AP - 074

GENERAL CORRESPONDENCE

YEAR(S):

2007

NEW MEXICO ENERGY, MINERALS and
NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

SEPTEMBER 4, 2007

Mr. Bruce Woodard
Celero Energy II, LP
400 West Illinois
Suite 1601
Midland, TX 79701

RE: REQUIREMENT TO SUBMIT ABATEMENT PLAN
CELERO ENERGY II, LP ROCK QUEEN UNIT TRACT 1 SITE
UNIT LETTER B, SECTION 25, TOWNSHIP 13 SOUTH, RANGE 31 EAST
CHAVES COUNTY, NEW MEXICO
AP074

Dear Mr. Woodard:

The New Mexico Oil Conservation Division (OCD) has determined after reviewing the report submitted by Highlander Environmental Corporation on behalf of Celero Energy (Celero), that Celero must submit a Stage 1 Abatement Plan in accordance with OCD Rule 19 (19.15.1.19 NMAC) to investigate ground water contamination at its Rock Queen Unit Tract 1 site located in Section 25, Township 13 South, Range 31 East, Chaves County, New Mexico. OCD is requiring an abatement plan because chlorides released at Celero's site have contaminated ground water at concentrations that exceed the WQCC ground water protection standards specified at 20.6.2.3103 NMAC.

The Stage 1 Abatement Plan proposal must be submitted to the OCD Santa Fe Office with a copy provided to the OCD Hobbs District Office and must meet of all the requirements specified in Rule 19 (19.15.1.19 NMAC), including, but not limited to, the public notice and participation requirements specified in Rule 19G. The Stage 1 Abatement Plan is due sixty (60) days from the receipt by Celero of this written notice.

The Stage 1 Abatement Plan must meet all of the requirements specified in OCD Rule 19E.3, including, but not limited to, a site investigation work plan and monitoring program that will enable it to characterize the release using an appropriate number of isoconcentration maps and

cross-sections that depict the contamination that has been released from the drilling pit and to provide the data necessary to select and design an effective abatement option.

Celero should submit one paper copy and one electronic copy of all future workplans and/or reports. If you have any questions, please contact Glenn von Gonten of my staff at (505) 476-3488.

Sincerely,

Wayne Price
Environmental Bureau Chief

cc: Larry Johnson, OCD Hobbs District
Gail MacQuesten, OCD Assistant General Counsel

VonGonten, Glenn, EMNRD

From: VonGonten, Glenn, EMNRD
Sent: Thursday, June 21, 2007 8:10 AM
To: Price, Wayne, EMNRD
Subject: FW: Notification of Groundwater Impact
Attachments: Notification of Groundwater Impact.pdf

From: Gary Miller [mailto:gmiller@hec-enviro.com]
Sent: Thursday, June 21, 2007 7:13 AM
To: VonGonten, Glenn, EMNRD
Cc: Johnson, Larry, EMNRD
Subject: Notification of Groundwater Impact

Mr. von Gonten, The attached is a "Notice of Groundwater Impact" that we have prepared for Celero Energy II, LP. The Unit is located in Chaves County, but the Hobbs District Office is over this area. Celero is currently working on an "Agreed Compliance Order" for the reactivation of wells in the Unit as well as the closure of several open pits. A hard copy of this report was mailed to you on Tuesday. I have also forwarded a copy to the Hobbs office for their review. If you have any questions please call Tim Reed or myself at the numbers below.

Thank you,

Gary E. Miller
Highlander Environmental Corp.
1910 N. Big Spring
Midland, Texas 79705

432-682-4559 office
432-557-4681 cell
432-682-3946 fax

Highlander Environmental Corp.

Midland, Texas

CERTIFIED MAIL
RETURN RECIEPT NO. 7005 1160 0005 3780 6023

June 18, 2007

Mr. Glenn von Gonten
New Mexico Energy, Minerals, & Natural Resources
Oil Conservation Division, Environmental Bureau
1220 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: NOTIFICATION OF GROUNDWATER IMPACT
CELERO ENERGY II, LP, ROCK QUEEN UNIT
SECTIONS 25, 26 AND 36, T-13-S, R-31-E
CHAVES COUNTY, TEXAS

Mr. von Gonten:

Celero Energy II, LP (Celero) notifies the Director of the New Mexico Oil Conservation Division (OCD), Environmental Bureau of groundwater impact at the above-referenced site in accordance with NM Rule 116. Celero retained Highlander Environmental (Highlander) of Midland, Texas to investigate this site as part of a due diligence in an acquisition of property operated by Palisades Asset Holding Company, LLC (Palisades). This production was originally developed in the mid-1950's. The primary surface owner in this Unit is the State of New Mexico, with the exception of one section of fee ownership. Highlander installed four monitoring wells and one background well at pit locations at the following locations:

Rock Queen Unit Tract 1 Tank Battery, MW-1
Rock Queen Unit Tract 1 Tank Battery, MW-2 (Background)
Rock Queen Unit Tract 11 Tank Battery
Rock Queen Unit Tract 13 Tank Battery
Rock Queen Unit Salt Water Plant #1

The four monitoring wells exhibited elevated chloride concentrations. These sites will be further investigated as discussed below.

