GW - 216

PERMITS, RENEWALS, & MODS Application

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

AUGUST 28, 2012

Mr. Allen Palic
Spyder Investments, LLC.
3204 Southside River Road
Farmington, NM 87415

Dear Mr. Palic:

Based on your responses given in the "Oil & Gas Facilities Questionnaire for Determination of a WQCC Discharge Permit" and a file review, the Oil Conservation Division (OCD) has determined that one of your facilities with an expired or soon to be expired permit does not require a Water Quality Control Commission (WQCC) Discharge Permit. This means that the WQCC Discharge Permit **GW - 216** (Former Arapahoe Farmington Facility) is hereby rescinded and you are not required to proceed with the renewal of this expired or soon to expire WQCC Discharge Permit. OCD will close this permit in its database.

Because this WQCC Discharge Permit is no longer valid, you may be required to obtain a separate permit(s) for other processes at your facility, such as: pits, ponds, impoundments, below-grade tanks; waste treatment, storage and disposal operations; and landfarms and landfills. OCD will make an inspection of your facility to determine if any of these existing processes may require a separate permit under OCD's Oil, Gas, and Geothermal regulations. If OCD determines that a separate permit(s) is required, then a letter will be sent to you indicating what type of permit is required.

Please keep in mind, if your facility has any discharges that would require a WQCC Discharge Permit now or in the future, then you will be required to renew or obtain a WQCC Discharge Permit. If you have any questions regarding this matter, please contact Glenn von Gonten at 505-476-3488.

Thank you for your cooperation.

Jami Bailey
Director

JB/gvg

ARAPAHOE DRILLING CO., INC.
P. O. BOX 26687
ALBUQUERQUE, NM 87125
(505) 881-6649

November 17, 2009

GW-216

Oil Conservation Division
Attn: Mr. Leonard Lowe
1220 S. St. Francis Drive
Santa Fe, NM 87505

Dear Mr. Lowe:

As you requested in our telephone conversation on Friday, November 13, 2009 I am including with this letter a copy of the Special Warranty Deed evidencing Arapahoe Drilling's May, 2008 sale of the property at 3300 Southside River Road in Farmington, New Mexico to Spyder Investments, Inc., 3204 Southside River Road, Farmington, NM 87401. I understand the contact person for Spyder Investments to be Mr. Larry Starkey; the last telephone number I have for Mr. Starkey is (505) 325-1922.

I am also including the following with this letter:

1. A copy of the Purchase and Sale Agreement between Arapahoe and Spyder.

2. A copy of the summary pages of the Phase I Environmental Report done on the property by Lea Environmental, LLC, which reference the OCD Discharge Permit. A complete copy of this Phase I report was delivered to Mr. Starkey in March, 2008.

3. A copy of the letter we sent to the OCD on April 30, 2008 notifying the OCD of the impending sale of the property to Spyder Investments.

Prior to the closing of the sale to Spyder Investments, Arapahoe had materials that were the reason for having the discharge permit removed from the property. Safety Kleen Systems, Inc. performed the majority of this work in March 2007, and no additional material was brought on-site between the completion of their work and the sale of the property to Spyder.

Please let me know if you need any additional information regarding this matter.

Yours truly,

Steve Schalk
President

SPECIAL WARRANTY DEED

ARAPAHOE DRILLING CO., INC., a New Mexico corporation, for consideration paid, grants to SPYDER INVESTMENTS, INC., a New Mexico corporation, whose address is 3204 Southside River Road, Farmington, New Mexico 87401, the following real estate in San Juan County, New Mexico:

TRACT I

A parcel of land in the Southwest Quarter of the Northwest Quarter (SW/4NW/4) of Section Thirteen (13), Township Twenty-Nine (29) North, Range Thirteen (13) West N.M.P.M., described as follows:
BEGINNING at a nail with washer marked 11598 set for the Quarter Corner common to said Section 13 and Section 14, Township 29 North, Range 13 West, N.M.P.M.; THENCE Easterly along the Mid-Section line for said Section 13 South 89°24'19" East, 1315.75 feet to the Center Section Corner for said Section 13, nothing found, nothing set; THENCE Northerly along the Mid-Section line for said Section 13 North 00°46'30" East, 40.01 feet to a point on the Northerly right of way for Southside River Road; THENCE along said right of way North 89°24'18" West, 29.33 feet to a 5/8" rebar with cap marked NM 18057 and the True Point of Beginning;

THENCE continuing along said Northerly right of way North 89°24'18" West, 771.70 feet to a 5/8" rebar with cap marked NM 18057;

THENCE North 00°42'42" East, 284.25 feet to a 5/8" rebar with cap marked NM 18057;

THENCE South 89°24'18" East, 771.70 feet to a 5/8" rebar with cap marked NM 18057;

THENCE South 00"42'42" West, 284.25 feet to the True Point of Beginning.

AND

TRACT II

Lot 1 of the COY HILL INDUSTRIAL SUBDIVISION filed for record August 8, 1973 in Map File C-56 in the Office of the County Clerk, San Juan County, New Mexico.

Subject to patent reservations, restrictions and easements of record and taxes for the year 2008 and subsequent years.

with special warranty covenants.

200807951 05/21/2008 09:43 AM
1 of 2 B1476 P11 R $16.00
San Juan County, NM FRAN HANHARDT
SAN JUAN COUNTY COUNTY CLERK STATE OF NEW MEXICO
RB

WITNESS its hand and seal this 14 day of May, 2008.

ARAPAHOE DRILLING CO., INC.,
a New Mexico corporation

By: _____
Stephen P. Schalk, President

STATE OF NEW MEXICO
COUNTY OF BERNALILLO

This instrument was acknowledged before me on May 14, 2008, by Stephen P. Schalk as President of Arapahoe Drilling Co., Inc., a New Mexico corporation.

OFFICIAL SEAL
Margie R. Schell
NOTARY PUBLIC
STATE OF NEW MEXICO
My Commission Expires: 7-2-2010

Margie R. Schell
Notary Public

My commission expires: _____

K:\dox\client\64950\113\W0823530.DOC

200807951 05/21/2008 09:43 AM
2 of 2 B1476 P11 R $16.00
San Juan County, NM FRAN HANHARDT

Purchase and Sales Agreement dated March __, 2008 by: Buyer L.S. Seller

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement is entered into this ____ day of March, 2008, by and between Arapahoe Drilling Co., Inc., a New Mexico corporation ("Seller"), and Spyder Investments, Inc., a New Mexico corporation ("Buyer").

Seller
L.S.
Buyer

RECITALS

A. Seller is the owner of that certain property commonly known as 3300 Southside River Road, Farmington, New Mexico and all improvements located thereon, as more particularly described in Exhibit A attached to and incorporated by reference with this Agreement (the "Property"); and

B. Seller desires to sell the Property and Buyer desires to acquire the same.

AGREEMENT

1. Agreement to Sell and Purchase. Seller hereby agrees to sell and convey and Buyer hereby agrees to purchase and acquire from Seller the Property upon the following terms and conditions.

2. Purchase Price and Terms. The Purchase Price for the Property shall be One Million Thirty Five Thousand and No/100ths Dollars ($1,035,000.00). The Purchase Price shall be paid to Seller at Closing (as defined below).

A. Buyer, within 72 hours after delivery to Buyer of Seller's acceptance of this Agreement, shall request the opening of an escrow at San Juan County Abstract and Title Company, in Farmington, New Mexico, (the "Escrow Agent") by depositing with Escrow Agent a copy of this Agreement and the sum of $10,000 (the "Earnest Money") to bind this sale.

B. Buyer shall pay the full Purchase Price, less the Earnest Money, at the Closing in immediately available funds.

3. Evidence of Title.

A. No more than fifteen (15) business days after the date hereof, Seller shall cause a title insurance commitment to be issued by San Juan County Abstract and Title Company in Farmington, New Mexico (the "Title Insurer").

B. The title commitment shall constitute a promise by the Title Insurer to insure the title to the Property in Buyer's name.

C. The title commitment shall be reviewed by Buyer.

D. Within five (5) business days following actual receipt of the title commitment and copies of all documents which will remain as exceptions to title, Buyer shall provide written notice to Seller and Escrow Agent of Buyer's objections to any exceptions to title.

(i) If such notice is not received by both Seller and Escrow Agent within 5 business days following Buyer's actual receipt of the title commitment, the title commitment shall be deemed to be accepted by Buyer.

(ii) Seller shall provide written notice to Buyer and Escrow Agent within ten (10) business days after receiving Buyer's objections to title exceptions of title corrective or curative work that Seller will perform.

(iii) Buyer shall have ten (10) business days thereafter to notify Seller and Escrow Agent that it will not accept title with such exceptions as would remain following Seller's corrective or curative title work, upon which this Agreement shall terminate. If this Agreement is so terminated, the Earnest Money shall be immediately returned to Buyer and neither Buyer nor Seller shall have any further rights or liabilities pursuant to this Agreement.

(iv) Buyer's failure to provide written notice of termination as provided in Section 3(D)(iii) above shall be deemed to be an acceptance by Buyer of those title exceptions which will remain after Seller's corrective or curative title work.

E. At Closing, Seller shall provide a title insurance policy to insure the title in the name of the Buyer, in the amount of the Purchase Price subject to only to the exceptions permitted by Section 3(D) above. Buyer shall pay for all desired extended coverage, including but not limited to deletion of pre-printed exceptions.

4. Closing. The Closing of this transaction shall occur in the offices of the Title Insurer on or before April 30, 2008 and the Title Insurer shall issue the policy of title insurance required pursuant to Paragraph 3 above. This transaction shall not close unless each of the following events has occurred.

A. Seller shall properly execute, date, acknowledge, and deliver to Escrow Agent, for Buyer, a statutory form special warranty deed conveying good and marketable title to the Property in fee simple to Buyer, free and clear of all liens, encumbrances, conditions, easements, rights of way, covenants, terms, restrictions, and reservations except those disclosed on the title insurance commitment issued and accepted by Buyer pursuant to Section 3(D) above.

B. Subject to adjustment for prorations, Buyer shall properly execute, date, acknowledge and deliver to Escrow Agent, as Agent for Seller, its certified check in an amount equal to the Purchase Price, less the Earnest Money.

C. Escrow Agent shall receive and hold the foregoing funds and documents and shall prepare and deliver to the parties a closing statement showing all prorations and other charges and credits to each party, such closing statement to be approved by the respective parties. Escrow Agent shall issue a title insurance policy as provided in Section 3(E) above, cause the warranty deed to be filed for record and shall disburse the funds then held by it as shown on the closing statement. After recording the special warranty deed, Escrow Agent shall deliver the special warranty deed and the title insurance policy to Buyer.

5. Proration and Possession. Ad valorem taxes on the Property shall be prorated as of the date of closing, and unless the actual amounts for the year in which closing occurs are known, shall be based upon the latest known rate applied to the latest known assessed valuation (and assessments). The proration so determined shall not be subject to re-computation after closing. There shall be no proration for insurance as Buyer shall acquire its own policy of insurance covering the Property. Seller assumes no liability for Buyer's failure to timely and adequately insure the Property and the contents thereof, if any. All other items customarily prorated including but not limited to rents, security deposits, water and sewer charges, taxes, and other charges and assessments, if any, shall be prorated at closing. Possession and risk of loss shall pass from Seller to Buyer at the time of recordation of the deed of conveyance to Buyer.

6. Survey; Escrow, Recording Fees and Certain Other Costs. Seller has paid for and at Closing shall deliver to Buyer the ALTA Survey of the Property dated September 10, 2007, and the Phase I Environmental Site Assessment dated April 27, 2007 prepared by LEA Environmental (the "Phase I Report"). The Escrow fees and other fees charged by the Title Insurer charged in connection with the closing shall be divided equally by Seller and Buyer. Buyer shall pay the costs to record the special warranty deed. Seller shall pay the costs incurred to cause the title insurance commitment and the title insurance policy on the Property to be issued with standard coverage. Buyer shall pay the cost of any extended coverage, including but not limited to any endorsements deleting pre-printed exceptions. In the event the Escrow Agent charges a cancellation fee if the title insurance policy is not issued, Seller and Buyer shall each pay one-half of such fee; provided that, if a cancellation fee is charged as a result of the breach of this Agreement by Buyer or Seller, the defaulting party shall pay the entire cancellation fee. The failure to satisfy the conditions precedent contained in Section 7 below shall not be considered as a breach of this Agreement by Seller or Buyer, for the purposes of paying the cancellation fee. All other costs of closing shall be allocated between Buyer and Seller not specifically allocated by this Section shall be paid by the party incurring such cost.

