AP - 26

~~STAGE 1 & 2~~

WORKPLANS

DATE:

November 3, 2006

Mr. John Bemis
Assistant Commissioner for Mineral Resources
State of New Mexico Commissioner of Public Lands
P. O. Box 1148
Santa Fe, NM 87504-1148

Re: New Mexico State Land Office Surface Improvement
Damage Bond No. RLB0002235 (OGB-561)
Principals: Maralo, LLC and Lowe Partners, LP

Dear Mr. Bemis:

This letter is a formal request by Maralo, LLC and Lowe Partners, LP ("Maralo/Lowe") for release of the referenced bond, a copy of which is enclosed.

Maralo/Lowe sold all working interests and transferred operatorship of their properties in New Mexico to COG Operating LLC effective September 1, 2004. COG Operating LLC has replaced our bond no. RLB0002235 with their bond no. B001316.

Also enclosed is a copy of the Order of Dismissal signed by the presiding judge in Anthony v. Maralo, LLC, et al, Cause No. D-0101-CV-2005-00910, evidencing fulfillment of all obligations and responsibilities of Maralo, LLC relative to contamination that existed at the site of the Humble State Well #3, located in Unit A, Section 36, Township 25 South, Range 36 East, Lea County, New Mexico.

If you have any questions or need additional information, please contact me toll-free at (888) 847-2853, ext. 204 or by e-mail at kathynorberg@maralo.com.

Very truly yours,

Kathy Norberg
Land Department

enclosures: 2

cc: RLI Insurance Company
8 Greenway Plaza, Suite 400
Houston, TX 77046

John L. Wortham & Son, LP
P. O. Box 1388
Houston, Texas 77251-1388

FIRST JUDICIAL DISTRICT COURT
STATE OF NEW MEXICO
COUNTY OF SANTA FE

JAY ANTHONY, Individually and as Assignee of Clarene Bishop and JAMIE ANTHONY,

Plaintiffs,

VS.

TEXACO EXPLORATION AND PRODUCTION, INC., CONOCOPHILLIPS COMPANY, SOUTHWEST ROYALTIES, INC., MARALO, LLC, TEXAS-NEW MEXICO PIPE LINE COMPANY, SHELL PIPELINE G.P. L.L.C., B.P. AMERICA PRODUCTION COMPANY and FULPER OIL & CATTLE COMPANY, L.L.C.,

Defendants.

No. D-0101-CV-2005-00910

ORDER FOR DISMISSAL

On this the 30th day of October, 2006, came on for consideration the Plaintiffs' and Defendant's Joint Motion to Dismiss the above-styled and numbered cause, and the Court having considered said motion, is of the opinion that the same should be granted.

It is, therefore, ORDERED, ADJUDGED and DECREED that the action of Plaintiffs, Jay Anthony and Jamie Anthony is hereby dismissed with prejudice to refile same, and that the Defendant, Maralo, L.L.C. be, and is in all things dismissed from this suit. All costs incurred are taxed against the party by whom incurred, for which let execution issue if not paid.

SIGNED this 30th day of October, 2006.

JUDGE PRESIDING

PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands
310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

But this bond covers lease 1051 Eddy Co., NM NM-78402-001

February 11, 2005

Maralo, LLC
5151 San Felipe, Suite 400
Houston, TX 77056-3607

Attn: Kathy Norberg

Re: Release of Surface Improvement Damage Bond OGB-561
RLI Insurance Bond No. RLB0002235
Lowe Partners, LP and Maralo, LLC

Dear Ms. Norberg:

We must deny your request of February 7, 2005 for release of the referenced bond.

On December 9, 2004 the Oil Conservation Commission issued Order No. R-12152-A in Case No. 13142 De Novo. By that order, Maralo LLC is required to perform certain tasks concerning contamination existing at the site of the Humble State Well #3, located in Unit A, Section 36, Township 25 South, Range 36 East, Lea County, New Mexico. The site and associated facilities are located on state trust land.

Until Maralo, Inc has fully complied with the Order to:

- obtain approval from the Oil Conservation Division Environmental Bureau for a plan to delineate the extent of the contamination at the site and its associated facilities;
- complete activities including a report, necessary to delineate all the contamination of the site, including determination of possible ground water contamination;
- obtain approval for a plan to remediate the contamination; and
- complete the physical tasks required in the remediation plan,

we cannot release the bond.

If you have any questions, feel free to contact our bond administrator, Anna Villa, at (505) 827-5789. called 4-19-05 to see about releasing blanket if replacing with single lease bond & she said no - the O.K. would have to be whole thing KN

Sincerely,

John H Bemis

John Bemis
Assistant Commissioner for Mineral Resources

JB/JB/jb

Cc: RLI Insurance Company
8 Greenway Plaza, Suite 400
Houston, TX 77046

John L. Wortham & Son, LP
P.O. Box 1388
Houston, TX 77251-1388

Roger Anderson, Environmental Bureau Chief
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

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

CASE NO. 13142
De Novo

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENVIRONMENTAL BUREAU CHIEF, FOR AN ORDER REQUIRING MARALO, LLC TO REMEDIATE HYDROCARBON CONTAMINATION AT AN ABANDONED WELL AND BATTERY SITE; LEA COUNTY, NEW MEXICO.

Order No. R-12152-A

DECISION OF THE COMMISSION

This matter comes before the Oil Conservation Commission (OCC) on Application of the Environmental Bureau Chief of the Oil Conservation Division (Division or OCD) for an Order requiring **Maralo,** LLC to remediate hydrocarbon contamination at an abandoned well and battery site in Lea County, New Mexico. The Commission held a hearing on the Application in Santa Fe on November 10, 2004, at which both parties were represented by counsel and Jay Anthony, the **surface** owner of the site at issue, was also represented by counsel. The Commission having considered the pleadings and evidence of record, the testimony of witnesses before it, the applicable law and rules, the arguments of counsel, and being fully advised in the matter, finds that:

1. The Commission has jurisdiction of the matter pursuant to Section 70-2-13, NMSA 1978, on appeal to the Commission. The matter was heard de novo based on the issues raised in the following Amended Application:

AMENDED APPLICATION
FOR ORDER DIRECTING REMEDIATION

1. Maralo, LLC ("Maralo") is the current operator of record of the Humble State Well No. 3 (API No. 30-025-09831) and associated tank battery and pits, located in Unit A, Section 36, Township 25 South, Range 36 East, Lea County, New Mexico ("the site").

2. Ralph Lowe drilled the Humble State Well No. 3 in 1945 and operated the well and the associated tank battery and pits until his death.

3. Mr. Lowe's daughter, Mary Ralph Lowe, was one of the organizers of "Maralo, Inc.," which replaced Ralph Lowe as operator of record for the well in 1974. According to records filed with the Oil Conservation Division ("OCD"), "Maralo, Inc." plugged and abandoned the Humble State Well No. 3 in 1988.

4. In 1999, the OCD approved a request for an operator name change from "Maralo, Inc." to "Maralo, LLC." "Maralo, LLC" is registered to do business in New Mexico under SCC number 2017929. The Public Regulation Commission web site shows no listing for "Maralo, Inc."

5. The OCD's Environmental Bureau began an investigation of the Humble State Well No. 3 and associated tank battery and pits in response to the surface owner's complaint that water samples taken from a water well adjacent to the tank battery showed elevated levels of chlorides.

6. At the time of the Environmental Bureau's initial site inspection in 2001 the tank or tanks used at the battery site had been removed. OCD inspectors observed chunks of petroleum contaminated soil ranging from smaller pieces up to softball size or larger covering an area surrounding the former tank battery. It appeared to the inspectors that the material had been spread across or disked across the area.

7. OCD inspectors observed three unlined pits at the site. One pit, approximately 75' square, is located to the south of the former tank battery. Two pits, each approximately 150' square, are located to the west of the former tank battery. OCD inspectors observed a rim of hard oil-contaminated soils around each of the three pits. It appeared to the inspectors that the pits had been covered or buried, but that the oil had resurfaced around the rims.

8. Water samples taken by OCD inspectors from the water well at the site confirmed some chloride contamination of groundwater above the New Mexico Water Quality Control Commission standard, but did not show petroleum contamination of the water.

9. In 2001, OCD investigators collected one soil sample from the surface of the tank battery area, and five samples from the pits at depths ranging from zero to 8 feet. Laboratory analysis of the soil samples showed negligible levels of chlorides. However, the soil sample taken in 2001 at a level of zero to 12 inches in the area of the tank battery showed 35,700 mg/Kg of total petroleum hydrocarbons (TPH) and 0.685 mg/Kg of xylene; the soil sample taken from the surface of one of the pits contained 23,900 mg/Kg of TPH; and a soil sample taken from one of the pits at a depth of three to four feet contained 20,900 mg/Kg TPH.

10. In 2002, OCD investigators returned to take additional soil samples at depths ranging from 2 feet to 27 feet. Again, laboratory analysis of the soil samples showed negligible levels of chlorides. Laboratory analysis of soil samples taken from two locations at the site contained up to 25,400 mg/Kg of total petroleum hydrocarbons (TPH); up to 0.179 mg/Kg of benzene; up to 0.432 mg/Kg of ethylbenzene; and up to 0.921 mg/Kg of xylene.

11. According to testimony from a former Lowe/Maralo employee at the division hearing in this matter, Ralph Lowe used the pits to dispose of produced water until 1968, and the water, although low in chlorides,

contained oil in emulsion. The employee also testified that the oil tanks at the battery site had overflowed on occasion.

12. The Oil and Gas Act, Chapter 70, Article 2 NMSA 1978 ("the Act"), grants the Commission and the OCD broad enforcement powers, including "jurisdiction, authority and control of and over all persons, matters or things necessary or proper to enforce effectively the provisions of this act or any other law of this state relating to the conservation of oil or gas...." Section 70-2-6, NMSA 1978. Similar language has described the powers of the Commission since its creation in 1935. See Laws, 1935, ch. 72, Section 4.

13. Rule 313 [19.15.5.313 NMAC] provides:

Wells producing oil shall be operated in such a manner as will reduce as much as practicable the formation of emulsion and basic sediments. These substances and tank bottoms shall not be allowed to pollute fresh waters or cause surface damage. (Emphasis added.)

This prohibition has been in effect since 1935. See Oil Conservation Commission of New Mexico Order No. 4, rule 16.

14. Rule 310.A [19.15.5.310.A NMAC] provides in relevant part as follows:

Oil shall not be stored or retained in earthen reservoirs, or in open receptacles.

This prohibition has been in effect since 1935. See Oil Conservation Commission of New Mexico Order No. 4, rule 15.

15. To enforce Rule 313's prohibition against allowing emulsions to cause surface damage or pollute fresh waters, and to enforce Rule 310.A's prohibition against retaining oil in earthen reservoirs or open receptacles, the Commission should exercise its enforcement powers under Section 70-2-6 by issuing an order requiring Maralo, the current operator of record, to remediate the ongoing hydrocarbon contamination at the site.

16. Alternatively, the Commission should order Maralo to remediate hydrocarbon contamination at the site under one or more of the following authorities:

a. Section 70-2-12(B), NMSA 1978 authorizes the OCD:

to make...orders for the purposes and with respect to the subject matter stated in this subsection:
...
(18) to ... do all acts necessary and proper to ... restore and remediate abandoned well sites and associated production facilities in accordance

with the provisions of the Oil and Gas Act, the rules and regulations adopted under that act ....

