

UICI - 005

**FACILITY
CLOSURE**

2011

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John Bemis
Cabinet Secretary

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

Jami Bailey
Division Director
Oil Conservation Division



July 31, 2012

Ms. Philana Thompson
Agua Moss, L.L.C.
P.O. Box 600
Farmington, New Mexico 87499

**RE: Partial Facility Closure Plan Review
Agua Moss, L.L.C. - Commercial Surface Waste Management Facility
Permit NM-1-009: Sunco Class I Injection Facility
Location: Section 2, Township 29 North, Range 12 West, NMPM
San Juan County, New Mexico**

Dear Ms. Thompson:

The Oil Conservation Division (OCD) has reviewed Agua Moss, L.L.C.'s (Agua Moss) partial facility closure plan, dated July 18, 2012, for the closure of the unlined earthen evaporation pond at the OCD permitted commercial surface waste management facility: Sunco Class I Injection Facility Permit NM-1-009. Based on the information provided, the partial facility closure plan **is hereby approved** with the following understandings and conditions:

1. Agua Moss shall comply with all applicable requirements of the Surface Waste Management Facilities Rule (19.15.36 NMAC), the Oil and Gas Act (Chapter 70, Article 2 NMSA 1978), and all conditions specified in this approval;
2. Agua Moss shall ensure that the closure activities identified in the July 18, 2012 submittal are completed as proposed in the closure plan;
3. Agua Moss shall excavate and remove any visual surface contamination within and surrounding the unlined earthen evaporation pond footprint. The contaminated soils shall be disposed at an OCD approved facility;
4. Agua Moss shall ensure that any backfilling and contouring at the facility shall be completed in a manner to prevent erosion and ponding of water;

5. Agua Moss shall obtain the appropriate permit modification request approvals prior to implementing the alternative to re-vegetation as proposed in the July 18, 2012 partial facility closure plan;
6. Agua Moss shall submit a closure report at the completion of the closure activities that summarizes the closure activities, including but not limited to, identification of material disposal facilities; sampling results; backfilling and contouring activities; a contour map; the alternative to re-vegetation; re-vegetation seeding mixture and application rates; and photo documentation;
7. Agua Moss shall submit a permit modification request, including associated closure plans, and obtain OCD approval prior to relocating any features approved under Permit NM-1-009; and
8. Agua Moss shall submit a permit modification request and obtain OCD approval prior to removing and/or relocating any features approved under the Permit UICI-005. Such requests should be submitted to Mr. Carl Chavez of the Environmental Bureau in OCD's Santa Fe office.

Please be advised that approval of this request does not relieve Agua Moss of liability if its operations result in pollution of surface water, ground water, or the environment. Nor does approval relieve Agua Moss of its responsibility to comply with any other applicable governmental authority's rules and regulations.

If there are any questions regarding this matter, please do not hesitate to contact me at (505) 476-3487 or brad.a.jones@state.nm.us.

Sincerely,



Brad A. Jones
Environmental Engineer

BAJ/baj

cc: OCD District III Office, Aztec
Carl Chavez, OCD Environmental Bureau, Santa Fe
Merrion Oil & Gas Corp., Philana Thompson, 610 Reilly Ave., Farmington NM 87401



Key Energy Services
1301 McKinney
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Houston, Texas 77010

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April 15, 2011

Mr. John Bemis - EMNRD Cabinet Secretary
New Mexico Energy Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Ms Jami Bailey - OCD Director
New Mexico Energy Minerals and Natural Resources Department
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Key Energy Services, LLC Notification of Planned Action at Farmington Disposal System

Dear Mr. Bemis and Ms. Bailey,

Key Energy Services LLC ("Key") has determined that its Farmington disposal system and some of the associated trucking operations will cease operations as of Friday, April 15, 2011. The current economic situation in the Farmington, New Mexico area, combined with Key's costly efforts to comply with stringent environmental regulations, require that Key cease its disposal operations. Key will attempt to find jobs in New Mexico for the site personnel. One option Key may offer its employees is a transfer to the Carlsbad, New Mexico area, where Key is planning an oilfield "Super Service Center."

Shutting down operations is an extremely difficult and tough decision to make, but companies do not have the luxury of running long-term budget deficits. Although we have implemented cost cutting measures, streamlined personnel and even raised the disposal fees, Key simply cannot overcome the current and future costs associated with the disposal facility.

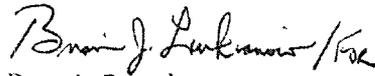
Key Energy operated the only permitted Class I waste water disposal operation in the San Juan Basin area. Our permit allows Key to receive and dispose of certain types of non-hazardous waste generated in the oil and gas industry. Key believes that the disposal may have been more profitable if all Class I waste water were handled by Key's facility, but enforcement in this arena has been lacking.

The Oil Conservation Division had informally requested that Key not shut down these operations, as it would have a detrimental impact for several hundred miles of the Farmington area. However, we have not had impactful reprieve from costly requirements, and without some concessions, further operations are not practicable.