7. Buyer's Conditions of Closing. The obligations of Buyer pursuant to this Agreement are expressly conditioned upon the following:

A. Buyer's review, inspection, and approval of on-site conditions which may affect Buyer's future use, enjoyment, and development of the Property. Such conditions include, without limitation, the following:

(i) The adequacy and means of ingress and egress to and from the Property, including not only the clear and unfettered legal right to use the roadways, streets and easements related thereto, but the size, location and public or private nature of such roadways, streets and easements;

(ii) The current zoning and division of the Property, and any proposed new zoning and subdivision regulations of the Town of Farmington;

(iii) The application of zoning and subdivision laws and regulations to the Property and adjacent and surrounding properties, and other present or contemplated development and use of adjacent and surrounding properties;

(iv) The availability of water, waste disposal, gas, electricity, and telephone service in sufficient capacity, quantity and quality to adequately accommodate and serve Buyer's proposed use of the Property of such terms and conditions and for such costs as are acceptable to Buyer;

If, for any reason, Buyer objects to any of the preceding matters or conditions, Buyer may (i) waive such condition and proceed to close, or (ii) terminate this Agreement. Buyer shall terminate this Agreement by giving written notice of termination to Seller within 30 days from the date this Agreement has been executed by both Buyer and Seller. In the event of such termination, Buyer shall have the right to receive the Earnest Money.

B. Buyer's review, inspection, and approval of the title commitment and all exceptions to title as provided in Section 3(D) above.

C. Buyer shall certify, in writing on a form provided by Title Insurer at closing, that each and every review, inspection, and approval has been completed or waived and all conditions pertaining to them are approved and accepted as is, at closing.

8. Failure of Conditions of Closing; Return of Earnest Money Deposit. In the event that any condition set forth in Section 7 fails to be satisfied, Buyer shall notify Seller and Escrow Agent in writing, prior to the scheduled Closing. Within three (3) business days following receipt of such notice from Buyer, Escrow Agent shall release to Buyer the earnest money deposit.

9. Representations and Warranties. Seller hereby represents, warrants and covenants to Buyer, as of the date of this Agreement and as of the date of Closing, as follows:

A. Seller has good and marketable title to the Property, subject only to those title exceptions which Seller reasonably believes are or will be accepted by Buyer as provided in Section 3(D) above.

B. There are no judicial or administrative proceedings pending or threatened which in any manner affect the Property. There are no condemnation or eminent domain proceedings or investigations pending or threatened which in any manner affect the Property.

C. Except as expressly disclosed in Addendum A to this Agreement, Seller has not received any notice of and has no other knowledge or information of any pending or contemplated change in any applicable law, ordinance, or restriction; or of any threatened or pending judicial or administrative action; or of any action threatened by adjacent landowners; which could result in any material change in the condition of the Property.

D. Except as expressly disclosed in Addendum A to this Agreement, Seller has not received any notice of and has no other knowledge or information concerning the violation or alleged violation of any Federal, State or Local law, code, ordinance, rule, regulation, or requirement of any fire underwriter, board of fire underwriters or board exercising similar functions, concerning the use, condition or operation of the Property.

E. Except as expressly disclosed in the Phase I Report, Seller has not received any notice of and has no other knowledge or information concerning hazardous or toxic materials, substances, pollutants, contaminants or wastes that have been released into the environment, or deposited, discharged, placed, recycled or disposed of at, on or near the Property or that the property has been used at any time by any person as a landfill or waste disposal site.

F. Seller has the full legal right and authority to execute this Agreement on behalf of the Seller and to bind Seller to the terms, conditions, duties and obligations contained in this Agreement. Seller has the full right, power and authority to perform Seller's obligations and duties hereunder.

G. All payments are current and there are no defaults existing under the notes, mortgages and deeds of trust which affect the Property, if any.

H. There are no existing or contemplated leases, tenancy agreements, contacts or other agreements with respect to all or part of the Property except those which will be disclosed and made available for inspection and review pursuant to the provisions of this Agreement.

10. Default. If, through no act or omission of Seller, Seller defaults in the performance of this Agreement as a result of Seller's inability to convey good and marketable title to the Property to Buyer, Buyer's sole remedy shall be the right to rescind this Agreement and to recover the Earnest Money Deposit. If Seller otherwise defaults in the performance of this Agreement, Buyer shall have the right to enforce this Agreement by specific performance, the right to rescind this Agreement and to receive

damages, and Buyer shall have any and all other remedies available at law or in equity. If Buyer defaults in the performance of this Agreement, Seller's shall either terminate this Agreement and be entitled to retain the Earnest Money Deposit as liquidated damages, or bring suit for damages, specific performance or any other remedies available at law or in equity.

11. Amendment to Declaration. Purchaser acknowledges that during the term of this Agreement, Seller shall be further amending the Declaration. Buyer shall have the right to review the further amended Declaration prior to closing, and may choose not to close based on the changes to the Declaration.

12. Miscellaneous.

A. This Agreement: (i) and the obligations, liabilities, and duties related thereto may not be assigned by Buyer without the prior written consent of the Seller, which consent shall not be unreasonably withheld; (ii) may be amended only by an instrument in writing signed by the parties hereto; (iii) constitutes the entire agreement of the parties with respect to this transaction, and there are and have been no verbal or other representations, undertaking, agreements or promises related to this transaction not incorporated in this Agreement; (iv) all notices required herein shall be in writing and shall be sent postage prepaid, United States certified mail, returned receipt requested, and the date of mailing in this manner shall be deemed to be the date notice is given and received; (v) shall be binding upon personal representatives of the respective parties hereto; (vi) may be executed in counterpart, each of which shall be deemed to be an original but all of which shall constitute the same Agreement; (vii) shall be legally effective and binding if a "facsimile" copy thereof which has been transmitted by telecommunication and reproduced electronically is executed by the parties to this Agreement; and (viii) TIME IS OF THE ESSENCE in this Agreement.

B. Unpaid Liens. Notwithstanding anything to the contrary contained in this Agreement, the existence of any mortgages, liens, or other encumbrances against the Property not specifically stated herein shall not be objections to title if properly executed instruments satisfying and releasing the same are provided at closing

C. Review by Legal Counsel. Buyer and Seller acknowledge and agree that the execution and delivery of this Agreement is made after consultation with their respective attorneys, who have approved the form hereof.

D. Cooperation After Closing; Survival; Binding on Successors. Buyer and Seller covenant and agree that they will execute and deliver, whether on or after closing, all documents which may be reasonably required to carry out the terms of this Agreement. The representations, warranties, covenants and promises of Seller and Buyer contained in this Agreement shall survive the closing. This Agreement shall be binding on the parties' heirs, successors and assigns.

E. Applicable Law. This Agreement shall be interpreted and enforced pursuant to the laws of the State of New Mexico.

F. Notices. All notices required by this Agreement shall be sent to Buyer and Seller, as applicable, at the following:

Buyer:

Spyder Investments, Inc.
3204 Southside River Road
Farmington, NM 87401

Seller:

Arapahoe Drilling Co., Inc.
P.O. Box 26687
Albuquerque, New Mexico 87125

G. Commission. Any real estate commission or brokerage fee due and payable as a result of the transaction which is the subject of this Offer and Agreement to Purchase, shall be the responsibility of the party who has agreed to pay such commission. Neither Buyer nor Seller shall be liable for the payment of commission and/or fee agreed to by the other party.

H. Costs of Enforcement. In the event that either party takes action to enforce any of the provisions of this Agreement or to recover damages for the breach of any provision of this Agreement, or to defend any suit instituted by the other party in connection with this Agreement, the non-prevailing party in any such action shall pay the prevailing party's reasonable actual attorneys' fees, the costs of suit, and all associated costs actually incurred by the prevailing party that are reasonably related to the enforcement or defense of this Agreement.

13. Other Documents. Concurrently with the execution of this Agreement, Seller shall deliver true and complete copies to Buyer of all surveys, archeological studies, feasibility studies, soil studies, engineering studies, hydrological studies, traffic and circulation studies, photographs, aerial and other maps, title insurance policies, and other documents studies and reports which Seller or his agents or contractors may have in their possession.

IN WITNESS WHEREOF, the parties have executed this Offer and Agreement to Purchase and hereby accept and agree to be legally bound by terms, promises, covenants, conditions, warranties, representations and indemnifications contained herein.

[Signature Page to Follow]

Purchase and Sales Agreement dated March __, 2008 by: Buyer J.S. Seller

Buyer: Spyder Investments, Inc.
a New Mexico corporation

By: Spyder Investments INC.
JARRY STARKEY

Seller: Arapahoe Drilling Co., Inc.,
a New Mexico corporation

By:

Purchase and Sales Agreement dated March __, 2008 by: Buyer _____ Seller _____

ATTACHMENT A

LEGAL DESCRIPTION

TRACT 1
A PARCEL OF LAND IN THE SOUTHWEST QUARTER OF THE NORTHWEST QUARTER (SW/4NW/4) OF SECTION THIRTEEN (13), TOWNSHIP TWENTY-NINE (29) NORTH, RANGE THIRTEEN (13) WEST, N.M.P.M., DESCRIBED AS FOLLOWS:

BEGINNING AT A NAIL WITH WASHER MARKED 11598 SET FOR THE QUARTER CORNER COMMON TO SAID SECTION 13 AND SECTION FOURTEEN (14), TOWNSHIP 29 NORTH, RANGE 13 WEST, N.M.P.M.; THENCE EASTERLY ALONG THE MID-SECTION LINE FOR SAID SECTION 13 SOUTH 89° 24' 19" EAST, 1315.75 FEET TO THE CENTER SECTION CORNER FOR SAID SECTION 13, NOTHING FOUND, NOTHING SET; THENCE NORTHERLY ALONG THE MID-SECTION LINE FOR SAID SECTION 13 NORTH 00° 46' 30" EAST, 40.01 FEET TO A POINT ON THE NORTHERLY RIGHT-OF-WAY FOR SOUTHSIDE RIVER ROAD; THENCE ALONG SAID RIGHT-OF-WAY NORTH 89° 24' 18" WEST, 29.33 FEET TO A 5/8" REBAR WITH CAP MARKED NM 18057 AND THE TRUE POINT OF BEGINNING;

THENCE CONTINUING ALONG SAID NORTHERLY RIGHT-OF-WAY NORTH 89° 24' 18" WEST, 771.70 FEET TO A 5/8" REBAR WITH CAP MARKED NM 18057;

THENCE NORTH 00° 42' 42" EAST, 284.25 FEET TO A 5/8" REBAR WITH CAP MARKED NM 18057;

THENCE SOUTH 89° 24' 18" EAST, 771.70 FEET TO A 5/8" REBAR WITH CAP MARKED NM 18057;

THENCE SOUTH 00° 42' 42" WEST, 284.25 FEET TO THE TRUE POINT OF BEGINNING;

CONTAINING 5.04 ACRES, MORE OR LESS.

TRACT II
LOT 1 OF THE COY HILL INDUSTRIAL SUBDIVISION FILED FOR RECORD AUGUST 8, 1973 IN MAP FILE C-56 IN THE OFFICE OF THE COUNTY CLERK, SAN JUAN COUNTY, NEW MEXICO.

PHASE I ENVIRONMENTAL ASSESSMENT

OF

3300 SOUTHSIDE RIVER ROAD
FARMINGTON, NEW MEXICO

SUBMITTED TO:

ARAPAHOE DRILLING COMPANY, INC
P.O. BOX 26687
ALBUQUERQUE, NEW MEXICO 87125

SUBMITTED BY:

LEA ENVIRONMENTAL, LLC
10224 SANDHURST DRIVE, NW
ALBUQUERQUE, NM 87114

APRIL 27, 2007

L. E. Archamboult, RHSP
Manager

EXECUTIVE SUMMARY

LEA Environmental, LLC (LEA) has performed a Phase I Environmental Site Assessment of the property located at 3300 Southside River Road in Farmington, San Juan County, New Mexico, to evaluate the environmental condition of the subject property (hereafter referred to as the Site) and surrounding area and to determine whether evidence exists of "recognized environmental conditions" (RECs) as that term is used in ASTM E1527-05. The assessment was conducted in conformance with the scope and limitations of ASTM Standard E1527-05 and the U.S. Environmental Protection Agency (US EPA) standards for all appropriate inquiry as found in 40 CFR 312 to include a review of published literature; aerial photographs; and data available from federal, state, and city agencies; interviews with persons familiar with the past and present use of the site; and a site reconnaissance.

The Site consists of two rectangular parcels of land totaling approximately 8.037 acres. The Site was developed in 1962 for use as an oil field service facility. Buildings on the Site include a three bay shop building with a three-sided roofed storage area on the east end, a warehouse building with offices, and office trailer, and three storage buildings. In addition to the buildings, there is a chemical storage area in a concrete containment, stockpiles of steel pipe, stored engines, stock piles of parts and other oil field equipment, a trash trailer, and a waste management trash dumpster. The two underground storage tanks (USTs) have been removed. There are no wells on the Site. There are two septic systems, one between the warehouse and the shop and the second on the east side of the office trailer and the two storage buildings that are on the west side of the Site. The northern Site boundary is the British Petroleum facility. The eastern boundary is Energy Court. The southern Site boundary is Southside River Road. The western property boundary is the Monk's Sandblasting facility. Depth to groundwater at the site is estimated to be 25-30 feet below ground surface (bgs). According to the 2002 Flood Plain Map, the Site is not situated within a 500- or 100-year flood zone. Based on aerial photographs and City Directory information, the Site appears to have been undeveloped from 1935 until 1962. The buildings and septic systems were constructed in between 1962 and 1966. The chemical storage area was constructed in 1980.