(21) to regulate the disposition of nondomestic wastes resulting from the exploration, development, production or storage of crude oil or natural gas to protect public health and the environment....

b. Rule 13.B [19.15.1.13.B NMAC] provides:

all operators, contractors, drillers, carriers, gas distributors, service companies, pipe pulling and salvaging contractors, treating plant operators or other persons shall at all times conduct their operations in or related to the drilling, equipping, operating, producing, plugging and abandonment of oil, gas, injection, disposal, and storage wells or other facilities in a manner that will prevent waste of oil and gas, the contamination of fresh waters and shall not wastefully utilize oil or gas, or allow either to leak or escape from a natural reservoir, or from wells, tanks, containers, pipe or other storage, conduit or operating equipment.

c. Rule 202.B(3) [19.15.4.202.B(3) NMAC] requires the operator, no later than one year after the completion of plugging operations, to take such measures as are necessary or required by the OCD "to restore the location to a safe and clean condition."

d. Rule 116.D [19.15.3.116.D NMAC] provides:

The responsible person must complete division approved corrective action for releases which endanger public health or the environment. Releases will be addressed in accordance with a remediation plan submitted to and approved by the division or with an abatement plan submitted in accordance with Section 19 of 19.15.1 NMAC.

17. Although the statutes and rules cited in paragraph 16, above, took effect after the date Maralo states it plugged and abandoned the well and discontinued use of the site, the Commission may apply these statutes and rules to remediate existing contamination.

WHEREFORE, the Environmental Bureau Chief of the Division hereby applies to the Commission to enter an order:

A. Directing Maralo to submit a work plan to remediate hydrocarbon contamination existing at the Humble State No. 3 site;

B. Upon approval of said work plan by the Environmental Bureau, to complete remediation of the site in accordance with the work plan; and

C. For such other and further relief as the Commission deems just and proper under the circumstances.

2. The application sets forth several alternative rule violations that could justify an order for remediation. The Commission needs only to find non-compliance with one rule to justify such an order.

3. The Environmental Bureau was present and represented by counsel who characterized the case as one of responsibility for contamination. Jay Anthony, the surface owner of the site, was present and represented by counsel who eftdsjcfe!ú f!sfn bjojoh!qspcrfnt!gps!ú f!sbodi fs!sfnúfe!up!ú f!dpoubn jobujpo/ Maralo was present and represented by counsel who characterized the case as the retroactive application of standards, a rewriting of the rules, no wrongdoing by Maralo, and the lease was assigned to another operator therefore Maralo was the wrong party.

SFWJFX !PGUI F!FWJEFODF

4. Wayne Price, a Senior Environmental Engineer of the Environmental Bureau of the OCD in Santa Fe, was accepted as an expert based on his education and experience.

6/! Ns/!Qsjdf!boe!pú fs!PDE!fn qrpzfft!wjtjúfe!ú f!tjú!jef oujgfe!jo!Qbsbhsbqi !2! pg the Application, set out above, after Jay Anthony, the surface owner in the area of Humble State Well Number 3, made a complaint. Pits and tanks were associated with this well. Records of the OCD indicated the well and the facilities were owned and had been operated by Maralo or its predecessors in interest. Visual inspections indicated surface contamination of the soils by hydrocarbons.

7/! Cfhjoojoh!jo!3112!ú f!PDE!dpoevdufe!úftú!bUú f!tjú/! Thn qrft!gpn !ú f!x bufs well on the site showed some elevated chlorides above groundwater standards, but no significant hydrocarbons. Tests of soil samples at various places on the site including in the area of former pits and tank batteries indicated the presence of hydrocarbons.

7. Petroleum hydrocarbons at certain levels can be detrimental to plant and animal life. Crude oil contains benzene, which is a carcinogen. It also contains BTEX, an acronym for benzene, toluene, ethyl benzene and m-, p-and o-xylenes. OCD employees were concerned about the possibility of contaminants entering the pipeline or aqueduct supplying fresh water to the City of Jal, contaminants entering watercourses in the area, contaminates entering playa lake beds, and dpoubn jobout!sf bdi joh!hspvoex bufs!jo!ú f!bsfb/

8. OCD guidelines for cleaning up contamination from leaks and spills apply different standards for the concentration of contaminants that may remain in the soil depending on the depth to groundwater from the bottom of the contamination. If the distance is less than 50 feet from the lowermost contaminants to groundwater then the clean up standard is 100 parts per million of total petroleum hydrocarbons (TPH) remaining in the soil. If the distance is 50 to 100 feet, the

standard is 1000 parts per million. If the distance is more than 100 feet then the standard is 5000 parts per million. The distance to a water well is also considered. If the distance from the contaminants to the water well is zero to 200 feet then the clean up standard is 100 parts per million. If the distance is 200 to 1000 feet then the clean up standard is 1000 parts per million. If the distance is greater than 1000 feet then the standard is 5000 parts per million.

:/! Uiftf!hvjefmjoft!ibwf!cffo!jo!qmbdf!tjodf!2:.4/! Qsjps!up!uifn!PDE!gpmmpxfe one standard allowing no more than 100 parts per million TPH.

21/!Tpjm!uftut!bu!uif!tjuf!wbsjfe!boe!jodjdbufe!mfwfmt!pg!UQI!vq!up!46-811!qbsut!qfs million. Benzene was also found at levels exceeding state groundwater standards. At one point in an old pit area the soil was saturated with hydrocarbons. In a field test, squeezing the soil in a paper towel would result in a liquid stain. Some of the pit areas appeared to be covered with a sandy soil. Covering hydrocarbon contamination with soil will extend the life of the contamination that might otherwise dissipate naturally.

11. Boreholes at one pit on the site produced samples at the five-foot level with a TPH level of approximately 18,000 parts per million and at the 10-foot level jodsfbtfe!up!36-111!qbsut!qfs!njmmjpo/! Bu!26!gffu 13,000!qbsut!qfs!njmmjpo!boe!bu lower depths less contamination. Mr. Price testified the pit had obviously had oil in it.

12. Mr. Price also reviewed testing supplied by a consultant to the surface owner that indicated contamination down to 80 feet.

13. Mr. Price indicated the heaviest contamination found was in the upper area which qspcbcmz!fyqmbjot!xiz!uifsf!jt!op!wfhfubujpo!hspxjoh!jo!uif!bsfb/

25/!Ns/!Qsjdf!joejdbufe!jowpjdft!qspwjefe!cz!Nbsbmp!tipx!b!dpousbdups!qfsgpsnfe services for Maralo in 1994 to restore and clean up at the abandoned tank battery. The well, Humble Number 3, had been plugged in 1988. OCD files do not indicate that OCD approved the clean up of the tank battery site. Mr. Price testified the clean up was substandard and that it appeared all that was done was breaking of the dirt and then adding more dirt.

15. In order to remediate the site, Mr. Price testified that the total extent of the contamination must be delineated and then the leachability of the material must be determined to see if there will be an impact to groundwater. Some of the spots of highest contamination will probably have to be removed, but some could remain if the material is not leachable and the surface is restored so that it will not contaminate groundwater in the future. Then the area would grow grass and not be a threat to people using the surface area for work or recreation.

16. When questioned by counsel for the surface owner, Mr. Price testified the casing in a water well could serve as a conduit for contamination to groundwater. He also said the standard of care for a contaminated site is to clean up to a level that would support the growth of plants and that has not been done at this site. He also said he could not rule out the possibility of elevated chlorides in the water well resulting from the site until the site delineation is complete.

17. Mr. Price also testified that it was the practice of OCD to look to the current pqf sbups!pgui f !tjuf !up!cf !sf tqpotjcrf!gpsui f !dpoejujpo!pgui f !tjuf/

18. On cross-examination Mr. Price testified that at this time OCD staff was not alleging groundwater had been contaminated by the site.

19. A comparison of aerial photographs used as exhibits indicated that certain surface disposal pits existing in 1968 were not in active use in 1977.

20. Mr. Price testified that his evidence of **Maralo's** activity at the site was based on the invoices from the contractor indicating contaminated dirt was treated and some was removed. He had no direct evidence that Maralo used a surface disposal pit to store oil or placed tank bottoms or bottom sediments in the pits.

21. Mr. Price testified that all produced water will have some amount of oil in it and that locations used as surface disposal pits would have some amount of hydrocarbons in the soil. When asked if all those sites would have to be cleaned up Mr. Price indicated they would if they were a threat to public health, the environment, or groundwater.

22. He stated that the threat to the water of the City of **Jal** was of low probability and was not an immediate threat.

34/!N s/!Qsjdf !bhsf f e!po!dsptt.fybn jobjpo!ui bupqf sbujoh!bx f mtgpsbozrfohui !pgujn f would result in some emulsion and basic sediments and that Rule 313 requires that the operator reduce as much as possible the formation of emulsion and basic sediments. He did not have sufficient information about Maralo's operations to criticize the way Maralo operated the wells.

24. Mr. Price understood the Maralo was the current operator at the site. In all material matters the testimony of Mr. Price was consistent with the OCD hydrologist appearing before the Division Hearing Examiner.

25. Responding to questions from the Commissioners Mr. Price said that the asphalt-type material on the surface was not very amenable to bioremediation. It would have to be broken up and nutrients applied to or it would be there forever. He also testified that clean up to the 5000 parts per million standard would support vegetation comparable to the area surrounding the site.

26. Mr. Price read into the record portions of several documents from the files of the State Land Office and the documents were admitted without objection. The documents were assignments of the oil and gas lease for the site from Humble Oil and Refining Company to Ralph Lowe, from Erma Lowe individually and as independent Executrix and Trustee of the Estate of Ralph Lowe to herself and to Maralo, Inc., and from the Estate of Erma Lowe and Maralo Merging Corporation to Lowe Partners, LP. In each document the assignee assumed and agreed to perform all obligations to the State of New Mexico insofar as the described land is bgfdufe!boe!up!ep!puifs!bdut!bt!sfrvjsfe!cz!uif!psjhjobm!mfbtf/!Ns/!Qsjdf!uifo!sfbe gspn!uif!cbtf!mfbtf!uif!tfdujpo!qspwjejoh!uibu!uif!mfttff!xjmm!cf!mjbcmf!boe!qbz!gps all damages to the range, livestock, growing crops, or improvements caused by lessee's operations. The base lease was admitted without objection.

27. The "New Mexico State Land Office, Oil and Gas Miscellaneous Instrument Record Sheet," did not indicate any further assignments of the lease.

28. On further questioning from the Commission Mr. Price explained that historical contamination referenced in the initial complaint from OCD meant the dpoubnjobujpo!uibu!opu!cffo!beesfttfe-!cvu!qspevdujpo!pqfsbujpot!ibe!dfbtfe/

29. Mr. Price indicated that the elevated chlorides in the water well at the site would be red flag indicating testing would be needed to determine if there might be a localized source for those chlorides and that would be included in delineation plan.

30. He further testified that the benzene levels in the soil would exceed groundwater standards and when that is seen there is a high probability that groundwater may be contaminated.

31. Mr. Price stated that it appeared the site was a centralized disposal facility for the wells on the lease and would not be cleaned up until all the wells had been plugged.

32. Mr. Price testified that it was approximately 200 feet from the surface to groundwater based on the water well at the edge of the southern pit area, the tank battery area. The soils there are sandy with high permeability and transmissivity.

33. Mr. Price said allowing an operator to plug the wells and leave the site without taking care of the contamination would open the door for massive contamination to remain there and contaminate our future groundwater supply. If the operator did not pay for the clean up then it would be paid for by the people of New Mexico.

