



New Mexico Energy, Minerals and Natural Resources Department

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Jami Bailey
Division Director
Oil Conservation Division



JUNE 25, 2011

Mr. Luis Gonzales
Southwest Royalties
Six Desta Drive
Suite 2100
Midland, TX 79705

**RE: SURFACE REMEDY FOR SOUTHWEST ROYALTIES ARCO FEDERAL NO. 1
TANK BATTERY, API NO. 30-015-20631
UNIT LETTER K, SECTION 17, TOWNSHIP 17 SOUTH, RANGE 30 EAST**

Mr. Gonzales:

The Oil Conservation Division (OCD) has reviewed the proposal submitted by R.T. Hicks Consultants (RTH) on behalf of Southwest Royalties on June 20, 2011 to address a release of produced water at the Southwest Royalties ARCO Federal No. 1 tank battery, API No. 30-015-20631, located in Unit Letter K, Section 17, Township 17 South, Range 30 East, in Eddy County, New Mexico. This is the same proposal that Southwest Royalties had previously submitted to the Bureau of Land Management (BLM). By letter dated June 16, 2011, OCD informed Southwest Royalties that it was prohibited from disposing of remediation waste in a pit by 19.15.34.11 NMAC (*Disposition of Produced Water and Other Oil Field Waste*), except as authorized by other OCD rules.

Southwest Royalties has resubmitted its proposal as a "Remediation Plan" pursuant to 19.15.29.11 NMAC (*Corrective Action*). OCD is not requiring Southwest Royalties to conduct corrective action at this site because there is no protectable water and no threat to human health. Surface remediation for revegetation purposes should be completed pursuant to the surface land management's requirements.

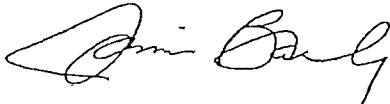
However, OCD will not allow Southwest Royalties to dispose of contaminated soil in a pit and hereby denies Southwest Royalties' proposed surface remedy. OCD again suggests that Southwest Royalties confer with BLM about what surface restoration BLM is requiring.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 10
Submitted by:
SOUTHWEST ROYALTIES, INC.
Hearing Date: September 29, 2011

Mr. Gonzales
June 25, 2011
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If you have any questions, please contact Glenn von Gonten at (505) 476-3488.

Sincerely,



Jami Bailey
Director

JB/gvg

Cc: Daniel Sanchez, OCD
Mike Bratcher, OCD District 2
Terry Gregston, BLM
Randy Hicks, R.T. Hicks