

NM1 - 4

BONDS



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor
Betty Rivera
Cabinet Secretary

September 4, 2002

Lori Wrotenbery
Director
Oil Conservation Division

Mr. James R. Maloney
Loco Hills Water Disposal Company
P.O. Box 68
Loco Hills, NM 87255

**RE: \$25,000 Cash Bond and Assignment of Cash Collateral
Commercial Surface Waste Management Facility Permit NM-01-0004
Loco Hills Water Disposal Company, Principal
Pioneer Savings & Trust, F.A., Financial Institution
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico
Account No. 01-16-10013541**

Dear Mr. Maloney:

The OCD hereby approves the cancellation of the above-referenced Assignment of Cash Collateral and authorizes Pioneer Savings & Trust F.A. to release the subject deposit pursuant to the direction of Loco Hills Water Disposal Company.

Sincerely,

David K. Brooks,
Assistant General Counsel

DKB: mjk

Enclosure: Original Cash Bond and Assignment of Cash Collateral CD 01-16-10013541

xc with attachment:

Artesia OCD Office
Pioneer Savings & Trust F.A., P.O. Box 130 Roswell, NM 88201



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

January 24, 2003

Lori Wrotenberg

Director

Oil Conservation Division

CERTIFIED MAIL

RETURN RECEIPT NO. 7001-1940-0004-3929-8904

Mr. James R. Maloney
Loco Hills Water Disposal Company
P.O. Box 68
Loco Hills, NM 87255

**RE: \$88,436 and \$100,000 Cash Bonds and Assignments of Cash Collateral
Commercial Surface Waste Management Facility Permit NM-01-0004
Loco Hills Water Disposal Company, Principal
Bank of America N.A., Surety
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico
Certificate of Deposit No. 91000033570202 and No. 91000033570192**

Dear Mr. Maloney:

The New Mexico Oil Conservation Division hereby approves the above-referenced Commercial Surface Waste Management Facility Cash Bonds and Assignments of Cash Collateral.

Sincerely,

David K. Brooks,
Assistant General Counsel

DKB: mjk

Enclosure: Copies of Cash Bonds and Assignments of Cash Collateral

xc with attachment:

Hobbs OCD Office

Sue Hobbs, Bank of America, 2600 North Main St., Roswell, NM 88201

LOCO HILLS WATER DISPOSAL CO.

P. O. Box 68
Loco Hills, NM 88255

RECEIVED

RECEIVED

JAN 3 2 2003

JAN 2 3 2003

Environmental Bureau
Oil Conservation Division

Environmental Bureau
Oil Conservation Division

November 07, 2002

Ms. Martyne J. Kieling
NEW MEXICO ENERGY, MINERALS and
NATURAL RESOURCES DEPARTMENT
1220 St. Francis Drive
Santa Fe, NM 87505

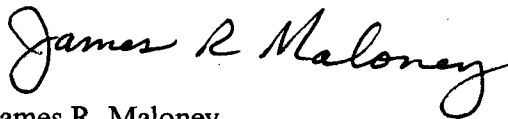
Re: Cash Bond Requirements

Dear Ms. Kieling,

Enclosed, you will find two Assignment of Cash Collateral Bond Certificates which fulfill the Cash Bond Requirement of the State of New Mexico for our facility which is located at Section 16, Township 17 South, Range 30 East, Loco Hills, Eddy County, New Mexico.

If you have an questions, please call me at 505-677-2118.

Sincerely,
LOCO HILLS WATER DISPOSAL CO.



James R. Maloney
Vice President

JRM:jb

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division

Cash Bond For Waste Management Facilities

KNOW ALL MEN BY THESE PRESENTS:

That LOCO HILLS WATER DISPOSAL COMPANY, (an individual, partnership, or a corporation organized in the State of NEW MEXICO, with its principal office in the City of LOCO HILLS, State of NEW MEXICO, and authorized to do business in the State of New Mexico), (hereinafter "Principal") is held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") in the sum of ONE HUNDRED THOUSAND DOLLARS & NO/100 (\$ 100,000.00) Dollars.

The conditions of this obligation are such that:

The above Principal has heretofore or may hereafter enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil and/or other oil field related waste in Section 16, Township 17 SOUTH, Range 30 EAST, NMPM, EDDY County, New Mexico.

NOW, THEREFORE, this \$ 100,000.00 bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules and orders of the Division and the Oil Conservation Commission, and upon clean-up of the facility site to standards of the Division; otherwise the bond is to be forfeited to the State of New Mexico.

The Principal has deposited funds on behalf of the Division in the amount of \$ 100,000.00 (ONE HUNDRED THOUSAND & NO/100 dollars) in the manner indicated on page 2 of this instrument, **Assignment of Cash Collateral Deposit**, to secure this bond. The Principal pledges the funds as a guarantee that its executors, assigns, heirs and administrators will abide by the laws of the State of New Mexico and the rules and orders of the Division in operating the waste management facility described herein, and that it will properly reclaim the facility site upon cessation of operations. If the Principal does not properly reclaim and restore the facility site, and otherwise abide by the rules and orders of the Division, this bond shall be forfeited in full and such funds as necessary applied to the cost of reclaiming the facility site. If the amount of the bond is less than the actual cost incurred by the Division in reclaiming the facility site, the Division may institute legal action against the Principal to recover any amounts expended over and above the amount of the bond.

NOW THEREFORE, if the Principal, its successors, assigns, heirs, or administrators shall properly reclaim and restore the above-described facility site upon cessation of operations, and otherwise abide by the rules and orders of the Division, then therefore, this obligation shall be null and void and the funds securing this bond shall be paid to the Principal, or its successors, heirs, or administrator, otherwise it shall remain in full force and effect.

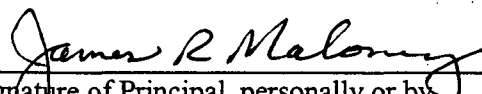
Assignment of Cash Collateral Deposit for Bond for Waste Management Facility

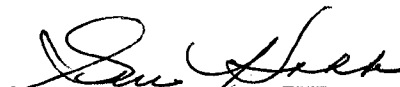
Pursuant to Rule 711 of the Rules of the Oil Conservation Division, or successor provisions, LOCO HILLS WATER DISPOSAL COMPANY (hereinafter "Principal") of P O BOX 68, LOCO HILLS, NEW MEXICO 88255 (address) has deposited with the BANK OF AMERICA (name of the financial institution, which must be a federally insured bank or savings institution within the State of New Mexico) of 2600 N MAIN, ROSWELL, NM 88201 (address) (hereinafter "Financial Institution"), the sum of ONE HUNDRED THOUSAND & NO/100 (\$ 100,000.00) dollars in Certificate of Deposit or savings account No. 91000033570192. The Principal hereby assigns and conveys all right, title and interest in the deposited funds to the Financial Institution in trust for the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") or successor agency of the State of New Mexico. The Principal and the Financial Institution agree that as to the deposited funds:

- a. The funds deposited pursuant to the terms of this Assignment are to serve as a cash bond covering a waste management facility operated by the Principal.
- b. The Division acquires by this Assignment the entire beneficial interest in the funds with the right to order the Financial Institution, in writing, to distribute the funds to persons determined by the Division to be entitled thereto, including the Division itself, in amounts determined by the Division, or to the Principal upon sale of the facility covered by this Assignment provided all applicable Division orders and rules have been complied with regarding the waste management facility.
- c. The Principal retains no legal or beneficial interest in the funds and has only the right to interest, if any, thereon, and to return of the funds upon written order of the Division.
- d. The Financial Institution agrees that the funds may not be assigned, transferred, pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The Financial Institution waives all statutory or common law liens or rights of set-off against the funds.

The Principal agrees that the Financial Institution may deduct from interest due the Principal any attorney fees incurred by the Financial Institution if claim or demand via writ, summons or other process arising from the Principal's business is made upon the Financial Institution.

Signed and sealed this 29TH day of OCTOBER, 2002.


Signature of Principal, personally or by
authorized officer


Signature of authorized officer of Financial
Institution

JAMES R MALONEY, VICE PRESIDENT
Title

SUE HOBBS, ASSISTANT VICE PRESIDENT
Title

(Note: If Principal is corporation, affix corporate seal here.)

P O BOX 68

2600 NORTH MAIN

LOCO HILLS, NM 88255

ROSWELL, NM 88201

Mailing Address

Mailing Address

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 2____,
by _____

My commission expires:

Date

Notary Public

ACKNOWLEDGMENT FORM FOR CORPORATION OR PARTNERSHIP

STATE OF NEW MEXICO)
COUNTY OF CHAVES) SS.

The foregoing instrument was acknowledged before me this 29TH day of OCTOBER, 2002,
by JAMES R MALONEY, VICE PRESIDENT

officer or partner(s) of LOCO HILLS WATER DISPOSAL COMPANY,
a corporation, a partnership on behalf of said corporation or partnership

My commission expires:

Date

Notary Public

NOTE: When Principal is a partnership, corporation of association, list all partners, officers and directors as may be applicable. This information may be provided below.



OFFICIAL SEAL
BARBARA L. GLUCK
NOTARY PUBLIC
STATE OF NEW MEXICO

My Commission Expires: 04/25/2006

ACKNOWLEDGMENT FORM FOR FINANCIAL INSTITUTION

STATE OF NEW MEXICO)
COUNTY OF CHAVES) SS.

The foregoing instrument was acknowledged before me this 29TH day of OCTOBER, 2002,
by SUE HOBBS title ASSISTANT VICE PRESIDENT on behalf of

BANK OF AMERICA

financial institution.

My commission expires:

Date

Notary Public



OFFICIAL SEAL
BARBARA L. GLUCK
NOTARY PUBLIC
STATE OF NEW MEXICO

My Commission Expires: 04/25/2006

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division

Cash Bond For Waste Management Facilities

KNOW ALL MEN BY THESE PRESENTS:

That LOCO HILLS WATER DISPOSAL COMPANY, (an individual, partnership, or a corporation organized in the State of NEW MEXICO, with its principal office in the City of LOCO HILLS, State of NEW MEXICO, and authorized to do business in the State of New Mexico), (hereinafter "Principal") is held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") in the sum of EIGHTY EIGHT THOUSAND FOUR HUNDRED (\$88,436.00) Dollars.