Topography

The properties are located above Mescalero Ridge, a major topographic feature which marks the edge of the Caprock. Mescalero Ridge is at an approximate elevation of 4400 feet above mean sea level (MSL). Most of the drainage east of Mescalero Ridge, on the Caprock, is

towards the east-southeast, with numerous intermittent playas shown interspersed in the production.

Hydrology

Chaves County is located in the southeastern corner of New Mexico. The area is located in the High Plains Valley section of the Great Plains physiographic province. Rocks of Quaternary, Tertiary, and Triassic age are exposed and contain the principal aquifers. The most prominent aquifer is the Ogallala formation, which underlies the Llano Estacado and forms outliers south of it. Below the Cenozoic rocks are sandstones and shales of the Dockum group of Late Triassic age, from which small quantities of water are obtained. No usable groundwater is obtained from rocks older than the Triassic.

The Ogallala formation consists chiefly of sediments deposited by streams that had their headwaters in the mountainous regions to the west and northwest. The Ogallala formation rests unconformably upon an erosional surface of the underlying Triassic and Cretaceous rocks. The Ogallala is made of beds and lenses of clay, silt, sand, and gravel. Caliche occurs as a secondary deposit in many places in the formation.

Uncontaminated water from the Ogallala formation is high in silica (49 to 73 ppm), and contains moderate concentrations of calcium and magnesium. The dissolved solids content is relatively low, being typically less than 1,100 ppm. Water wells east of Mescalero Ridge derive their water from the Ogallala. The reported depth to groundwater in this area ranges from 100' to 200'. Water wells west of Mescalero Ridge derive water from the Triassic Dockum or Quaternary alluvium. No reported depths to groundwater were found for this area.

Monitor Well Installation

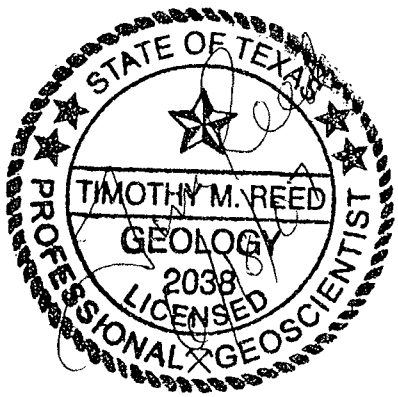
As part of the due diligence in the acquisition of this property, four pit locations were selected for evaluation of potential groundwater impact. On May 24-25, 2007, one monitor well each was installed at each of the four locations listed above. Additionally, an additional background monitor well was installed northeast of the Rock Queen Unit Tract 1 tank battery. The monitor wells were completed to EPA and industry standards. The wells were developed and evaluated.

Based upon the drilling logs and development data, the saturated thickness in this area is highly variable, and the potential yield from each of the monitor wells is minimal. Several of the wells, which were fully penetrating wells, bailed off and recovered slowly. The hydraulic gradient is suspected to be towards the southwest, towards Mescalero Ridge, which marks the edge of the Ogallala. The hydraulic gradient will be confirmed once the top of casing elevations have been surveyed. Based upon field observations, Mr. Chris Williams with the OCD Hobbs District office was notified verbally of potential groundwater impact.

Agreed Compliance Order

Celero, Highlander and the OCD are currently involved in the drafting of an Agreed Compliance Order to assess and close open pits. Once the pit closures are underway and the source areas eliminated, additional groundwater delineation will be performed and Corrective Action Plans will be presented for remediation of the groundwater in this area.

Please accept this notification for the above-referenced site. Should you have any questions or concerns regarding this site, please do not hesitate to contact me at (432) 682-4559.

