

WHAT IS A BEP?

A BEP is a project that provides for environmental mitigation which the respondent is not otherwise legally required to perform, but which the defendant/respondent agrees to undertake as a component of the settlement agreement. Project categories for BEPs include public health, pollution prevention, pollution reduction, environmental restoration and protection, assessments and audits, environmental compliance promotion, and emergency planning, preparedness and response. Other projects may be considered if the Department determines that these projects have environmental merit and is otherwise fully consistent with the intent of the BEP regulations.

WHAT HAPPENS IF MY OFFER IS REJECTED?

If an offer is rejected by the Assistant Secretary, the Legal Division will contact the responsible party, or anyone designated as an appropriate contact in the settlement offer, to discuss any discrepancies.

WHERE CAN I FIND EXAMPLES AND MORE INFORMATION?

- Settlement Offers: searchable in EDMS using the following filters: Media: Air Quality; Function: Enforcement; Description: Settlement
- Settlement Agreements: Enforcement Division's website, specific examples can be provided upon request
- Penalty Determination Method: LAC 331 Chapter 7
- Beneficial Environmental Projects: LAC 331 Chapter 25; FAQs
- Judicial Interest: provided by the Louisiana State Bar Association