THIRTY SIX & NO/100

The conditions of this obligation are such that:

The above Principal has heretofore or may hereafter enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil and/or other oil field related waste in Section 16, Township 7South, Range 30 East, NMPM, EDDY County, New Mexico.

NOW, THEREFORE, this \$88,436.00 bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules and orders of the Division and the Oil Conservation Commission, and upon clean-up of the facility site to standards of the Division; otherwise the bond is to be forfeited to the State of New Mexico.

The Principal has deposited funds on behalf of the Division in the amount of \$ 88,436.00 ~~EIGHTYEIGHT THOUSAND FOUR HUNDRED DOLLARS~~ ^{SIX DOLLARS} in the manner indicated on page 2 of this instrument, Assignment of Cash Collateral Deposit, to secure this bond. The Principal pledges the funds as a guarantee that its executors, assigns, heirs and administrators will abide by the laws of the State of New Mexico and the rules and orders of the Division in operating the waste management facility described herein, and that it will properly reclaim the facility site upon cessation of operations. If the Principal does not properly reclaim and restore the facility site, and otherwise abide by the rules and orders of the Division, this bond shall be forfeited in full and such funds as necessary applied to the cost of reclaiming the facility site. If the amount of the bond is less than the actual cost incurred by the Division in reclaiming the facility site, the Division may institute legal action against the Principal to recover any amounts expended over and above the amount of the bond.

NOW THEREFORE, if the Principal, its successors, assigns, heirs, or administrators shall properly reclaim and restore the above-described facility site upon cessation of operations, and otherwise abide by the rules and orders of the Division, then therefore, this obligation shall be null and void and the funds securing this bond shall be paid to the Principal, or its successors, heirs, or administrator, otherwise it shall remain in full force and effect.

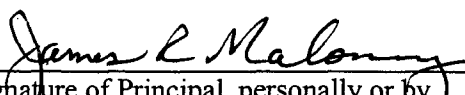
Assignment of Cash Collateral Deposit for Bond for Waste Management Facility

Pursuant to Rule 711 of the Rules of the Oil Conservation Division, or successor provisions, LOCO HILLS WATER DISPOSAL COMPANY (hereinafter "Principal") of P O BOX 68, LOCO HILLS, NEW MEXICO 88255 (address) has deposited with the BANK OF AMERICA (name of the financial institution, which must be a federally insured bank or savings institution within the State of New Mexico) of 2600 N MAIN, ROSWELL, NM 88201 (address) (hereinafter "Financial Institution"), the sum of ITTY EIGHT THOUSAND FOUR HUNDRED THIRTY SIX (\$ 88,436.00) dollars in Certificate of Deposit or savings account No. 91000033570202. The Principal hereby assigns and conveys all right, title and interest in the deposited funds to the Financial Institution in trust for the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") or successor agency of the State of New Mexico. The Principal and the Financial Institution agree that as to the deposited funds:

- a. The funds deposited pursuant to the terms of this Assignment are to serve as a cash bond covering a waste management facility operated by the Principal.
- b. The Division acquires by this Assignment the entire beneficial interest in the funds with the right to order the Financial Institution, in writing, to distribute the funds to persons determined by the Division to be entitled thereto, including the Division itself, in amounts determined by the Division, or to the Principal upon sale of the facility covered by this Assignment provided all applicable Division orders and rules have been complied with regarding the waste management facility.
- c. The Principal retains no legal or beneficial interest in the funds and has only the right to interest, if any, thereon, and to return of the funds upon written order of the Division.
- d. The Financial Institution agrees that the funds may not be assigned, transferred, pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The Financial Institution waives all statutory or common law liens or rights of set-off against the funds.


The Principal agrees that the Financial Institution may deduct from interest due the Principal any attorney fees incurred by the Financial Institution if claim or demand via writ, summons or other process arising from the Principal's business is made upon the Financial Institution.

Signed and sealed this 29TH day of OCTOBER, 2002.


Signature of Principal, personally or by
authorized officer

Title JAMES R. MALONEY, VICE PRESIDENT
(Note: If Principal is corporation, affix corporate seal here.)

P O BOX 68, LOCO HILLS, NM 88255
Mailing Address


Signature of authorized officer of Financial
Institution

Title SUE HOBBS, ASSISTANT VICE PRESIDENT

2600 NORTH MAIN
ROSWELL, NM 88201
Mailing Address

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2____,
by _____

My commission expires:

_____ Date

_____ Notary Public

ACKNOWLEDGMENT FORM FOR CORPORATION OR PARTNERSHIP

STATE OF NEW MEXICO)
SS.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 29TH day of OCTOBER, 2002,
by JAMES R. MALONEY, VICE PRESIDENT

officer or partner(s) of LOCO HILLS WATER DISPOSAL COMPANY
a corporation, a partnership on behalf of said corporation or partnership

My commission expires:

04/25/2006
Date

Barbara L Gluck
Notary Public

NOTE: When Principal is a partnership, corporation of association, list all partners, officers and directors as may be applicable. This information may be provided below.



OFFICIAL SEAL
BARBARA L. GLUCK
NOTARY PUBLIC
STATE OF NEW MEXICO

My Commission Expires: 04/25/2006

ACKNOWLEDGMENT FORM FOR FINANCIAL INSTITUTION

STATE OF NEW MEXICO)
SS.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 29TH day of OCTOBER, 2002,
by SUE HOBBS title ASSISTANT VICE PRESIDENT on behalf of
BANK OF AMERICA financial institution.

My commission expires:

04/25/2006
Date

Barbara L Gluck
Notary Public



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

November 27, 2001

CERTIFIED MAIL

RETURN RECEIPT NO. 7099-3220-0000-5051-2658

Mr. James R. Maloney
Loco Hills Water Disposal, Inc.
P.O. Box 68
Loco Hills, NM 87255

**RE: Loco Hills Water Disposal, Inc, Permit NM-01-0004
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico**

Dear Mr. Maloney:

The New Mexico Oil Conservation Division (OCD) has reviewed the Loco Hills Water Disposal file and found that there is a discrepancy in the name of your facility as it is authorized to do business, the name on your permit NM-01-00004, and the financial assurance coverage. The OCD has the following financial assurance on file:

1. A cash bond and assignment for \$25,000 CD No. 01-16-10013541 with Pioneer Savings and Trust in the name of Loco Hills Water Disposal Company,
2. A cash bond and assignment for \$22,109 CD No. 9100015117997 with Bank of America in the name of Loco Hills Water Disposal Inc.
3. A cash bond and assignment for \$69,218 CD No. 91000033570192 with Bank of America in the name of Loco Hills Water Disposal Inc., and
4. A cash bond and assignment for \$47,109 CD No. 91000033570202 with Bank of America in the name of Loco Hills Water Disposal Inc.

The name of your business on the original permit approved by orders R-6811, R-6811-A, and R-6811-B was "Loco Hills Water Disposal Company." The name on your current Administrative Permit issued May 26, 2000 is "Loco Hills Water Disposal, Inc." However, the OCD does not have any documentation from of a name change. A records check with the New Mexico Public Regulation Commission shows that Loco Hills Water Disposal Company was incorporated in the

State of New Mexico on April 21, 1981, and does not indicate that its corporate name has ever been changed. No entity named "Loco Hills Water Disposal, Inc." is shown in the PRC data base.

If a corporation different from Loco Hills Water Disposal Company is actually operating this facility, such corporation must be registered to do business in the State of New Mexico, and the Division must be furnished copies of the certificate of incorporation and certificate of registration fro such entity. If the name of Loco Hills Water Disposal Company has actually been changed, the Division must be furnished a copy of a certificate issued by the Public Regulation Commission evidencing such name change.

Assuming that Loco Hills Water Disposal Company is actually operating this facility, and that the funds assigned to the Division by the above-described assignments are the property of Loco Hills Water Disposal Company, then we need to ascertain whether the error in the name is an error in the bank's records or in the assignments furnished to us. For this purpose, please promptly provide us with copies of the bank documents evidencing these certificate accounts. We will require that errors in the corporate name be corrected both on the banks records and our own.

According to the Permit Issued May 26, 2000 the financial assurance amount required is at this time is \$141,327. The assignments in our file reflect a total of \$163,436. However, we interpret your letter of March 28, 2000, as indicating that the bank has transferred the \$22,109 balance previously held in Account No. 9100015117997 to Account No. 91000033570192. Please furnish confirmation from the bank that this is indeed the case.

Enclosed please find the current Cash Bond and Assignment form.

Please feel free to contact me at (505)-476-3450 if you have questions

Very truly yours,

David K. Brooks,
Assistant General Counsel

Enclosure: Copies of Cash Bond and Assignment of Cash Collateral, Forms,...

Xc Martyne Kieling
xc with attachment:
✓File NM-01-0004
Artesia OCD Office



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor
Betty Rivera
Cabinet Secretary

February 13, 2002

Lori Wrotenbery
Director
Oil Conservation Division

CERTIFIED MAIL

RETURN RECEIPT NO. 7099-3220-0000-5051-2948

Mr. James R. Maloney
Loco Hills Water Disposal Company
P.O. Box 68
Loco Hills, NM 87255

**RE: \$47,109 and \$69,218 Cash Bonds and Assignments of Cash Collateral
Commercial Surface Waste Management Facility Permit NM-01-0004
Loco Hills Water Disposal Company, Principal
Bank of America N.A., Surety
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico
Certificate of Deposit No. 91000033570202 and No. 91000033570192**

Dear Mr. Maloney:

The New Mexico Oil Conservation Division hereby approves the above-referenced Commercial Surface Waste Management Facility Cash Bonds and Assignments of Cash Collateral.

Sincerely,

David K. Brooks,
Assistant General Counsel

DKB: mjk

Enclosure: Copies of Cash Bonds and Assignments of Cash Collateral

xc with attachment:

Hobbs OCD Office
Sue Hobbs, Bank of America, 500 North Main St., Roswell, NM 88201

**Energy, Minerals and Natural Resources Department
Oil Conservation Division**

Cash Bond For Waste Management Facilities

(File with Oil Conservation Division, 1220 South Saint Francis, Santa Fe, New Mexico 87505)

KNOW ALL MEN BY THESE PRESENTS:

That Loco Hills Water Disposal Company ~~(an individual partnership)~~ a corporation organized in the State of New Mexico, with its principal office in the City of Loco Hills, State of New Mexico and authorized to do business in the State of New Mexico), as PRINCIPAL is firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (DIVISION) in the sum of Forty-seven Thousand One ~~XXXXXXXXXXXXXXX~~ Hundred and Nine Dollars (\$47,109.).