34. Returning to the 1977 aerial photograph, Mr. Price stated that the area at the site without vegetation would indicate there was contamination at the area in 1977. Uijt!tjuvbujpo!dpoujovfe!up!uif!ujnf!pg!Ns/!Qsjdf(t!gjstu!wjtju!up!uif!tjuf!zfbst!mbufs/

I zespdbscpo! dpoubn jobujpo! x bt! wjtjcrf! bu ui bu ujn f! x jui ! ebsl ! tpjm! di vol t! pg asphalty material, oil residue left on the hand when picking up the soil, and the smell of oil from the soil. If emulsions were placed into the pits the emulsions x fsf! tijmmtbvtjoh! dpoubn jobujpo! pgui f! tvsgbdf! pgui f! tjuf/

35. Dorothy Phillips, the OCD plugging bond administrator, provided OCD financial assurance records showing that Humble State Number 3 had not been transferred from Maralo to some other operator. The same was true of Shell State A Number 1. Additionally the financial assurance files showed that in 1999 Maralo requested a name change on its bond from Maralo, Inc. to Maralo, LLC. In 2000 Maralo, LLC added Lowe Partners, LP as an additional principal on the bond. PDE! bqqspwfe! cpui ! pgui ftf! bdujpot/! Nt/! Qi jmjqt! bmtp! di fdl fe! x jui ! pui fs! tubuf agencies regarding Lowe Partners and learned that Erma Lowe and Marolo, Inc. were its general partners.

36. Ralph Lowe individually was considered a different entity from Maralo by OCD sfdpset/

37. Roger C. Anderson, Environmental Bureau Chief for OCD, was accepted as an expert in oilfield contamination and remediation.

38. OCD's well files for the Humble State Number 3 included a Notice of Intention to Drill filed by Ralph Lowe as the operator in 1945. It also includes a Certification of Compliance and Authorization for Ralph Lowe as the operator in 1945. That document indicates that tanks were on the lease site. Documents in 1974 indicate a change of operator from Ralph Lowe to Maralo, Inc. In 1986 and 1987 Maralo, Inc. filed proposals to plug and abandon the well. A subsequent report was filed in 1988 on the plugging and abandonment of the Humble State Number 3. No documents in the file indicated approval by the OCD for any clean up of the tank battery and pits. Nothing in the well file indicated Hal J. Rasmussen Operating, Inc. had become the operator. Nor was Southwest Royalties mentioned in the file.

39. Mr. Anderson explained that normally OCD would look to the operator to clean up contamination at a site. In this case the current operator of record is Maralo, LLC. Prior to the name change, the operator was Maralo, Inc. Prior to Maralo, Inc., the operator was Ralph Lowe, now deceased. Lease records at the hearing indicate the leaseholder is Lowe Partners, LP, and its partners are Maralo and Fsn b! Mpx f/

40. Mr. Anderson testified contamination continues at a site until it is cleaned up and jU sfn bjot! b! ui sfbU cfdbvtf! ui f! dpoubn jobout! bsf! bwbjrbcrf! gps! n jhsbujpo! up hspvoex bufs-! psl cbd ! up! ui f! tvsgbdf-! ps! up! pui fs! x bufst-! ps! up! b! x bufs well. In! i jt pqjojpo! ui f! dpoubn jobujpo! eftdsjcfe! jo! ui jt! dbtf! bu ui f! I vn cmf! Tubuf! Ovn cfs! 4 site is still a threat.

41. Mr. Anderson provided a definition of emulsion as a stable dispersion of one liquid in a second immiscible liquid, such as oil dispersed in water. He stated that when an oil well is produced, there is enough turbulence to mix oil and water to create an emulsion. Some of that emulsion would have been included in the produced water that was carried over into a disposal pit. When the pit was closed uif o!boz!sfn bjojoh!pjm!offefe!up!cf!usfbufe!up!bwpje!tvsgbdf!ebn bhf/

53/!Ns/!Boefstpo!fyqmbjofe!uibu!cbtjd!tfejn fou!jt!pjmz!xbufs!boe!gpsfjho!n buufs!uibu collects in the bottom of petroleum storage tanks, and is also known as bottoms, cpuupn!tfuumjoht-!tfejn fou!boe!xbufs/! B!dpnn po!joevtusz!qsbdujdf!jt!up!n jy!uijt material with sand to stabilize areas around a tank battery. He also said oil accumulations from spills or otherwise cannot be sold and is sediment oil under Rule 313.

43. Mr. Anderson says that Maralo is in violation of Rule 313 today because the izespdbscpot!bsf!tujmm!mfbdijoh!dpoubn jobujpo!pg!uif!tvsgbdf/! Ju!xjmm!dpoujovf!up!cf in violation until the contamination is cleaned up. If it is not cleaned up the rule will continue to be violated.

44. The Commission took administrative notice of its rulemaking records showing that the language in Rule 313 dates from rules in place as far back as 1935.

45. OCD records for wells other than the Humble State Number 3 on the lease do contain references to Rasmussen and Southwest Royalties, but the facilities associated with Humble State Number 3 are where the contamination is found.

46. Mr. Anderson testified that once the contamination was identified then OCD located records in the well file for Humble State Number 3 that reference the tank battery on the lease. In correspondence Maralo never claimed it was not the operator of the tank battery facility and did state that it had worked on the site in the mid-1990s.

47. Jay Sean Anthony is the ranch owner who initiated the complaint regarding the Maralo site. He testified that he would like to use the well at the site for cattle. He said other wells in the area did not have high chloride levels.

59/!!If!ibe!ipqfe!uif!xpsl!cz!Nbsbmp!jo 1993-94!xpvme!bmmpx!hsbtt!up!hspx!po!uif site, but after several years it did not.

49. Maralo offered an exhibit showing the assignment from Maralo to Rasmussen in 1994. It was not an OCD record. According to counsel it transferred all of the wells on the site and the shallow rights. Maralo retained the right to drill deep wells.

50. William P. Hunt was an employee of Ralph Lowe and Maralo who retired in 1996. He started out working on drilling rigs and was operations manager when

he retired. He was familiar with the site from 1958 until 1981. He testified before the Division Hearing Examiner and the record indicates the testimony was similar to that before the Commission.

51. Mr. Hunt identified the location of tanks, heater treaters, and the water well on the site. He said he stopped using surface disposal pits in 1968 and was told to cover the pits. Produced water went down to Number 1 SWD, the saltwater disposal well.

52. Mr. Hunt worked for Ralph Lowe when he died in 1965. Maralo, Inc. included Mary Ralph Lowe, Ralph Lowe's daughter. The leases have been in the Lowe family since the early 1950s.

53. While Maralo, Inc. was the operator the tanks would run over. When that happened the employees would use a pump to pick up the oil, but it was not possible to pick up all of the oil. The saturated soil was never remediated.

54. Texas-New Mexico pipeline caused the tanks on the site to run over sometimes.

55. Some of the contamination happened while Maralo was on the site.

56. A trucking company or a tank cleaning company from Hobbs removed tank bottoms.

57. Mr. Hunt approved payment of the clean up efforts contracted for by Maralo in 1994 as shown in Maralo Exhibit 20.

58. Mr. Hunt testified that the site looks like it does because some residue oil not cleaned by the heater treater was there. There is some percentage of oil that could not be treated out of the water. It would build up in the pits to a point that it would be picked up and treated again.

59. Joe Pulido is the land manager for Maralo. He was responsible for compiling Exhibit 9 from Maralo's files. Maralo Exhibit 9B transferred certain rights to Rasmussen.

60. Mr. Pulido testified that the assignments included in Exhibit 9 were for undivided interests and did not qualify for record title change with the Land Office. They assigned only the working interest in certain properties. The State Land Office records reflect that Lowe Partners would be responsible for activities on the lease as record title owner and for the requirements in the lease.

61. Mr. Pulido explained Maralo, LLC is the operating entity of Lowe Partners. Lowe Partners is the record title owner of the lease. It has a contractual assignment into Hal Rasmussen for the fee interest down to 3500 feet that is not

gjmfe!xjui!uif!tubuf/!Nbsz!Sbmqi!Mpxf!jt!uif!qsftjefou!pg!Nbsbmp-!MMD-!uif managing partner of Lowe Partners.

62. Maralo, Inc. no longer exists. Erma Lowe died in 1998 so the partners of record listed with the Secretary of State for Lowe Partners no longer exist.

63. Despite the assignment Maralo still appears as operator of record, as far as the OCD is concerned, for Humble 3, Shell State A 1, Humble 1 (converted to a saltwater disposal well) and Humble 2. No notice of the transfer was provided to OCD or the State Land Office.

64. The lease assignment to Rasmussen occurred less than 30 days after the clean up work on the site in 1994. Maralo may have agreed to indemnify Rasmussen for uif!jobefrvbuf!dmfbovq/

GJOEJOHT!BOE!DPODMVTJPOT

1. The OCC has jurisdiction of this matter.

2. This matter concerns soil and perhaps water contamination at pits and tank batteries associated with Humble State Well Number 3 in Lea County.

3. Testing indicates soil contamination exists at the surface of the site and to some depth below the surface, perhaps as much as 80 feet. The contamination is likely to migrate until it is remediated. Vegetation will not grow on the site.

4. It has not yet been determined if the groundwater in the area has been contaminated, though the high chloride levels in a water well at the site indicate more testing is needed. Groundwater is 200 feet below the surface. Other bodies of fresh water may be at risk from the contamination.

5. While Maralo operated the site produced water with oil in it, an emulsion, was placed into the pits, the tanks overflowed, a pipeline link caused the tanks to overflow, and Maralo took inadequate measures to close the pits. The soil was not remediated and the contamination continued and may have been exacerbated by Maralo having it covered. However the contamination was created, emulsions and basic sediment were placed on the soils and resulted in surface damage and possible contamination of fresh water. Maralo was the operator during the time period at least part of the contamination was created and is still listed in OCD records as the operator.

6. Maralo, LLC is the operating entity of Lowe Partners, LP the record title owner of uif!mfbtf/!Nbsz!Sbmqi!Mpxf-!uif!ebvhiufs!pg!Sbmqi!Mpxf-!jt!uif!qsftjefou!pg Maralo, LLC. Lowe Partners has assigned interests in the site, but did not change the record title with the State Land Office.

7. Maralo is shown as the operator of the site in OCD records since 1974. In 1999 Maralo requested a name change on its bond for financial assurance from Maralo, Inc. to Maralo, LLC. Later Lowe Partners, LP was named as an additional qsjodjqbmpo!ú f!cpoe/

9/! PDE!sfqpset!gpslú f!tjuf!ep!opusfgfslup!boz!pú fslqbsjft!bt!pqfsbupslpgú f!tjuf/

:/! Fyi jcjú!joejdbuf!blqpsjpo!pgú f!joufsftUjo!ú f!rftuf!i bt!cffo!bttjhofe-!cvú bu ú jt!jogpsn bujpo!x bt!opú qspwjefe!up!ú f!tubuf!bhfodjft!ops!i bt!N bsbp!cffo released from the obligations related to this site.

10. Oily emulsions were released on the surface of the site. They have caused surface damage and may have polluted fresh water. The contamination continues so there is no retroactive application of clean up standards.

11./N bsbp!i bt!opUqpn qrjfe!x jú!Svrfi 313,!x i jdi!i bt!fyjtúfe!jo!tjn jrtslgpsn!tjodf 2:46/

12. The actions complained of in this matter took place after 1935.

JU!JT!UI FSFGPSF!PSEFSFE-

24/! Ui f!Bn foefe!Bqqrjdbujpo!pgú f!Fowjspon foubmCvsfbv!pgú f!PjmfDpotfswbujpo Ejwjtjpo!jt!bqqspwfe/

25/!N bsbp!jt!psefsfe-!x jú jo!56!ebzt!pgú jt!efqjtjpo-!up!tvcn jUup!ú f!Fowjspon foubm Bureau for approval or revision and approval a plan to delineate the extent of the contamination existing at the site of the Humble State Well Number 3 and its associated facilities including areas used for pits, tank batteries and the like.

15. Within six months of having the plan approved, Maralo is ordered to complete the activities necessary to delineate all the contamination of the site associated with the production of hydrocarbons including a determination of possible ground water contamination. The delineation report will be provided to the Environmental Bureau within the six-month time frame.