A site reconnaissance, review of historical records, interviews with persons familiar with the Site, and a regulatory database review indicate that hazardous materials have not been used on the Site but have been and are being stored on the Site. Prior to construction of the containment, hazardous materials were obtained directly from the supplier and taken directly to the field for use during drilling operations. After cessation of drilling operations, the Site was used to support well maintenance activities. Chemicals for those activities were and are stored on the Site and transported to the well sites in five-gallon totes. With the exception of oil, these materials are used in process. The waste oil generated in the field is returned to the Site and temporarily stored for recycling. Chemicals currently stored consist of methanol (a 250-gallon tank), oil (150-gallon tote), antifreeze (five-gallon pails), synthetic lubricant solution (a 150-gallon tote), diesel fuel for the loader (a 55-gallon drum), enzymes for treatment of oil-contaminated soils (a 55-gallon drum), and waste oil (a 1,000-gallon tank). The only observable releases in the chemical storage area are minor amounts of oil. These releases are either collected in a container for recycling or absorbed on windblown dirt that has collected below the storage platform. They were confined within the chemical storage area containment. There were two observed oil releases outside the containment from leaking vehicles, one near the shop and the second near the containment area. The releases were superficial. The depth of the contamination was less than six inches in both cases and each spill impacted less than a square yard of surface. Several other minor oil spots (a few inches in diameter) from parked vehicles were also observed. These were also superficial in nature. There were no releases from the USTs that were removed. The Site reconnaissance found that oil field service activities have a potential to cause an environmental impact to the Site. However, there was no observable evidence that onsite activities had caused a negative environmental impact to the Site.

With the exception of BJ Services, LEA's review of available environmental and regulatory databases did not indicate that the Site or immediately adjacent properties are currently the subject of regulatory action. BJ Services is remediating a release from its USTs. That facility will not impact the Site.

In the past, both the Site and the adjacent Monk's Sandblasting facility have been the subject of regulatory action. Monk's Sandblasting received notices of violation of generator requirements under the Resource Conservation and Recovery Act (RCRA). The violations involved record keeping, waste stream profiling, and waste storage times. These violations were addressed and the facility appears to be in compliance. No impact on the Site from the Sandblasting activities or waste generation is anticipated. For the Site, as stated above, there were two USTs on the Site. They were removed and there was no evidence of releases. The Site had also been inspected under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) in response to a spill of approximately 10 gallons of oil in the bar ditch on the north side of Southside River Road on the south side of the shop and warehouse. According to the report obtained from the US EPA, the oil was successfully cleaned up and a determination was made that the spill had not impacted the environment. The spill area has since been paved during the reconstruction of Southside River Road. No further action is required relative to that incident. No indication of hazardous waste disposal (e.g. stained or discolored soils, distressed vegetation, or debris) was noted on the Site during the site reconnaissance. There was no observed evidence of dumping on the Site or observed or documented evidence that the Site had been used as a landfill.

The buildings on the Site were constructed prior to 1978. There is a potential for asbestos to be present in flooring, texturing, sheetrock joint compounds, and roofing materials. Lead-based paint may also be present on both interior and exterior painted surfaces. After 40 years of continuous use, the condition of the exteriors and interiors of the buildings is fair to poor. However, the office trailer and two storage buildings are rarely occupied, the condition of the warehouse office and restroom is fair, and the exposed shop wall insulation appears to be rock wool or fiberglass. The potential for exposure to asbestos or lead-based paint is low. An inspection and sampling for asbestos conducted by a certified asbestos inspector will be required if the buildings are to be demolished or renovated. An inspection for lead-based paint is recommended for worker protection if the buildings are to be demolished or renovated.

As defined in ASTM Standard Practice E 1527-05 and US EPA AAI standards as found in 40 CFR 312, this assessment has revealed a potential for RECs. Current areas with potential RECs are the chemical storage area and the two vehicle leaks. Past RECs are the USTs that have been removed and the oil release inspected under CERCLA. However, based on observations from the site visit, information from personal interviews, available agency information, and documents related to the Site, the past RECs have been removed or remediated, the chemical storage area is in containment with no observable evidence of releases from that containment, and the two vehicle leaks appear to meet the definition of de minimus releases. Any releases within the containment also appear to meet the definition of de minimus releases.

With the exception of treating or removing the contaminated soils from the two vehicle oil releases, LEA recommends no further actions at this time.

1.0 INTRODUCTION

1.1 Objective

LEA Environmental, LLC (LEA) was retained by Arapahoe Drilling Company, Inc. (Arapahoe) to perform a Phase I Environmental Site Assessment of the property located at 3300 Southside River Road in Farmington, San Juan County, New Mexico. The subject property (hereafter referred to as the Site) is developed. The purpose of this assessment is to evaluate the environmental condition of the Site and the surrounding area and to determine whether evidence exists of "recognized environmental conditions" (RECs) as that term is used in the American Society of Testing and Materials Standard E1527-05 (ASTM E1527-05). RECs include, but are not limited to, hazardous materials or regulated substances on the surface, in the subsurface profile, or in the groundwater beneath the Site. The assessment was conducted in conformance with the scope and limitations of ASTM E1527-05 and the U.S. Environmental Protection Agency (US EPA) standards for all appropriate inquiry (AAI) as found in 40 CFR 312 to include a review of published literature; aerial photographs; and data available from federal, state, and city agencies; interviews with persons familiar with the past and present use of the site; and a site reconnaissance.

1.2 Scope of Work

To accomplish the objectives described above, our scope included the following tasks within the guidelines of ASTM E 1527-05 and US EPA AAI standards as found in 40 CFR 312.

- An assessment of present surface and subsurface conditions;
- A historical review of past land use;
- A site reconnaissance to observe existing conditions in the field;
- A review of documents pertaining to the environmental condition of the Site and site vicinity;
- A review of documents pertaining to remediation activities at the Site and in the site vicinity.

The scope of work for the Phase I did not include chemical analysis of groundwater or soils at the Site, an asbestos inspection, or on-site radiometric surveys for radon gas.

1.3 Limitations

This Phase I Environmental Assessment report has been prepared for the exclusive use of Arapahoe to support potential transactions involving the property. This report may be used within a reasonable time from its issuance. Land use, site conditions (both off- and on-site) or other factors may change over time and additional work may be required. Any other use of the report may be inappropriate. Reliance upon this report by any third party shall be (1) at such third party's sole risk; and (2) strictly limited to the terms and conditions of the contract between LEA and Client and the limitations set forth above and in other sections of this report.

All work has been performed in accordance with accepted environmental assessment practices to include the standards set by the ASTM for the conduct of Phase I Environmental Assessments, ASTM E-1527-05, and US EPA AAI standards as found in 40 CFR 312. No warranty is expressed or implied.

The assessment results are based on observations of the investigator at the time of the site visit, on reviews of publicly available information, and on information provided by persons familiar with the property. Unless contradicted by conflicting data obtained independently during the conduct of the work, all information obtained has been accepted at face value. Information obtained during interviews and from files and databases is sometimes inaccurate and/or incomplete. The information and conclusions in this report are subject to the accuracy, completeness, and availability of such data. Except as set forth in this report, LEA made no independent investigations as to the accuracy and completeness of the information derived from the listed sources.

All findings, observations, conclusions, and recommendations stated in this report are based on facts; circumstances; applicable federal, state and local laws, rules, and regulations; and generally accepted national standards for such services in existence at the time that the report was prepared. Topics not explicitly discussed within this report should not be assumed to have been investigated or tested. This report does not guarantee current compliance with federal, state, or local laws, rules, or regulations.

No environmental samples were taken during this assessment.

The property size was derived from the survey documents and title documents provided to LEA by Arapahoe. The legal description of the property was taken from the title documents and the survey. The title documents and survey were made available for this assessment. Zoning documents were not available.

The findings, observations, conclusions, and recommendations presented herein, unless otherwise stated, are based solely on the information obtained and presented herein. Implementation of the recommendations contained in this report does not ensure that all environmental risks will be eliminated or that all legal obligations will be met.

1.4 Limiting Conditions

LEA's on-site inspection consisted of a walking inspection of areas that were accessible by foot, and a drive-by inspection of surrounding and adjacent properties, including any properties identified in the environmental database search. There were no conditions limiting LEA personnel's ability to complete the scope of work for the performance of this Phase I Environmental Site Assessment.

1.5 Definitions

Our investigation consisted of an integration of data from four areas of influence, as defined below:

- "Site" refers to land within the specified boundaries of the properties described in Section 2.0 of this report.
- "adjacent sites" refers to properties immediately bordering the Site.
- "site area" refers to properties within an one-quarter mile radius of the Site.
- "site vicinity" indicates properties within an one-mile radius of the Site.

The term RECs is defined by ASTM E1527-05 to mean the presence or likely presence of any hazardous substances or petroleum products on a site under conditions that indicate an existing release, a past release, or a material threat of a release of any hazardous substances or petroleum

products into structures on the site or into the ground or groundwater beneath the site, or surface water on the site. The term includes hazardous substances or petroleum products even under conditions in compliance with laws. The term is not intended to include de minimis conditions that generally do not present a material risk of harm to public health or the environment and that generally would not be the subject of an enforcement action if brought to the attention of appropriate government agencies.

2.0 SITE RECONNAISSANCE

2.1 Site Assessment Techniques

Existing data on the hydrogeologic setting, past land ownership and environmental incidences within San Juan County, New Mexico were used to evaluate the current environmental condition of the Site. The following information was reviewed:

- A series of aerial photographs showing the site area. This review included the available aerial photographs from the years 1935, 1964, 1978, 1997, 2003, and 2005.
- Interviews with persons familiar with the Site.
- Review of historic city directories, Sanborn Fire Insurance maps, and Topographic maps.
- Published literature on the geology and hydrogeology of the sites.
- A site reconnaissance by LEA personal.

In addition, LEA obtained an Environmental Data Resources, Inc (EDR) site assessment report for the location, which included a search of pertinent environmental databases for the site vicinity. The following information was included in EDR's search and is presented in Appendix A.

NPL	National Priority List
Delisted NPL	NPL Deletions
RCRIS-TSD	Resource Conservation and Recovery Information System - Transportation, Storage, Disposal
SHWS	State Hazardous Waste Sites
CERCLIS	Comprehensive Environmental Response, Compensation, and Liability Information System
CERCLIS-NFRAP	CERCLIS - No Further Action Planned
CORRACTS	Corrective Action Report
SWF/LF	Solid Waste Facilities / Landfills
RAATS	RCRA Administrative Action Tracking System
RCRIS-SQG	RCRIS - Small Quantity Generator
RCRIS-LQG	RCRIS - Large Quantity Generator
HMIRS	Hazardous Materials Information Reporting System
PADS	PCB Activity Database System
ERNS	Emergency Response Notification System
FINDS	Facility Index System
TRIS	Toxic Chemical Release Inventory System
NPL Lien	Federal Superfund Liens
TSCA	Toxic Substances Control Act
MLTS	Material Licensing Tracking System

ROD	Records of Decision
CONSENT	Superfund (CERCLA) Consent Decrees

A site reconnaissance was conducted to assess the Site and surrounding area for possible adverse environmental conditions. In particular, observations were made for evidence of potential environmental concerns such as:

- improper waste disposal
- hazardous waste containers
- chemical spills
- disturbed/discolored soils
- distressed vegetation
- on-site effluent disposal systems
- underground storage tanks
- wells and dry wells
- standing water/improper drainage
- electrical transformers
- unusual odors and/or other unusual conditions

2.2 Site Location and Description

The Site is located in the City of Farmington approximately 560 feet west of the intersection of Browning Parkway and Southside River Road on the north side of Southside River Road. The Site would be on the northeast corner of Southside River Road and Sandstone Avenue if Sandstone Avenue extended north from its intersection with Southside River Road. The Site consists of two rectangular parcels of land totaling approximately 8.037 acres. The first parcel is described as 5.036 acres, more or less, in the Southwest Quarter of the Northwest Quarter (SW¼ NW¼) of Section Thirteen (13), in Township Twenty-Nine (29) North of Range Thirteen (13) West, N.M.P.M., San Juan County, New Mexico, described as follows: BEGINNING at a point which bears North 00°06' East 40.00 feet and South 89°59' West 30.00 feet from the Southeast corner of the SW¼NW¼ of said Section;... The second parcel is 3.00 acres in size and is described as Lot 1 in COY HILLS INDUSTRIAL SUBDIVISION to the City of Farmington. The Site is zoned M1 (Light Industrial/Commercial) to be utilized for commercial sales and light industry.

The northern Site boundary is the British Petroleum facility, the eastern Site boundary is Energy Court, the southern Site boundary is Southside River Road, and the western Site boundary is the Monk's Sandblasting facility. A city map and a U.S.G.S. topographic map showing the site vicinity are provided in Appendix B. Copies of photographs taken during the recent site reconnaissance and the aerial photographs from 1935, 1964, 1978, 1997, 2003, and 2005 are also included in Appendix B. Survey documents, title documents, and environmental documents pertaining to the Site are provided as Appendix C. The legal descriptions are found in the title documents. Mr. John Ahlm and Mr. Steve Schalk of Arapahoe Drilling Co., Inc. (Arapahoe) provided current ownership information. The title documents verified ownership.