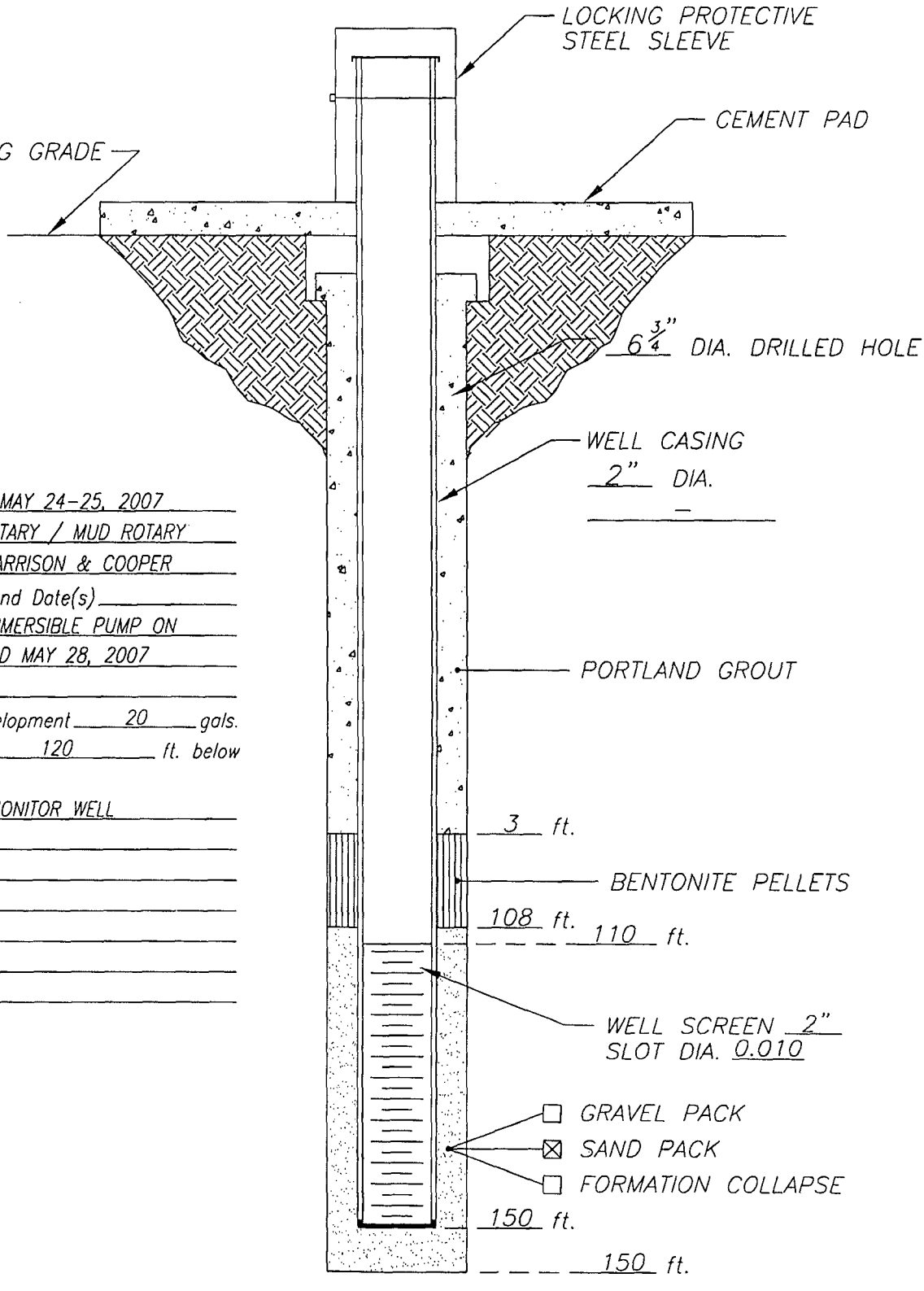


Highlander Environmental Corp.

Timothy M. Reed, P.G.
Vice President

cc: Mr. Larry Johnson-NMOCD-Hobbs
Mr. Bruce Woodard – Celero Energy II,LP

WELL CONSTRUCTION LOG



Installation Date(s) MAY 24-25, 2007
Drilling Method AIR ROTARY / MUD ROTARY
Drilling Contractor HARRISON & COOPER
Development Technique(s) and Date(s) HAND BAILING / SUBMERSIBLE PUMP ON MAY 25, 2007 AND MAY 28, 2007

Water Removed During Development 20 gals.
Static Depth to Water 120 ft. below Ground Level
Well Purpose MONITOR WELL

Remarks

DATE: 5/24-25/07	CLIENT: CELERO	WELL NO.
Highlander Environmental	PROJECT: ROCK QUEEN UNIT TRACT 1 TB	MW-1
	LOCATION: CHAVES COUNTY, NM	

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 1 Tank Battery
Location: Chaves County, New Mexico
Total Depth 153
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
0-5	--	Buff limestone
5-10	--	Tan/buff calcareous fine grain sand.
10-15	--	Tan/buff calcareous fine grain sand.
15-20	--	Tan/buff calcareous fine grain sand.
20-25	--	Tan/buff calcareous fine grain sand.
25-30	--	Tan/buff calcareous fine grain sand.
30-35	--	Tan/buff calcareous fine grain sand.
35-40	--	Tan/buff calcareous fine grain sand.
40-45	--	Tan fine grain sand - v.f.sand
45-50	--	Tan fine grain sand - v.f.sand
50-55	--	Tan fine grain sand - v.f.sand
55-60	--	Tan fine grain sand - v.f.sand
63-65	--	Tan fine grain sand - v.f.sand
68-70	--	Tan fine grain sand - v.f.sand
73-75	--	Tan fine grain sand - v.f.sand
78-80	--	Tan fine grain sand - v.f.sand
83-85	--	Tan fine grain sand - v.f.sand
88-90	--	Tan fine grain sand - v.f.sand
93-95	--	Tan fine grain sand - v.f.sand
98-100	--	Tan fine grain sand - v.f.sand
103-105	--	Tan fine grain sand - v.f.sand
108-110	--	Tan fine grain sand - v.f.sand
113-115	--	Tan fine grain sand - v.f.sand
118-120	--	Tan fine grain sand - v.f.sand
123-125	--	Dark brown well sorted sand
128-130	--	Dark brown well sorted sand