27/!N bsbp!jt!g/sú fslpsefsfe!up!qspwjef!blqrbo!gpslsfn fejbujpo!pgú f!qpoubn jobujpo up!ú f!Fowjspon foubmCvsfbv!x jú jo!:1!ebzt!pgqpn qrfnjoh!ú f!efmjof bujpo/! Ui f Fowjspon foubmCvsfbv!n bz!bqqspwf!ú f!qrbo!pslsfwjtf!jUboe!bqqspwf!ju/

17. Maralo is further ordered to complete the physical tasks required in the remediation plan within six months of the approval of the plan, unless the plan specifies that certain activities may take place after that time. In that instance, Maralo shall meet the timeframes set forth in the plan.

18. Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the 9th day of December 2004.

TUBUF **OF**!OFX !N FY JDP
PJMDPOTFSWBUJPO!DPNNJTTJPO

JAMI BAILEY, CPG, MEMBER

FRANK T. CHAVEZ, MEMBER

MARK!F/!GFTNJSF-QF/-!DI BJS

SEAL

ENVIRONMENTAL PLUS, INC.
CONSULTING AND REMEDIAL CONSTRUCTION

December 12, 2006

2006 DEC 26 PM 1 13

Mr. Wayne Price, Cheif
New Mexico Energy, Minerals and Natural Resources Department
Oil Conservation Division Environmental Bureau
P. O. Box 6429
1220 S St. Francis Drive
Santa Fe, New Mexico 87505

Re: C-144 – Alternative Closure Proposal (Revised)
Chevron USA (O-Grid #4323)
Pure Resources (O-Grid #150628) Catclaw Draw Unit #21 (Ref. #200078)
UL-C, Section 14, Township 21 South, Range 25 East, Eddy County, New Mexico
Latitude: N 32°29'05.59" and Longitude: W 104°22'08.83"

Dear Mr. Price:

Environmental Plus, Inc. (EPI), on behalf of Chevron USA (Chevron) (Pure Resources) submits the enclosed New Mexico Oil Conservation Division (NMOCD) form C-144 and supporting information proposing an alternative closure at this site. The alternative closure proposes encapsulating the intact pit in place even though the bottom of the pit will be less than 50-feet from the groundwater, (i.e., the bottom of the existing pit is approximately 48-feet from the groundwater interface).

BACKGROUND
Initially, Chevron proposed closing the drill pit via encapsulation in accordance with the NMOCD Pit and Below-Grade Tank Guidelines, November 1, 2004 and the "ChevronTexaco Drilling and Reserve Pit Closure General Plan, December 2004" and was based on the following discussion and rationale.

The Chevron groundwater contour map indicates the groundwater underlying the Catclaw Draw #21 drill pit to be less than 50-feet bgs, however, after review of available water level information from the USGS and the New Mexico Office of the State Engineer (reference *Table 1*), the depth to groundwater at the site is calculated to be approximately 56-feet bgs and was derived as follows. The nearest water well to the Catclaw Draw #21 well site is down-gradient approximately 1,400-feet to the north northeast and has a 1992 USGS water level measurement of 34-feet below ground surface (bgs). On July 28, 2006, the groundwater level in this well was measured to be 35.0-feet bgs. The surface elevation of the windmill, as extrapolated from the USGS topographical map, is approximately 3,278-feet amsl. The calculated groundwater table elevation is 3,244-feet amsl, (i.e., 3,278 – 34 = 3,244). The surface elevation at the Catclaw Draw #21 well site, as extrapolated from the USGS topographical map, is 3,300-feet amsl. Reasonably assuming that the groundwater

P.O. BOX 1558 ◦◦◦ 2100 AVENUE O ◦◦◦ EUNICE, NEW MEXICO 88231
TELEPHONE 505◦394◦3481 FAX 505◦394◦2601

ENVIRONMENTAL PLUS, INC.

table elevation under the well site is also 3,244-feet amsl, the calculated depth to groundwater is 56-feet amsl.

Mr. Van Barton, Compliance Officer, NMOCD Artesia Field Office, said that he would grant approval of the encapsulation proposal if the bottom of the pit was greater than 50-feet from groundwater. However, because the pit is approximately 8-feet deep and the groundwater is approximately 56-feet below the land surface where the drill pit was constructed, the bottom of the encapsulated pit is only 48-feet from the groundwater, negating local NMOCD approval. Mr. Barton said that encapsulation proposals of pits less than 50-feet from groundwater could be submitted to the Santa Fe office of the NMOCD for consideration and approved, if deemed technically acceptable. Mr. Wayne Price, NMOCD Santa Fe office, said that he could possibly approve the alternative closure proposal if the pit liner was intact and fluids had not been released from the pit, as evidenced by analysis of soil samples collected from perimeter locations adjacent to the pit at 4-feet to 8-feet bgs. Subsequently, on July 28, 2006, after timely notification of the Artesia and Santa Fe NMOCD offices, samples of the soil from the perimeter locations adjacent to the pit were collected and submitted to the laboratory for analysis. The laboratory reports are attached and the results summarized in *Table 2*.

PIT PERIMETER SAMPLES ANALYTICAL RESULTS

According to the analytical results, benzene, toluene, ethylbenzene and total xylenes (BTEX) and total petroleum hydrocarbon (TPH) are not an issue inside or outside the pit. Chloride results from analysis of the east perimeter, west perimeter and the north perimeter soil samples collected from 6-feet to 8-feet bgs were less than 250 mg/Kg. The chloride concentration in the south perimeter sample collected from 6-feet to 8-feet bgs beneath the caliche well pad was 864 mg/Kg and probably resulted from well pad activities rather than being from the pit. It can be concluded from the analytical results from the perimeter samples that the pit did not over-flow.

NORTH PIT SAMPLE ANALYTICAL RESULTS

A soil sample was collected from an unlined but fenced surface depression north of the lined drill pit to delineate/verify possible drilling fluid impact. Total petroleum hydrocarbon and benzene, toluene, ethylbenzene and total xylenes (BTEX) were not detected above the respective method detection limits. The chloride concentration was 1,280 mg/Kg. Given that the chloride concentration of the stiffened pit contents is 42,000 mg/Kg, it is not reasonable to conclude that the chloride residual in the north pit emanated from the drill pit, but will require remediation.

ALTERNATIVE CLOSURE PROPOSAL REQUEST

Given that the pit liner is intact and the laboratory results from analysis of the soil samples collected from locations adjacent to the perimeter of the pit support the conclusion that the pit did not over-flow into the surrounding environment, it is proposed that a geotextile cushion be installed in the west part of the lined pit to ensure the integrity of the under liner, that the stiffened pit contents be evenly distributed over the pit and that a 20-mil reinforced polyethylene liner, cushioned above and below with geotextile, be installed over the stiffened pit contents. The pit will then be brought to grade with local soil/rock and the surface reseeded with the desires of the landowner. It is furthermore proposed that the impacted soils in the north pit be placed in the pit and encapsulated along with the drill pit contents and the excavated are tested to verify achievement of the NMOCD remedial goals. Additionally, in the event of a liner failure,

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to minimize the chloride source term that could potentially migrate to groundwater, approximately 50% of the stiffened drill pit volume will be disposed of off-site, (i.e., approximately 600 cubic yards). A final C-144 and supporting documentation will be submitted to the NMOCD upon completion of the project.

This proposal will be implemented upon approval by the NMOCD and consensus with the New Mexico State Land Office.

Please direct all official communications to:

Chevron USA
Jim Duke, Construction Representative
PO Box 1949
Eunice, New Mexico 88231
Telephone: 505.394.1237
Email: LDuk@chevron.com

Should you have any questions or concerns, please call me at (505) 394-3481 or Mr. Jim Duke at (505) 394-1237 or via e-mail at LDuk@chevron.com.

Sincerely,

ENVIRONMENTAL PLUS, INC.

Pat McCasland
Senior Environmental Consultant

cc: Mike Bratcher, NMOCD Artesia
Jim Duke, Chevron USA
Wayne Minchew, Chevron USA
Thaddeus Kostrubala, State of New Mexico
file

Enclosures: Topographical Map
Site Location Map
Site Map
Groundwater Map
Table 1 - Well Data
Table 2 - Analytical Results Summary
Laboratory Reports
Photographs
NMOCD Form C-144

ENVIRONMENTAL PLUS, INC.

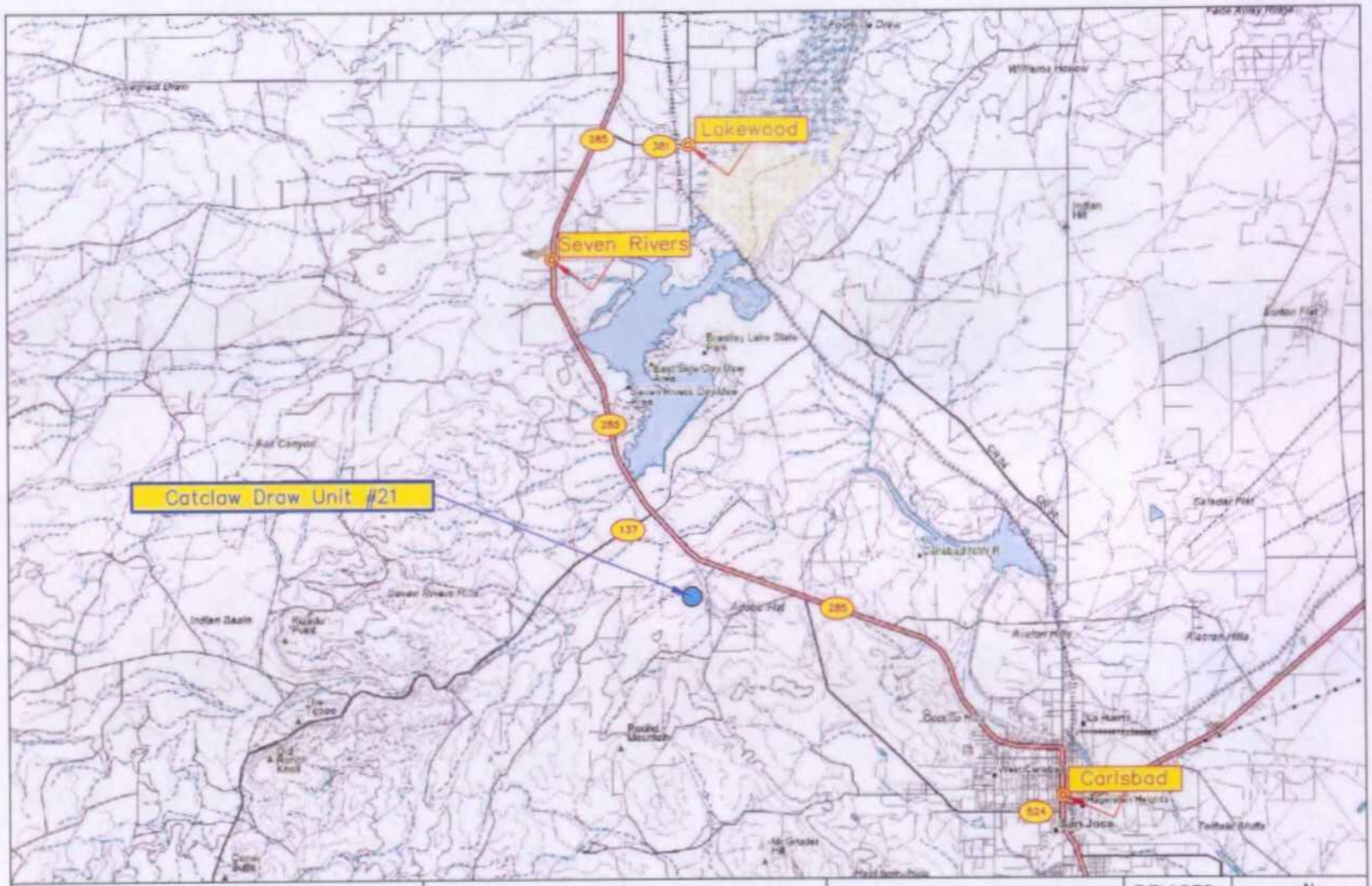


Figure 1 Area Map Pure Resources Catclaw Draw Unit #21	Eddy County, New Mexico NE 1/4 of the NW 1/4, Sec. 14, T21S, R25E N 32° 29' 05.59" W 104° 22' 08.83" Elevation: 3,297 feet amsl	DWG By: Daniel Dominguez March 2006 0 3 6 Miles	REVISED: SHEET 1 of 1 N

