

NM1 - 44

INSPECTIONS & DATA



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

August 2, 2005

Mr. Ken Marsh
Controlled Recovery, Inc.
P.O. Box 388
Hobbs, NM 88241

Re: Formal Complaint Dated June 30, 2005
Commercial Exchange, Inc. Facilities

Dear Mr. Marsh:

The following facilities operated by Commercial Exchange, Inc. (CEI) and permitted by the New Mexico Oil Conservation Division (NMOCD), were inspected on July 28, 2005:

<u>Facility Name</u>	<u>NMOCD Permit</u>	<u>Location</u>
Blackwater Landfarm	NM-01-0042	UL-F, Sec 1, Twn 25S, Rng 37E
Blackwater Treating Plant	NM-01-0044	UL-D, Sec 1, Twn 26S, Rng 37E
Enersource Treating Plant	NM-01-0037	UL-A, Sec 1, Twn 20S, Rng 36E

These facilities are identified as, respectively, "Dollarhide" Landfarm, "Dollarhide" Treating Plant, and Monument Treating Plant in your letter of June 30, 2005. However, the actual names of the facilities are as shown above.

During the course of the inspections, NMOCD personnel met with Mr. Mark Goss and Mr. George Willis, principals for Commercial Exchange, Inc. (CEI). NMOCD personnel made a complete, on the ground tour of the facilities in question. Results of this inspection are as follows:

Blackwater Landfarm

The landfarm is not currently in operation. No oilfield wastes have been accepted. The conditions of their NMOCD permit, numbered NM-01-0042, state that landfarm operations may not commence until Commercial Exchange, Inc. has completed the bonding requirements for this facility. Since these bonding requirements have not been met, CEI has not begun acceptance of oilfield waste. Some dirt work has been done at the landfarm as a test of CEI's proposed landfarm cell construction. No violations were noted.

Blackwater Treating Plant

Similarly, oil treatment operations at this site have not commenced pending fulfillment of financial assurance requirements for CEI's permit. The site is as depicted in your letter of June 30, 2005. The photographs attached to that letter accurately portray the conditions at the site. The contamination at the site was caused by the operations of Blackwater, LLC, now defunct, that operated a salt-water disposal well, along with associated tanks. CEI is currently in the process of cleaning up the old Blackwater site for use as an oil treatment facility in the future. The tanks located on the site currently contain some fluids and the site is being used as a staging area for the fluids being moved from the Enersource Treating Plant, formerly operated by Enersource, Inc. addressed below. A broken valve on one of the tanks resulted in a release on July 26, 2005. This release has been addressed by CEI and was reported to the Hobbs district office as required by NMOCD Rule 116.

Enersource Treating Plant

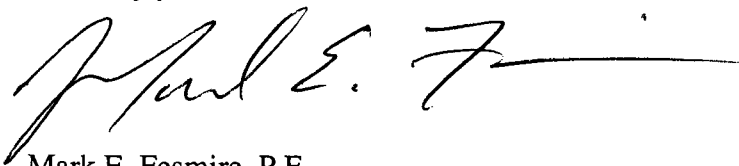
Enersource, Inc. formerly operated this facility and that company, or previous operators caused all contamination at the site. Enersource, Inc. is now defunct, and the NMOCD is beginning the process of obtaining contractors to remediate this site. CEI briefly operated a small oil reclamation facility on this site under NMOCD permit number NM-01-0037. During the time CEI was on the site, they processed some of the fluids from the old Enersource tanks and accomplished some limited soil cleanup. CEI no longer operates its oil reclamation facility, and the site is not an active surface waste management site. Consequently this facility is not listed on the NMOCD website as an active facility.

Photographs are attached to further illustrate the conditions at the site. The attached photographs were taken during the inspection on July 28, 2005.

After inspection, the NMOCD has decided that Commercial Exchange, Inc. is in compliance with their permits, with the exception of the financial assurance requirement. This matter was discussed, and CEI is currently in the process of complying with this permit condition.

The NMOCD wishes to take this opportunity to thank you for your report. It is only through the vigilance of private citizens, like yourself, that the NMOCD can remain better informed of the ongoing operations in the oil patch. As you have recognized, our lack of resources hampers our efforts somewhat. Rest assured that the NMOCD will take every step possible to adequately monitor surface waste management facilities through more frequent inspections and stressing the consequences that may be incurred by operators if they ignore NMOCD rules and regulations.