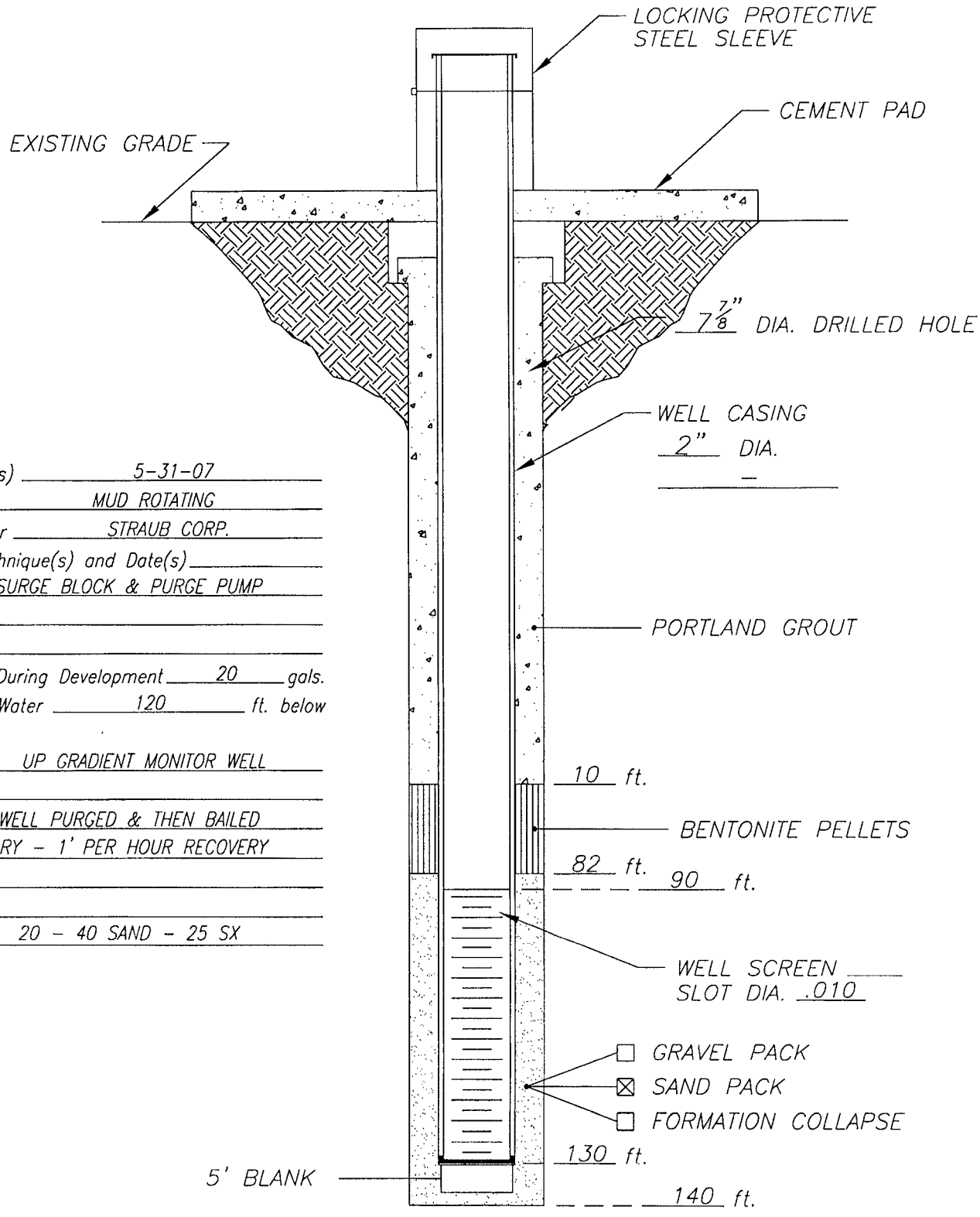
SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 1 Tank Battery
Location: Chaves County, New Mexico
Total Depth 153
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
133-135	--	Red clayey sand
138-140	--	Red clayey sand
143-145	--	Red clayey sand
148-150	--	Red/tan clayey sand

Total Depth is 153 feet Groundwater encountered at 119 feet

WELL CONSTRUCTION LOG



Installation Date(s) 5-31-07
Drilling Method MUD ROTATING
Drilling Contractor STRAUB CORP.
Development Technique(s) and Date(s)
6-1-07 SURGE BLOCK & PURGE PUMP

Water Removed During Development 20 gals.
Static Depth to Water 120 ft. below Ground Level
Well Purpose UP GRADIENT MONITOR WELL

Remarks WELL PURGED & THEN BAILED DRY - 1' PER HOUR RECOVERY

20 - 40 SAND - 25 SX

DATE: 6/1/07 *Highlander Environmental*	CLIENT: *CELERO ENERGY* PROJECT: *ROCK QUEEN UNIT TRACT 1 TB* LOCATION: *CHAVES COUNTY, NEW MEXICO*	WELL NO. MW-2