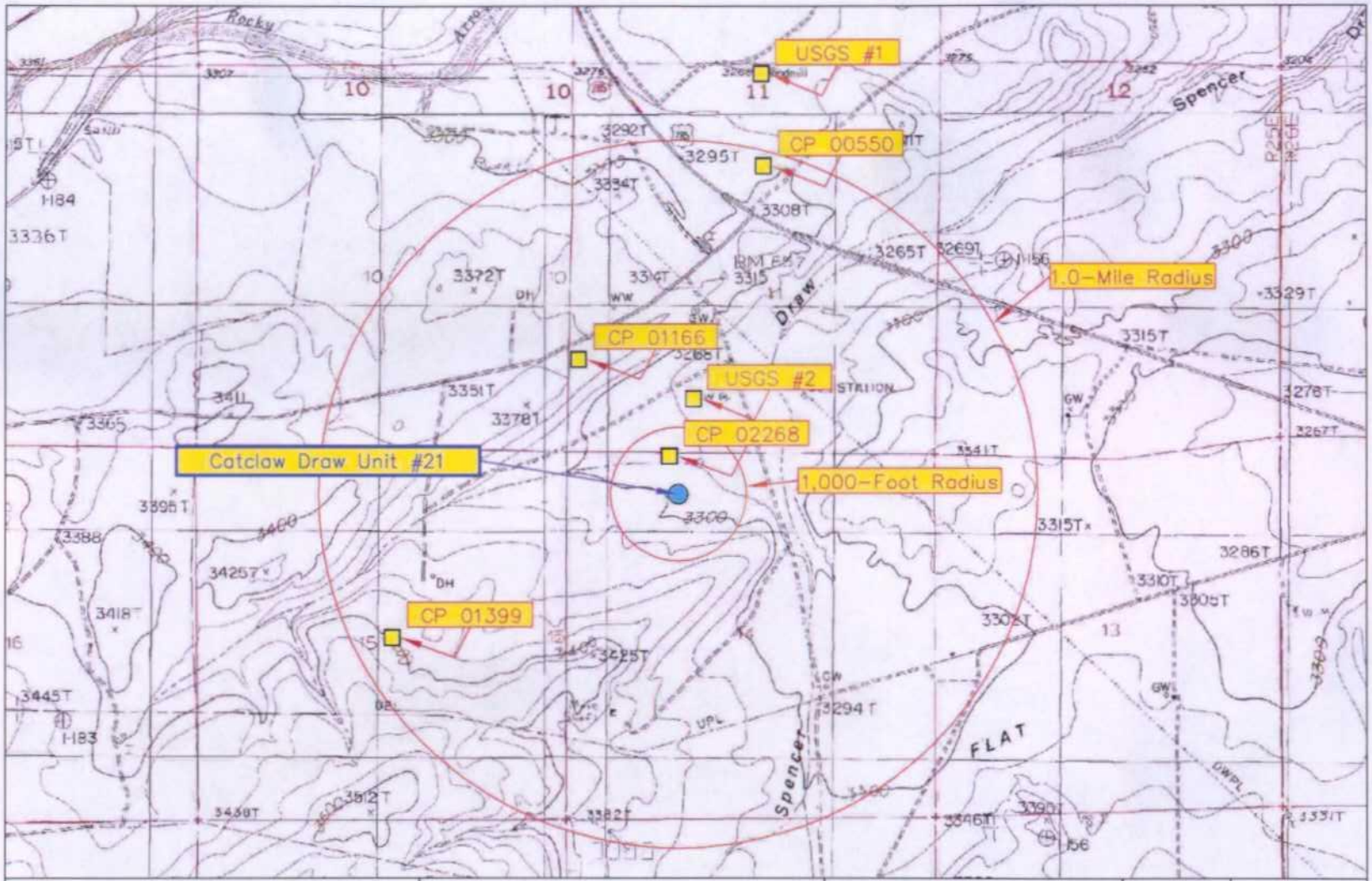
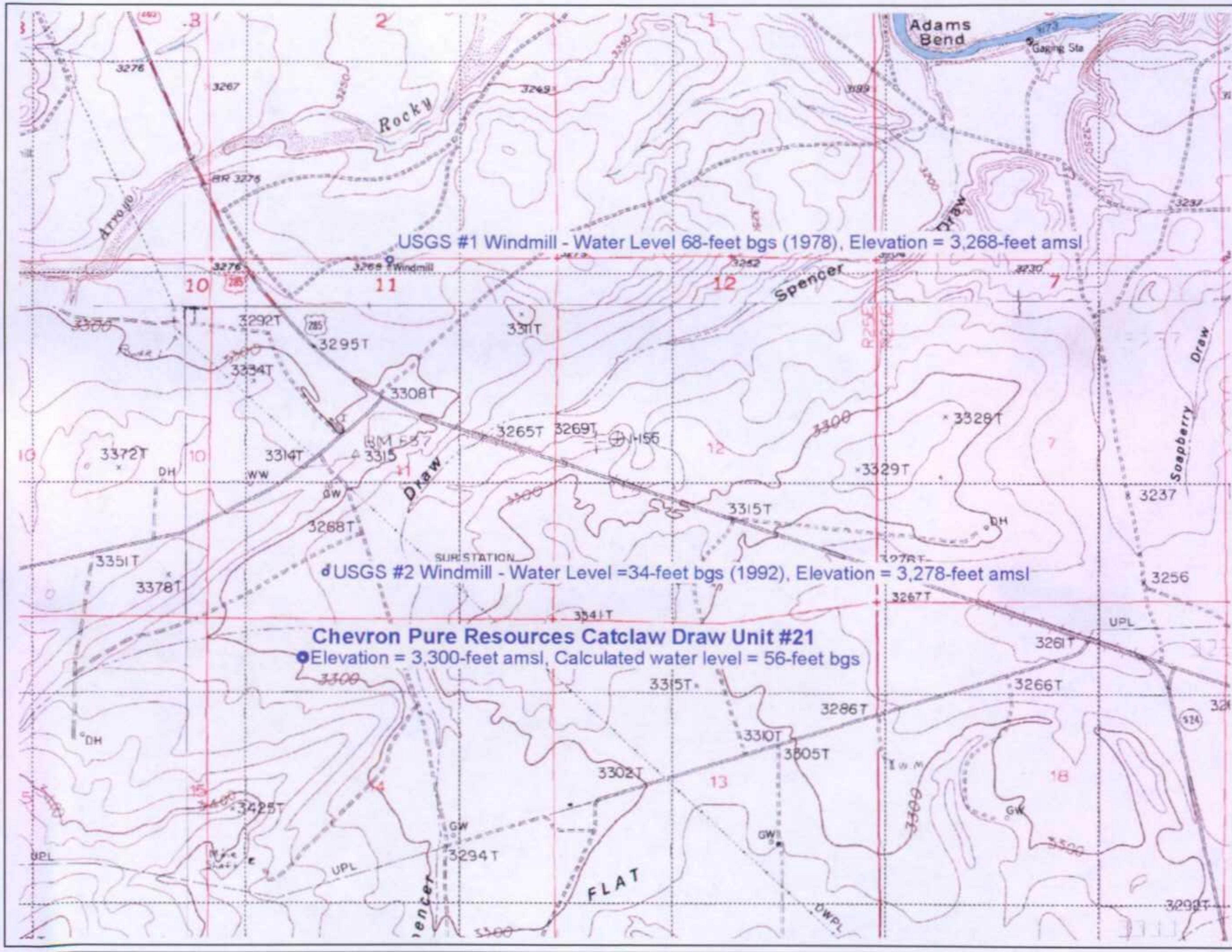


Figure 2 Site Location Map Pure Resources Catclaw Draw Unit #21	Eddy County, New Mexico NE 1/4 of the NW 1/4, Sec. 14, T21S, R25E N 32° 29' 05.59" W 104° 22' 08.83" Elevation: 3,297 feet amsl	DWG By: Daniel Dominguez March 2006 0 2000 4000 Feet	REVISED: SHEET 1 of 1


USGS #1 Windmill - Water Level 68-feet bgs (1978), Elevation = 3,268-feet amsl
USGS #2 Windmill - Water Level =34-feet bgs (1992), Elevation = 3,278-feet amsl
Chevron Pure Resources Catclaw Draw Unit #21
Elevation = 3,300-feet amsl, Calculated water level = 56-feet bgs
Adams Bend
Rocky
Arroyo
Spencer
Soapberry Draw
Draw
FLAT
SUBSTATION
Windmill
Gaging Sta
3292T
3295T
3334T
3308T
3311T
3265T
3269T
3328T
3329T
3372T
3314T
3315
3268T
3315T
3237
3351T
3378T
3256
3341T
3267T
3261T
3266T
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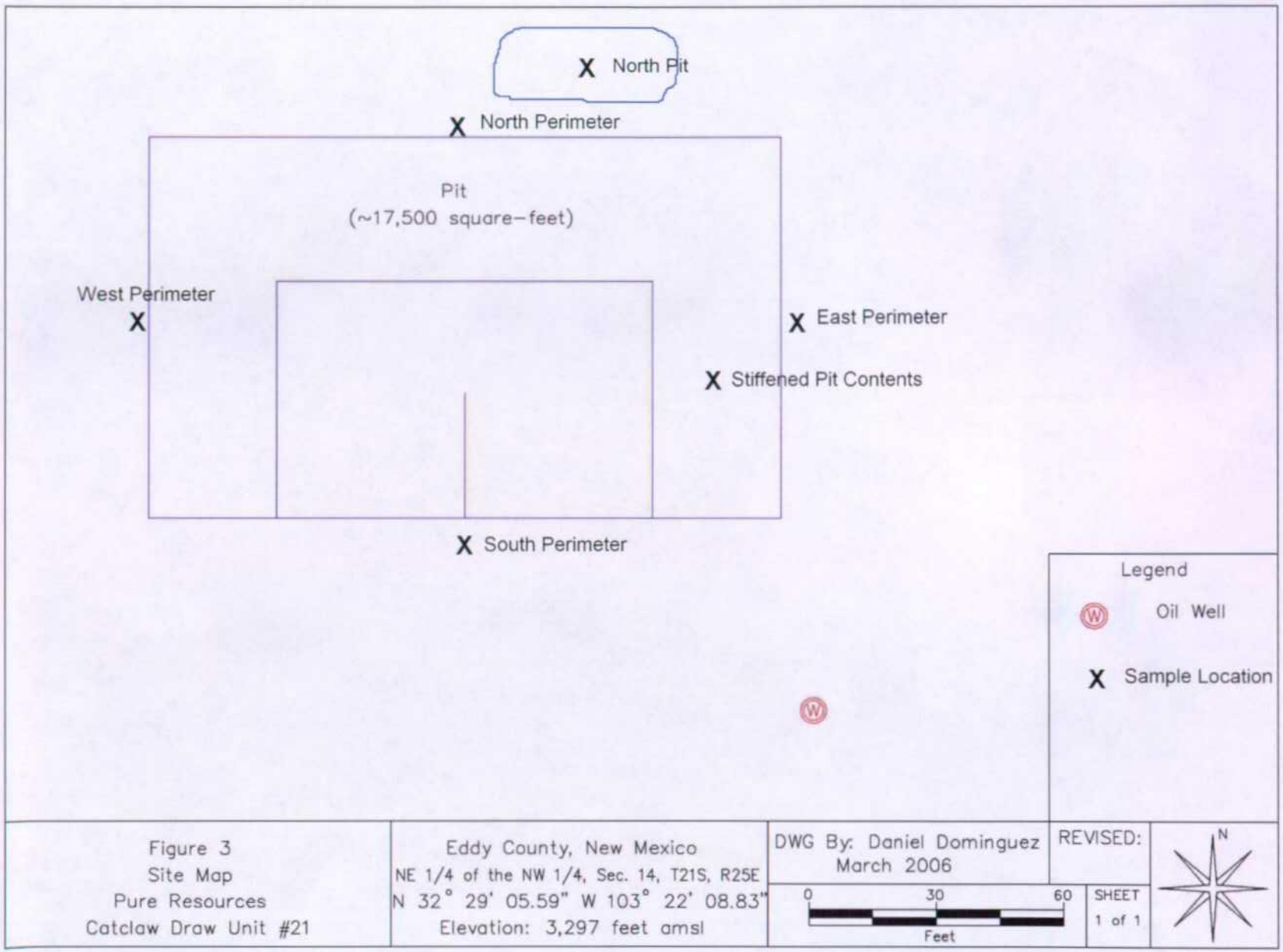