The conditions of this obligation are such that:

The PRINCIPAL has heretofore or may hereafter enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil or other oil field related waste in Section 16, Township 17 South, Range 30 East NMPM, Eddy County, New Mexico.

NOW, THEREFORE, this \$ 47,109.00** bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules and orders of the DIVISION and the Oil Conservation Commission, and upon clean-up of the facility site to standards of the DIVISION; otherwise the bond is to be forfeited to the Division.

The PRINCIPAL has deposited funds on behalf of the DIVISION in the amount of \$ 47109.00 (Forty-seven Thousand One Hundred and Nine dollars) in the manner indicated on page 2 of this instrument, **Assignment of Cash Collateral Deposit**, to secure this bond. The PRINCIPAL pledges the funds as a guarantee that it, its executors, assigns, heirs and administrators will abide by the Statutes of the State of New Mexico and the rules and orders of the DIVISION in operating the waste management facility described herein, and that it will properly reclaim the facility site upon cessation of operations. If the PRINCIPAL does not properly reclaim and restore the facility site, and otherwise abide by the rules and orders of the DIVISION, this bond shall be forfeited in full and such funds as necessary applied to the cost of reclaiming the facility site. If the amount of the bond is less than the actual cost incurred by the DIVISION in reclaiming the facility site, the DIVISION may institute legal action against the PRINCIPAL to recover any amounts expended over and above the amount of the bond.

NOW THEREFORE, if the above PRINCIPAL or its successors, assigns, heirs, administrators or any of them shall properly reclaim and restore the above-described facility site upon cessation of operations and otherwise abide by the rules and orders of the Division, then therefore, this obligation shall be null and void and the principal sum hereof shall be paid to the PRINCIPAL, or its successors, heirs, or administrator; otherwise it shall remain in full force and effect.

Assignment of Cash Collateral Deposit For Bond for Waste Management Facility

Pursuant to Rule 711 of the Rules of the Oil Conservation Division, or successor provisions, Loco Hills Water Disposal Company, (hereinafter "Principal"), of P O Box 68, Loco Hills, NM 88255 (address) has deposited with the Bank of America N.A. (name of the financial institution, which must be a federally insured bank or savings institution within the state of New Mexico) of Roswell, New Mexico (address) (hereinafter "Financial Institution"), the sum of Forty-seven Thousand ~~XXXXXXXXXX~~ One Hundred and Nine dollars in Certificate of Deposit ~~xxxxxxxxxxxx~~ No. 91000033570202. The Principal hereby assigns and conveys all right, title and interest in the deposited funds to the Financial Institution in trust for the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") or successor agency of the State of New Mexico. The Principal and the Financial Institution agree that as to the deposited funds:

- a. The funds deposited pursuant to the terms of this Assignment are to serve as a cash bond covering a waste management facility operated by the Principal.
- b. The Division acquires by this Assignment the entire beneficial interest in the funds with the right to order the Financial Institution, in writing, to distribute the fund to persons determined by the Division to be entitled thereto, including the Division itself, without further consent by the Principal, in amounts determined by the Division, or to the Principal upon sale of the facility covered by this Assignment provided all applicable Division orders and rules have been complied with regarding the waste management facility.
- c. The Principal retains no legal or beneficial interest in the fund and has only the right to interest, if any, thereon, and to return of the fund upon written order of the Division in the event the Principal properly reclaims the facility site and otherwise abides by the rules and order of the Division and the Oil Conservation Commission.
- d. The Financial Institution agrees that the funds may not be assigned, transferred pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The Financial Institution waives all statutory or common law liens or rights of set-off against the funds.

The Principal agrees that the Financial Institution may deduct from interest due the Principal any attorney fees incurred by the Financial Institution if claim or demand via writ, summons or other process arising from Principal's business is made upon the Financial Institution.

Signed this 17th day of January, 2002.

By Principal Loco Hills Water Disposal Company By Financial Institution Bank of America, N.A.

By: Thomas E. Jennings

Title Thomas E. Jennings, Secretary/Treasurer
(Note: If PRINCIPAL is corporation, affix corporate seal here.)

By: Sue Hobbs

Title Sue Hobbs, Assistant Vice President

Post Office Box 68

500 North Main Street

Loco Hills, New Mexico 88255

Roswell, New Mexico 88201

Mailing Address

Mailing Address

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)

)SS.

COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2____, by

My commission expires:

Date _____

Notary Public _____

ACKNOWLEDGMENT FORM FOR CORPORATION OR PARTNERSHIP

STATE OF NEW MEXICO)

)SS.

COUNTY OF CHAVES)The foregoing instrument was acknowledged before me this 17th day of January, 2002, by Thomas E. Jennings, Secretary/Treasurerofficer/partner(s) of Loco Hills Water Disposal Company, a corporation/partnership on behalf of said corporation/partnership.

My commission expires:

NOTARY
1-31-2005Date PUBLIC

Notary Public

Sam J. Powers

NOTE: When Principal is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

ACKNOWLEDGMENT FORM FOR FINANCIAL INSTITUTION

STATE OF NEW MEXICO)

)SS.

COUNTY OF CHAVES)The foregoing instrument was acknowledged before me this 17th day of January, 2002, by Sue Hobbs title Assistant Vice President on behalf of Bank of America, N.A., financial institution.

My commission expires:

NOTARY
1-31-2005Date PUBLIC

Notary Public

Sam J. Powers

**Energy, Minerals and Natural Resources Department
Oil Conservation Division**

Cash Bond For Waste Management Facilities

(File with Oil Conservation Division, 1220 South Saint Francis, Santa Fe, New Mexico 87505)

KNOW ALL MEN BY THESE PRESENTS:

That Loco Hills Water Disposal Company ~~(an individual partnership)~~
a corporation organized in the State of New Mexico, with its principal office in the City of
Loco Hills, State of New Mexico and authorized to do business in the
State of New Mexico), as PRINCIPAL is firmly bound unto the State of New Mexico, for the use and benefit
of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (DIVISION) in
the sum of Sixty-nine Thousand Two ~~XXXXXXXXXXXX~~ Dollars Hundred Eighteen
Dollars (\$69,218.00)

The conditions of this obligation are such that:

The PRINCIPAL has heretofore or may hereafter enter into the collection, disposal, evaporation,
remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion
fluids, contaminated soils, BS&W, tank bottoms, waste oil or other oil field related waste in Section 16,
Township 17 South, Range 30 East NMPM, Eddy County, New Mexico.

NOW, THEREFORE, this \$ 69,218.00** bond is conditioned upon substantial compliance
with all applicable statutes of the State of New Mexico and all rules and orders of the DIVISION and the Oil
Conservation Commission, and upon clean-up of the facility site to standards of the DIVISION; otherwise the
bond is to be forfeited to the Division.

The PRINCIPAL has deposited funds on behalf of the DIVISION in the amount of \$ 9,218.00 (Sixty-nine
Thousand Two Hundred Eighteen dollars) in the manner indicated on page 2 of this instrument. **Assignment
of Cash Collateral Deposit**, to secure this bond. The PRINCIPAL pledges the funds as a guarantee that it, its
executors, assigns, heirs and administrators will abide by the Statutes of the State of New Mexico and the rules
and orders of the DIVISION in operating the waste management facility described herein, and that it will
properly reclaim the facility site upon cessation of operations. If the PRINCIPAL does not properly reclaim and
restore the facility site, and otherwise abide by the rules and orders of the DIVISION, this bond shall be
forfeited in full and such funds as necessary applied to the cost of reclaiming the facility site. If the amount of
the bond is less than the actual cost incurred by the DIVISION in reclaiming the facility site, the DIVISION
may institute legal action against the PRINCIPAL to recover any amounts expended over and above the
amount of the bond.

NOW THEREFORE, if the above PRINCIPAL or its successors, assigns, heirs, administrators or any
of them shall properly reclaim and restore the above-described facility site upon cessation of operations and
otherwise abide by the rules and orders of the Division, then therefore, this obligation shall be null and void
and the principal sum hereof shall be paid to the PRINCIPAL, or its successors, heirs, or administrator;
otherwise it shall remain in full force and effect.

Assignment of Cash Collateral Deposit For Bond for Waste Management Facility

Pursuant to Rule 711 of the Rules of the Oil Conservation Division, or successor provisions, Loco Hills Water Disposal Company, (hereinafter "Principal"), of P O Box 68, Loco Hills, NM 88255 (address) has deposited with the Bank of America NA (name of the financial institution, which must be a federally insured bank or savings institution within the state of New Mexico) of Roswell New Mexico (address) (hereinafter "Financial Institution"), the sum of Sixty-nine Thousand XXXXXXXXXX Two Hundred Eighteen dollars in Certificate of Deposit of Savings Account No. 91000033570192. The Principal hereby assigns and conveys all right, title and interest in the deposited funds to the Financial Institution in trust for the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (hereinafter "Division") or successor agency of the State of New Mexico. The Principal and the Financial Institution agree that as to the deposited funds:

- a. The funds deposited pursuant to the terms of this Assignment are to serve as a cash bond covering a waste management facility operated by the Principal.
- b. The Division acquires by this Assignment the entire beneficial interest in the funds with the right to order the Financial Institution, in writing, to distribute the fund to persons determined by the Division to be entitled thereto, including the Division itself, without further consent by the Principal, in amounts determined by the Division, or to the Principal upon sale of the facility covered by this Assignment provided all applicable Division orders and rules have been complied with regarding the waste management facility.
- c. The Principal retains no legal or beneficial interest in the fund and has only the right to interest, if any, thereon, and to return of the fund upon written order of the Division in the event the Principal properly reclaims the facility site and otherwise abides by the rules and order of the Division and the Oil Conservation Commission.
- d. The Financial Institution agrees that the funds may not be assigned, transferred pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The Financial Institution waives all statutory or common law liens or rights of set-off against the funds.

The Principal agrees that the Financial Institution may deduct from interest due the Principal any attorney fees incurred by the Financial Institution if claim or demand via writ, summons or other process arising from Principal's business is made upon the Financial Institution.