2.3 Surrounding Land Use

The property is located in an area being developed for commercial and light industry use. Southside River Road lies on the south side of the Site. A power line runs east/west between the Site fence and the sidewalk along the street. On the south side of Southside River Road and on the east and west sides of Sandstone Avenue is the WW Trucking yard. That facility leases storage space to oil

field supply companies for pipe and equipment storage. East of that facility is undeveloped land and an automotive transmission business followed by Browning Parkway and vacant land.

The Monk's Sandblasting facility forms the western boundary of the Site. West of Monk's is BJ Services, a cement company. Echo Ditch, an irrigation ditch, lies west of BJ Services. The British Petroleum (BP) a natural gas plant and oil field services yard form the northern boundary of the Site. North of this facility are other oil field service companies. Energy Court is the east boundary of the Site. The street provides access to the BP facility. East of the street is a small triangular parcel of land used as a natural gas fueling station for natural gas powered vehicles. The station is operated by BP. Browning Parkway lies on the east side of the triangular parcel and another oil field service facility lies on the east side of Browning Parkway. An unnamed wash runs from northeast to southwest under the Browning Parkway/Southside River Road intersection. The wash cuts diagonally through the WW Trucking property south of the Site. .

2.4 Site History

The history of the Site was evaluated utilizing aerial photographs, topographic maps, interviews with Johnnie Ahlm and Steve Schalk of Arapahoe, and a site reconnaissance. Items of note are summarized below.

2.4.1 Interviews

LEA attempted to contact individuals familiar with the project area in order to gain "first hand" knowledge concerning historical land uses that may have environmentally impacted the Site.

Mr. Schalk of Arapahoe provided the initial information on the Site, indicating that the Site was approximately eight acres in size and was located at 3300 Southside River Road in Farmington. He stated that Arapahoe had purchased the property from the Morans approximately 40 years before. The Morans operated a drilling company from the Site. Arapahoe also operated a drilling company and oil field services from the Site. Mr. Schalk stated that there were two office buildings, a shop building and storage buildings for parts on the Site as well as a containment for oil and oil and gas production well chemicals. He stated that the company no longer supported drilling activities and there were no rigs on the Site. The fuel tanks on the Site had been removed. The only equipment on the Site was a backhoe and a pick up truck. Mr. Schalk was not aware of any environmental liens on the property or any history of past improper use of chemicals or hazardous materials on the Site.

Mr. Ahlm of Arapahoe confirmed Mr. Schalk's information and provided the following information. The drill rigs that had been constructed, repaired, and stored on site had been sold off between 1998 and 2006. The shop buildings were used for parts fabrication and minor engine repairs and servicing. Most well field equipment was maintained and repaired in the field. Chemicals used for maintenance in the field were transported in five-gallon totes filled from containers in the containment area. With the exception of the oil, the chemicals were used in process. No hazardous waste was generated. Waste oil was brought back to the Site and stored for recycling. Most of the equipment parts, drill pipe, and used oil field engines were in the process of being sold to a scrap metal and used equipment dealer. The useable parts that were to be retained by Arapahoe were stored in the two buildings north of the office trailer on the west side of the property. The larger parts storage building had originally been office space. The southern most building on the west side of the property housed the company offices. However, these were not in use. The small metal storage buildings near the center of the property had been emptied of parts and were scheduled to be sandblasted and repainted for use elsewhere.

Mr. Ahlm stated his office was in the warehouse. The warehouse was primarily used for document storage and the environmental records for the company were in locked files in that building. Mr. Ahlm also stated that his work was primarily in the field. However, he also did equipment fabrication, maintenance, and repair in the first two bays of the shop building. A portion of the third bay had been converted for additional records storage. Mr. Ahlm described the problems with storm water run on from the street at the southeast corner of the Site and near the southeast corner of the warehouse building. He provided location information for the septic tanks and the removed fuel tanks. He also provided copies of the Oil Conservation Division (OCD) discharge permits that Arapahoe is required to maintain and the fuel tank removal report. He pointed out two oil stains released from vehicles and used the backhoe to establish the depths of contamination (from four to six inches below the surface on one stain and less than two inches on the second). Both stains were less than three feet in diameter. Mr. Ahlm stated that he planned to either remove the soils and dispose of them to a landfill permitted to accept petroleum-contaminated waste or to utilize the enzyme solution used on a clean up site near a well head to activate natural bacteria to clean up the spills.

With the exception of the two small releases, Mr. Ahlm was not aware of any history of past improper use of chemicals or hazardous materials on the property or of any environmental liens on the property.

2.4.2 Aerial Photographs

A review of historical aerial photography may indicate past activities at a site that may not be documented by other means, or observed during a site visit. The effectiveness of this technique depends on the scale and quality of the photographs and the available coverage. Readily available aerial photographs were obtained from the Earth Data Analysis Center at the University of New Mexico. The photographs reviewed were generally clear and of fair to good quality. Six (6) historical aerial photographs from 1935 (the earliest readily available) to 2005 (the latest available photograph) were reviewed to evaluate past land use at the Site and in the surrounding area. The six photographs are included in Appendix B. The photos reviewed are summarized in the following paragraphs.

In all reviewed aerial photographs, the general area, including the Site, was undeveloped open land or agricultural land that, over time, has been developed and continues to be developed for commercial and light industry use. The first available photograph in the series (1935) shows the Site and the site vicinity as undeveloped open land on the east side of Echo Ditch. West of the ditch is agricultural land. The unpaved roads that become Southside River Road, Sandstone Avenue, and the Bloomfield Highway (US 64) are in place.

By 1964, the five-acre portion of the Site had been developed and the shop and warehouse buildings on the south side of the Site are visible. The Bloomfield Highway is paved. Neither Sandstone Avenue nor Southside River Road appear to be paved. Morningstar Drive is in place and extends south connecting with Southside River Road at the east end of the Site. Morningstar Drive appears to be paved. Browning Road on the east side of Echo Ditch is in place and unpaved. There is a water tank located east of the Site and what appears to be a small gravel pit north of the water tank on the south side of Morningstar Drive. The WW Trucking facility has been developed on both sides of Sandstone Avenue and there is industrial development between the WW Trucking facility and Echo Ditch to the south. With the exception of what appears to be the beginning development of a trailer park and some industrial activity south of the trailer park, the west side of Echo Ditch remains agricultural.

By 1978, the Site has expanded to the north into the second parcel. The office trailer, the office building (now storage building), and the smaller storage building s on the west side of the Site are in place. Amoco has established an oil field service facility on the north side of the Site on both sides of Morningstar Drive. Monk's Sandblasting also appears to be in place on the west side of the Site. BJ Services is not yet in place but the land appears to have been either graded or cultivated. The trailer park is completed and a second trailer park is in development off the southwest corner of that park. There is industrial infill between the trailer parks and Echo Ditch. Browning Road is still unpaved. And it is not clear whether Sandstone Avenue and Southside River Road are paved. The water tank is still in place as is the gravel pit.

In the 1997 aerial photograph, Browning Parkway has been constructed and paved. Morningstar Drive now ends at Browning Parkway. Energy Court replaces the portion of Morningstar Drive south of the Parkway. The natural gas fueling station is visible in the triangle of land between Energy Court, Browning Parkway, and Southside River Road. Wildflower Parkway extends east from the intersection of Browning Parkway and Southside River Drive. There is little or no agricultural land in the area. BJ Services is in place as is Monk's Sandblasting. The Amoco facility belongs to BP. A smaller oil field servicing company lies on the east side of the Parkway opposite BP. To the north and on the north side of the Parkway, there are several additional oil field service industrial sites. Sandstone Avenue and Southside River Road are clearly paved. The water tank has been removed but the gravel pit area appears to still be in place. Browning Road adjacent to BJ Services remains unpaved. There is industrial infill on the west side of Echo Ditch on the north side of Southside River Road. To the south, the auto transmission facility is in place near the northeast corner of the intersection of Browning Parkway and Southside River Drive. The land south of that facility has been disturbed but does not appear developed. There is industrial infill on both sides of Browning Parkway between the southern boundary of the WW Trucking property and US 64 (the Bloomfield Highway). The Site appears similar to the 1978 aerial photograph. The positioning of onsite equipment appears to be the only variable.

The 2003 and 2005 aerial photographs reflect the conditions observed the day of the site visit.

With the exception of the gravel pit approximately 0.3 mile northeast of the Site, evidence of uncontrolled or regulated landfills, pits or quarries was not identified in the aerial photographs available for review.

2.4.3 Topographic Map Review

The only U.S. Geological Survey 7.5 minute topographical quadrangle map available was dated 1965 with 1979 photo-revisions. The map reflects the same development pattern shown in the 1964 and 1978 aerial photographs. The map indicates that Southside River Road and Morningstar Drive are paved roads.

This map does not depict the historic presence of bulk oil storage, manufacturing, or mining activities associated with the Site. A small gravel pit is located northeast of the Site north of the water tower.

2.4.4 Fire Insurance Rate Maps

Sanborn Fire Insurance maps were compiled from the late 1800s to the late 1950s for medium sized cities across the United States. These maps provided baseline information about construction materials used in developed areas within city limits. Sanborn maps can provide information about historic land use and possible environmental concerns.

A review of the Sanborn maps for New Mexico available in Zimmerman Library on the UNM campus and the EDR research revealed no historic Sanborn maps for the site area.

2.4.5 City Directories

The Farmington Public Library had historic city directories for the years 2006, 1966, 1964, 1957 through 1959, 1954/1955, and 1952. Prior to 1966, Southside River Drive was known as Hydroplant Road. There were no listings for Hydroplant Road in the directories available for the years between 1952 and 1957. From 1957 to 1964, there were no numbered listings east of 1301 Hydroplant Road. The numbered listings are west of the Site. In 1964, the Moran Brothers Drilling Company and a construction firm were listed with no street addresses. The construction firm may have belonged to Monk. In the 1966 directory, the Site was still listed as Moran Brothers, Inc. Drilling Company and Monk's Sandblasting was also listed. The construction firm listing was no longer in place. There were no listings found for the Amoco facility which became the BP facility.

2.4.6 Past/Current Site Usage

Based on available historical documents and the aerial photographs, the Site was undeveloped until Moran Brothers, Inc. Drilling Company developed the southern (five-acre) parcel. According to available title documents, the Moran Brothers acquired the five-acre parcel in 1962. Arapahoe acquired that parcel from Moran Brothers in 1966. The northern (three-acre) parcel was acquired from Monk in 1989. The Site has been continuously used as to construct and store drill rigs for oil field use and as a base of operations for oil field services. Operations on the Site have included rig construction and repair; maintenance, repair, and fabrication of parts and equipment for oil field equipment; and storage of parts, drill pipe, engines, and other oil field equipment. Current operations include maintenance, repair, and fabrication of parts and equipment for oil field equipment and the storage of small quantities of oil field equipment maintenance chemicals for use in the field.

The following hazardous or potentially hazardous materials observed on the Site are oil (150-gallon tote), waste oil (1,000-gallon tank), synthetic lubricant solution (150-gallon tote), methanol (250-gallon tank), antifreeze (five-gallon pails), diesel fuel (55-gallon drum), enzymes for oil spill remediation (55-gallon drum), and four new and used batteries. No hazardous wastes were observed. Prior to 1980, the oil, antifreeze, methanol, and synthetic lubricant were picked up by the field crews at the supplier and transported to the field. Empty containers were returned to the suppliers. Waste oil taken to an oil recycler. Batteries were returned to the Site for recycling. After 1980, these materials were stored on the Site in a concrete containment. Five-gallon totes were used to transport these materials to the field. With the exception of the oil, all materials are used up in process. Waste oil generated by equipment maintenance was returned to the Site and stored in the waste oil tank for recycling. New and used batteries are stored in the shop building and the used batteries are regularly recycled. In addition to the above materials, miscellaneous quart containers of lubricating oils and grease and gallon containers of paint were observed in the shop area and the storage building on the south side of the Site. These materials are used for routine maintenance and upkeep on the Site. Empty containers are appropriately disposed.

2.5 Hydrogeologic Setting

Topography, drainage patterns, soil types, depth to groundwater, groundwater direction and gradient, and other factors all affect the transport of hazardous materials on the surface and in the subsurface. An understanding of the geologic, surface water and hydrogeologic setting can help in evaluating the susceptibility of the Site to contamination. Typically, contaminants migrate vertically through porous soils to the water table (unconfined aquifer conditions), then travel with the flow of groundwater.

Locally, subsurface transport can be diverted by man-made conduits such as sewers, water lines, or wells. Poorly constructed groundwater wells can serve as conduits for vertical transport of contaminants.

Available data pertaining to the geologic, surface water and hydrogeologic setting are provided in the following sections.

2.5.1 Geologic Setting

The City of Farmington is situated within the San Juan Basin, a structural basin of the late Cretaceous-early Tertiary age which lies on the southeastern edge of the Colorado Plateau. Sedimentary rocks of Jurassic and Cretaceous age crop out along the rim of the basin and contribute to the basin lowland sediment load. Tertiary sedimentary rocks comprise most of the central basin, including the Site. Quaternary alluvium has been recently deposited along active surface water courses, overlying the older Tertiary sedimentary deposits.