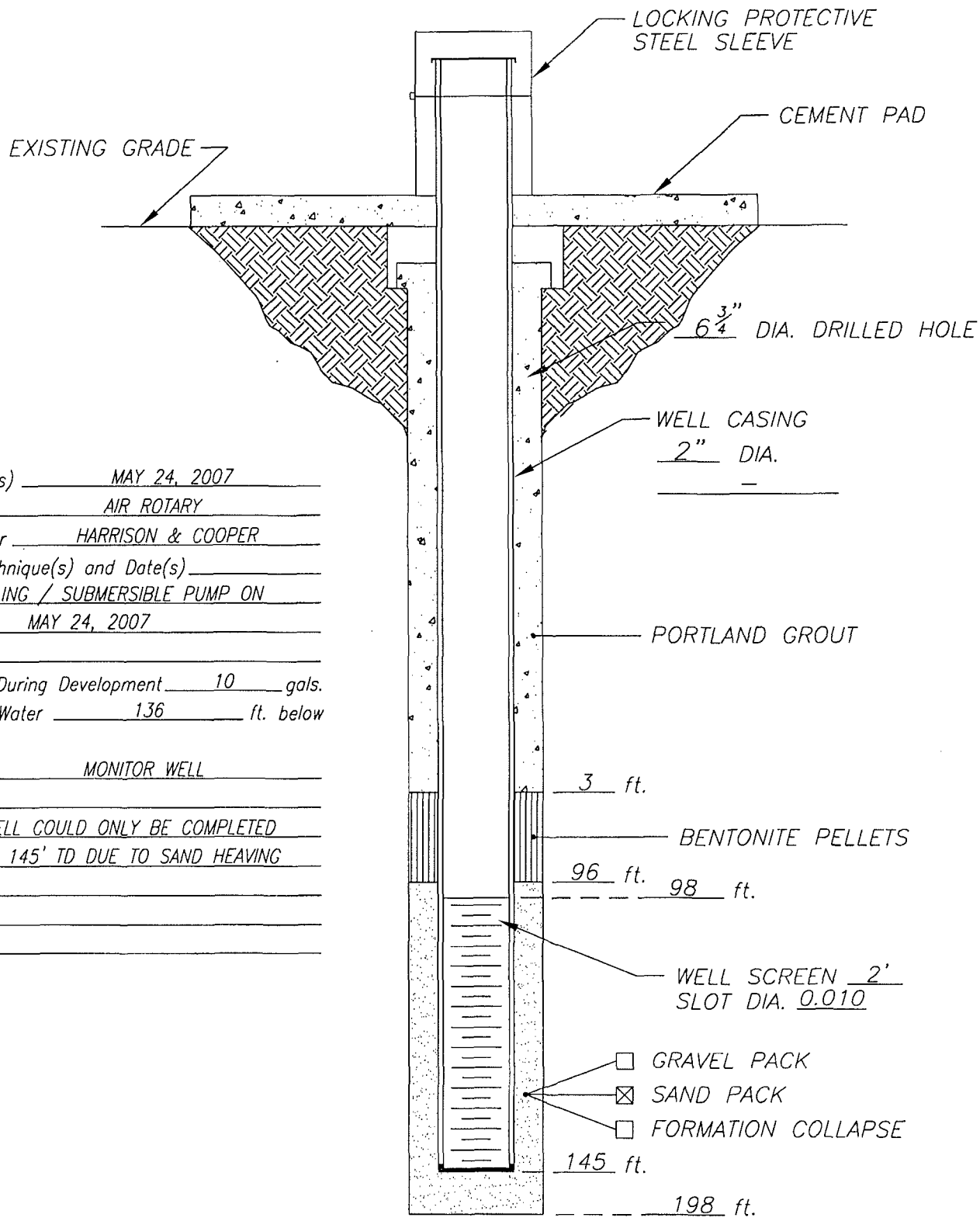
SAMPLE LOG

Boring/Well: MW-2
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 1 Tank Battery
Location: Chaves County, New Mexico
Total Depth 140
Date Installed: 06/01/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
0-5	--	Buff limestone
5-10	--	Tan/buff calcareous fine grain sand.
10-15	--	Tan/buff calcareous fine grain sand.
15-20	--	Tan/buff calcareous fine grain sand.
20-25	--	Tan/buff calcareous fine grain sand.
25-30	--	Tan/buff calcareous fine grain sand.
30-35	--	Tan/buff calcareous fine grain sand.
35-38	--	Tan/buff calcareous fine grain sand.
38-45	--	Tan fine grain sand - v.f. sand
45-50	--	Tan fine grain sand - v.f. sand
50-55	--	Tan fine grain sand - v.f. sand
55-60	--	Tan fine grain sand - v.f. sand
63-65	--	Tan fine grain sand - v.f. sand
68-70	--	Tan fine grain sand - v.f. sand
73-75	--	Tan fine grain sand - v.f. sand
78-80	--	Tan fine grain sand - v.f. sand
83-85	--	Tan fine grain sand - v.f. sand
88-90	--	Tan fine grain sand - v.f. sand
93-95	--	Tan fine grain sand - v.f. sand
98-100	--	Tan fine grain sand - v.f. sand
100-106	--	Tan fine grain sand - v.f. sand
106-124	--	Tan fine grain sand and light brown clay
124-130	--	Tan sand and shale
130-131	--	Gray and red clay
130-140	--	Red Clay

Total Depth is 140 feet Groundwater encountered at 110 feet

WELL CONSTRUCTION LOG



Installation Date(s) MAY 24, 2007
Drilling Method AIR ROTARY
Drilling Contractor HARRISON & COOPER
Development Technique(s) and Date(s) HAND BAILING / SUBMERSIBLE PUMP ON MAY 24, 2007