X North Pit
X North Perimeter
Pit
(~17,500 square-feet)
West Perimeter
X
X East Perimeter
X Stiffened Pit Contents
X South Perimeter
Legend
Oil Well
X Sample Location
Figure 3
Site Map
Pure Resources
Catclaw Draw Unit #21
Eddy County, New Mexico
NE 1/4 of the NW 1/4, Sec. 14, T21S, R25E
N 32° 29' 05.59" W 103° 22' 08.83"
Elevation: 3,297 feet amsl
DWG By: Daniel Dominguez
March 2006
REVISED:
0
30
60
Feet
SHEET
1 of 1
N

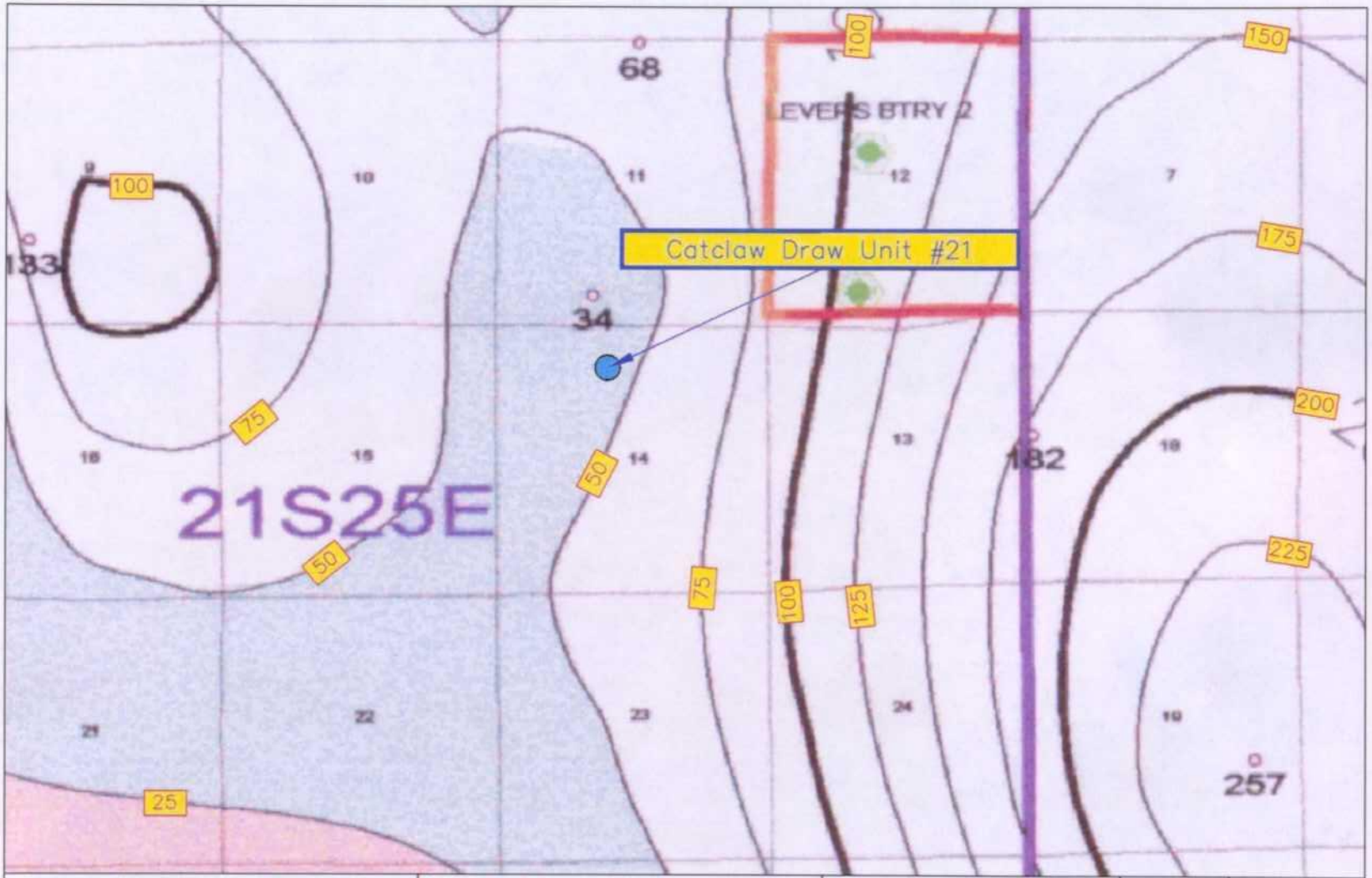


Figure 4 Groundwater Map Pure Resources Catclaw Draw Unit #21	Eddy County, New Mexico NE 1/4 of the NW 1/4, Sec. 14, T21S, R25E N 32° 29' 05.59" W 104° 22' 08.83" Elevation: 3,297 feet amsl	DWG By: Daniel Dominguez March 2006 REVISED:	N 0 2000 4000 Feet SHEET 1 of 1

TABLE 1

WELL INFORMATION REPORT*

Pure Resources Catclaw Draw Unit #21 - Ref #200078

Well Number	Diversion[A]	Owner	Use	Twsp	Rng	Sec q q q	Latitude	Longitude	Date Measured	Surface Elevation[B]	Depth to Water (ft bgs)
C 00550	3	WILL TRUITT	STK	21S	25E	11 2 1 1	N32° 29' 53.01"	W104° 21' 54.62"	12-Apr-56	3,294	
C 01166	3	WILMA D. TRUITT	PRO	21S	25E	11 3 1	N32° 29' 25.22"	W104° 22' 25.95"		3,360	
C 02268[C]	0	WILMA D. TRUITT	STK	21S	25E	11 3 4 1	N32° 29' 11.43"	W104° 22' 10.66"	31-Dec-41	3,282	25
C 01399	3	MORAN OIL P.& D. CORP.	PRO	21S	25E	15 2 3 3	N32° 28' 45.23"	W104° 22' 57.13"		3,404	
USGS #1				21S	25E	11 2 1 1			12-Jan-78	3,268	67.99
USGS #2				21S	25E	11 3 4 3			20-Nov-92	3,278	34.09
C 01451	3	WATTS LAND & CATTLE	STK	21S	25E	22 3 3	N32° 27' 26.37"	W104° 23' 28.16"	06-Jun-71	3,404	260

* = Data obtained from the New Mexico Office of the State Engineer Website (http://iwaters.ose.state.nm.us:7001/iWATERS/wr_RegisServlet1) and USGS Database.

[A] = in acre feet per annum

[B] = Interpolated from USGS Topographical Map

[C] = Wells C-02268 and USGS #1 are probably the same well. Well C-02268 could not be located in the field.

STK = 72-12-1 Livestock watering

PRO = 72-12-1 Prospecting or development of natural resource

(quarters are 1=NW, 2=NE, 3=SW, 4=SE)

(quarters are biggest to smallest - X Y are in Feet - UTM are in Meters)

Shaded area indicates wells not shown on Figure 2

TABLE 2
Chevron USA
Catclaw Draw #21 Pit Analytical Results Summary

Sample Location	Sampling Interval (FT. BGS[1])	SAMPLE ID#	Date	Lithology	Status	GRO[3] mg/Kg	DRO[4] mg/Kg	TPH[5] mg/Kg	BTEX mg/Kg	Benzene mg/Kg	Toluene mg/Kg	Ehtylbenzene mg/Kg
East Perimeter	6-8	East Perimeter	7/28/2006	Caliche	in-situ	<10.0	<10.0	<10.0	<0.015	<0.005	<0.005	<0.005
West Perimeter	6-8	West Perimeter	7/28/2006	Caliche/Rock	in-situ	<10.0	<10.0	<10.0	<0.015	<0.005	<0.005	<0.005
South Perimeter	6-8	South Perimeter	7/28/2006	Caliche	in-situ	<10.0	<10.0	<10.0	<0.015	<0.005	<0.005	<0.005
North Perimeter	6-8	North Perimeter	7/28/2006	Caliche/Rock	in-situ	<10.0	<10.0	<10.0	0.010	<0.005	0.010	<0.005
Stiffened Pit Contents	4	Stiffened Pit Contents	7/28/2006	Sand	in-situ	<10.0	583	583	0.007	<0.005	0.007	<0.005
North Pit	0-1	North Pit	7/28/2006	Clayey Sand	in-situ	<10.0	<10.0	<10.0	<0.015	<0.005	<0.005	<0.005
New Mexico Oil Conservation Division Remedial Goals								1,000	50	*10*		

[2]VOC–Volatile Organic Contaminants/Constituents

[3]GRO-Gasoline Range Organics C_6-C_{10}

[4]DRO-Diesel Range Organics C_{10}-C_{28}

[5]TPH-Total Petroleum Hydrocarbon = GRO+DRO.

[6]Bolded values are in excess of the New Mexico Oil Conservation Division guideline threshold for the parameter

[7]Italicized values are < the instrument detection limit.

[8]na - Not Analyzed (--) indicates the sample was not collected due to refusal.

Reported detection limits are considered "de minimus" values and are included in the GRO/DRO and BTEX summations.

WQCC - (New Mexico Water Quality Control Commission) Chloride residuals cannot be capable of impacting local groundwater in excess of the 250 mg/L WQCC standard.