The primary drainage course of the central portion of the San Juan Basin is the San Juan River which flows into New Mexico from Colorado. The San Juan River is controlled upstream by Navajo Reservoir which moderates the seasonal fluctuations in flow volume. The largest tributary to the San Juan River in the area is the Animas River, which joins the San Juan River at Farmington west of the Site.

Regional groundwater studies are sporadic in coverage and detail, however certain general statements may be made concerning groundwater occurrence and movement. Unconfined surficial aquifers occur in the basin which display sufficient thickness and continuity to be described as regional groundwater resources displaying water table conditions. Other shallow groundwater (in quaternary-age valley fill or exposed Tertiary-Jurassic bedrock strata) may be present as perched lenses above resistant strata.

In general, shallow groundwater flow is downbasin toward the central drainage courses. Deeper aquifers include the Chuska Formation, the San Jose Formation, the Nacimiento/Animas Formation, the Ojo Alamo Sandstone, and numerous late Cretaceous formations including the Fruitland-Kirtland, Pictured Cliffs, Cliff House, Menefee, Point Lookout, Gallup and Dakota Sandstones, and the Morrison Formation. Also present as deeper aquifers are the Jurassic-age Cow Spring-Bluff Sandstone and Entrada Sandstone (Stone, et al, 1983)

2.5.2 Surface Water, Topography & Drainage

The Site vicinity includes mesa land to the east and gently sloping land from the base of the mesa to the west. The mesa lies between the Animas River to the north and the San Juan River to the south. The junction of the two rivers is approximately 3.4 miles west/southwest of the Site. The area topography slopes to the west, northwest, and southwest from the top of the mesa. The natural drainage of Echo Ditch to the west of the Site and an unnamed wash to the east of the Site is predominantly to the south with a west trend. Near the Bloomfield Highway (US 64) these drainages shift to the southeast eventually discharging into the San Juan River.

At the Site, the topography slopes to the south/southeast. The elevation of the Site lies between 5,400 above mean sea level (msl) at the northern boundary and approximately 5,395 feet above msl at the southeast corner. Site drainage is toward the southeast corner. Storm water falling on the Site would be expected to be absorbed or sheet flow toward the southeast corner. There is no evidence of storm water run on or runoff along the western site boundary. On the north boundary,

there is a potential for storm water to access the Site from the BP property. There was evidence of limited run on near the northwest corner. East of that point there is a low constructed berm that prevents run on. Extending the berm should control the minimal run on. There is no evidence of run on or runoff along the eastern boundary. Along the southern boundary, the street and its curb and gutter system would be expected to prevent run on. However, according to Mr. Ahlm of Arapahoe, the grade and the drain of the street results in storm water accessing the Site and ponding in the southeast corner. It takes approximately 48 hours for the water to be absorbed after the rain stops. The street grade and drain also caused flooding of the warehouse building. The City of Farmington had to provide a curb cut outside the property fence to facilitate draining the storm water away from the building.

The San Juan River, located approximately 1.1 miles south of the Site and the Animas River located 0.80 mile north of the Site are the nearest perennial streams. Echo Ditch (900 feet west) and the unnamed wash (250 feet east) of the Site are the two closest ephemeral streams. There are no perennial or ephemeral streams, ponds, or lakes on the Site.

According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (Number 3500670110 E dated May 15, 2002), the Site is located outside the 100-year and 500-year flood zones for both rivers, Echo Ditch, and the wash.

2.5.3 Groundwater

The San Juan River is the source of water for the City of Farmington. However, there are 47 individual wells within a one-mile radius of the Site. Of these, 25 are associated with mining, milling, or oil exploration. They have an average depth of 12 feet and the depth to water is four feet below ground surface (bgs). The remaining wells are for domestic use or irrigation. For those wells with depth and depth to water information, the wells vary from 28 to 180 feet in depth with a depth to water from nine to 30 feet bgs. The majority of the wells lie northwest to south of the Site.

Based on depth to groundwater in monitor wells located on the BJ Services property adjacent to the Monk Sandblasting facility, the depth to water at the Site is estimated to be 25-30 feet bgs. The groundwater gradient at the BJ Services facility is to the northwest shifting to the southwest near the southwest corner of the building on the property. Groundwater gradient at the Site would be expected to follow the northwest to southwest trend. The gradient is influence by the proximity to the two rivers.

Perched aquifers may to exist in the site vicinity. However, none are known to exist beneath the Site. Water in the shallow alluvium typically is contains more dissolved solids that the deeper aquifers. However, the alluvial groundwater is generally of a chemical quality suitable for domestic and industrial use.

2.6 Site Environmental Status

A Site reconnaissance was performed by Ms. Lucy E. Archamboult of LEA on April 9, 2007.

2.6.1 On-Site Observations

The Site consists of a two rectangular parcels of land totaling approximately 8.037 acres. The Site is fenced with six-foot chainlink topped with three strands of barbed wire. The south fence appears to be less than four feet high because the reconstruction of Southside River Drive raised the elevation of the road and partially buried the fence. The entry gate is in the southwest corner of the property.

To the right of the gate along the south fence are a warehouse building followed by a small shed and a three bay shop building. A roofed, three-sided shelter is attached to the east end of the shop building. The septic system that services the shop and warehouse lies between the buildings. The leach field extends east along the south side of the shop building. The warehouse and shop building are sheet metal siding with a pitched sheet metal roofs. They are set on a slab on grade foundation. The interior shop walls are metal paneled from the slab to a height of approximately eight feet. Above the paneling the walls and ceilings are insulated with rock wool insulation. The ceiling height is approximately 18 feet at the pitch of the roof. Observed in the west bay of the building were welding equipment, new and temporarily stored used batteries, an old sideboard that was used for small tool storage, a frame and pulley for lifting engines, a compressor, and other equipment used for repair, maintenance, and fabrication of equipment and parts for oil field equipment. Similar equipment was present in the second bay. Mr. Ahlm stored his empty five-gallon totes in this bay. The third bay had been divided. The southern third of the bay had been converted to shelving for record archiving. The northern portion of the bay was not in use. The shelter at the east end of the shop was being utilized for the storage of boats that were being restored by Mr. Ahlm. The small shed between the buildings had been constructed for records storage. The warehouse building consisted of two levels, the ground level which housed an office, a restroom, and three storage rooms and the upper attic or mezzanine that was used for record storage. In the attic area, the sidewalls and ceiling were insulated with rock wool insulation. The end walls were the metal siding of the building. The stairs to the attic area divided the attic in half. The flooring was wood decking. On the ground level, the interior walls were either textured painted sheetrock or wood paneling. Flooring was vinyl tile on the concrete slab. With the exception of some miscellaneous parts in the storage rooms, these rooms were empty. The office area was furnished with a desk, worktable, and file cabinets. Mr. Ahlm utilized this office space. There are no floor drains or sumps in either the shop building or in the warehouse.

Approximately, 500 feet east of the buildings described above, nine oil field engines on their steel skids were stored. The engines had been sold and were awaiting removal. According to Mr. Ahlm, the fluids in the engines had been removed and recycled. There was some evidence on the engines of old leaks encrusted with dirt. No releases of oil were observed on the soils around or beneath the engines. North of the buildings and engines were three metal buildings that had been used for parts storage, a rack constructed of steel pipe used for storage of drill pipe and empty drums that were to be reused or crushed and disposed, the concrete slab for the chemical storage containment and for flatbed trailer parking, and a large mesh sided trailer used for trash containment. The flat bed trailers are used for hauling drill pipe and parts for maintenance work in the field. The trash container was partially filled with paper, cardboard, scrap pallets, and empty plastic pails. The observable trailer contents did not appear to contain any hazardous materials or wastes. According to Mr. Ahlm, Arapahoe used to haul these materials in the trailer to the San Juan County Regional Landfill and the materials had always been accepted. Current trash service is provided by Waste Management and a small dumpster is used instead of the trailer. The trailer had been sold and the new owner had taken responsibility for disposal of the trash. The trash was to be disposed at the San Juan County Regional Landfill. The drums on the drum storage rack were either open on one end or were closed and the bungs were in place. There was no observable evidence of releases from these drums. With the exception of a few parts that had not yet been removed by the scrap metal dealer, the metal buildings were vacant. According to Mr. Ahlm, these buildings were to be sandblasted and repainted for use as storage buildings.

The slab for the chemical containment and trailer parking area was a continuous pour with no seams. The containment area had the slab as its base and eight-inch high curbing or walls constructed from cinderblock. Within the containment, a welded steel pipe platform had been constructed and wood decking placed across the framework. The platform elevated the chemical

containers so that they could readily be transferred to a pickup truck for transport to the supplier for refill. Beneath the platform windblown soils had accumulated filling in approximately three quarters of the depth of the containment. On the platform were two 55-gallon drums containing diesel fuel for the backhoe and an enzyme solution for treating soils to enhance natural bacterial digestion of petroleum contamination, two smaller containers of antifreeze, and several empty five-gallon totes used to transport the chemicals to the field for use. Also on the platform were two 150-gallon totes containing lubricating oil for field engines and a soap solution used in the field, and a 250-gallon tank of methanol. The oil tote had a catch pan below the fill hose to prevent releases when the field totes were being filled. Any overfill was transferred to the waste oil tank. No catch pan was in place for the synthetic lubricant solution or methanol and there was no observable evidence of releases from these containers. A drum pump was in place on the diesel fuel drum. The enzyme drum was closed. A drum pump would be used when the material was needed. On the north side of the platform within the containment was a 1,000-gallon waste oil tank. The tank was fitted with a device for draining oil filters prior to their disposal. There was some observable evidence of oil or diesel fuel release on the wood of the platform, on the soils in the containment around the catch pan for the oil tote, and near the drain on the west end of the waste oil tank. There were damp patches from recent rains on soils within the containment and off the northwest corner of the containment giving the appearance of releases. However, when the surface soils were disturbed they only appeared wet rather than contaminated.

The area north of the chemical storage area and metal storage buildings was occupied by racks of drill pipe; another metal, parts-storage building; and equipment and parts from dismantled oil rigs and wellheads. The pipe and equipment and parts had no observable petroleum contamination. All of the pipe, parts, and equipment are being sold for scrap or to a used equipment dealer. Any pipe that is not sold may be recycled as fence posts. East of this area, chemical storage, area, and the engine storage area, the Site is vacant. The area has been graded or scraped on a regular basis for weed control. Occasional pieces of scrap metal or cable were observed while walking the area. There was no observable evidence of dumping and no observable evidence of the ponding from storm water flowing onto the Site from the street during severe storm events. According to Mr. Ahlm, that ponding occurs at the southeast corner of the Site. There were no storm drains, drains, or sumps observed on the Site.

Along the western boundary of the Site from the gate on the south to the north are an office trailer, an office building, a storage building, and open storage of parts and equipment. The office trailer is a single-wide containing and office in each end and an office space and restrooms in the center. The interior walls are wood paneled, the ceilings are acoustic tile, and the floors are vinyl tile or carpet. The exterior is painted wood paneling, the roof is pitched asphalt shingle. There is a covered porch along the east side of the trailer. The trailer is on a concrete slab. The second building was originally office space. The interior walls of the three offices are wood paneling, the ceilings are acoustic tile, and the flooring is carpet on concrete. The exterior walls are painted wood panels. The roof is pitched asphalt shingled. The building is currently used for parts storage. The northern most space had several quart containers of motor oil, partially used cans of paint, a five-gallon pail of grease, a five-gallon tote of antifreeze, and several of the empty five-gallon totes used to transport chemicals to the field. The carpets in the building area dirty with minor staining from the parts. However, there was no observable evidence of releases inside or outside the building. The third building on the north side of the above office/storage building is also used for parts storage. The building is set on a concrete slab. The exterior walls are painted wood panels. The roof is slightly pitched from west to east and is asphalt shingled. The interior walls are not finished and the floor is the concrete slab. No chemical containers were observed in this building. There were no drains or sumps in the three buildings. The septic system servicing the office trailer lies on the east side of the office trailer near the north end. The leach field lies north of the tank.

Utilities to the Site include electricity, natural gas, water and telephone. Natural gas and water enter the Site from Southside River Road. Waste Management provides trash service. The dumpster is located on the east side of the warehouse at the west end. The septic tanks, described above, handle sewage. Electric service is from a pole-mounted transformer on the south side of Site near the shop building. Additional pole-mounted transformers are located on the Monk Sandblasting property near the west boundary and on the BP property north of the Site. According to the Farmington Electric Utility, the transformers do not contain polychlorinated biphenyls (PCBs)

The observations listed below were made during the site visit.