As you know, New Mexico has stringent and complex environmental regulations. During the Richardson administration, Key requested some environmental concessions of the permit. While a few minor modifications were allowed, the major concessions were never granted by the Oil Conservation Division's Environmental Bureau. Following that request, the Oil Conservation Division's Environmental Bureau continued requiring the "fall-off test." This test costs Key \$50,000 to \$70,000 per test, and includes lost down time, specialized technical contractors, extra testing, storage and trucking equipment, overtime expenses and complex reporting requirements. Key has successfully passed the test three years in a row with no problems, other than the costliness.

To the extent that New Mexico realizes the value that Key's facility brings to the San Juan Basin, and wants Key to continue to provide these operations, Key would be willing to explore a working partnership with the state and/or federal agencies to provide a quality and environmentally safe place to dispose of waste. We recognize the need to work productively together with regulators to bring value to the industry and to our shareholders.

Sincerely yours,



Dennis Douglas
Senior Vice President, Fluids Management
Services

OCD and WQCC rules and regulations. If warranted, OCD may require additional financial assurance to ensure adequate funding to plug and abandon the well or for any corrective actions.

L. Annual Report: All operators shall submit an annual report due on January 31 of each year. The report shall include the following information:

1. Cover sheet marked as "Annual Class I Well Report, name of operator, permit #, API# of well(s), date of report, and person submitting report.
2. Brief summary of Class I Well(s) operations including description and reason for any remedial or major work on the well with a copy of OCD Form C-103.
3. Production volumes as required above in 22.G. including a running total should be carried over to each year. The maximum and average injection pressure.
4. A copy of the chemical analysis as required above in 22.H.
5. A copy of any mechanical integrity test chart, including the type of test, i.e. duration, gauge pressure, etc.
6. Brief explanation describing deviations from normal production methods.
7. A copy of any expansion tank monitoring pressure, fluid removals/additions, well problems, drinking water impacts, leaks and spills reports.
8. If applicable, results of any groundwater monitoring.
9. An Area of Review (AOR) update summary.
10. Sign-off requirements pursuant to WQCC Subsection G 20.6.2.5101.
11. A summary with interpretation of MITs, Fall-Off Tests, etc., with conclusion(s) and recommendation(s).
12. Annual facility training.

23. Transfer of Discharge Permit: Pursuant to WQCC 20.6.2.5101.H Key Energy Services, LLC. and any new owner/operator shall provide written notice of any transfer of the permit in accordance with WQCC 20.6.2.3104 (Discharge Permit Required), 20.6.2.3111 (Transfer of Discharge Permit), 20.6.2.5101 (Discharge Permit and Other Requirements for Class I Non-Hazardous Waste Disposal Wells, and Class III Wells). Both parties shall sign the notice 30 days prior to any transfer of ownership, control or possession of a Class I

Well with an approved discharge permit. In addition, the purchaser shall include a written commitment to comply with the terms and conditions of the previously approved discharge permit. OCD will not transfer Class I Well operations until: correspondence between the transferor and transferee is submitted along with a signed certification of acceptance by the transferee, and proper bonding or financial assurance is in place and approved by the division. OCD reserves the right to require a major modification of the permit during the transfer process.

24. Training: All personnel associated with operations at the Key Class I Disposal Well shall have appropriate training in accepting, processing, and disposing of Class I non-exempt non-hazardous oil field waste to insure proper disposal. Key or the new owner/operator for the life of the well shall maintain all training documentation.

25. Closure: The Key Energy Services, LLC. shall notify the OCD when operations of the facility are to be discontinued for a period in excess of six months. Prior to closure of the facility, the operator shall submit for OCD approval, a closure plan including a completed C-103 form for plugging and abandonment of the well(s).

Mr. Dan Gibson

SUNCO Disposal Well #1 UIC-CLI-005 (I-005)

August 14, 2007

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Closure and waste disposal shall be in accordance with the statutes, rules and regulations in effect at the time of closure.

26. Certification: Key Energy Services, LLC. by the officer whose signature appears below, accepts this permit and agrees to comply with all submitted commitments, including these terms and conditions contained here. Key Energy Services, LLC. further acknowledges that the OCD may, for good cause shown, as necessary to protect fresh water, public health, safety, and the environment, change the conditions and requirements of this permit administratively.

Conditions accepted by: "I certify under penalty of law that I have personally examined and am familiar with the information submitted in this document and all attachments and that, based on my inquiry of those individuals immediately responsible for obtaining the information, I believe that the information is true, accurate, and complete. I am aware that there are significant penalties for submitting false information including the possibility of fine and imprisonment."

Key Energy Services, LLC
Key Energy Services, LLC.- print name above

Jim D. Flynt
Company Representative- print name

Jim D. Flynt
Company Representative- signature

Title Senior Vice President

Date: 7/14/08