Water Removed During Development 10 gals.
Static Depth to Water 136 ft. below Ground Level
Well Purpose MONITOR WELL

Remarks WELL COULD ONLY BE COMPLETED TO 145' TD DUE TO SAND HEAVING

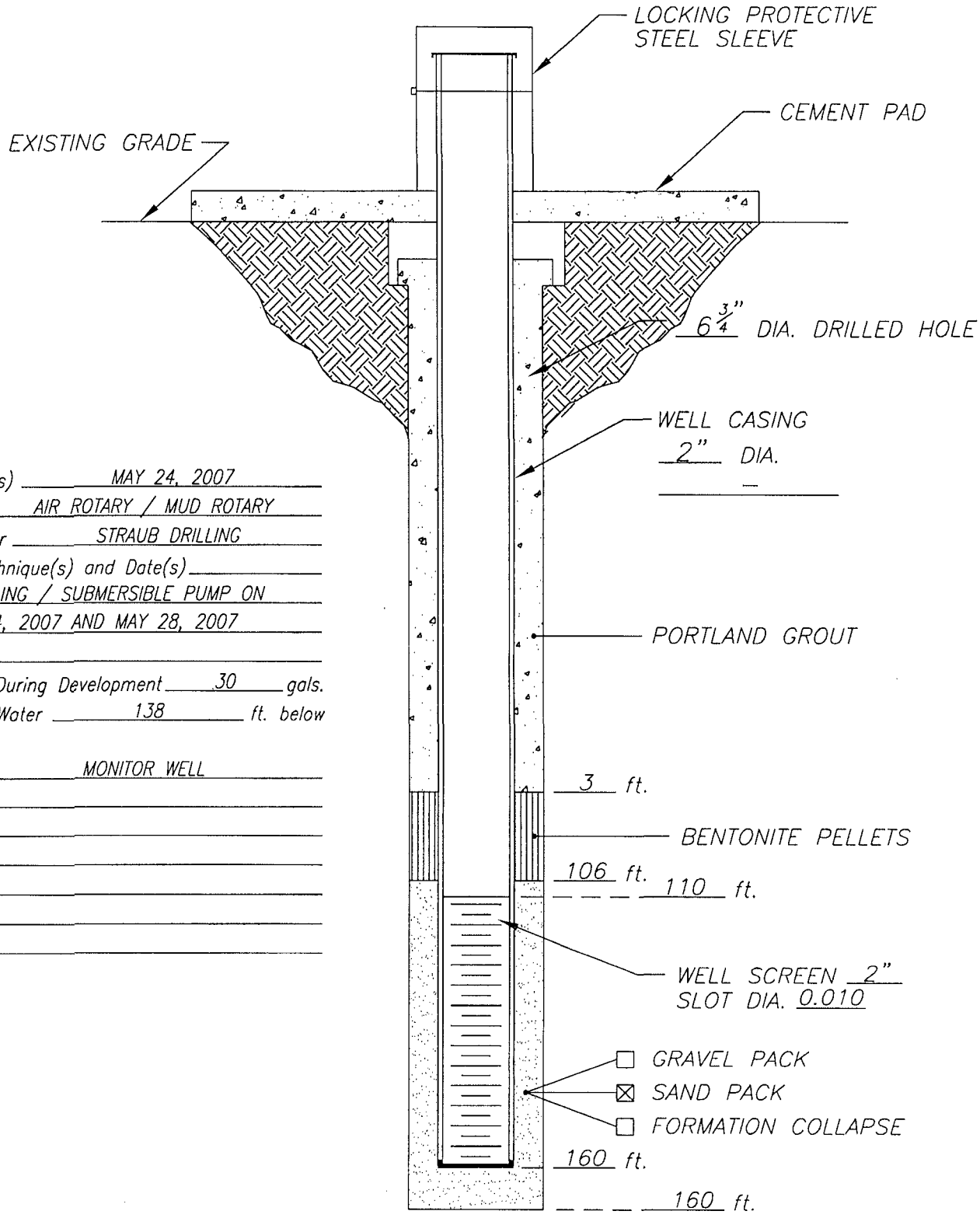
DATE: 5/24/07	CLIENT: CELERO	WELL NO.
Highlander Environmental	PROJECT: INJECTION PLANT #1	MW-1
	LOCATION: CHAVES COUNTY, NM	

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Injection Plant #1
Location: Chaves County, New Mexico
Total Depth 198
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
0-5	--	Buff limestone with chert intermixed with tan sand.
5-10	--	Buff limestone with chert intermixed with tan sand.
10-15	--	Buff/tan sandy limestone intermixed with chert.
15-20	--	Tan calcareous fine grain sand.
20-25	--	Tan calcareous fine grain sand.
25-30	--	Tan well sorted calcareous sand.
30-35	--	Tan well sorted calcareous sand.
35-40	--	Tan well sorted calcareous sand.
40-45	--	Tan well sorted calcareous sand.
45-50	--	Tan well sorted calcareous sand.
50-55	--	Tan fine grain sand (moist)
55-60	--	Tan fine grain sand (moist)
63-65	--	Tan fine grain sand (moist)
68-70	--	Tan fine grain sand (moist)
73-75	--	Tan fine grain sand (very moist)
78-80	--	Tan fine grain sand
83-85	--	Tan fine grain sand
88-90	--	Tan fine grain sand
93-95	--	Tan fine grain sand
98-100	--	Tan fine grain sand
103-105	--	Tan fine grain sand
108-110	--	Tan fine grain sand
113-115	--	Tan fine grain sand
118-120	--	Tan fine grain sand
123-125	--	Tan fine grain sand
128-130	--	Tan fine grain sand