- There were observed hazardous substances in the chemical containment area. Minor quantities were observed in the office/storage building on the west side of the property and used and new batteries were observed in the shop building.
- There were no observed hazardous wastes.
- There were no observed underground storage tanks. An above ground waste oil tank, methanol tank, and 150-gallon totes for motor oil and soap were observed in the chemical containment area.
- Drums and containers were observed in the chemical containment area. Small containers were observed in the north room of the office/storage building. Empty drums were observed near the chemical containment area and empty five-gallon containers used for chemical transport were observed in the shop building, in the containment area, and in the office/storage building..
- Farmington Electric Utility pole-mounted transformers were observed on or adjacent to the Site. According to the utility, the transformers are non-PCB.
- Improper waste disposal practices were not observed at the time of the site visit.
- There was no observed evidence of on-site solid waste disposal.
- There were no drains or sumps observed.
- There was no observed evidence of pits, ponds, or lagoons. There was no observable evidence of septic system failure.
- With the exception of two petroleum releases, there was no observed evidence of chemical or oil spills. The two releases impacted no more than the top four to six inches of soil and were less than a yard in diameter.
- There was no evidence of hazardous material releases observed on the Site.
- Dry wells were not observed on the Site.
- Unusual odors were not encountered.

2.6.2 Private/Public Water Supply

No public or private water supply wells were identified on this Site during the course of this assessment. According to information provided by the New Mexico State Engineer Office, there are no municipal wells located on the property. There are 47 identified private water supply or exploratory wells in the area. All of wells lie 0.5 to 1.0 mile northwest to south of the Site. Although these wells may be active, based on distance and the fact that use would not be expected to be continuous, they would not be expected to impact groundwater gradient at the Site. There are no public water supply wells in the site vicinity. The public water supply is the San Juan River.

2.6.3 Asbestos/Lead-Based Paint Potential

No specific investigation as to the presence of asbestos was performed during this study. Environmental Protection Agency (EPA) regulations issued in 1973, 1975 and 1978 have banned the use of asbestos-containing-building materials (ACBMs) in new building construction. ACBMs are those building material containing greater than one-percent asbestos. All of the buildings on the Site were constructed during the 1960s. The dates of construction predate the ban on the use of ACBMs. Observed materials that have a potential to contain asbestos are vinyl flooring, sheetrock texturing and tape joint compound, roofing materials, and acoustic ceiling tiles. Prior to any planned demolition or renovation of the structures, an asbestos inspection and sampling by a certified asbestos inspector would be required to meet the regulatory requirements of the Clean Air Act.

The use of lead-based paints was also banned in 1978. The buildings on the Site were constructed prior to 1978. Based on the construction dates, there is a potential that lead-based paint may be present. Because the buildings do not meet the definition of a child-occupied facility, the lead-based paint regulations are not applicable. However, if the buildings are to be demolished or renovation will be done that will disturb or damage painted surfaces, a lead-based paint inspection to establish the presence or absence of lead-based paint is recommended to allow for appropriate protection of individuals conducting those activities.

3.0 REGULATORY AGENCY REVIEW

3.1 General Data Base Information

Minimum records/field search distances for facilities of potential environmental concern in the vicinity of the Site utilized for this Phase I Environmental Site Assessment meet or exceed the standards outlined in the ASTM ***Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process*** document E1527-05. The minimum records/field search distances used for this Phase I Environmental Site Assessment compared to the ASTM standards are listed in the Table 1 below.

As previously indicated, regulatory lists were reviewed, and when appropriate, regulatory agencies were contacted as part of this assessment and are documented in the following sections. Available data for the ASTM radii plus 0.5 mile are provided in the EDR Radius Map Report, dated April 02, 2007, found in Appendix A. Locations of these various facilities are also presented in map form.

TABLE 1: ***Records Search Distances***

RECORD	ASTM MINIMUM SEARCH DISTANCE (miles)	LEA SEARCH DISTANCE (miles)
Federal NPL Site List	1.0	1.50
Federal CERCLIS List	0.5	1.00
Federal RCRA Corrective Action List	1.0	1.50
Federal RCRA TSD Facilities List	0.5	1.00
Federal RCRA Generators List	Property/adjoining prop.	0.50
Federal ERNS List	Property only	0.50
State Leaking UST List	0.5	1.00

RECORD	ASTM MINIMUM SEARCH DISTANCE (miles)	LEA SEARCH DISTANCE (miles)
State Registered UST List	Property/adjoining prop.	0.50
State Hazardous Waste Investigation and/or Remediation	1.0	1.50
State Solid Waste Disposal Site List	0.5	1.00

Acronyms used in Table 1 are defined as follows:
CERCLIS - Comprehensive Environmental Response, Compensation, and Liability Information System
ERNS - B Emergency Response Notification System
NPL - B National Priorities List
RCRA - B Resource Conservation and Recovery Act
TSD - B Treatment, Storage, and/or Disposal
UST - B Underground Storage Tank

3.2 Environmental Data Bases Review

3.2.1 CERCLIS/NPL

The EPA maintains a listing of sites that (1) meet or exceed a predetermined hazard ranking system score, (2) are chosen as top priority sites by the state, or (3) meet specific criteria established by the U.S. Department of Health and Human Services jointly with the EPA. These sites are identified for priority remedial action under the Federal Superfund program. The Site was not on this list.

- There are no NPL sites listed within 1.5 miles of the Site.
- The Site was identified as a CERCLIS/NFRAP facility. In 1981, approximately 10 gallons of oil was released into the bar ditch on the north side of Southside River Road on the south side of the warehouse and shop buildings. According to the US EPA report (Appendix C) the release was appropriately cleaned up and the road has been upgraded and paved, effectively capping the spill area. The release did not present a threat to public health or the environment. No further remedial action is planned for the Site.

3.2.2 RCRA CORRACTS FACILITIES

The RCRA CORRACTS Facilities are facilities that treat, store and/or dispose of hazardous waste and have been subject to a corrective action by the US EPA in the past. The Site was not on the list.

- There are no RCRA CORRACTS sites within 1.5 miles of the Site.

3.2.3 Resource Conservation and Recovery Act (RCRA) Treatment, Disposal, Storage (TSD) Facilities

The EPA maintains a database of all RCRA-regulated TSD facilities in the United States. RCRA-regulated facilities are those that treat, store, dispose, or transport hazardous wastes. The ASTM minimum search distance for these facilities is 0.5 mile of the Site. The site is not listed as a RCRA-regulated facility.

- There are no RCRA TSD sites within one mile of the Site

3.2.4 Emergency Response Notification System (ERNS)/RCRA Generators/Hazardous Materials Information Reporting System (HMIRS)

The ERNS database contains information from spill reports made to the EPA, the U.S. Coast Guard, the National Response Center, and the Department of Transportation. The ASTM search distance for RCRA generator sites is the Site and adjacent properties. The search distance for ERNS sites is the Site.

- The Site was not listed in the EDR report as an ERNS site.
- The Site was not listed in the EDR report as a RCRA generator.
- There are no large quantity generators within 0.75 mile of the Site. There are three small-quantity RCRA generators within 0.125 mile of the site, Monk's Sandblasting, BJ Services Farmington Cement, BHP Petroleum. Neither the BHP Petroleum facility nor the BJ Services facility has records of violations. Based on location, topography, and groundwater gradient, should releases occur at either of these sites, they would not be expected to impact the Site. Monk's Sandblasting had 16 listed generator violations that occurred in 2001. These violations consisted of record keeping violations, storage time violations, and waste profiling violations. All were corrected by January of 2003 and the facility appears to be in compliance with the regulations. Based on the configuration of the Sandblasting facilities and groundwater gradient, releases from this site would not be expected to impact the Site.

Hazardous materials information reporting system (HMRIS) reports spills that are reported to the Department of Transportation. No reports have been filed for the Site and no spills have been reported in the site area.

3.2.5 USTs/LUSTs/ASTs/LASTs

The NMED Petroleum Storage Tank Bureau (PSTB) maintains a list of sites where releases of petroleum products have occurred from underground storage tanks (USTs) and above ground storage tanks (ASTs). The ASTM search distance for leaking UST (LUST) and leaking AST (LAST) Sites is one-half mile and for UST and AST sites is the Site and adjoining properties. The Site is listed as an UST site. It is not listed as an AST, LAST, or LUST site. The USTs were removed and no contamination was found. The removal report is found in Appendix C.

- Although not listed in the EDR report, the Site has an AST (waste oil) in place and there are two AST sites within 0.125 mile of the Site, BJ Services on the west and the BP facility on the north. The ASTs are in containment and no releases have been reported. Releases from the off-site tanks would not be expected to impact the Site. Releases from the on-site tank could impact the site if the release leaves the containment. There was no observable evidence of releases from the waste oil tank outside the containment. Releases within the containment would be considered de minimus.
- There is one LUST site (BJ Services). The USTs have been removed. Groundwater was impacted. Current conditions show dissolved phase contaminants with a sheen on the water in three of the wells. No free product is present. Groundwater gradient is initially to the northwest with a shift to the southwest near the southwest corner of the building. The

groundwater condition is monitored quarterly. Based on the monitoring results and the established groundwater gradient, the release at BJ Services has not impacted nor would it be expected to impact the Site.

3.2.6 Landfills/Solid Waste Disposal Facilities

No permitted or listed landfills or specified solid waste disposal facilities are reported within one mile of the Site.

- The Site was not listed in the EDR report as a solid waste disposal facility.

4.0 CONCLUSION AND RECOMMENDATIONS

LEA has performed a Phase I Environmental Site Assessment of the property located at 3300 Southside River Road in Farmington, San Juan County, New Mexico, to evaluate the environmental condition of the Site and surrounding area and to determine whether evidence exists of "recognized environmental conditions" (RECs) as that term is used in ASTM E1527-05. The assessment was conducted in conformance with the scope and limitations of ASTM Standard E1527-05 and the U.S. Environmental Protection Agency (US EPA) standards for all appropriate inquiry as found in 40 CFR 312 to include a review of published literature; aerial photographs; and data available from federal, state, and city agencies; interviews with persons familiar with the past and present use of the site; and a site reconnaissance.

The Site consists of two rectangular parcels of land totaling approximately 8.037 acres. The Site was developed in 1962 for use as an oil field service facility. Buildings on the Site include a three bay shop building with a three-sided roofed storage area on the east end, a warehouse building with offices, and office trailer, and three storage buildings. In addition to the buildings, there is a chemical storage area in a concrete containment, stockpiles of steel pipe, stored engines, stock piles of parts and other oil field equipment, a trash trailer, and a waste management trash dumpster. The two underground storage tanks (USTs) have been removed. There are no wells on the Site. There are two septic systems, one between the warehouse and the shop and the second on the east side of the office trailer and the two storage buildings that are on the west side of the Site. The northern Site boundary is the British Petroleum facility. The eastern boundary is Energy Court. The southern Site boundary is Southside River Road. The western property boundary is the Monk's Sandblasting facility. Depth to groundwater at the site is estimated to be 25-30 feet below ground surface (bgs). According to the 2002 Flood Plain Map, the Site is not situated within a 500- or 100-year flood zone. Based on aerial photographs and City Directory information, the Site appears to have been undeveloped from 1935 until 1962. The buildings and septic systems were constructed in between 1962 and 1966. The chemical storage area was constructed in 1980.

A site reconnaissance, review of historical records, interviews with persons familiar with the Site, and a regulatory database review indicate that hazardous materials have not been used on the Site but have been and are being stored on the Site. Prior to construction of the containment, hazardous materials were obtained directly from the supplier and taken directly to the field for use during drilling operations. After cessation of drilling operations, the Site was used to support well maintenance activities. Chemicals for those activities were and are stored on the Site and transported to the well sites in five-gallon totes. With the exception of oil, these materials are used in process. The waste oil generated in the field is returned to the Site and temporarily stored for recycling. Chemicals currently stored consist of methanol (a 250-gallon tank), oil (150-gallon tote), antifreeze (five-gallon pails), synthetic lubricant solution (a 150-gallon tote), diesel fuel for the loader (a 55-gallon drum),

enzymes for treatment of oil-contaminated soils (a 55-gallon drum), and waste oil (a 1,000-gallon tank). The only observable releases in the chemical storage area are minor amounts of oil. These releases are either collected in a container for recycling or absorbed on windblown dirt that has collected below the storage platform. They were confined within the chemical storage area containment. There were two observed oil releases outside the containment from leaking vehicles, one near the shop and the second near the containment area. The releases were superficial. The depth of the contamination was less than six inches in both cases and each spill impacted less than a square yard of surface. Several other minor oil spots (a few inches in diameter) from parked vehicles were also observed. These were also superficial in nature. There were no releases from the USTs that were removed. The Site reconnaissance found that oil field service activities have a potential to cause an environmental impact to the Site. However, there was no observable evidence that onsite activities had caused a negative environmental impact to the Site.

With the exception of BJ Services, LEA's review of available environmental and regulatory databases did not indicate that the Site or immediately adjacent properties are currently the subject of regulatory action. BJ Services is remediating a release from its USTs. That facility will not impact the Site.

In the past, both the Site and the adjacent Monk's Sandblasting facility have been the subject of regulatory action. Monk's Sandblasting received notices of violation of generator requirements under the Resource Conservation and Recovery Act (RCRA). The violations involved record keeping, waste stream profiling, and waste storage times. These violations were addressed and the facility appears to be in compliance. No impact on the Site from the Sandblasting activities or waste generation is anticipated. For the Site, as stated above, there were two USTs on the Site. They were removed and there was no evidence of releases. The Site had also been inspected under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) in response to a spill of approximately 10 gallons of oil in the bar ditch on the north side of Southside River Road on the south side of the shop and warehouse. According to the report obtained from the US EPA, the oil was successfully cleaned up and a determination was made that the spill had not impacted the environment. The spill area has since been paved during the reconstruction of Southside River Road. No further action is required relative to that incident. No indication of hazardous waste disposal (e.g. stained or discolored soils, distressed vegetation, or debris) was noted on the Site during the site reconnaissance. There was no observed evidence of dumping on the Site or observed or documented evidence that the Site had been used as a landfill.