PURE RESOURCES

ARDINAL LABORATORIES

PHONE (325) 673-7001 • 2111 BEECHWOOD • ABILENE, TX 79603
PHONE (505) 393-2326 • 101 E. MARLAND • HOBBS, NM 88240

ANALYTICAL RESULTS FOR
ENVIRONMENTAL PLUS, INC.
ATTN: PAT McCASLAND
P.O. BOX 1558
EUNICE, NM 88231
FAX TO: (505) 394-2601

Receiving Date: 07/28/06
Reporting Date: 08/01/06
Project Owner: CHEVRON TEXACO (#200078)
Project Name: CATCLAW DRAW #21 PIT
Project Location: NOT GIVEN

Sampling Date: 07/28/06
Sample Type: SOIL
Sample Condition: COOL & INTACT
Sample Received By: BC
Analyzed By: BC

LAB NO.	SAMPLE ID	BENZENE (mg/Kg)	TOLUENE (mg/Kg)	ETHYL BENZENE (mg/Kg)	TOTAL XYLENES (mg/Kg)
ANALYSIS DATE		07/31/06	07/31/06	07/31/06	07/31/06
H11395-1	EAST PERIMETER	<0.005	<0.005	<0.005	<0.015
H11395-2	WEST PERIMETER	<0.005	<0.005	<0.005	<0.015
H11395-3	SOUTH PERIMETER	<0.005	0.005	<0.005	<0.015
H11395-4	NORTH PERIMETER	<0.005	0.010	<0.005	<0.015
H11395-5	STIFFENED PIT CONTENTS	<0.005	0.007	<0.005	<0.015
H11395-6	NORTH PIT	<0.005	<0.005	<0.005	<0.015
Quality Control		0.100	0.105	0.106	0.299
True Value QC		0.100	0.100	0.100	0.300
% Recovery		99.6	105	106	99.7
Relative Percent Difference		<0.1	6.7	7.8	2.0

METHOD: EPA SW-846 8260

Chemist

8/1/06
Date

H11395B

CARDINAL LABORATORIES

PHONE (325) 673-7001 • 2111 BEECHWOOD • ABILENE, TX 79603
PHONE (505) 393-2326 • 101 E MARLAND • HOBBS, NM 88240

ANALYTICAL RESULTS FOR
ENVIRONMENTAL PLUS, INC.
ATTN: PAT McCASLAND
P.O. BOX 1558
EUNICE, NM 88231
FAX TO: (505) 394-2601

Receiving Date: 07/28/06
Reporting Date: 08/01/06
Project Owner: CHEVRON TEXACO (#200078)
Project Name: CATCLAW DRAW #21 PIT
Project Location: NOT GIVEN

Sampling Date: 07/28/06
Sample Type: SOIL
Sample Condition: COOL & INTACT
Sample Received By: BC
Analyzed By: BC/AB

LAB NUMBER	SAMPLE ID	GRO (C_6-C_{10}) (mg/Kg)	DRO (>C_{10}-C_{28}) (mg/Kg)	Cl* (mg/Kg)
ANALYSIS DATE		07/31/06	07/31/06	07/31/06
H11395-1	EAST PERIMETER	<10.0	<10.0	160
H11395-2	WEST PERIMETER	<10.0	<10.0	64
H11395-3	SOUTH PERIMETER	<10.0	<10.0	864
H11395-4	NORTH PERIMETER	<10.0	<10.0	62
H11395-5	STIFFENED PIT CONTENTS	<10.0	583	42000
H11395-6	NORTH PIT	<10.0	<10.0	1280
Quality Control		780	770	990
True Value QC		800	800	1000
% Recovery		97.5	96.2	99.0
Relative Percent Difference		0.9	7.2	1.0

METHODS: TPH GRO & DRO: EPA SW-846 8015 M; Cl^-: Std. Methods 4500-Cl^-B
*Analyses performed on 1:4 w:v aqueous extracts.

Chemist

Date

H11395A

PURE RESOURCES

Cardinal Laboratories Inc.

101 East Marland, Hobbs, NM 88240
505-393-2326 Fax 505-393-2476

2111 Beechwood, Abilene, TX 79603
915-673-7001 Fax 915-673-7020

Company Name	Environmental Plus, Inc.
EPI Project Manager	Pat McCasland
Billing Address	P.O. BOX 1558
City, State, Zip	Eunice New Mexico 88231
EPI Phone#/Fax#	505-394-3481 / 505-394-2601
Client Company	Chevron USA
Facility Name	Catclaw Draw #21 Pit
Project Reference	#200078
EPI Sampler Name	Pat McCasland

Bill To

Chevron USA
P. O. Box 1949
Eunice, NM 88231
Attention: Mr. Jim Duke

ANALYSIS REQUEST

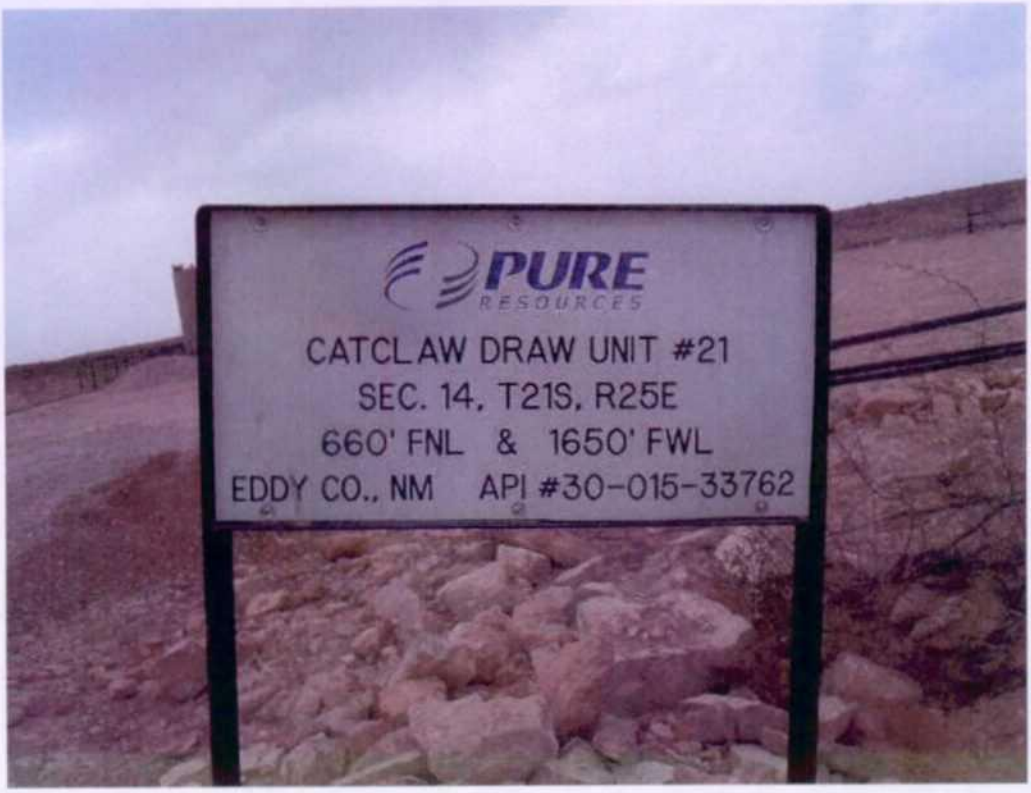
LAB I.D.		SAMPLE I.D.	(G)RAB OR (C)OMP.	# CONTAINERS	MATRIX: GROUND WATER	WASTEWATER	SOIL	CRUDE OIL	SLUDGE	OTHER:	PRESERV.: ACID/BASE	ICE/COOL	OTHER	SAMPLING: DATE	TIME	BTEX 8021B	TPH 8015M	CHLORIDES (Cl^-)	SULFATES (SO_4^{2-})	pH	TCLP	OTHER >>>					
W11395-1	1	East Perimeter	G	2			X					X		7/28/06	10:00	X	X	X									
-2	2	West Perimeter	G	2			X					X		7/28/06	10:15	X	X	X									
-3	3	South Perimeter	G	2			X					X		7/28/06	10:30	X	X	X									
-4	4	Northt Perimeter	G	2			X					X		7/28/06	10:45	X	X	X									
-5	5	Stiffened Pit Contents	C	2			X					X		7/28/06	10:50	X	X	X									
-6	6	Rock Pit	G	1			X					X		7-28-06	11:00	X	X	X									
	7																									
	8																									
	9																									
	10																									

Sampler Relinquished:	Date 7-28-06 Time	Received By:
Relinquished by:	Date 7/28/06 Time 2:20PM	Received By: (lab staff)
Delivered by:	Sample Cool & Intact (Yes) No	Checked By:

Fax Results To Pat McCasland - EPI @ 505-394-2601

REMARKS: Chain of custody requested. Send original reports to Pat McCasland - EPI.

Please use at least 500 grams of sample for extraction for chloride test. rock is present. PM



Photograph #1- Lease sign.

Photograph #2 - Pit and berm looking southeast.

Photograph #3 - Pit and berm looking southeast.

Photograph #4 - Pit and berm looking southeast.

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
June 1, 2004

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes ☒ No ☐

Type of action: Registration of a pit or below-grade tank ☐ Closure of a pit or below-grade tank ☒

Operator: Chevron USA O-Grid #4323 (Pure Resources O-Grid #150628) Telephone: 505.394.1237 e-mail address: LDuk@chevron.com

Address: PO Box 1949 2401 Avenue O Eunice, New Mexico 88231

Facility or well name: Catclaw Draw Unit #21 API #: 30-025-33762 Unit Letter (UL): C Qtr/Qtr: NE¼ NW¼ Section: 14, T21S, R25E

County: Eddy Latitude: N 32°29'05.59" Longitude: W 104°22'08.83" NAD: 1927 ☐ 1983 ☐ WGS 84 ☒

Surface Owner: Federal ☐ State ☒ Private ☐ Indian ☐

Pit	**Below-grade tank**	
Type: Drilling ☒ Production ☐ Disposal ☐ Workover ☐ Emergency ☐	Volume: bbl Type of fluid:	
Lined ☒ Unlined ☐	Construction material:	
Liner type: Synthetic ☒ Thickness 12 mil Clay ☐	Double-walled, with leak detection? Yes ☐ If not, explain why not.	
Pit Volume: ~3,000 bbl		
Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.) ~56'bgs	Less than 50 feet 50 feet or more, but less than 100 feet 100 feet or more	(20 points) ☐ (10 points) ☒ (0 points) ☐
Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)	Yes No	(20 points) ☐ (0 points) ☒
Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.)	Less than 200 feet 200 feet or more, but less than 1,000 feet 1,000 feet or more	(20 points) ☐ (10 points) ☐ (0 points) ☒
	Ranking Score (Total Points)	**10**

If this is a pit closure: (1) Attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location: (check the onsite box if your are burying in place) onsite ☒ offsite ☒ If offsite, name of facility Lea Land. (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☒ Yes ☐ If yes, show depth below ground surface _____ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

Additional Comments: It is proposed to close this pit consistent with the "ChevronTexaco Drilling and Reserve Pit Closure General Plan, December 2004" and the NMOCD Pit and Below-Grade Tank Guidelines, November 1, 2004 as promulgated under NMOCD Rule 50 (19.15.2.50 NMAC).

Pit Status: Liner intact ☒ Liner punctured or torn ☐

Method of Closure: The contents of the pit will be stiffened and encapsulated on site. Approximately 50% of the pit volume, i.e., 600 cubic yards, will be disposed of. Encapsulation will consist of mixing earthen materials with the pit contents, as necessary to stiffen the pit contents sufficiently to provide physical stability and support the pit cover. Upon the pit contents being stiffened as required, the edges of the liner will be folded over the edges of the stiffened mud and cuttings and the pit will be covered with a 20-mil thick impervious, reinforced synthetic or fabricated liner meeting ASTM standards that is designed to be resistant to the material encapsulated. The liner will then be covered with a minimum of three feet of clean soil or like material that is capable of supporting native plant growth.

I hereby certify that the information above is true and complete to the best of my knowledge and belief. **I further certify that the above-described pit or below-grade tank will be closed according to NMOCD guidelines ☒, a general permit ☒, or an (attached) alternative OCD-approved plan ☒.**

Date: 12/12/06 Printed Name/Title Jim Duke, Construction Representative Signature

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Approval:

Printed Name/Title _____ Signature _____ Date:

Duke Energy® Field Services

DUKE ENERGY FIELD SERVICES
10 Desta Drive, Suite 400-West
Midland, TX 79705

432 620 4000

CERTIFIED MAIL: 7005 0390 0002 9924 3083

2006 DEC 21 PM 1 04

December 19, 2006

State of New Mexico Oil Conservation Division
Attn: Wayne Price
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Discharge Plan GW-237
Duke Energy Field Services, LP
Pecos Diamond Gas Plant
Eddy County, New Mexico

Dear Mr. Price,

Condition No. 10 of Discharge Plan No. GW-237 requires all underground process/wastewater pipelines to be tested to demonstrate their mechanical integrity every 5 years. The permittee may propose various methods for testing such as 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.