WELL CONSTRUCTION LOG



Installation Date(s) MAY 24, 2007
Drilling Method AIR ROTARY / MUD ROTARY
Drilling Contractor STRAUB DRILLING
Development Technique(s) and Date(s)
HAND BAILING / SUBMERSIBLE PUMP ON
MAY 24, 2007 AND MAY 28, 2007

Water Removed During Development 30 gals.
Static Depth to Water 138 ft. below Ground Level
Well Purpose MONITOR WELL

Remarks

DATE: 5/24/07	CLIENT: CELERO	WELL NO.
Highlander Environmental	PROJECT: ROCK QUEEN UNIT TRACT 11 TB	MW-1
	LOCATION: CHAVES COUNTY, NM	

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Injection Plant #1
Location: Chaves County, New Mexico
Total Depth 198
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
133-135	--	Tan fine grain sand
138-140	--	Tan fine grain sand
143-145	--	Dark brown sand
148-150	--	Red well sorted sand
153-155	--	Red clayey sand
158-160	--	Tan fine grain sand
163-165	--	Dark brown clayey sand
168-170	--	Dark brown clayey sand
173-175	--	Light red sandy clay
178-180	--	No sample
183-185	--	Red sandy clay
188-190	--	Red sandy clay
193-198	--	Red sandy clay

Total Depth is 198 feet Groundwater encountered at 134 feet

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 11 Tank Battery
Location: Chaves County, New Mexico
Total Depth 160
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
0-5	--	Buff limestone
5-10	--	Tan/buff calcareous fine grain sand.
10-15	--	Tan/buff calcareous fine grain sand.
15-20	--	Tan/buff calcareous fine grain sand.
20-25	--	Tan/buff calcareous fine grain sand.
25-30	--	Tan/buff calcareous fine grain sand.
30-35	--	Tan/buff calcareous fine grain sand.
35-40	--	Tan/buff calcareous fine grain sand.
40-45	--	Tan fine grain sand - v.f. sand
45-50	--	Tan fine grain sand - v.f. sand
50-55	--	Tan fine grain sand - v.f. sand
55-60	--	Tan fine grain sand - v.f. sand
63-65	--	Tan fine grain sand - v.f. sand
68-70	--	Tan fine grain sand - v.f. sand
73-75	--	Tan fine grain sand - v.f. sand
78-80	--	Tan fine grain sand - v.f. sand
83-85	--	Tan fine grain sand - v.f. sand
88-90	--	Tan fine grain sand - v.f. sand
93-95	--	Tan fine grain sand - v.f. sand
98-100	--	Tan fine grain sand - v.f. sand
103-105	--	Tan fine grain sand - v.f. sand
108-110	--	Tan fine grain sand - v.f. sand
113-115	--	Tan fine grain sand - v.f. sand
118-120	--	Tan fine grain sand - v.f. sand
123-125	--	Dark brown well sorted sand
128-130	--	Dark brown well sorted sand