The buildings on the Site were constructed prior to 1978. There is a potential for asbestos to be present in flooring, texturing, sheetrock joint compounds, and roofing materials. Lead-based paint may also be present on both interior and exterior painted surfaces. After 40 years of continuous use, the condition of the exteriors and interiors of the buildings is fair to poor. However, the office trailer and two storage buildings are rarely occupied, the condition of the warehouse office and restroom is fair, and the exposed shop wall insulation appears to be rock wool or fiberglass. The potential for exposure to asbestos or lead-based paint is low. An inspection and sampling for asbestos conducted by a certified asbestos inspector will be required if the buildings are to be demolished or renovated. An inspection for lead-based paint is recommended for worker protection if the buildings are to be demolished or renovated.

As defined in ASTM Standard Practice E 1527-05 and US EPA AAI standards as found in 40 CFR 312, this assessment has revealed a potential for RECs. Current areas with potential RECs are the chemical storage area and the two vehicle leaks. Past RECs are the USTs that have been removed and the oil release inspected under CERCLA. However, based on observations from the site visit, information from personal interviews, available agency information, and documents related

to the Site, the past RECs have been removed or remediated, the chemical storage area is in containment with no observable evidence of releases from that containment, and the two vehicle leaks appear to meet the definition of de minimus releases. Any releases within the containment also appear to meet the definition of de minimus releases.

With the exception of treating or removing the contaminated soils from the two vehicle oil releases, LEA recommends no further actions at this time.

5.0 SIGNATURE

The information contained in this Phase I Environmental Site Assessment was compiled by LEA Manager, Lucy E. Archamboult. It is current to the best of my knowledge, and is intended to represent substantial conformance with the standards, methods, and procedures described in the ASTM ***Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process*** (Standard Designation E 1527-05) published in 2005 and US EPA standards for all appropriate inquiry as found in 40 CFR 312 published in 2005. It has been prepared on behalf of Arapahoe Drilling Company, Inc., for a potential transaction involving the Site.

Lucy E. Archamboult — 04/27/07

Lucy E. Archamboult, RHSP — Date
Manager LEA Environmental, LLC

6.0 CONTACTS AND REFERENCES

6.1 Contacts

Johnnie Ahlm, Arapahoe Drilling Company, Inc., Farmington, New Mexico, (505) 330-8373

Lane Andress, Petroleum Storage Tank Bureau, New Mexico Environment Department, Albuquerque, New Mexico, (505) 222-9525

Bart Faris, New Mexico Environment Department, Groundwater Bureau, Albuquerque, New Mexico, (505) 222-9500

Farmington Public Library, Farmington, New Mexico, (505) 599-1270

Billy Gallegos, New Mexico Environment Department, Solid Waste Bureau, Farmington/Grants, New Mexico, (505) 287-8847

Tom Gray, New Mexico Environment Department Petroleum Storage Tank Bureau, Farmington, New Mexico, (505) 325-2458

John Hammer, Waste Management, Aztec, New Mexico, (505) 327-6284

Melissa Jeffers, Farmington Electric Utility, Farmington, New Mexico (505) 599-8330

David Keck, San Juan County Public Works, Aztec, New Mexico, (505) 334-4520

Martin Lucero, Farmington Planning Department, Farmington, New Mexico (505) 599-1323

Steve Schalk, Arapahoe Drilling Company, Inc., Albuquerque, New Mexico, (505) 881-6649

Ladonna Turner, U.S. Environmental Protection Agency, Dallas, Texas (214) 665-6666

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ARAPAHOE DRILLING CO., INC.
P. O. BOX 26687
ALBUQUERQUE, NEW MEXICO 87125

STEVE SCHALK
PRESIDENT

April 30, 2008

Oil Conservation Division
Attention: Wayne Price
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Sale of Arapahoe Farmington Yard

Ladies and Gentlemen:

A Purchase and Sale Agreement has been entered into by us for the sale of our Farmington, New Mexico yard covered under Discharge Permit GW216. The Buyer of the property is Spyder Investments, Inc., 3204 Southside River Road, Farmington, NM 87401. Spyder Investments, Inc. has been given a copy of the Discharge Permit GW216.

Please let me know if you need any additional information.

Yours truly,

ARAPAHOE DRILLING CO., INC.

Steve Schalk
President

ATTACHMENT TO THE DISCHARGE PERMIT RENEWAL
Arapahoe Drilling Company – Farmington Facility (GW216)
DISCHARGE PERMIT APPROVAL CONDITIONS
February 8, 2007

Please remit a check for $1700.00 made payable to Water Quality Management Fund:

Water Quality Management Fund
c/o: Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, New Mexico 87505

1. **Payment of Discharge Plan Fees:** All discharge permits are subject to WQCC Regulations. Every billable facility that submits a discharge permit application will be assessed a filing fee of $100.00, plus a renewal flat fee (*see* WQCC Regulation 20.6.2.3114 NMAC). The Oil Conservation Division ("OCD") has received the required $100.00 filing fee. However, the owner/operator still owes the required $1700.00 renewal permit fee for a oil and gas service company.

2. **Permit Expiration and Renewal:** Pursuant to WQCC Regulation 20.6.2.3109.H.4 NMAC, this permit is valid for a period of five years. **The permit will expire on November 29, 2010** and an application for renewal should be submitted no later than 120 days before that expiration date. Pursuant to WQCC Regulation 20.6.2.3106.F NMAC, if a discharger submits a discharge permit renewal application at least 120 days before the discharge permit expires and is in compliance with the approved permit, then the existing discharge permit will not expire until the application for renewal has been approved or disapproved.

3. **Permit Terms and Conditions:** Pursuant to WQCC Regulation 20.6.2.3104 NMAC, when a permit has been issued, the owner/operator must ensure that all discharges shall be consistent with the terms and conditions of the permit. In addition, all facilities shall abide by the applicable rules and regulations administered by the OCD pursuant to the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38.

4. **Owner/Operator Commitments:** The owner/operator shall abide by all commitments submitted in its March 17, 2006 discharge permit renewal application, including attachments and subsequent amendments and these conditions for approval. Permit applications that reference previously approved plans on file with the division shall be incorporated in this permit and the owner/operator shall abide by all previous commitments of such plans and these conditions for approval.

5. Modifications: WQCC Regulation 20.6.2.3107.C, and 20.6.2.3109 NMAC addresses possible future modifications of a permit. The owner/operator (discharger) shall notify the OCD of any facility expansion, production increase or process modification that would result in any significant modification in the discharge of water contaminants. The Division Director may require a permit modification if any water quality standard specified at 20.6.2.3103 NMAC is being or will be exceeded, or if a toxic pollutant as defined in WQCC Regulation 20.6.2.7 NMAC is present in ground water at any place of withdrawal for present or reasonably foreseeable future use, or that the Water Quality Standards for Interstate and Intrastate streams as specified in 20.6.4 NMAC are being or may be violated in surface water in New Mexico.

6. Waste Disposal and Storage: The owner/operator shall dispose of all wastes at an OCD-approved facility. Only oil field RCRA-exempt wastes may be disposed of by injection in a Class II well. RCRA non-hazardous, non-exempt oil field wastes may be disposed of at an OCD-approved facility upon proper waste determination pursuant to 40 CFR Part 261. Any waste stream that is not listed in the discharge permit application must be approved by the OCD on a case-by-case basis.

A. OCD Rule 712 Waste: Pursuant to OCD Rule 712 (19.15.9.712 NMAC) disposal of certain non-domestic waste without notification to the OCD is allowed at NMED permitted solid waste facilities if the waste stream has been identified in the discharge permit and existing process knowledge of the waste stream does not change.

B. Waste Storage: The owner/operator shall store all waste in an impermeable bermed area, except waste generated during emergency response operations for up to 72 hours. All waste storage areas shall be identified in the discharge permit application. Any waste storage area not identified in the permit shall be approved on a case-by-case basis only. The owner/operator shall not store oil field waste on-site for more than 180 days unless approved by the OCD.

7. **Drum Storage:** The owner/operator must store all drums, including empty drums, containing materials other than fresh water on an impermeable pad with curbing. The owner/operator must store empty drums on their sides with the bungs in place and lined up on a horizontal plane. The owner/operator must store chemicals in other containers, such as tote tanks, sacks, or buckets on an impermeable pad with curbing.

8. Process, Maintenance and Yard Areas: The owner/operator shall either pave and curb or have some type of spill collection device incorporated into the design at all process, maintenance, and yard areas which show evidence that water contaminants from releases, leaks and spills have reached the ground surface.

9. Above Ground Tanks: The owner/operator shall ensure that all aboveground tanks have impermeable secondary containment (e.g., liners and berms), which will contain a volume of at least one-third greater than the total volume of the largest tank or all interconnected tanks. The owner/operator shall retrofit all existing tanks before discharge permit renewal. Tanks that contain fresh water or fluids that are gases at atmospheric temperature and pressure are exempt from this condition.

10. Labeling: The owner/operator shall clearly label all tanks, drums, and containers to identify their contents and other emergency notification information. The owner/operator may use a tank code numbering system, which is incorporated into their emergency response plans.

11. Below-Grade Tanks/Sumps and Pits/Ponds.

A. All below-grade tanks and sumps must be approved by the OCD prior to installation and must incorporate secondary containment with leak detection into the design. The owner/operator shall retrofit all existing systems without secondary containment and leak detection before discharge permit renewal. All existing below-grade tanks and sumps without secondary containment and leak detection must be tested annually or as specified herein. Systems that have secondary containment with leak detection shall have a monthly inspection of the leak detection system to determine if the primary containment is leaking. Small sumps or depressions in secondary containment systems used to facilitate fluid removal are exempt from these requirements if fluids are removed within 72 hours.

B. All pits and ponds, including modifications and retrofits, shall be designed by a certified registered professional engineer and approved by the OCD prior to installation. In general, all pits or ponds shall have approved hydrologic and geologic reports, location, foundation, liners, and secondary containment with leak detection, monitoring and closure plans. All pits or ponds shall be designed, constructed and operated so as to contain liquids and solids in a manner that will protect fresh water, public health, safety and the environment for the foreseeable future. The owner/operator shall retrofit all existing systems without secondary containment and leak detection before discharge permit renewal.

C. The owner/operator shall ensure that all exposed pits, including lined pits and open top tanks (8 feet in diameter or larger) shall be fenced, screened, netted, or otherwise rendered non-hazardous to wildlife, including migratory birds.

D. The owner/operator shall maintain the results of tests and inspections at the facility covered by this discharge permit and available for OCD inspection. The owner/operator shall report the discovery of any system which is found to be leaking or has lost integrity to the OCD within 15 days. The owner/operator may propose various methods for testing such as pressure testing to 3 pounds per square inch greater than normal operating pressure and/or visual inspection of cleaned tanks and/or sumps, or other OCD-approved methods. The owner/operator shall notify the OCD at least 72 hours prior to all testing.

12. Underground Process/Wastewater Lines:

A. The owner/operator shall test all underground process/wastewater pipelines at least once every five (5) years to demonstrate their mechanical integrity, except lines containing fresh water or fluids that are gases at atmospheric temperature and pressure. Pressure rated pipe shall be tested by pressuring up to one and one-half times the normal operating pressure, if possible, or for atmospheric drain systems, to 3 pounds per square inch greater than normal operating pressure, and pressure held for a minimum of 30 minutes with no more than a 1% loss/gain in pressure. The owner/operator may use other methods for testing if approved by the OCD.

B. The owner/operator shall maintain underground process and wastewater pipeline schematic diagrams or plans showing all drains, vents, risers, valves, underground piping, pipe type, rating, size, and approximate location. All new underground piping must be approved by the OCD prior to installation. The owner/operator shall report any leaks or loss of integrity to the OCD within 15 days of discovery. The owner/operator shall maintain the results of all tests at the facility covered by this discharge permit and they shall be available for OCD inspection. The owner/operator shall notify the OCD at least 72 hours prior to all testing.

13. Class V Wells: The owner/operator shall close all Class V wells (e.g., septic systems, leach fields, dry wells, etc.) that inject non-hazardous industrial wastes or a mixture of industrial wastes and domestic wastes unless it can be demonstrated that ground water will not be impacted in the reasonably foreseeable future. Leach fields and other wastewater disposal systems at OCD-regulated facilities that inject non-hazardous fluid into or above an underground source of drinking water are considered Class V injection wells under the EPA UIC program. Class V wells that inject domestic waste only, must be permitted by the New Mexico Environment Department (NMED).

14. Housekeeping: The owner/operator shall inspect all systems designed for spill collection/prevention and leak detection at least monthly to ensure proper operation and to prevent over topping or system failure. All spill collection and/or secondary containment devices shall be emptied of fluids within 72 hours of discovery. The owner/operator shall maintain all records at the facility and available for OCD inspection.