Signed this 17th day of January, 2002.

By Principal Loco Hills Water Disposal By Financial Institution Bank of America, N.A.
Company

By: Thomas E. Jennings

Title Thomas E. Jennings, Secretary/Treasurer
(Note: If PRINCIPAL is corporation, affix corporate seal here.)

By: Sue Hobbs

Title Sue Hobbs, Assistant Vice President

Post Office Box 68

500 North Main Street

Loco Hills, New Mexico 88255

Roswell, New Mexico 88201

Mailing Address

Mailing Address

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)

)SS.

COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2____, by

My commission expires:

Date _____

Notary Public _____

ACKNOWLEDGMENT FORM FOR CORPORATION ~~OR PARTNERSHIP~~STATE OF NEW MEXICO)

)SS.

COUNTY OF CHAVES)The foregoing instrument was acknowledged before me this 17th day of January, 2002, by
Thomas E. Jennings, Secretary / Treasurerofficer ~~or partner~~ of Loco Hills Water Disposal Company, a
corporation, ~~a partnership~~ on behalf of said corporation ~~or partnership~~.

My commission expires:

Karen L. Powers

Notary Public

NOTE: When Principal is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

ACKNOWLEDGMENT FORM FOR FINANCIAL INSTITUTION

STATE OF NEW MEXICO)

)SS.

COUNTY OF CHAVES)The foregoing instrument was acknowledged before me this 17th day of January, 2002, by
Sue Hobbs title Assistant Vice President on behalf of
Bank of America, N.A., financial institution.

My commission expires:

Karen L. Powers

Notary Public



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor

Jennifer A. Salisbury
Cabinet Secretary

December 4, 2000

Lori Wrotenbery
Director
Oil Conservation Division

CERTIFIED MAIL
RETURN RECEIPT NO. 7099-3220-0000-5051-1767

Mr. James R. Maloney
Loco Hills Water Disposal, Inc.
P.O. Box 68
Loco Hills, NM 87255

RE: \$69,218 Cash Bond for Commercial Surface Waste Management Facility
Permit NM-01-0004
Loco Hills Water Disposal, Inc, Principal
Bank of America N.A., Surety
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico
Certificate of Deposit No. 91000033570192

Dear Mr. Maloney:

The New Mexico Oil Conservation Division hereby approves the above-referenced Commercial Surface Waste Management Facility Cash Bond and Assignment of Cash Collateral.

Sincerely,

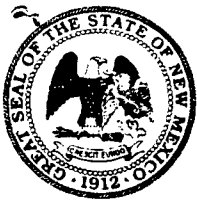
Marilyn S. Hebert,
Legal Counsel

MSH:mjk

Enclosure: Copies of Cash Bond and Assignment of Cash Collateral

xc with attachment:

Hobbs OCD Office
Sue Hobbs, Bank of America



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury
Cabinet Secretary

August 2, 2000

Lori Wrotenbery

Director

Oil Conservation Division

CERTIFIED MAIL

RETURN RECEIPT NO. Z-559-573-330

Mr. James R. Maloney
Loco Hills Water Disposal, Inc.
P.O. Box 68
Loco Hills, NM 87255

**RE: \$22,109 Cash Bond for Commercial Surface Waste Management Facility
Permit NM-01-0004
Loco Hills Water Disposal, Inc, Principal
Bank of America N.A., Surety
SW/4 SW/4 Section 16, Township 17 South, Range 30 East, NMPM
Eddy County, New Mexico
Certificate of Deposit No. 91000015117997**

Dear Mr. Maloney:

The New Mexico Oil Conservation Division hereby approves the above-referenced Commercial Surface Waste Management Facility Cash Bond and Assignment of Cash Collateral.

Sincerely,

Marilyn S. Hebert,
Legal Counsel

MSH:mjk

Enclosure: Copies of Cash Bond and Assignment of Cash Collateral

xc with attachment:

ARTESIA Hobbs OCD Office
Sue Hobbs, Bank of America

**Energy Minerals and Natural Resources Department
Oil Conservation Division**

Assignment of Cash Collateral Deposit For Bond for Waste Management Facility

(Must be a federally-insured bank or saving institution within the State of New Mexico.)

Date 7-12-00

Pursuant to Rule 711 of the Rules of the Oil Conservation Division, or successor provisions,
Loco Hills Water Disposal Inc.
(hereinafter referred to as owner) of Loco Hills Water Disposal Inc.
(address) has deposited with the Bank of America N.A.
(name of state or national bank or savings association) of Roswell, New Mexico
500 North Main, Roswell, New Mexico (address)
(herein termed financial institution), the sum of 22,109.00 (\$22,109.00) dollars in
Certificate of Deposit or savings account No. 91000015117997. Owner hereby assigns and conveys
all right, title and interest in the deposited sum to the financial institution in trust for the Oil Conservation
Division of the Energy, Minerals and Natural Resources Department (the "Division") or successor agency
of the State of New Mexico. Owner and the financial institution agree that as to the deposited sum or fund:

- a. The funds deposited pursuant to the terms of this Agreement are to serve as a cash bond covering a waste management facility operated by owner.
- b. The Division acquires by this assignment the entire beneficial interest in the fund, with the right to order the trustee in writing to distribute the fund to persons determined by the Division to be entitled thereto, including the Division itself, in amounts determined by the Division, or to the operator upon sale of the facility covered by this agreement provided all applicable Division orders and rules have been complied with.
- c. Owner retains no legal or beneficial interest in the fund and has only the right to interest, if any, thereon, and to return of the fund upon written order of the Division.
- d. The financial institution agrees that the fund may not be assigned, transferred pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The financial institution waives all statutory or common law liens or rights of set-off against the fund.

Owner agrees that the financial institution may deduct from interest due owner any attorney fees incurred by the financial institution if claim or demand via writ, summons or other process arising from owner's business is made upon the financial institution.

James R. McLoney
Signature of Owner, Personally or by
Authorized Officer

Vice President
Title

[Signature]
Signature of Authorized Officer of Financial
Institution

Assistant Vice President
Title

1. (For a natural person acting in his own right:)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____

My commission expires:

Date

Notary Public

2. (For a partnership acting by one or more partners)

STATE OF New Mexico)
)SS.
COUNTY OF Chaves)

The foregoing instrument was acknowledged before me this 28th day of July, 2000,
by Sue Hobbs
Officer of Financial Institution partner(s) on behalf of
_____, a partnership.

My commission expires:

June 4, 2001
Date

Rose McDuck
Notary Public

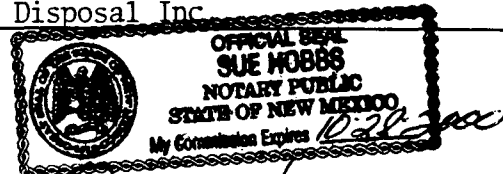
3. (For a corporation or incorporated association)

State of New Mexico
County of Chaves

The foregoing instrument was acknowledged before me this 12th day of July, 2000,
by James R. Maloney of Loco Hills Water Disposal Inc.
a corporation, on behalf of said corporation.

My commission expires:

10-28-2000
Date



Sue Hobbs
Notary Public

NOTE: When Lessor is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

APPROVED BY:
OIL CONSERVATION DIVISION

By: Rose McDuck 8/2/00

Energy, Minerals and Natural Resources Department
Oil Conservation Division

Cash Bond For Waste Management Facilities

(File with Oil Conservation Division, 2040 South Pacheco Street, Santa Fe, New Mexico 87505)

KNOW ALL MEN BY THESE PRESENTS:

That Loco Hills Water Disposal Inc., (an individual, partnership, or a corporation organized in the State of New Mexico, with its principal office in the City of Loco Hills, State of New Mexico, and authorized to do business in the State of New Mexico), is held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (the "Division") in the sum of Twenty Two Thousand One Hundred Nine (\$ 22,109.00) Dollars.

The conditions of this obligation are such that:

The above principal has heretofore or may hereafter enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil and/or other oil field related waste in Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

NOW, THEREFORE, this \$ 22,109.00 performance bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules and orders of the Division and the Oil Conservation Commission, and upon clean-up of the facility site to standards of the Division; otherwise the principal amount of the bond to be forfeited to the State of New Mexico.

The applicant has deposited on behalf of the Division \$ 22,109.00 (Twenty Two Thousand One Hundred Nine Dollars) in the manner indicated on the attachment to this bond (Assignment of Cash Collateral Deposit), being the principal sum intended to be secured. Applicant pledges the sum as a guarantee that its executors, assigns, heirs and administrators will abide by the Laws of the State of New Mexico and the rules and orders of the Division in operating the waste management facility described herein, and that it will properly reclaim the facility site upon cessation of operations. If the applicant does not properly reclaim and restore the facility site, and otherwise abide by the rules and orders of the Division, this bond shall be forfeited in full and such funds as necessary applied to the cost of reclaiming the facility site. If the principal sum of the bond is less than the actual cost incurred by the Division in reclaiming the facility site, the Division may institute legal action to recover any amounts expended over and above the principal sum of the bond.

NOW THEREFORE, if the above applicant or its successors, assigns, heirs, or administrators or any of them shall properly reclaim and restore the above-described facility site upon cessation of operations, and otherwise abide by the rules and orders of the Division, then therefore, this obligation shall be null and void and the principal sum hereof shall be paid to the applicant, or its successors, heirs, or administrator, otherwise it shall remain in full force and effect.

Signed and sealed this 28th day of July, ~~19~~ 2000

P. O. Box 68 Loco Hills, New Mexico 88255
Mailing Address

By James L. Nelson
Signature

Vice President
Title

(Note: If Principal is corporation, affix corporate seal here.)

1. (For a natural person acting in his own right:)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____

My commission expires:

Date

Notary Public

2. (For a partnership acting by one or more partners)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____, partner(s) on behalf of
_____, a partnership.

My commission expires:

Date

Notary Public

3. (For a corporation or incorporated association)

The foregoing instrument was acknowledged before me this 28th day of July, 192000,
by James R. Maloney of Loco Hills Water Disposal Inc.
a corporation, on behalf of said corporation.

