

BEFORE THE OIL AND GAS CONSERVATION COMMISSION  
OF THE STATE OF COLORADO

IN THE MATTER OF ALLEGED VIOLATIONS OF THE RULES AND	)	CAUSE NO. 1V
REGULATIONS OF THE COLORADO OIL AND GAS	)	
CONSERVATION COMMISSION BY OXY USA WTP LP, GARFIELD	)	ORDER NO. 1V-XXX
COUNTY, COLORADO	)	DOCKET NO. 1102-OV-05

**ADMINISTRATIVE ORDER BY CONSENT**

(Pursuant to Rule 522.b.(3) of the Rules and Regulations of the  
Colorado Oil and Gas Conservation Commission, 2 CCR 404-1)

**FINDINGS**

1. On April 26, 2005, the Director ("Director") of the Colorado Oil and Gas Conservation Commission (the "Commission" or the "COGCC") approved an Application for Permit-to-Drill for the Cascade Creek #697-15-54 Well (the "Well," and with the associated well pad, the "Well Pad") (API No. 05-045-10687), located in the SW¼ SE¼ of Section 15, Township 6 South, Range 97 West, 6<sup>th</sup> P.M., submitted by OXY USA WTP LP ("OXY"). OXY spud the Well on May 23, 2005 and completed it on June 13, 2005. OXY used an unlined reserve pit (the "Reserve Pit") during the drilling and completion of the Well. On August 22, 2005, OXY began producing the Well.

2. On August 11, 2008, following the discovery of benzene contamination in an unnamed spring in McKay Gulch east of the Well, COGCC Staff issued Notice of Alleged Violation #200193504 ("NOAV") to OXY for operations at the Well Pad. The NOAV stated that "Unauthorized discharge of E&P waste has occurred in the vicinity of a cabin owned by Mr. Ned Prather. That discharge has impacted waters of the state, specifically an unnamed spring located 2,300 feet to the east of the above-referenced well." The NOAV identified operations on the well pad as the issue, and provided the date of the alleged violation as July 17, 2008.

3. Between August 11, 2008 and January 28, 2011, COGCC Staff and OXY engaged in thorough investigations of the alleged contamination of the unnamed spring, which involved OXY's placement of monitoring wells, including Monitoring Well 40 ("MW-40"), in McKay Gulch. The parties also shared information, and held a number of investigation meetings and had numerous other communications during this time.

4. On January 28, 2011, COGCC Staff issued a proposed Order Finding Violation ("First Proposed OFV") in the above-captioned case and notified OXY of the same. The First Proposed OFV alleged that OXY's operations on the Well Pad, specifically with regard to placement of produced water in the Reserve Pit, had resulted in a release of produced water that impacted the area in McKay Gulch sampled by MW-40. In particular, the First Proposed OFV cited a November 9, 2009 water sample taken from MW-40 that indicated chloride detected at a concentration of 820 mg/L, sodium detected at a concentration of 280 mg/L, TDS detected at a concentration of 2,000 mg/L, and specific conductance measured at 3,100 µmhos/cm. Benzene was not detected.

5. The First Proposed OFV identified seven COGCC Rules that OXY allegedly violated for which Staff recommended OXY be penalized.

6. OXY disputed the findings and conclusions proposed by COGCC Staff in the First Proposed OFV, specifically denying that any release had occurred from the Well Pad. As a result, a hearing was set in the matter for April 5, 2011, along with discovery deadlines, a dispositive motion deadline, and a prehearing conference to occur in the weeks leading up to the hearing date.

7. OXY filed a motion to dismiss the above-captioned matter on March 18, 2011. Staff responded to that motion on March 28, 2011, and included in its response a revised proposed Order Finding Violation (the "Second Proposed OFV"), which superseded the First Proposed OFV, and alleged that OXY had violated five rules, Rules 324.A.a., 324.A.b., 902.a., 906.b.(3), and 907.a.(2), and recommended penalties based on violations of Rules 324.A.b. and 902.a. OXY replied on April 1, 2011. A hearing on the motion was held before the Commission on April 4, 2011, and the motion was denied.

8. On April 5, 2011, the above-captioned matter was presented to the Commission for an evidentiary hearing in which seven witnesses appeared. Evidence was presented over the course of approximately ten hours. At the close of the evidence, the Commission stated that it would receive proposed findings of fact and orders from the parties and hear closing arguments at its next regularly scheduled hearing on May 16, 2011, and that it would rule on the above-captioned matter after hearing those arguments.

9. On April 14 and 19, 2011, the Director met with OXY management, and the parties agreed to the following settlement of the above-captioned matter.

## ORDER

NOW, THEREFORE, IT IS ORDERED that OXY USA WTP LP and the Director, having come to an agreement, cognizant of the complexities of the above-captioned matter, confident that this agreement satisfies both the Director and OXY, and wishing to avoid further uncertainties and costs associated with continued litigation of the above-captioned matter, enter into this Administrative Order on Consent ("AOC").

IT IS FURTHER ORDERED that OXY USA WTP LP shall pay Ninety Thousand dollars (\$90,000) in settlement of the NOAV and in response to the First and Second Proposed OFVs, which shall be payable within thirty (30) days of the date this AOC is approved by the Commission.