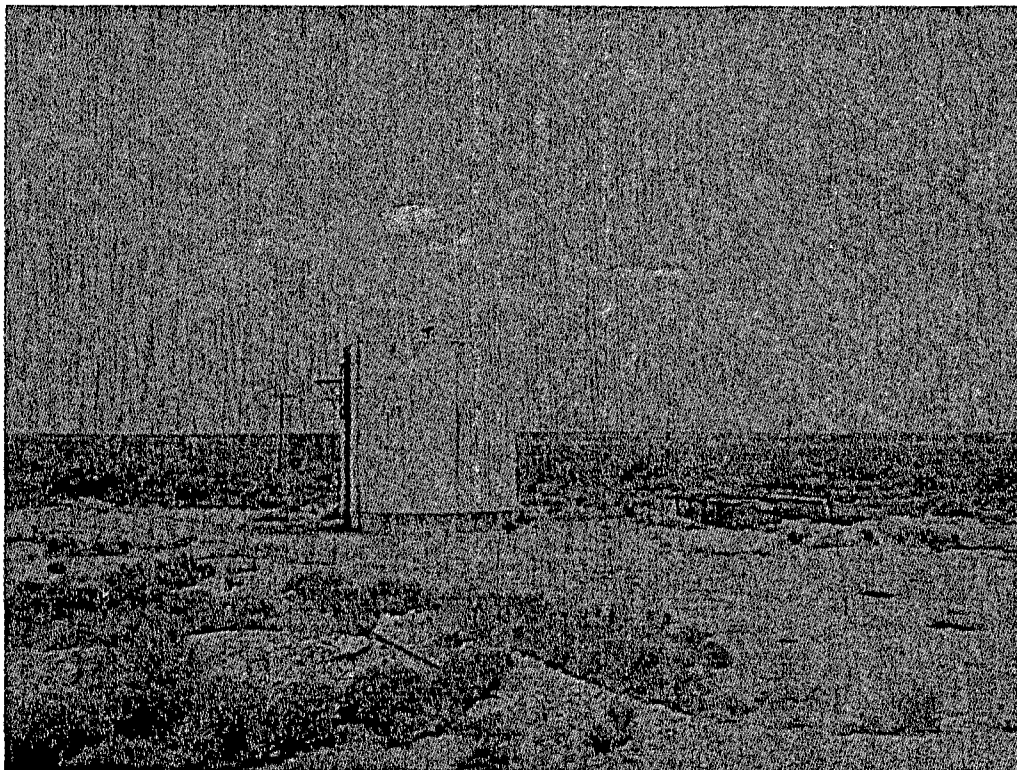
Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", with a long horizontal flourish extending to the right.