My commission expires:

10-28-2000

Date



Notary Public

NOTE: When Lessor is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

APPROVED BY:
OIL CONSERVATION DIVISION

By: _____

[Signature] 8/2/00

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7329
Order No. R-6811

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN EXCEPTION
TO ORDER NO. R-3221, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 23 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of October, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(3) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(4) That the State Engineer has designated, pursuant to Section 70-2-23 (15), NMSA, 1978 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(5) That the applicant, Loco Hills Water Disposal Company, seeks as an exception to the provisions of the aforesaid Order (3) to permit the commercial disposal of salt water into an unlined surface pit or pits containing from 5 to 15 surface acres to be located in the N/2 SW/4 SW/4 of Section 16, Township 17 South, Range 30 East, Eddy County, New Mexico.

(6) That disposal rates would be from 2000 to 2500 barrels per month per acre or from 1000 to 1250 barrels per day at the maximum pit size.

(7) That neither the pit(s) nor the immediate underlying sediments are impervious and a percentage of the disposed water would leak into the subsurface to enter the Santa Rosa and Rustler Anhydrite formations.

(8) That while the Santa Rosa formation contains no fresh water in the immediate vicinity of the proposed pit(s), it does contain fresh water at various locations both up-dip and down-dip therefrom.

(9) That clay zones within the Santa Rosa could contribute to the horizontal migration of waters percolating from said pits which waters could reach and contaminate down-dip fresh water supplies in said formation.

(10) That if the salt water from said pits should percolate vertically through the Santa Rosa formation, it would enter the Rustler formation and move therethrough in a generally Southward direction to the Pecos River.

(11) That insufficient data was presented relative to the long term effect of the disposal of salt water in the proposed pit(s) and its potential affect on surface and subsurface waters in the following areas:

- (a) percolation rates;
- (b) fluid retention by the Santa Rosa formation (volume and area);

- (c) Rustler formation water quality outside the immediate area; and,
- (d) the ground water regime vis-a-vis the Pustler formation and the Pecos River.

(12) That because of the potential for contamination of fresh water supplies in the Santa Rosa formation and because of insufficient data upon which to make reasonable determinations relative to the need for protection of or the long term effects upon waters in the Rustler formation or Pecos River, the subject application should be denied.

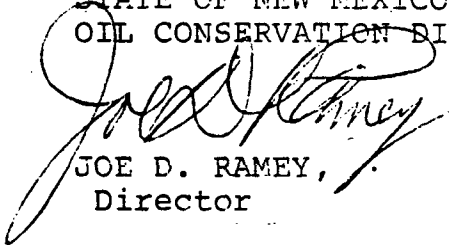
IT IS THEREFORE ORDERED:

(1) That the application of Loco Hills Water Disposal Company for approval of commercial surface salt water disposal facility, as an exception to Order (3) of Division Order No. R-3221, is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E A L

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7329 DE NOVO
Order No. R-6811-A

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN EXCEPTION
TO ORDER NO. R-3221, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 14, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 29th day of July, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Loco Hills Water Disposal Company, seeks an order permitting the installation of a commercial salt water disposal facility whereby salt water would be disposed of into 15 acres of unlined surface pits to be located in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) That the matter came on for hearing at 9 a.m. on September 23, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets and, pursuant to this hearing, Order No. R-6811 was issued on October 30, 1981, which denied Loco Hills Water Disposal Company's application.

(4) That on November 25, 1981, application for Hearing De Novo was made by Loco Hills Water Disposal Company and the matter was set for hearing before the Commission.

(5) That the matter came on for hearing de novo on July 14, 1982.

(6) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(7) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(8) That the State Engineer has designated, pursuant to Section 65-3-11 (15), N.M.S.A., 1953 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(9) That the applicant seeks an exception to the provisions of the aforesaid Order (3) of Division Order No. R-3221, as amended, to permit the commercial disposal of produced salt water into the aforesaid pits at the site described above.

(10) That the applicant proposes to install and operate an effective system, composed of holding and separating tanks, and a skimming pit, for the removal of oily and solid wastes from the waters to be disposed of into said system.

(11) That there is no fresh water in the immediate vicinity of said disposal system, but there are wells producing fresh water some nine miles south of the proposed disposal pits.

(12) That the native soils underlying said pits will permit the vertical percolation of some of the waters disposed of in said system.

(13) That the vertical percolation of waters from said system should not endanger any fresh waters.

(14) That to ensure that waters percolating from said pits move only vertically, monitor wells should be drilled in a pattern as shown on Exhibit "A" designed to detect horizontal movement of water from said disposal area.

(15) That in the event salt water is detected in any monitor well, Case No. 7329 should be reopened within 90 days to permit applicant to appear and show cause why the authority to use said pits for water disposal should not be rescinded.

(16) That the maximum volume of produced water to be disposed of through said system should not exceed 2500 barrels per acre per month.

(17) That a freeboard of a minimum of three feet should be maintained at all times.

(18) That the granting of the application will not cause waste or impair correlative rights.

IT IS THEREFORE ORDERED:

(1) That the applicant, Loco Hills Water Disposal Company, is hereby authorized to install and operate a 15-acre commercial salt water disposal facility to be located in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, said system to be limited to the maximum disposal of 2500 barrels per acre per month.

(2) That the operator shall install tanks and a skimming pit, sufficient to ensure that oil or other deleterious substances will not enter the disposal pits in harmful quantities.

(3) That a freeboard of a minimum of three feet will be maintained on all pits at all times.

(4) That monitor wells, as shown on Exhibit "A" attached to and made a part of this order, shall be drilled and equipped with perforated or slotted tubing/casing from a depth of four feet to total depth.


(5) That said monitor wells will be tested monthly to check for migration of the disposed salt water thereto and the results of these tests will be promptly delivered to the Artesia District Office of the Oil Conservation Division.

(6) That if disposed salt water is detected in any monitor well, Case 7329 will be reopened, within 90 days, to permit the applicant to appear and show cause why the disposal authority granted by this order should not be rescinded.

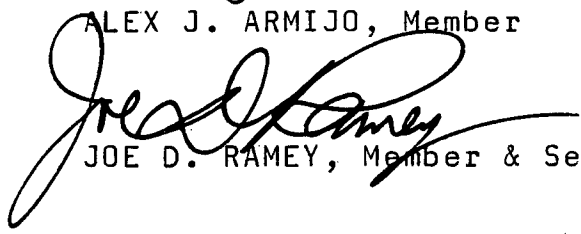
(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

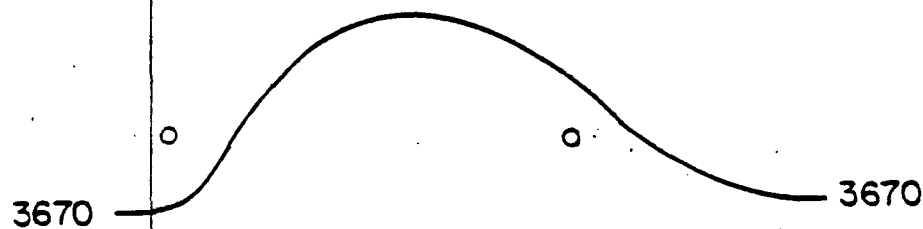

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

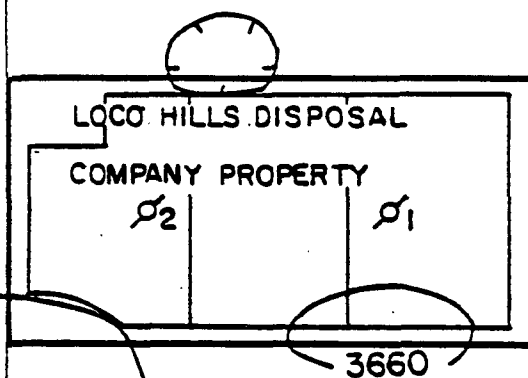

JOE D. RAMEY, Member & Secretary

S E A L

fd/



φ
TEST HOLE 3



DIKE ELEV. 3670
BRINE ELEV. 3667

3660

3660

SW/4 Sec. 16
Twp. 17S., Rge. 30E.

LEGEND

- 60' MONITOR HOLES
- RUSTLER DEPTH MONITOR HOLES
- σ CORE HOLE



SCALE IN FEET



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7720
Order No. R-6811-B

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN AMENDMENT
TO DIVISION ORDER No. R-6811-A,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 29, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 30th day of December, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Loco Hills Water Disposal Company, seeks an order amending Division Order No. R-6811-A to remove the present maximum disposal limit of 2,500 barrels per acre per month imposed upon the salt water disposal facility authorized, therein, in Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) That said Order No. R-6811-A was issued by the Commission following the hearing of Case No. 7329 De Novo on July 14, 1982.

(4) That in said Order No. R-6811-A, the Commission made, among others, the following findings:

"(6) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced

in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(7) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(8) That the State Engineer has designated, pursuant to Section 65-3-11 (15), N.M.S.A., 1953 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(9) That the applicant seeks an exception to the provisions of the aforesaid Order (3) of Division Order No. R-3221, as amended, to permit the commercial disposal of produced salt water into the aforesaid pits at the site described above.

(10) That the applicant proposes to install and operate an effective system, composed of holding and separating tanks, and a skimming pit, for the removal of oily and solid wastes from the waters to be disposed of into said system.

(11) That there is no fresh water in the immediate vicinity of said disposal system, but there are wells producing fresh water some nine miles south of the proposed disposal pits.

(12) That the native soils underlying said pits will permit the vertical percolation of some of the waters disposed of in said system.

(13) That the vertical percolation of waters from said system should not endanger any fresh waters.

(14) That to ensure that waters percolating from said pits move only vertically, monitor wells should be

drilled in a pattern as shown on Exhibit "A" designed to detect horizontal movement of water from said disposal area.

(15) That in the event salt water is detected in any monitor well, Case No. 7329 should be reopened within 90 days to permit applicant to appear and show cause why the authority to use said pits for water disposal should not be rescinded.

(16) That the maximum volume of produced water to be disposed of through said system should not exceed 2500 barrels per acre per month.

(17) That a freeboard of a minimum of three feet should be maintained at all times."

(5) That said Order No. R-6811-A did contain provisions limiting the maximum disposal volume to 2500 barrels per acre per month, requiring maintenance of a minimum three foot freeboard in all pits and the drilling and equipping of monitor wells.

(6) That the applicant now seeks the amendment of said Order No. R-6811-A to remove only the 2500 barrels per acre per month disposal volume limitation.