IT IS FURTHER ORDERED that OXY USA WTP LP shall further pay Sixty Thousand dollars (\$60,000) to fund a public project in Garfield County, Colorado in accordance with Rule 523.e. OXY shall choose a project from a list of staff-approved projects within sixty (60) days of the date this AOC is approved by the Commission.

A. The execution of this project, including but not limited to the management, planning, contracting, and inspection shall be the responsibility of OXY and its contractors. COGCC staff reserves the right to request status reports or any other documentation related to the project at any time.

B. OXY shall not deduct the expenses associated with the implementation of the above-described public project for any tax purpose or otherwise obtain any favorable tax treatment of such payment or project. OXY hereby certifies that, as of the date of this AOC, it is not under any existing legal obligation to perform or develop, nor will it receive any credit for, any public project that it may propose to the Director, except as provided in this AOC.

C. The public project must be completed to the satisfaction of the Commission by December 31, 2012. OXY shall submit a Public Project Completion Report to the Division by that date, describing the project and the associated benefits, itemizing and documenting the costs, and certifying that the project was completed in compliance with this order and Rule 523.e.

D. In the event that OXY fails to comply with any of the terms or provisions of this AOC relating to the performance of the public project, OXY shall pay the amount assigned for the public project, less any amounts expended for the public project, as a fine to the Commission.

E. In the event that OXY makes any public statement, oral or written, about the public project, OXY shall include the following language in such public statement: "This project was undertaken as part of settlement of an enforcement action taken by the Colorado Oil and Gas Conservation Commission."

IT IS FURTHER ORDERED that OXY is fully released from any and all claims for violations of COGCC rules, the Colorado Oil and Gas Conservation Act, or any other rule, law, order, or directive set out or that could have been set out in the NOAV, the First Proposed OFV, the Second Proposed OFV, or any other instrument now or in the future existing, and any fine, remedial order, sanction or other potential liability, including but not limited to those contemplated by the above-captioned matter presented to the Commission during the hearing on April 5, 2011, arising from any unauthorized activity or activities on or related to the Well Pad (including the reserve pit, the lined pond, the well itself, and any and all other equipment or infrastructure on the Well Pad), whether related to permitting and construction of the Well Pad or operations on the Well Pad (including but not limited to fluid disposition, handling, and transportation) that occurred any time before and including the date this AOC is approved by the Commission. This AOC does not grant any release of liability for any violations, regardless of when they occurred, that are not cited in this AOC.

IT IS FURTHER ORDERED that nothing in this AOC shall constitute or be construed as an admission by OXY that any discharge occurred from the Well Pad or that it committed any violations of any rules of the COGCC or other applicable law.

IT IS FURTHER ORDERED that, unless otherwise specified, any report, notice or other communication required under the AOC shall be submitted digitally to:

For the COGCC: Debbie Baldwin  
Environmental Manager  
debbie.baldwin@state.co.us

Chris Canfield  
chris.canfield@state.co.us

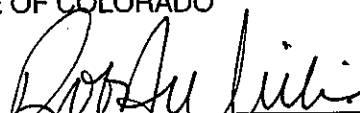
For OXY: Greg Hardin  
Greg\_Hardin@oxy.com

IT IS FURTHER ORDERED that OXY shall execute this AOC no later than fourteen (14) days after the date it is executed by the Staff for recommendation of expedited approval by the Commission. The parties agree to the terms and conditions of this AOC and acknowledge that this AOC constitutes an order issued pursuant to 2 CCR 404-1, Rule 523.a. The Parties acknowledge that this AOC constitutes a full and final resolution of the matters addressed herein, and further agree not to challenge the terms and conditions of this AOC whether by way of direct judicial review or collateral challenge. This AOC is binding upon the Parties and their corporate subsidiaries or parents, their officers, directors, agents, attorneys, employees, contractors, successors in interest, affiliates and assigns. The undersigned warrant that they are authorized to bind legally their respective principals to this AOC. This AOC shall be effective upon the date signed by the last party. This AOC may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same AOC.

IT IS FURTHER ORDERED that the provisions contained within this AOC shall become effective forthwith.

RECOMMENDED this 10<sup>th</sup> day of May, 2011.

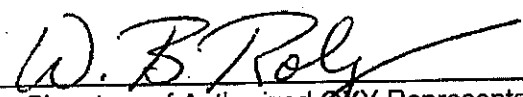

OIL AND GAS CONSERVATION COMMISSION OF THE  
STATE OF COLORADO

By:   
Robert A. Willis, Enforcement Officer

Dated at Suite 801  
1120 Lincoln St.  
Denver, Colorado 80203

AGREED TO AND ACCEPTED this 10<sup>th</sup> day of May, 2011.

OXY USA WTP LP

By:    
Signature of Authorized OXY Representative

William B. Roby  
Print Signatory Name

Vice President, Mid-Continent  
Title of Signatory

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This cause came on for hearing before the Commission on the \_\_\_\_\_ day of \_\_\_\_\_, 2011, in \_\_\_\_\_, Colorado, for the approval of this Administrative Order by Consent.

ENTERED this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, as of \_\_\_\_\_ day of \_\_\_\_\_, 2011.

OIL AND GAS CONSERVATION COMMISSION  
OF THE STATE OF COLORADO

By: \_\_\_\_\_  
Robert A. Willis, Acting Secretary

Dated at Suite 801  
1120 Lincoln Street  
Denver, Colorado 80203