UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 6
1445 ROSS AVENUE, SUITE 1200
DALLAS, TEXAS 75202-2733

MAY 07 2007

CERTIFIED MAIL - RETURN RECEIPT REQUESTED (7099 3220 0001 4432 9469)

Mr. Paul Lankford, Manager, Regulatory Affairs
Citation Oil & Gas Corporation
8223 Willow Place South
Houston, TX 77070-5623

Re: Administrative Order Docket Number CWA-06-2007-1791
Facility Number OKU000604

Dear Mr. Lankford:

Enclosed is an Administrative Order (AO) issued to Citation Oil & Gas Corporation for violation of the Clean Water Act. On October 31, 2006, AO Docket Number CWA-06-2007-1708 was issued to Citation Oil & Gas Corporation's Oklahoma facility for an unauthorized discharge of a pollutant, specifically oil field brine, to waters of the United States. In response to the October AO, Citation Oil & Gas identified specific tasks necessary to prevent future unauthorized discharges. The enclosed AO requires completion of those tasks by September 1, 2007.

This AO does not assess a monetary penalty; however, it does require a compliance with applicable Federal regulations. The Environmental Protection Agency is committed to ensuring compliance with the requirements of the National Pollutant Discharge Elimination System, and my staff will assist you in any way possible. Please reference AO Docket Number CWA-06-2007-1791 and Facility Number OKU000604 with your response.

Also enclosed is an "Information Sheet" related to the Small Business Regulatory Enforcement Fairness Act and a "Notice of Registrant's Duty to Disclose" relating to the disclosure of environmental legal proceedings to the Securities and Exchange Commission, that you may find useful.

If you have any questions, please contact Mr. Matt Rudolph, of my staff, at (214) 665-6434.

Sincerely yours,

John Blevins
Director
Compliance Assurance and
Enforcement Division

Enclosure(s)

cc: Mr. Charles Hennessee
Oklahoma Corporation Commission, District 3
1020 Willow, Box 1525
Duncan, OK 73533

UNITED STATES
ENVIRONMENTAL PROTECTION AGENCY
REGION 6

In the Matter of	§	Docket No. CWA-06-2007-1791
	§	
Citation Oil & Gas Corporation,	§	
a Delaware Corporation,	§	
	§	**FINDINGS OF VIOLATION**
Respondent	§	**AND**
	§	**ORDER FOR COMPLIANCE**
Facility No. OKU000604	§	

Statutory Authority

The following FINDINGS are made, and ORDER issued, under the authority vested in the Administrator of the United States Environmental Protection Agency (EPA), by Sections 308(a) and 309(a) of the Clean Water Act (herein "the Act"), 33 U.S.C. §§ 1318(a) and 1319(a). The Administrator of EPA has delegated the authority to issue this Order to the Regional Administrator of EPA Region 6, who has further delegated this authority to the Director of the Compliance Assurance and Enforcement Division.

Findings

1. Citation Oil & Gas Corporation (herein "Respondent") is a corporation which was incorporated under the laws of the State of Delaware, and as such, Respondent is a "person," as that term is defined at Section 502(5) of the Act, 33 U.S.C. § 1362(5), and 40 C.F.R. § 122.2.

2. At all times relevant to this Order, Respondent owned or operated an oil and gas lease located in Section 15, Township 4 South, Range 3 West, Carter County, Oklahoma (herein "the facility"), and was therefore an "owner or operator" within the meaning of 40 C.F.R. § 122.2.

3. At all relevant times, the facility was a "point source" of a "discharge" of "pollutants," specifically oil field brine, to the receiving waters of a tributary of Post Oak Creek, which is "waters of the United States" within the meaning of Section 502 of the Act, 33 U.S.C. § 1362, and 40 C.F.R. § 122.2.

4. Because the Respondent owned or operated a facility that is a point source of discharges of pollutants to waters of the United States, the Respondent and the facility were subject to the Act and the National Pollutant Discharge Elimination System (NPDES) program.

5. Under Section 301 of the Act, 33 U.S.C. § 1311, it is unlawful for any person to discharge any pollutant from a point source to waters of the United States, except with the authorization of, and in compliance with, an NPDES permit issued pursuant to Section 402 of the Act, 33 U.S.C. § 1342. According to the NPDES program, the discharge of oil field brine is a non-permitted discharge.