(7) That the application was opposed by a surface and ground water interest owner in the area which might be affected by the disposal operation.

(8) That the applicant presented evidence designed to demonstrate that the change in disposal volume would not significantly alter the hydrologic regime established by institution of the disposal operation nor threaten contamination of any fresh water supplies.

(9) That the protestant presented new evidence which tended to show that there were both southeast and southwest trending slopes on the interface between the Santa Rosa formation and the Rustler formation under the disposal pits.

(10) That the protestant further presented testimony tending to show that an impermeable clay barrier exists at the base of the Santa Rosa formation which would effectively stop the vertical infiltration of the disposed waters into the Rustler formation.

(11) That if the disposed water which percolates through the Santa Rosa formation from said pits cannot move into the Rustler formation, it may move laterally through the Santa Rosa formation where it may endanger fresh water supplies.

(12) That in order to verify that any water percolating from said pits ultimately enters the Rustler formation and does not move laterally within the Santa Rosa formation, the well monitoring system provided for in said Order No. R-6811-A should be expanded.

(13) That the additional monitor wells should be drilled to the Rustler formation and should be located at points approximately 250 feet north of the present monitor well No. 9 located to the east of the disposal facility, approximately 150 feet from monitor well No. 2 along a line connecting monitor well 2 and monitor well 3, and at a third location approximately midway between the present monitor holes No. 4 and 5 all as depicted on Exhibit "A" to said Order No. R-6811-A.

(14) That provided that these additional monitor wells are drilled and utilized in the same manner as the original monitor wells, no increased threat to fresh water supplies should result from lifting the 2500 barrels-per-acre disposal limitation contained in Order No. R-6811-A.

(15) That the application should be approved and the additional monitor wells should be required.

(16) That the granting of this application restricted in the manner set forth above will not cause waste, or impair correlative rights, or endanger designated fresh water supplies.

IT IS THEREFORE ORDERED:

(1) That the application of Loco Hills Water Disposal Company for an amendment of Division Order No. R-6811-A to remove the 2500 barrel per acre per month disposal limitation included in Order No. (1), thereof, is hereby approved.

PROVIDED HOWEVER, that this order shall not become effective until the applicant has drilled and completed three additional monitor wells located approximately (1) 250 feet to the North of present monitor hole No. 9, (2) 150 feet from present monitor well No. 2 along a line connecting monitor well No. 2 and 3 and (3) midway between the present monitor holes Nos. 4 and 5.

PROVIDED FURTHER, that each of said monitor wells shall be drilled to the top of the Rustler formation and that such wells

shall be cased and operated in the same manner as those monitor wells required by Order No. R-6811-A.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

Ed Kelley
ED KELLEY, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO.8855
Order No. R-6811-C

APPLICATION OF LOCO HILLS WATER DISPOSAL
COMPANY FOR AN OIL TREATING PLANT PERMIT,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 2, 1986, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 12th day of May, 1986, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Loco Hills Water Disposal Company, seeks authority to construct and operate an oil treating plant for the purpose of treating produced water at its salt water disposal facility authorized by Division Order No. R-6811-A, as amended, located in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) Dikes, dams and/or emergency pits should be constructed around the treating plant capable of holding the entire capacity of all tanks and vessels at the plant location in order that sediment oil, reclaimed oil, or waste oil cannot escape from the immediate vicinity of such plant or into the salt water disposal facility.

(4) The proposed treating plant will have a 3,500 barrel capacity and will use chemicals, fresh water and heat for the processing of the materials received.

(5) The proposed treating plant and method of processing will efficiently process, treat, and reclaim the aforementioned waste oil, thereby salvaging oil which would otherwise be wasted.

(6) The Director of the Division should be authorized to administratively grant approval for the expansion or modification of said plant.

(7) The subject application should be approved as being in the best interests of conservation.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Loco Hills Water Disposal Company, is hereby authorized to install and operate a chemical, freshwater, and heat-treatment type oil treating plant at its salt water disposal site in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, for the purpose of treating produced water being delivered to their salt water disposal facility authorized by Division Order No. R-6811-A, as amended.

PROVIDED HOWEVER THAT, the continuation of the authorization granted by this order shall be conditioned upon compliance with the laws of the State of New Mexico and the rules and regulations of the New Mexico Oil Conservation Division;

PROVIDED FURTHER THAT, prior to commencing operation of said plant, the applicant shall file with the Division and obtain approval of a performance bond in the amount of \$10,000.00 conditioned upon substantial compliance with applicable statutes of the State of New Mexico and all rules, regulations and orders of the Oil Conservation Division.

(2) The operator of the above-described oil treating plant shall clear and maintain in a condition clear of all debris and vegetation a fireline at least 15 feet in width and encircling the site upon which the treating plant is located.

(3) Dikes, dams and/or emergency pits capable of holding the entire capacity of all tanks and vessels at the plant location and capable of preventing the escape of any sediment oil, reclaimed oil, or waste oil from the immediate vicinity of said plant shall be constructed and maintained around the treating plant.

(4) The disposal of waste water accumulated in conjunction with the operation of the above-described plant on

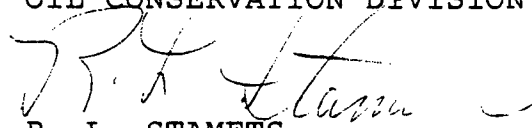
the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which will constitute a hazard to any fresh water supplies is hereby prohibited.

(5) The Director of the Division may administratively grant authority for the expansion or modification of said plant upon request and a demonstration that such expansion or modification is upon contiguous acreage and is otherwise consistent with this order and Division Rules and Regulations.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


R. L. STAMETS,
Director

S E A L



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

July 26, 1988

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

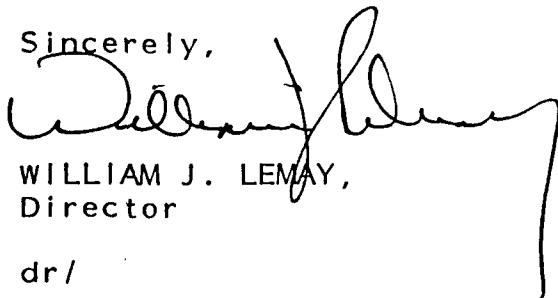
James T. Jennings, Esq.
Attorney
P. O. Box 1180
Roswell, New Mexico 88202-1180

Re: \$25,000 Cash Bond for Treating Plant and
Commercial Disposal Facilities
Loco Hills Water Disposal Company, Operator
Sec. 16, T-17-S, R-30-E, Eddy County
Bond No. OCD-153

Dear Mr. Jennings:

The Oil Conservation Division hereby approves the above-captioned bond effective this date.

Sincerely,



WILLIAM J. LEMAY,
Director

dr/

cc: Oil Conservation Division
Artesia, New Mexico

Loco Hills Water Disposal Company
P. O. Box 68
Loco Hills, New Mexico 88255-0068

JAMES T. JENNINGS
A. D. "DIRK" JONES

LAW OFFICES
JAMES T. JENNINGS
SUNWEST CENTRE
P. O. BOX 1180
ROSWELL, NEW MEXICO 88202-1180

TELEPHONE
(505) 622-8432

July 25, 1988

Oil Conservation Division
P. O. Box 2088
Land Office Building
Santa Fe, New Mexico 87504

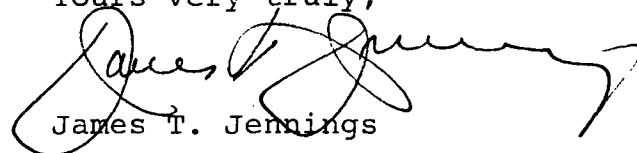
Attn: Diane Richardson
Administrator
Bonding Department

Re: Loco Hills Water Disposal Treating Plant
and Commercial Surface Waste Disposal
Facility Bond

Dear Ms. Richardson:

In accordance with the request contained in your letter of July 23, 1988, the \$25,000.00 cash bond for treating plant and commercial disposal facilities has been executed by Loco Hills Water Disposal Company and is enclosed herewith. Attached to the bond there is an assignment of cash collateral executed by Pioneer Savings and Trust of Roswell and Loco Hills Disposal Company. These documents have been completed in accordance with my conversation with Mr. Bob Stoval, your Division Counsel, and I hope you will find them satisfactory. After the bond has been approved by the Oil Conservation Division, I would appreciate it if you would send a copy of the bond as approved to me so I may complete the Loco Hills file on this matter. For your convenience, I am enclosing a stamped, self-addressed envelope.

Yours very truly,


James T. Jennings

JTJ/st

Encls.

cc: Loco Hills Water Disposal Company
P. O. Box 68
Loco Hills, NM 88255-0068

OC 153

NEW MEXICO OIL CONSERVATION DIVISION
OF THE ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

\$25,000.00 CASH BOND FOR TREATING PLANT
AND COMMERCIAL DISPOSAL FACILITIES

File with Oil Conservation Division, P. O. Box 2088, Santa Fe,
New Mexico 87504

KNOW ALL MEN BY THESE PRESENTS:

That LOCO HILLS WATER DISPOSAL COMPANY, a corporation organized in the State of New Mexico, with its principal office in the City of Loco Hills, State of New Mexico, and authorized to do business in the State of New Mexico, is held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department in the sum of Twenty Five Thousand (\$25,000.00) Dollars lawful money of the United States.

The conditions of this obligation are such that:

The above principal has heretofore or may hereafter enter into the process of treating and reclaiming sediment oil and the collection, disposal or storage of produced water and/or other oil field related wastes in Section 16, Township 17 South, Range 30 East, N.M.P.M., Eddy County, New Mexico.

NOW, THEREFORE, this \$25,000.00 performance bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules, regulations, and orders of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department, and upon clean-up of the facility sites to standards of the Oil Conservation Division; otherwise, the principal amount of the bond to be forfeited to the State of New Mexico.

The applicant has deposited on behalf of the Division \$25,000.00 (Twenty five thousand dollars) in the manner indicated on the attachment to this bond, being the principal sum intended to be secured. Applicant pledges the sum as a guarantee that if its executors, assigns, heirs and administrators will abide by the laws of the State of New Mexico and the Rules and Regulations of the Oil Conservation Division in operating the treating plant and the commercial surface waste disposal facilities described herein, and that it will properly reclaim the facility sites upon cessation of operations. If the applicant does not properly reclaim and restore the facility sites, and otherwise abide by the Rules and Orders of the Oil Conservation Division, this bond shall be forefeited in full and such funds as necessary applied to the cost of reclaiming the facility sites. If the principal sum of the bond is less than the actual cost incurred by the Division in reclaiming the plant sites, the Division may institute legal action to recover any amounts expended over and above the principal sum of the bond.

