

New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John H. Bemis
Cabinet Secretary-Designate

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



JUNE 17, 2011

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

**RE: SURFACE REMEDY FOR SOUTHWEST ROYALTIES ARCO FEDERAL NO. 5
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 workplans and reports submitted by R.T. Hicks Consultants (RTH) on behalf of Southwest Royalties to address a release of produced water at the Southwest Royalties ARCO Federal No. 5 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. Southwest Royalty has generally addressed these plans to the Bureau of Land Management (BLM) because the release was less than the minimum reporting limit of 5 barrels specified in 19.15.29 NMAC. OCD understands that the most recent release of produced water occurred in September 2010 and that the spill may possibly have occurred on top of an older release.

Southwest Royalties has determined that the chlorides contamination at the site extends deeper than 20 feet bgs., and may be as deep as 60 feet bgs. However, Southwest Royalties has determined that there is no protectable ground water in this area of Eddy County. OCD accepts Southwest Royalties' assessment of both the chlorides soil contamination and its conclusion that there is no protectable ground water at this site and no risk to human health. Under 19.15.29.11 NMAC, corrective actions are required for releases that endanger public health or the environment. OCD agrees that the main environmental concern is the timely reestablishment of vegetation at the site.

However, Southwest Royalty is prohibited from disposing of oil field waste, including remediation waste (contaminated soil) 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. Part 34.11 states "Except as authorized by 19.15.30 NMAC, 19.15.17 NMAC, 19.15.36 NMAC, 19.15.29 NMAC

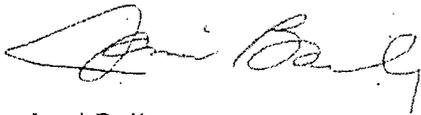
Oil Conservation Division * 1220 South St. Francis Drive
* Santa Fe, New Mexico 87505

* Phone: (505) 476-3440 * Fax (505) 476-3462* <http://www.enmrld.state.nm.us>

or 19.15.26.8 NMAC, persons, including transporters, shall not dispose of produced water or other oil field waste: (1) on or below the surface of the ground; in a pit; or in a pond, lake, depression or watercourse...." BLM does not have authority to authorize disposal of oil field waste/remediation waste in a pit.

Southwest Royalty's surface remediation proposal far exceeds OCD's corrective action requirements under 19.15.29 NMAC because there is no threat to protectable ground water and the surface impact does not pose a risk to human health. OCD suggests that Southwest Royalty confer with BLM about a surface restoration program that does not involve disposal of oil field waste in a pit. If you have any question, 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



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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.

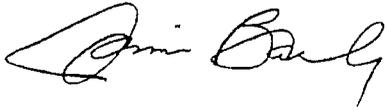
Southwest Royalties has resubmitted its proposal as a "Remediation Plan" pursuant to 19.15.29.11 NMAC (*Corrective Action*). OCD is not requiring Southwest Royalties to conduct corrective action at this site because there is no protectable water and no threat to human health. Surface remediation for 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.

Mr Gonzales
June 25, 2011
Page 2 of 2

If you have any questions, please contact Glenn von Gonten at (505) 476-3488.

Sincerely,

A handwritten signature in black ink, appearing to read "Jami Bailey". The signature is fluid and cursive, with the first name "Jami" and last name "Bailey" clearly distinguishable.

Jami Bailey
Director

JB/gvg

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