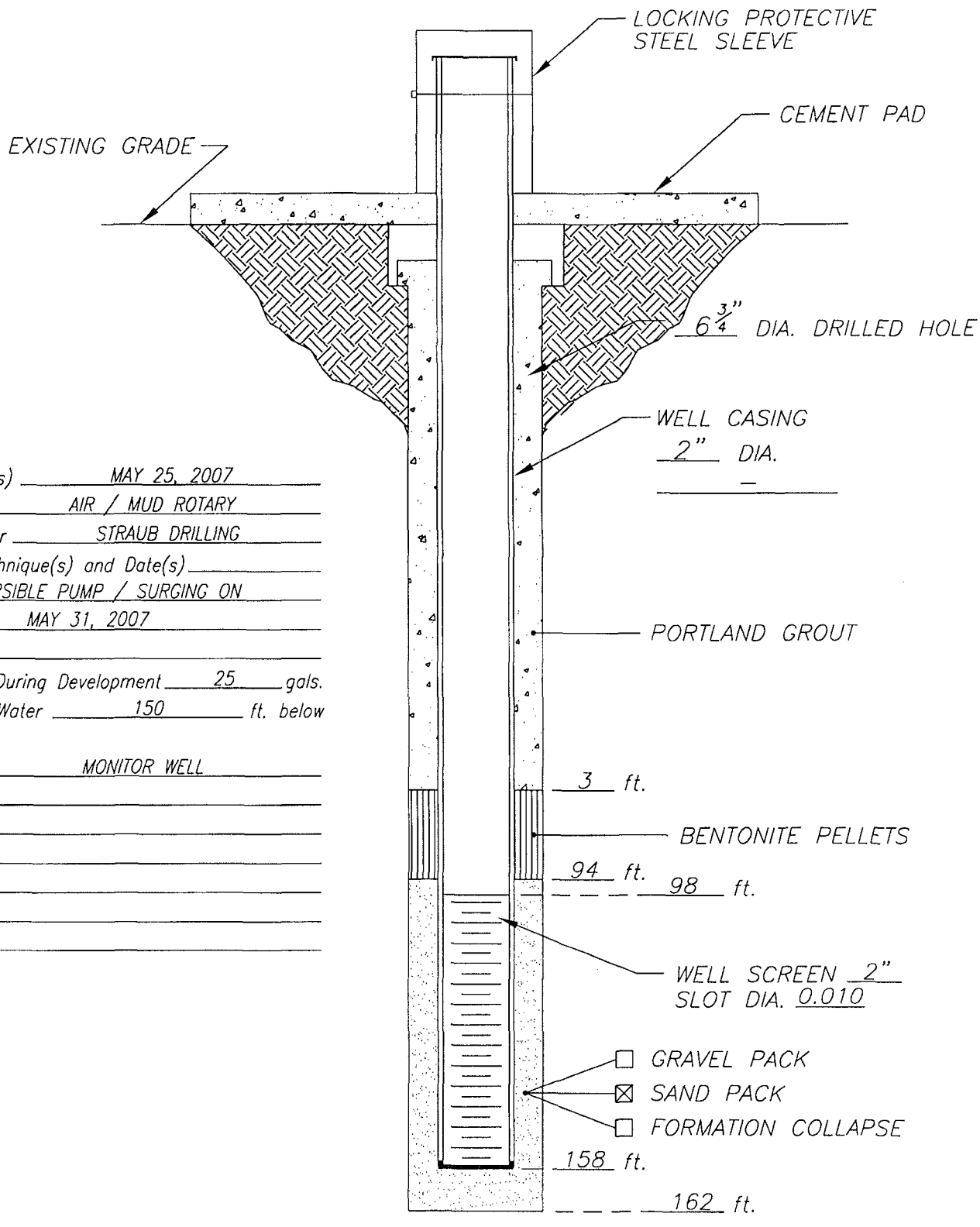
SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 11 Tank Battery
Location: Chaves County, New Mexico
Total Depth 160
Date Installed: 05/24/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
133-135	--	Red clayey sand
138-140	--	Red clayey sand
143-145	--	Red clayey sand
148-150	--	Red sandy clay

Total Depth is 150 feet Groundwater encountered at 138 feet

WELL CONSTRUCTION LOG



Installation Date(s) MAY 25, 2007
Drilling Method AIR / MUD ROTARY
Drilling Contractor STRAUB DRILLING
Development Technique(s) and Date(s) SUBMERSIBLE PUMP / SURGING ON MAY 31, 2007

Water Removed During Development 25 gals.
Static Depth to Water 150 ft. below Ground Level
Well Purpose MONITOR WELL

Remarks

DATE: 5/25/07	CLIENT: CELERO	WELL NO.
Highlander Environmental	PROJECT: ROCK QUEEN UNIT TRACT 13 TB	MW-1
	LOCATION: CHAVES COUNTY, NM	

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 13 Tank Battery
Location: Chaves County, New Mexico
Total Depth 160
Date Installed: 05/25/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
0-5	--	Buff to tan sandy limestone
5-10	--	Buff to tan sandy limestone
10-15	--	Buff to tan sandy limestone with chert
15-20	--	Buff sandy limestone with chert
20-25	--	Buff to tan calcareous sand
25-30	--	Buff to tan calcareous sand
30-35	--	Buff to tan calcareous sand
35-40	--	Buff to tan calcareous sand
40-45	--	Buff to tan calcareous sand
45-50	--	Tan fine sand - v.f. sand
50-55	--	Tan fine sand - v.f. sand
55-60	--	Tan fine sand - v.f. sand
63-65	--	Tan fine sand - v.f. sand
68-70	--	Tan fine sand - v.f. sand
73-75	--	Tan fine sand - v.f. sand
78-80	--	Tan fine sand - v.f. sand
83-85	--	Tan fine sand - v.f. sand
88-90	--	Tan fine sand - v.f. sand
93-95	--	Tan fine sand - v.f. sand
98-100	--	Tan fine sand - v.f. sand
103-105	--	Tan fine sand - v.f. sand
108-110	--	Tan fine sand - v.f. sand
113-115	--	Tan fine sand - v.f. sand
118-120	--	Tan fine sand - v.f. sand
123-125	--	Tan fine sand - v.f. sand
128-130	--	Tan fine sand - v.f. sand

SAMPLE LOG

Boring/Well: MW-1
Project Number: 2972
Client: Celero Energy
Site Location: Rock Queen Tract 13 Tank Battery
Location: Chaves County, New Mexico
Total Depth 160
Date Installed: 05/25/07

DEPTH (Ft)	OVM	SAMPLE DESCRIPTION
133-135	--	Tan fine sand - v.f. sand
138-140	--	Tan fine sand - v.f. sand
143-145	--	Tan fine sand - v.f. sand
148-150	--	Chert layer intermixed with red sand
153-155	--	Chert layer intermixed with red sand
158-160	--	Red sand

Total Depth is 160 feet Groundwater encountered at 117 feet