NOW, THEREFORE, if the above applicant or its successors, assigns, heirs, or administrators or any of them shall properly reclaim and restore the above described treating plant, collection, disposal or storage sites upon cessation of operations, and otherwise abide by the Rules and Orders of the Oil Conservation Division, then therefore, this obligation shall be null and void and the principal sum hereof shall be paid to the applicant, or its successors, heirs or administrator, otherwise it shall remain in full force and effect.

Signed and sealed this 20 day of July, 1988.

LOCO HILLS WATER DISPOSAL COMPANY

By Ray Westall
President

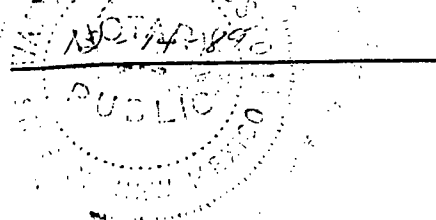
P. O. Box 68
Loco Hills, New Mexico 88255-0068

STATE OF NEW MEXICO

COUNTY OF EDDY

The foregoing instrument was acknowledged before me this 20th day of July, 1988, by Ray Westall, President of Loco Hills Water Disposal Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:



Wendell H. Hampton
Notary Public

APPROVED BY:
OIL CONSERVATION DIVISION

By William J. [Signature]

ASSIGNMENT OF CASH COLLATERAL DEPOSIT
FOR BOND FOR TREATING PLANT AND
COMMERCIAL SURFACE WASTE DISPOSAL FACILITIES

July 20, 1988

Pursuant to Rules 312 and 711 of the Rules of the Oil Conservation Division, or successor provisions, LOCO HILLS WATER DISPOSAL COMPANY, a New Mexico corporation, (hereinafter referred to as "owner") of P. O. Box 68, Loco Hills, New Mexico 88255-0068, has deposited with the PIONEER SAVINGS & TRUST, F.A., a federally chartered association, P. O. Box 130, Roswell, New Mexico 88202-0130 (herein termed financial institution), the sum of Twenty Five Thousand dollars (\$25,000.00) in Certificate of Deposit or savings account No. . Owner hereby assigns and conveys all right, title and interest in the deposited sum to the financial institution in trust for the Oil Conservation Division of the Energy and Minerals Department or successor agency of the State of New Mexico. Owner and the financial institution agree that as to the deposited sum or fund:

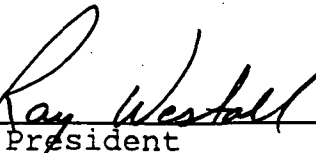
- a. The funds deposited pursuant to the terms of this agreement are to serve as a cash bond covering a treating plant and commercial surface waste disposal facilities operated by owner.
- b. The Oil Conservation Division acquires by this assignment the entire beneficial interest in the fund, with the right to order the trustee in writing to distribute the fund to persons determined by the Division to be entitled thereto, including the Division itself, in amounts determined by the Division, or to the operator upon sale of the facilities covered by this agreement.
- c. Owner retains no legal or beneficial interest in the fund and has only the right to interest, if any, thereon and to return of the fund upon written order of the Division.
- d. The financial institution agrees that the fund may not be assigned, transferred, pledged or distributed except upon written order of the Division or a court of competent jurisdiction made in a proceeding in which the Division is a party. The financial institution waives all statutory or common law liens or rights of set-off against the fund.

Owner agrees that the financial institution may deduct from interest due owner any attorney fees incurred by the financial institution if claim or demand via writ, summons or other process arising from operator's business is made upon the financial institution.

LOCO HILLS WATER DISPOSAL COMPANY

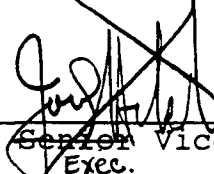
PIONEER SAVINGS & TRUST, F.A.

By


President

Owner

By


Senior Vice President
Exec.

Authorized Officer of
Financial Institution

STATE OF NEW MEXICO

COUNTY OF EDDY

The foregoing instrument was acknowledged before me this 20th day of July, 1988, by Ray Westall, President of Loco Hills Water Disposal Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires: 12-24-88

Wanda H. Livingston

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 25th day of July, 1988, by Jon E. Hitchcock, ~~Senior~~ ^{Executive} Vice President of Pioneer Savings & Trust, F.A., a federally chartered association, on behalf of said association.

My Commission Expires: 2/17/92

Lanice Arwhite

LOCO HILLS

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7720
Order No. R-6811-B

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN AMENDMENT
TO DIVISION ORDER No. R-6811-A,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 29, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 30th day of December, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Loco Hills Water Disposal Company, seeks an order amending Division Order No. R-6811-A to remove the present maximum disposal limit of 2,500 barrels per acre per month imposed upon the salt water disposal facility authorized, therein, in Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) That said Order No. R-6811-A was issued by the Commission following the hearing of Case No. 7329 De Novo on July 14, 1982.

(4) That in said Order No. R-6811-A, the Commission made, among others, the following findings:

"(6) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced

in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(7) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(8) That the State Engineer has designated, pursuant to Section 65-3-11 (15), N.M.S.A., 1953 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(9) That the applicant seeks an exception to the provisions of the aforesaid Order (3) of Division Order No. R-3221, as amended, to permit the commercial disposal of produced salt water into the aforesaid pits at the site described above.

(10) That the applicant proposes to install and operate an effective system, composed of holding and separating tanks, and a skimming pit, for the removal of oily and solid wastes from the waters to be disposed of into said system.

(11) That there is no fresh water in the immediate vicinity of said disposal system, but there are wells producing fresh water some nine miles south of the proposed disposal pits.

(12) That the native soils underlying said pits will permit the vertical percolation of some of the waters disposed of in said system.

(13) That the vertical percolation of waters from said system should not endanger any fresh waters.

(14) That to ensure that waters percolating from said pits move only vertically, monitor wells should be

drilled in a pattern as shown on Exhibit "A" designed to detect horizontal movement of water from said disposal area.

(15) That in the event salt water is detected in any monitor well, Case No. 7329 should be reopened within 90 days to permit applicant to appear and show cause why the authority to use said pits for water disposal should not be rescinded.

(16) That the maximum volume of produced water to be disposed of through said system should not exceed 2500 barrels per acre per month.

(17) That a freeboard of a minimum of three feet should be maintained at all times."

(5) That said Order No. R-6811-A did contain provisions limiting the maximum disposal volume to 2500 barrels per acre per month, requiring maintenance of a minimum three foot freeboard in all pits and the drilling and equipping of monitor wells.

(6) That the applicant now seeks the amendment of said Order No. R-6811-A to remove only the 2500 barrels per acre per month disposal volume limitation.

(7) That the application was opposed by a surface and ground water interest owner in the area which might be affected by the disposal operation.

(8) That the applicant presented evidence designed to demonstrate that the change in disposal volume would not significantly alter the hydrologic regime established by institution of the disposal operation nor threaten contamination of any fresh water supplies.

(9) That the protestant presented new evidence which tended to show that there were both southeast and southwest trending slopes on the interface between the Santa Rosa formation and the Rustler formation under the disposal pits.

(10) That the protestant further presented testimony tending to show that an impermeable clay barrier exists at the base of the Santa Rosa formation which would effectively stop the vertical infiltration of the disposed waters into the Rustler formation.

(11) That if the disposed water which percolates through the Santa Rosa formation from said pits cannot move into the Rustler formation, it may move laterally through the Santa Rosa formation where it may endanger fresh water supplies.

(12) That in order to verify that any water percolating from said pits ultimately enters the Rustler formation and does not move laterally within the Santa Rosa formation, the well monitoring system provided for in said Order No. R-6811-A should be expanded.

(13) That the additional monitor wells should be drilled to the Rustler formation and should be located at points approximately 250 feet north of the present monitor well No. 9 located to the east of the disposal facility, approximately 150 feet from monitor well No. 2 along a line connecting monitor well 2 and monitor well 3, and at a third location approximately midway between the present monitor holes No. 4 and 5 all as depicted on Exhibit "A" to said Order No. R-6811-A.

(14) That provided that these additional monitor wells are drilled and utilized in the same manner as the original monitor wells, no increased threat to fresh water supplies should result from lifting the 2500 barrels-per-acre disposal limitation contained in Order No. R-6811-A.

(15) That the application should be approved and the additional monitor wells should be required.

(16) That the granting of this application restricted in the manner set forth above will not cause waste, or impair correlative rights, or endanger designated fresh water supplies.

IT IS THEREFORE ORDERED:

(1) That the application of Loco Hills Water Disposal Company for an amendment of Division Order No. R-6811-A to remove the 2500 barrel per acre per month disposal limitation included in Order No. (1), thereof, is hereby approved.

PROVIDED HOWEVER, that this order shall not become effective until the applicant has drilled and completed three additional monitor wells located approximately (1) 250 feet to the North of present monitor hole No. 9, (2) 150 feet from present monitor well No. 2 along a line connecting monitor well No. 2 and 3 and (3) midway between the present monitor holes Nos. 4 and 5.

PROVIDED FURTHER, that each of said monitor wells shall be drilled to the top of the Rustler formation and that such wells

shall be cased and operated in the same manner as those monitor wells required by Order No. R-6811-A.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

Ed Kelley
ED KELLEY, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7329 DE NOVO
Order No. R-6811-A

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN EXCEPTION
TO ORDER NO. R-3221, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 14, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 29th day of July, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Loco Hills Water Disposal Company, seeks an order permitting the installation of a commercial salt water disposal facility whereby salt water would be disposed of into 15 acres of unlined surface pits to be located in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.
- (3) That the matter came on for hearing at 9 a.m. on September 23, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets and, pursuant to this hearing, Order No. R-6811 was issued on October 30, 1981, which denied Loco Hills Water Disposal Company's application.
- (4) That on November 25, 1981, application for Hearing De Novo was made by Loco Hills Water Disposal Company and the matter was set for hearing before the Commission.