6. On September 19, 2006, the facility was inspected by an EPA Field Inspector.

7. The inspector observed that oil field brine had been discharged from a pond (West Pond) located on the facility at Latitude 34° 12.73' North and Longitude 97° 30.55' West, to a tributary of Post Oak Creek, located at Latitude 34° 12.71' North and Longitude 97° 30.61' West. The inspector determined that fluids located inside the West Pond at the facility measured 12,500 parts-per-million (ppm) total soluble salts (TSS). During the inspection the inspector observed an overflow pipe on the west wall of the West Pond. Fluids located outside of overflow pipe at Latitude 34° 12.73' North and Longitude 97° 30.56' West, measured 6,000 ppm TSS. It is believed by the inspector, based on his inspection observations and the testimonies of citizens who live in the area, that the West Pond overflow pipe has acted as a point source discharge of pollutants. The inspector also observed fluids seeping into the tributary from the ground at or around the discharge point of entry. It was determined that these

fluids measured 7,200 ppm TSS. White salt staining was observed throughout the tributary at the time of the inspection.

8. Each day of unauthorized discharge, is a violation of Section 301 of the Act, 33 U.S.C. § 1311.

9. On October 31, 2006, the EPA issued to the Respondent Administrative Order Docket No. CWA-06-2007-1708.

10. The Respondent responded to that Order with a letter dated December 16, 2006, titled "Amended and Enhanced Plan of Corrective Action dated December 14, 2006."

11. The EPA is incorporating provisions of the December 16, 2006, submittal into this Order.

ORDER

Based on the foregoing Findings and pursuant to the authority of Sections 308(a) and 309(a) of the Act, EPA hereby orders the Respondent to take the following actions.

A. The Respondent shall accomplish the following tasks and comply with the following activities by June 1, 2007:

1) Re-contour the existing diversion levees located above the West Pond to direct much of the rainfall away from the West Pond.
2) Dispose of the fluids located inside the West Pond.
3) Reduce the overall size of the existing West Pond. Before backfilling any areas, remove or neutralize any contaminated soils.
4) Install an interceptor trench at an area located east and south of the West Pond. This interceptor trench shall catch and properly dispose of all contaminated fluids from this area.

5) Install a sump pump at the north end of the interceptor trench to pump fluids from inside the interceptor trench to a storage tank.

6) Provide to the EPA the rate at which fluids are seeping or flowing into the interceptor trench.

7) Provide to the EPA the GPS location of seepages.

B. The Respondent shall accomplish the following tasks and comply with the following activities by August 1, 2007:

1) Install an impervious 60 mil HDPE liner throughout the interior of the West Pond.

2) Install an electric sump pump with an associated storage tank to maintain a safer water level within the West Pond and assure no further overflow events will occur.

3) Begin the process of periodically pumping water collected in the storage tank to a Citation water disposal well.

4) Begin performing Total Dissolved Salts (TDS) sampling on a quarterly basis thereby creating a new baseline test document for the site. Keep records of this TDS sampling documentation.

C. By September 1, 2007, Respondent shall provide written certification to the EPA, Region 6, that these activities have been completed.

D. By September 1, 2007, Respondent shall submit a facility work plan describing all specific corrective actions taken to eliminate and prevent recurrence of the violations cited herein. The facility work plan shall include a detailed schematic diagram of the interceptor trench, the newly constructed West Pond, etc.

E. Any information or correspondence submitted by the Respondent to EPA under this Order shall be addressed to the following:

Mr. Matt Rudolph
Water Enforcement Branch (6EN-WR)
EPA, Region 6
1445 Ross Ave., Suite 1200
Dallas, TX 75202-2733

General Provisions

Issuance of this Order shall not be deemed an election by EPA to forego any administrative or judicial, civil or criminal action to seek penalties, fines, or any other relief appropriate under the Act for the violations cited herein, or other violations that become known. EPA reserves the right to seek any remedy available under the law that it deems appropriate. Failure to comply with this Order or the Act can result in further administrative action, or a civil judicial action initiated by the U.S. Department of Justice.

This Order does not constitute a waiver or modification of the terms or conditions of the Respondent's NPDES permit, which remains in full force and effect. Compliance with the terms and conditions of this Order does not relieve the Respondent of its obligations to comply with any applicable federal, state, or local law or regulation.

The effective date of this Order is the date it is received by the Respondent.

4/30/07
Date

John Blevins
Director
Compliance Assurance and
Enforcement Division