15. Spill Reporting: The owner/operator shall report all unauthorized discharges, spills, leaks and releases and conduct corrective action pursuant to WQCC Regulation 20.5.12.1203 NMAC and OCD Rule 116 (19.15.3.116 NMAC). The owner/operator shall notify both the OCD District Office and the Santa Fe Office within 24 hours and file a written report within 15 days.

16. OCD Inspections: The OCD may place additional requirements on the facility and modify the permit conditions based on OCD inspections.

17. Storm Water: The owner/operator shall implement and maintain run-on and runoff plans and controls. The owner/operator shall not discharge any water contaminant that exceeds the WQCC standards specified in 20.6.2.3101 NMAC or 20.6.4 NMAC (Water Quality Standards for Interstate and Intrastate Streams) including any oil sheen in any stormwater run-off. The owner/operator shall notify the OCD within 24 hours of discovery of any releases and shall take immediate corrective action(s) to stop the discharge.

18. Unauthorized Discharges: The owner/operator shall not allow or cause water pollution, discharge or release of any water contaminant that exceeds the WQCC standards listed in 20.6.2.3101 NMAC or 20.6.4 NMAC (Water Quality Standards for Interstate and Intrastate Streams) unless specifically listed in the permit application and approved herein. ***An unauthorized discharge is a violation of this permit.***

19. Vadose Zone and Water Pollution: The owner/operator shall address any contamination through the discharge permit process or pursuant to WQCC 20.6.2.4000-.4116 NMAC (Prevention and Abatement of Water Pollution). The OCD may require the owner/operator to modify its permit for investigation, remediation, abatement, and monitoring requirements for any vadose zone or water pollution. Failure to perform any required investigation, remediation, abatement and submit subsequent reports will be a violation of the permit.

20. Additional Site Specific Conditions: N/A

21. Transfer of Discharge Permit (WQCC 20.6.2.3111) Prior to any transfer of ownership, control, or possession (whether by lease, conveyance or otherwise) of a facility with a discharge permit, the transferror shall notify the transferee in writing of the existence of the discharge permit, and shall deliver or send by certified mail to the department a copy of such written notification, together with a certification or other proof that such notification has in fact been received by the transferee. Upon receipt of such notification, the transferee shall have the duty to inquire into all of the provisions and requirements contained in such discharge permit, and the transferee shall be charged with notice of all such provisions and requirements as they appear of record in the department's file or files concerning such discharge permit. The transferee (new owner/operator) shall sign and return an original copy of these permit conditions and provide a written commitment to comply with the terms and conditions of the previously approved discharge permit.

22. Closure: The owner/operator 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 a closure plan for approval. Closure and waste disposal shall be in accordance with the statutes, rules and regulations in effect at the time of closure.

23. Certification: Arapahoe Drilling Co., Inc., **(Owner/Operator)**, 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. **Owner/Operator** 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."

Arapahoe Drilling Co., Inc.
Company Name-print name above

Steve Schalk
Company Representative- print name

Company Representative- signature

Title President

Date: 02/23/07

ARAPAHOE DRILLING CO., INC. No. [redacted]

DATE	INVOICE NO.	DESCRIPTION	AMOUNT
02/26/07		GW 216 PERMIT FEE	$1,700.00

IF THIS DOES NOT AGREE WITH YOUR RECORDS • PLEASE RETURN CHECK EXPLAINING APPARENT ERROR

ARAPAHOE DRILLING CO., INC.
P.O. BOX 26687
ALBUQUERQUE, NEW MEXICO 87125

No. [redacted]

Bank of America
ALBUQUERQUE, NEW MEXICO
95-32
1070

DATE FEBRUARY 26, 2007

NET AMOUNT
$ 1,700 00

PAY TO THE ORDER OF * ONE THOUSAND SEVEN HUNDRED DOLLARS & 00/100 CENTS

WATER QUALITY
MANAGEMENT FUND

ARAPAHOE DRILLING CO., INC.

BY [signature]

[redacted]

ATTACHMENT TO THE DISCHARGE PLAN RENEWAL GW-216
ARAPAHOE DRILLING CO., INC.
FARMINGTON SERVICE FACILITY
DISCHARGE PLAN APPROVAL CONDITIONS
(June 27, 2000)

1. Payment of Discharge Plan Fees: The $50.00 filing fee has been received by the OCD. There is a required renewal flat fee equal to $690.00 for oil field service companies. The required flat fee may be paid in a single payment due at the time of approval, or in equal annual installments over the duration of the plan, with the first payment due upon receipt of this approval.

2. Arapahoe Drilling Co., Inc. Commitments: Arapahoe Drilling Co., Inc. will abide by all commitments submitted in the discharge plan application dated March 27, 2000 and these conditions for approval.

3. Waste Disposal: All wastes will be disposed of at an OCD approved facility. Only oilfield exempt wastes shall be disposed of down Class II injection wells. Non-exempt oilfield wastes that are non-hazardous may be disposed of at an OCD approved facility upon proper waste determination per 40 CFR Part 261. Any waste stream that is not listed in the discharge plan will be approved by OCD on a case-by-case basis.

4. Drum Storage: All drums containing materials other than fresh water must be stored on an impermeable pad with curbing. All empty drums will be stored on their sides with the bungs in and lined up on a horizontal plane. Chemicals in other containers such as sacks or buckets will also be stored on an impermeable pad and curb type containment.

5. Process Areas: All process and maintenance areas which show evidence that leaks and spills are reaching the ground surface must be either paved and curbed or have some type of spill collection device incorporated into the design.

6. Above Ground Tanks: All above ground tanks which contain fluids other than fresh water must be bermed to contain a volume of one-third more than the total volume of the largest tank or of all interconnected tanks. All new tanks or existing tanks that undergo a major modification, as determined by the Division, must be placed within an impermeable bermed enclosure.

7. Above Ground Saddle Tanks: Above ground saddle tanks must have impermeable pad and curb type containment unless they contain fresh water or fluids that are gases at atmospheric temperature and pressure.

8. Labeling: All tanks, drums and containers will be clearly labeled to identify their contents and other emergency notification information.

9. Below Grade Tanks/Sumps: All below grade tanks, sumps, and pits must be approved by the OCD prior to installation or upon modification and must incorporate secondary containment and leak-detection into the design. All pre-existing sumps and below-grade tanks must demonstrate integrity on an annual basis. Integrity tests include pressure testing to 3 pounds per square inch above normal operating pressure and/or visual inspection of cleaned out tanks and/or sumps, or other OCD approved methods. The OCD will be notified at least 72 hours prior to all testing.

10. Underground Process/Wastewater Lines: All underground process/wastewater pipelines must be tested to demonstrate their mechanical integrity every 5 years. The permittee may propose various methods for testing such as pressure testing to 3 pounds per square inch above normal operating pressure or other means acceptable to the OCD. The OCD will be notified at least 72 hours prior to all testing.

11. Class V Wells: No Class V wells that inject non-hazardous industrial wastes or a mixture of industrial wastes and domestic wastes will be closed unless it can be demonstrated that groundwater will not be impacted in the reasonably foreseeable future. Leach fields and other wastewater disposal systems at OCD regulated facilities which inject non-hazardous fluid into or above an underground source of drinking water are considered Class V injection wells under the EPA UIC program. Class V wells that inject domestic waste only must be permitted by the New Mexico Environment Department.

12. Housekeeping: All systems designed for spill collection/prevention will be inspected weekly and after each storm event to ensure proper operation and to prevent overtopping or system failure. A record of inspections will be retained on site for a period of five years.

13. Spill Reporting: All spills/releases will be reported pursuant to OCD Rule 116 and WQCC 1203 to the OCD Aztec District Office.

14. Transfer of Discharge Plan: The OCD will be notified prior to any transfer of ownership, control, or possession of a facility with an approved discharge plan. A written commitment to comply with the terms and conditions of the previously approved discharge plan must be submitted by the purchaser and approved by the OCD prior to transfer.

15. Storm Water Plan: The facility will have an approved storm water run-off plan.

16. Closure: The OCD will be notified when operations of the Farmington Service Facility are discontinued for a period in excess of six months. Prior to closure of the Farmington Service Facility a closure plan will be submitted for approval by the Director. Closure and waste disposal will be in accordance with the statutes, rules and regulations in effect at the time of closure.

17. Certification: Arapahoe Drilling Co., Inc., by the officer whose signature appears below, accepts this permit and agrees to comply with all terms and conditions contained herein. Arapahoe Drilling Co., Inc. further acknowledges that these conditions and requirements of this permit may be changed administratively by the Division for good cause shown as necessary to protect fresh water, human health and the environment.

Accepted:

ARAPAHOE DRILLING CO., INC.

by _____

Title President

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

November 29, 1995

CERTIFIED MAIL
RETURN RECEIPT NO. Z-765-962-980

Mr. Steve Schalk
President
Arapahoe Drilling Co., Inc.
P.O. Box 26687
Albuquerque, NM 87125

RE: Approval of Discharge Plan GW-216
Arapahoe Drilling Co., Inc., Farmington Facility
San Juan County, New Mexico

Dear Mr. Schalk:

The **discharge plan GW-216 for the Arapahoe Drilling Co., Inc. Facility** located in NW/4, Section 13, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, **is hereby approved** subject to the conditions contained in the enclosed attachment. The discharge plan consists of the application and its contents dated July 20, 1995 and subsequent clarification information dated November 17, 1995 both from Arapahoe Drilling Co., Inc.

The discharge plan application was submitted pursuant to Section 3-106 of the New Mexico Water Quality Control Commission Regulations. Please note Sections 3-109.E and 3-109.F which provide for possible future amendments or modifications of the plan. Please be advised that the approval of this plan does not relieve Arapahoe Drilling Co., Inc. of liability should the operations associated with this facility result in pollution of surface water, ground water, or the environment.

Please be advised that all exposed pits, including lined pits and open top tanks (tanks exceeding 16 feet in diameter), shall be screened, netted, or otherwise rendered nonhazardous to wildlife including migratory birds.

Please note that Section 3-104 of the regulations requires that **"When a plan has been approved, discharges must be consistent with the terms and conditions of the plan."** Pursuant to Section 3-107.C you are required to notify the Director of any facility expansion, production increase, or process modification that would result in any change in the discharge of water quality or volume.

Pursuant to Section 3-109.G.4, this plan is for a period of five (5) years. This approval will expire November 29, 2000, and you should submit an application for renewal six (6) months before this date.

The discharge plan application for the Arapahoe Drilling Co., Inc. is subject to the WQCC Regulation 3-114 discharge plan fee. Every billable facility submitting a discharge plan will be assessed a fee equal to the filing fee of fifty dollars ($50) plus the flat fee of one thousand three-hundred and eighty dollars ($1380.00) for service company facilities.

The $50 filing fee has been received by the OCD. The flat fee for an approved discharge plan has not been received by the OCD. The flat fee may be paid in five (5) equal annual installments of $276 per year, with the first installment due upon receipt of this approval. The flat fee check should be submitted to the **NMED - Water Quality Management** through the NMOCD office in Santa Fe, New Mexico.

On behalf of the staff of the Oil Conservation Division, I wish to thank you and your staff for your cooperation during this discharge plan review.

Sincerely,

William J. LeMay
Director

WJL/pws
Attachment

xc: Mr. Denny Foust - Environmental Geologist

ATTACHMENT TO DISCHARGE PLAN GW-216 APPROVAL
Arapahoe Drilling Co., Inc. - Farmington, NM
DISCHARGE PLAN REQUIREMENTS
November 29, 1995

1. **Payment of Discharge Plan Fees:** The one thousand three hundred and eighty dollar ($1380) flat fee shall be submitted upon receipt of this approval. The flat fee may be paid in a single payment due at the time of approval, or in equal annual installments of $276 per installment over the five (5) year duration of the plan, with the first payment due upon receipt of this approval, and subsequent payments due by November 29th of each following year.

2. **Drum Storage**: All drums containing materials other than fresh water must be stored on an impermeable pad (i.e. concrete, asphalt, or other suitable containment) with curbing. All empty drums should be stored on their sides with the bungs in place and lined up on a horizontal plane. Chemicals in other containers such as sacks or buckets should also be stored on an impermeable pad with curbing.

3. **Above Ground Tanks**: All above ground tanks which contain fluids other than fresh water must be bermed to contain a volume of one-third more than the total volume of the largest tank or of all interconnected tanks. All new facilities or modifications to existing facilities must place the tank on an impermeable type pad.

4. **Above Ground Saddle Tanks**: Above ground saddle tanks must have impermeable type pad and curb containment unless they contain fresh water or fluids that are gases at atmospheric temperature and pressure. No berms are required for saddle tanks.

5. **Tank Labeling**: All tanks should be clearly labeled to identify their contents and other emergency information necessary if the tank were to rupture, spill, or ignite.

6. **Housekeeping**: All systems designed for spill collection/prevention should be inspected to ensure proper operation and to prevent overtopping or system failure.

7. **Spill Reporting**: All spills/releases shall be reported pursuant to OCD Rule 116 and WQCC 1-203 to the appropriate OCD District Office.(Aztec OCD at 334-6178)

Z 765 962 980

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Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	$
Postmark or Date	

PS Form **3800**, March 1993