(5) That the matter came on for hearing de novo on July 14, 1982.

(6) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(7) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(8) That the State Engineer has designated, pursuant to Section 65-3-11 (15), N.M.S.A., 1953 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(9) That the applicant seeks an exception to the provisions of the aforesaid Order (3) of Division Order No. R-3221, as amended, to permit the commercial disposal of produced salt water into the aforesaid pits at the site described above.

(10) That the applicant proposes to install and operate an effective system, composed of holding and separating tanks, and a skimming pit, for the removal of oily and solid wastes from the waters to be disposed of into said system.

(11) That there is no fresh water in the immediate vicinity of said disposal system, but there are wells producing fresh water some nine miles south of the proposed disposal pits.

(12) That the native soils underlying said pits will permit the vertical percolation of some of the waters disposed of in said system.

(13) That the vertical percolation of waters from said system should not endanger any fresh waters.

(14) That to ensure that waters percolating from said pits move only vertically, monitor wells should be drilled in a pattern as shown on Exhibit "A" designed to detect horizontal movement of water from said disposal area.

(15) That in the event salt water is detected in any monitor well, Case No. 7329 should be reopened within 90 days to permit applicant to appear and show cause why the authority to use said pits for water disposal should not be rescinded.

(16) That the maximum volume of produced water to be disposed of through said system should not exceed 2500 barrels per acre per month.

(17) That a freeboard of a minimum of three feet should be maintained at all times.

(18) That the granting of the application will not cause waste or impair correlative rights.

IT IS THEREFORE ORDERED:

(1) That the applicant, Loco Hills Water Disposal Company, is hereby authorized to install and operate a 15-acre commercial salt water disposal facility to be located in the SW/4 of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, said system to be limited to the maximum disposal of 2500 barrels per acre per month.

(2) That the operator shall install tanks and a skimming pit, sufficient to ensure that oil or other deleterious substances will not enter the disposal pits in harmful quantities.

(3) That a freeboard of a minimum of three feet will be maintained on all pits at all times.

(4) That monitor wells, as shown on Exhibit "A" attached to and made a part of this order, shall be drilled and equipped with perforated or slotted tubing/casing from a depth of four feet to total depth.

(5) That said monitor wells will be tested monthly to check for migration of the disposed salt water thereto and the results of these tests will be promptly delivered to the Artesia District Office of the Oil Conservation Division.

Case No. 7329 De Novo
Order No. R-6811-A

(6) That if disposed salt water is detected in any monitor well, Case 7329 will be reopened, within 90 days, to permit the applicant to appear and show cause why the disposal authority granted by this order should not be rescinded.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

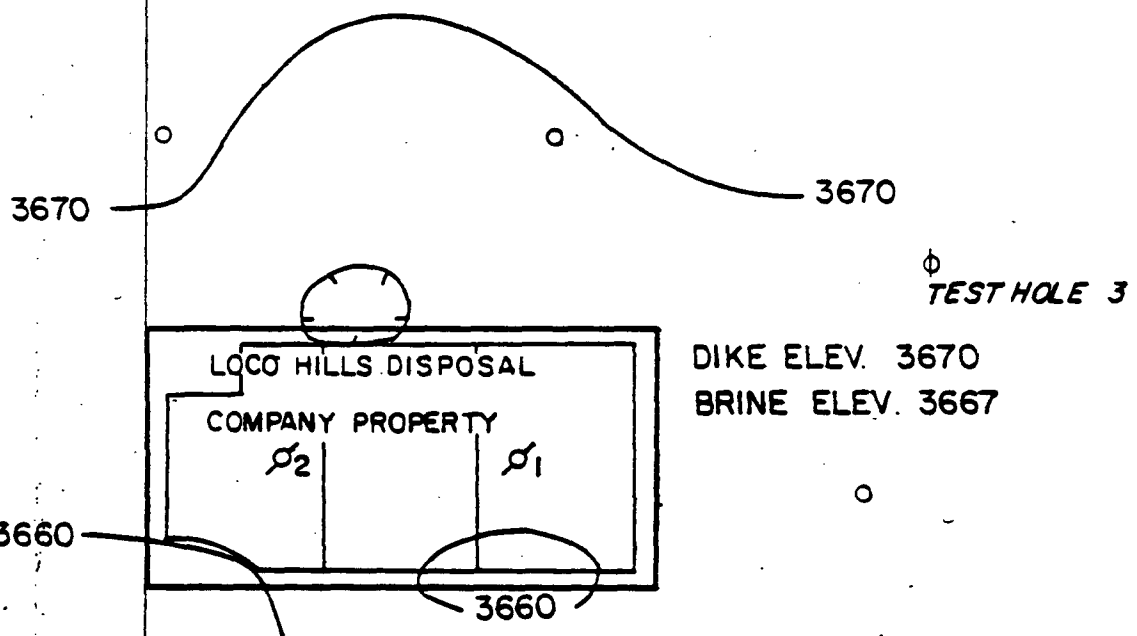

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member


JOE D. RAMEY, Member & Secretary

S E A L

fd/



SW/4 Sec. 16
Twp. 17S., Rge. 30E.

LEGEND

- 60' MONITOR HOLES
- RUSTLER DEPTH MONITOR HOLES
- ϕ CORE HOLE



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7329
Order No. R-6811

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN EXCEPTION
TO ORDER NO. R-3221, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 23 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of October, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(3) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(4) That the State Engineer has designated, pursuant to Section 70-2-23 (15), NMSA, 1978 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(5) That the applicant, Loco Hills Water Disposal Company, seeks as an exception to the provisions of the aforesaid Order (3) to permit the commercial disposal of salt water into an unlined surface pit or pits containing from 5 to 15 surface acres to be located in the N/2 SW/4 SW/4 of Section 16, Township 17 South, Range 30 East, Eddy County, New Mexico.

(6) That disposal rates would be from 2000 to 2500 barrels per month per acre or from 1000 to 1250 barrels per day at the maximum pit size.

(7) That neither the pit(s) nor the immediate underlying sediments are impervious and a percentage of the disposed water would leak into the subsurface to enter the Santa Rosa and Rustler Anhydrite formations.

(8) That while the Santa Rosa formation contains no fresh water in the immediate vicinity of the proposed pit(s), it does contain fresh water at various locations both up-dip and down-dip therefrom.

(9) That clay zones within the Santa Rosa could contribute to the horizontal migration of waters percolating from said pits which waters could reach and contaminate down-dip fresh water supplies in said formation.

(10) That if the salt water from said pits should percolate vertically through the Santa Rosa formation, it would enter the Rustler formation and move therethrough in a generally Southward direction to the Pecos River.

(11) That insufficient data was presented relative to the long term effect of the disposal of salt water in the proposed pit(s) and its potential affect on surface and subsurface waters in the following areas:

- (a) percolation rates;
- (b) fluid retention by the Santa Rosa formation (volume and area);

- (c) Rustler formation water quality outside the immediate area; and,
- (d) the ground water regime vis-a-vis the Rustler formation and the Pecos River.

(12) That because of the potential for contamination of fresh water supplies in the Santa Rosa formation and because of insufficient data upon which to make reasonable determinations relative to the need for protection of or the long term effects upon waters in the Rustler formation or Pecos River, the subject application should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Loco Hills Water Disposal Company for approval of commercial surface salt water disposal facility, as an exception to Order (3) of Division Order No. R-3221, is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E A L

NEW MEXICO OIL CONSERVATION DIVISION
OF THE ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

\$25,000.00 CASH BOND FOR TREATING PLANT
AND COMMERCIAL DISPOSAL FACILITIES

File with Oil Conservation Division, P. O. Box 2088, Santa Fe,
New Mexico 87504

KNOW ALL MEN BY THESE PRESENTS:

That LOCO HILLS WATER DISPOSAL COMPANY, a corporation organized in the State of New Mexico, with its principal office in the City of Loco Hills, State of New Mexico, and authorized to do business in the State of New Mexico, is held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department in the sum of Twenty Five Thousand (\$25,000.00) Dollars lawful money of the United States.

The conditions of this obligation are such that:

The above principal has heretofore or may hereafter enter into the process of treating and reclaiming sediment oil and the collection, disposal or storage of produced water and/or other oil field related wastes in Section 16, Township 17 South, Range 30 East, N.M.P.M., Eddy County, New Mexico.

NOW, THEREFORE, this \$25,000.00 performance bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules, regulations, and orders of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department, and upon clean-up of the facility sites to standards of the Oil Conservation Division; otherwise, the principal amount of the bond to be forfeited to the State of New Mexico.

The applicant has deposited on behalf of the Division \$25,000.00 (Twenty five thousand dollars) in the manner indicated on the attachment to this bond, being the principal sum intended to be secured. Applicant pledges the sum as a guarantee that if its executors, assigns, heirs and administrators will abide by the laws of the State of New Mexico and the Rules and Regulations of the Oil Conservation Division in operating the treating plant and the commercial surface waste disposal facilities described herein, and that it will properly reclaim the facility sites upon cessation of operations. If the applicant does not properly reclaim and restore the facility sites, and otherwise abide by the Rules and Orders of the Oil Conservation Division, this bond shall be forfeited in full and such funds as necessary applied to the cost of reclaiming the facility sites. If the principal sum of the bond is less than the actual cost incurred by the Division in reclaiming the plant sites, the Division may institute legal action to recover any amounts expended over and above the principal sum of the bond.

NOW, THEREFORE, if the above applicant or its successors, assigns, heirs, or administrators or any of them shall properly reclaim and restore the above described treating plant, collection, disposal or storage sites upon cessation of operations, and otherwise abide by the Rules and Orders of the Oil Conservation Division, then therefore, this obligation shall be null and void and the principal sum hereof shall be paid to the applicant, or its successors, heirs or administrator, otherwise it shall remain in full force and effect.

Signed and sealed this 20 day of July, 1988.

LOCO HILLS WATER DISPOSAL COMPANY

By

Ray Westall
President

P. O. Box 68

Loco Hills, New Mexico 88255-0068

STATE OF NEW MEXICO

COUNTY OF EDDY

The foregoing instrument was acknowledged before me this 20th day of July, 1988, by Ray Westall, President of Loco Hills Water Disposal Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

10/24/89

Wanda L. Livingston
Notary Public

APPROVED BY:
OIL CONSERVATION DIVISION

By _____