

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



July 15, 2016

Energyquest II, LLC (OGRID 305911)
C/o Jeff S. Yoesel
4526 RESEARCH FOREST DR.
SUITE 200
The Woodlands, TX 77396

RE: **Disposal Permit SWD-401**
Merrell Well No. 001, API No. 30-025-03563
H(H), Sec 10, T 9S, R36E, NMPM, Lea County, New Mexico
Last Month of Use for Disposal: December 2012
Date this disposal permit expired: 1/1/2014

Dear Sir or Madam,

The above information is according to Oil Conservation Division (OCD) records.

Pursuant to 19.15.26.12.C NMAC, explained below, this OCD disposal permit has expired. Any further use of this well for disposal will be in violation of OCD rules, the United States Safe Drinking Water Act and the Environmental Protection Agency's Underground Injection Control Program.

Division Rule 19.15.26.12.C NMAC states the following:

Whenever there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto.

Non-reporting of disposal to the Division is considered as "non-injection" for purposes of triggering automatic termination of the authority to use the well for disposal. Pursuant to Division Rule 19.15.7.24 NMAC, disposal volumes must be reported on or before the 15th day of the second month following the month of disposal on OCD Form C-115 (Monthly Production Reports). Failure to report disposal to the OCD is a violation of OCD rules and the Oil and Gas Act, NMSA 1978 § 70-2 *et seq.*, and could be punishable by a fine of not more than one thousand dollars (\$1,000) per day for each violation. NMSA 1978 § 70-2-31.

The operator of this well must immediately ensure the well is shut-in and disconnected from incoming sources of disposal.

If you wish to again use this well for disposal, you must apply for a new disposal permit pursuant to Division Rule 19.15.26.8 NMAC after proper notice using form C-108 either through the administrative process or an examiner hearing. The well must not again be used for disposal until such permit has been approved, all conditions of approval completed, the well passes a new Mechanical Integrity Test, and the District office of the Division has approved a new form C-104.

Please also be aware that pursuant to Division Rule 19.15.25.8 NMAC, or any applicable Agreed Compliance Order, this well has a limited time in which it must be returned to service, temporarily abandoned, or plugged and abandoned. For deadlines, please refer to said rule or agreement.

If you have any questions regarding the procedure to obtain a new disposal permit for this well, please contact William Jones at (505) 476-3477 or Phillip Goetze at (505) 476-3466. If you have questions as to C-115 reporting, inactive well status, or other compliance issues, contact Mr. Daniel Sanchez at (505) 476-3493.

Sincerely,



Daniel Sanchez,
Compliance Manager of the Oil Conservation Division

CC: SWD-401 / RBDMS Records / API No. 30-025-03563
Oil Conservation Division - Hobbs District Office District
Keith Herrmann, Esq., EMNRD Assistant General Counsel