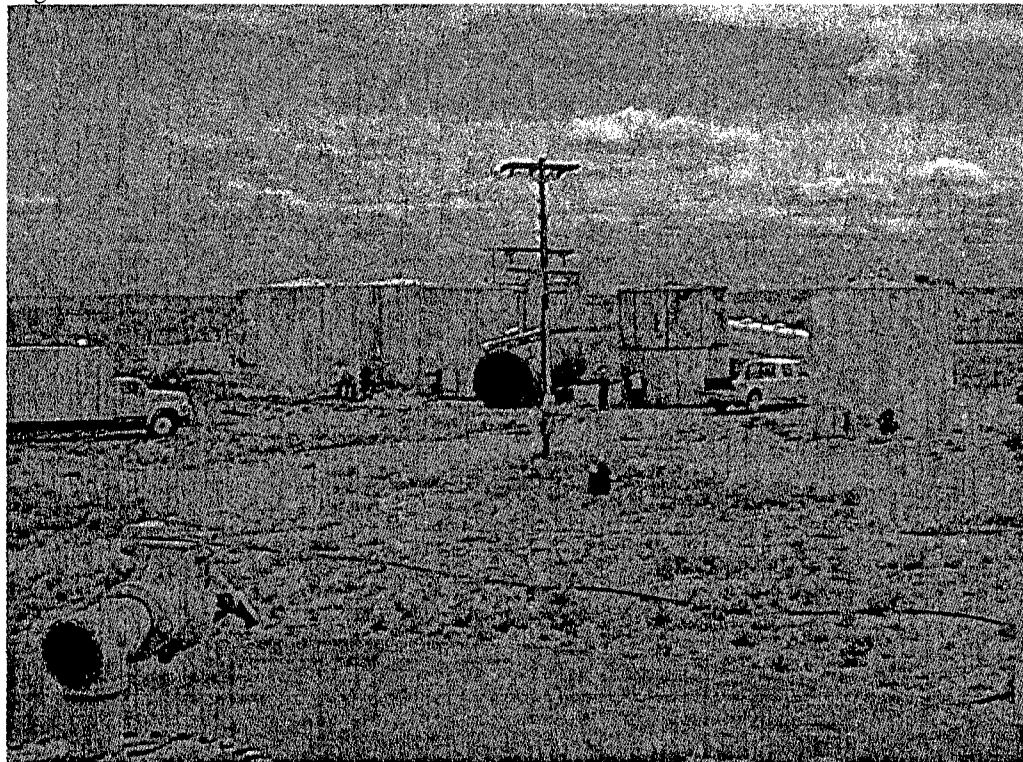
Mark E. Fesmire, P.E.
Director



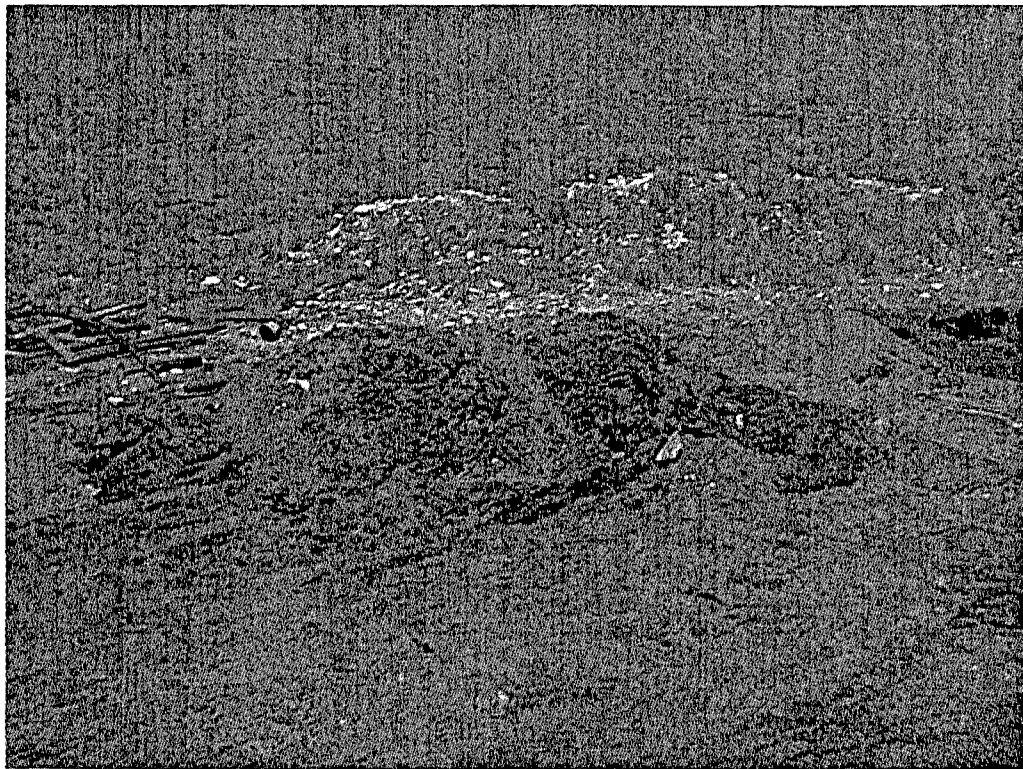
Old Blackwater, LLC. site to be used as oil reclamation facility site by Commercial Exchange, Inc.
View from the west.



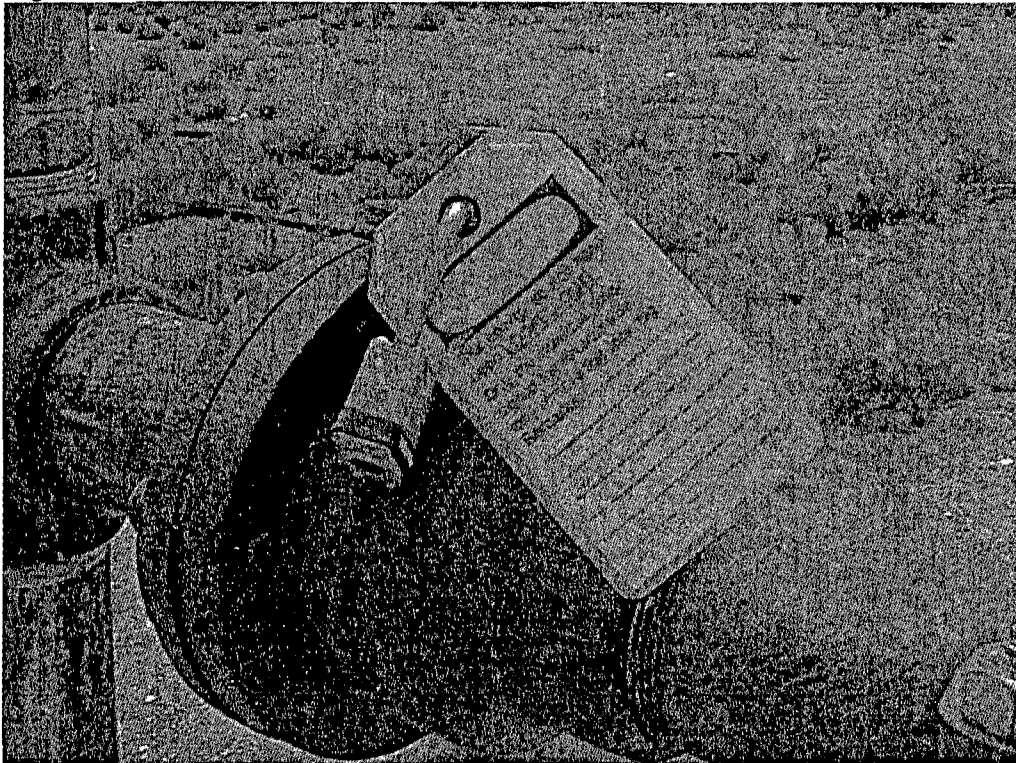
Additional tank at the Blackwater site, to be used in CEI's oil reclamation operations.



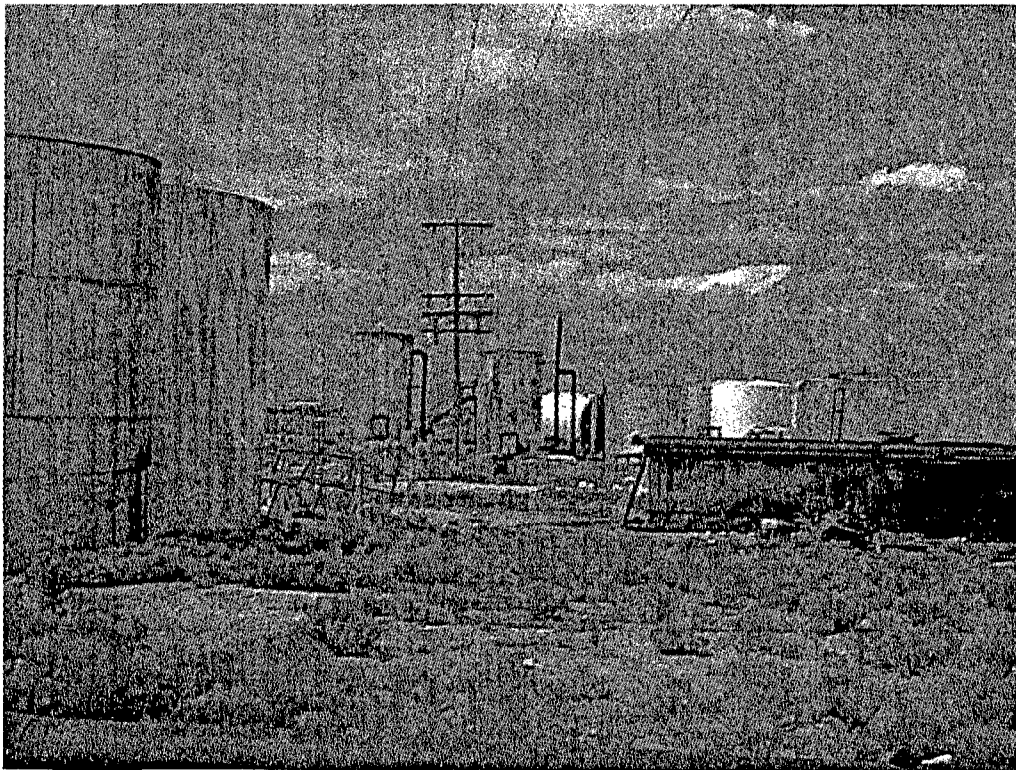
Additional tanks, and cleanup work continuing in preparation for CEI's operations.



Contaminated soil excavated by CEI in preparation for their operations. On plastic, until the soil can be transported to the landfarm.



Shut in disposal well formerly used by Blackwater, LLC.



View from the east looking at tanks that will be moved and used in CEI's operations. Surface under previous tank sites will be remediated by CEI.



Old pit used by Blackwater, LLC. This will be remediated and backfilled.