Duke Energy Field Services is submitting this notification to the OCD to inform you that DEFS has planned to perform this pressure testing on December 22, 2006 beginning at 9am. The testing will consist of the closing off both ends of the process/wastewater line and increasing the pressure to 3 pounds above normal operating pressure and observing for a pressure drop for a time period no less than 15 minutes.

If you have any questions feel free to contact me at (432) 620-4165 or by e-mail at bafortin@duke-energy.com.

Respectfully

Boyd Fortin
Sr. Environmental Specialist

Cc: Tom Bernal
Liz Klein
Regional File 2.2.3.6

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

January 3, 2007

Wayne,
Please review for your sig.
thanks,
Z

Marvin Burrows
John H. Hendrix Corp
1310 N 18th St
Eunice, New Mexico 88231

RE: Proposed Voluntary Surface Restoration Program for "Old" Drill Pits

Dear Mr. Burrows:

P.S.: Attached are Glenn's comments

The New Mexico Oil Conservation Division (OCD) has reviewed the proposed Voluntary Surface Restoration Program for "Old" Drill Pits submitted by the John H. Hendrix Corp (Hendrix) on October 17, 2006 (see attached for your reference). The OCD has the following comments regarding the Program:

1) Even though the OCD does not completely agree with the conceptual model put forth by Sublette and Hicks, the concept of a Voluntary Surface Restoration Program for "Old" Drill Pits is welcomed by the OCD.
2) The OCD maintains that migration of chlorides to ground water may still be a threat even in the absence of ponding situations. Even when salt deposits have been observed on the surface of "old" drill pits, the chlorides may migrate downward as well as upward.
3) Pit releases may have occurred under conditions of significant hydraulic head and may well have contaminated ground water decades ago. Rule 116 still applies, but OCD has no mandate to speculatively investigate "old" pit sites. However, the presence of salt crusts at an "old" pit site could be considered as evidence of a release and actionable under Rule 116.
4) The responsible person could certainly proceed under a Voluntary Surface Restoration Program. Such an effort could be a significant test of a slow, steady, practical remediation program that proactively deals with residual contamination. Please provide the OCD with a preliminary list of "old" drill pit sites that may be suitable for the proposed restoration. Please provide general information regarding

the sites (e.g., depth to ground water, age, salt deposits present, etc.) and the type of soil (e.g., clay, silt, loam, etc. and saturated hydraulic conductivity) that would be used to backfill the excavation of 18 inches of salt impacted soil. Please provide information regarding how often the backfill soil will be tested for chlorides and at what depths. Also, please provide information regarding how the site would eventually be closed; e.g., at what point would revegetation with native perennials occur (i.e., at what chloride concentration will the backfill soil be considered stabilized; and therefore, the remediation complete?), contour for drainage away from the site to prevent erosion, etc.

Once the OCD has received the additional information, it will further evaluate the Voluntary Surface Restoration Program for possible "authorization". The Voluntary Surface Restoration Program would be "permitted" under a general remediation plan with each site designated under that general remediation plan. The OCD would authorize the Voluntary Surface Restoration Program with the condition that for sites with ground water at less than 50 feet below ground surface, Hendrix must advance a boring with samples taken every 5 feet for field analyses to delineate the extent of TPH to 100 mg/Kg and chlorides to 250 mg/Kg. In addition, there must be a confirmatory sample taken for laboratory analyses 5 feet below the delineation concentrations stated above. If you have any questions regarding this matter, please contact Edward J. Hansen of my staff at (505) 476-3489 or mailto:edwardj.hansen@state.nm.us.

Sincerely,

Wayne Price
Environmental Bureau Chief

WP:ejh

attachment

cc: J. Daniel Sanchez, OCD Compliance and Enforcement Manager
Chris Williams, OCD Hobbs District Supervisor
Larry Johnson, OCD Hobbs
Tim Gum, OCD Artesia District Supervisor
Mike Bratcher, OCD Artesia

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

January 3, 2007

Glenn,
Please review. Thanks,

Marvin Burrows
John H. Hendrix Corp
1310 N 18th St
Eunice, New Mexico 88231

RE: Proposed Voluntary Surface Restoration Program for "Old" Drill Pits

Dear Mr. Burrows:

The New Mexico Oil Conservation Division (OCD) has reviewed the proposed Voluntary Surface Restoration Program for "Old" Drill Pits submitted by the John H. Hendrix Corp (Hendrix) on October 17, 2006 (see attached for your reference). The OCD has the following comments regarding the Program:

1) Even though the OCD does not completely agree with the conceptual model put forth by Sublette and Hicks, the concept of a Voluntary Surface Restoration Program for "Old" Drill Pits is welcomed by the OCD.

2) The OCD maintains that migration of chlorides to ground water may still be a threat even in the absence of ponding situations. Even ~~with the observation of~~ salt deposits on the surface of "old" drill pits, the chlorides may migrate downward as well as upward. (when; Have been observed; may have)

3) Pit releases occurred under conditions of significant hydraulic head and may well have contaminated ground water decades ago. Rule 116 still applies, but OCD has no mandate to speculatively investigate "old" pit sites. However, the presence of salt crusts at an "old" pit site could be considered as evidence of a release and actionable under Rule 116.

4) The responsible person could certainly proceed ~~as~~ a voluntary ~~remediation~~ program. Such an effort could be a significant test of a slow, steady, practical remediation program that proactively deals with residual contamination. Please provide the OCD with a preliminary list of "old" drill pit sites that may be suitable for the proposed restoration. Please provide general information regarding the sites (e.g., depth to

ground water, age, salt deposits present, etc.) and the ~~reporting for each site of the~~ type of soil (e.g., clay, silt, loam, etc. and saturated hydraulic conductivity) that would be used to backfill the excavation of 18 inches of salt impacted soil. Please provide information regarding how often the backfill soil will be tested for chlorides and at what depths. Also, please provide information regarding how the site would eventually be closed; e.g., at what point would revegetation occur (i.e., at what chloride concentration will the backfill soil be considered stabilized; and therefore, the remediation complete?), ~~revegetated~~ with native perennial ~~vegetation~~, contour for drainage away from the site ~~and~~ prevent erosion, etc.

Once the OCD has received the additional information, it will further evaluate the Program for possible "authorization". The Program would be "permitted" under a general remediation plan with each site designated under that general remediation plan. ~~The Program~~ would ~~be~~ authorized with the condition that for sites with ground water at less than 50 feet below ground surface, ~~there~~ must ~~be a~~ boring ~~advanced~~ with samples taken every 5 feet for field analyses to delineate the extent of TPH to 100 mg/Kg and chloride to 250 mg/Kg. In addition, there must be a confirmatory sample taken for laboratory analyses 5 feet ~~beyond~~ the delineation concentrations stated above. If you have any questions regarding this matter, please contact Edward J. Hansen of my staff at (505) 476-3489 or mailto:edwardj.hansen@state.nm.us.

Sincerely,

Wayne Price
Environmental Bureau Chief

WP:ejh

attachment

cc: J. Daniel Sanchez, OCD Compliance and Enforcement Manager
Chris Williams, OCD Hobbs District Supervisor
Larry Johnson, OCD Hobbs
Tim Gum, OCD Artesia District Supervisor
Mike Bratcher, OCD Artesia

Chavez, Carl J, EMNRD

From: Price, Wayne, EMNRD
Sent: Tuesday, November 28, 2006 10:03 AM
To: Goodman, Galen; Jones, Brad A., EMNRD; Chavez, Carl J, EMNRD
Cc: Beighle, Jeff; Neinast, Mark; Nieman, Mike; Burrola, Rodrigo
Subject: RE: Wood Group ESP / Hobbs Facility Waste Water Characterization

Dear Mr. Goodman:

Please find attached a copy of your permit. Pursuant to our telephone conversation yesterday OCD understands that certain waste generated at the facility might be classified as RCRA Hazardous and you have hired a consultant to investigate this waste stream. OCD appreciates your prompt response on this matter and hereby approves of the waste stream investigation with the following conditions:

1. Wood Group shall submit a permit modification to address this issue.
2. Wood group shall commit to training its employees on the issues of waste characterization.

Please be advised that this approval does not relieve the owner/operator of responsibility should operations result in pollution of surface water, ground water or the environment. Nor does approval of the permit relieve the owner/operator of its responsibility to comply with any other applicable governmental authority's rules and regulations.

From: Goodman, Galen [mailto:Galen.Goodman@woodgroup.com]
Sent: Monday, November 27, 2006 4:24 PM
To: Price, Wayne, EMNRD
Cc: Beighle, Jeff; Neinast, Mark; Nieman, Mike; Burrola, Rodrigo
Subject: Wood Group ESP / Hobbs Facility Waste Water Characterization

Mr. Price,
Thank you for taking your time to discuss the current status of the groundwater discharge permit (GW-164) for our Wood Group ESP / Hobbs facility. We would greatly appreciate a copy of the permit and its conditions. We have been in communication with the personnel at the Hobbs facility and Sundance Services, Inc., concerning the chromium that was reported in a wastewater sample (TCLP) found to be above the EPA threshold of 5 milligrams per liter ("mg/L"). Sundance has stated that it has received no waste from the facility and had requested the analysis to characterize the waste, therefore, no waste has left the facility.

Wood Group is currently evaluating the laboratory report and will resample the waste water using Larson and Associates, Inc.. Two (2) samples will be collected and submitted to two (2) different laboratories (Cardinal Laboratories, Inc. and Trace Analysis, Inc.) and will be analyzed to characterize the waste stream. The laboratory reports will be submitted to the New Mexico Oil Conservation Division ("OCD") within 45 days after receipt from these laboratories.

Please address any correspondence for Wood Group ESP / Southwest Region Operations to me at the address below:

Wood Group ESP
Galen W. Goodman

P. O. Box 80130
Midland, TX 79708

Please advise if you should have any further questions.

Galen Goodman
HSE Advisor
Wood Group ESP
Southwest Region
Office 432-848-0157
Cellular 432-557-5129
e-mail: galen.goodman@woodgroup.com

October 19, 2004

CERTIFIED MAIL
RETURN RECEIPT NO.

Mr. Alfredo Bersosa
Wood Group ESP, Inc.
2707 S. County Road 1208
Midland, Texas 79706

Re: Discharge Plan GW-164
Hobbs Service Facility
Lea County, New Mexico

Dear Mr. Bersosa:

The groundwater discharge plan renewal application for the Hobbs Service Facility GW-164 operated by Wood Group ESP, Inc. located in the NE/4 NE/4 of Section 35, Township 17 South, Range 38 East, NMPM, Lea County, New Mexico **is hereby approved** under the conditions contained in the enclosed attachment. Enclosed are two copies of the conditions of approval. **Please sign and return one copy to the New Mexico Oil Conservation Division (OCD) Santa Fe Office within 30 working days of receipt of this letter.**

The original discharge plan application was submitted on March 18, 1994 and approved on September 29, 1994. The discharge plan renewal application, including attachments, dated September 01, 2004 and supplemental information dated October 07, 2004 submitted pursuant to Sections 5101.B.3. of the New Mexico Water Quality Control Commission (WQCC) Regulations also includes all earlier applications and all conditions later placed on those approvals. The discharge plan is renewed pursuant to Section 5101.A. and 3109.C. Please note Section 3109.G., which provides for possible future amendment of the plan. Please be advised that approval of this plan does not relieve Wood Group ESP, Inc. of liability should operations result in pollution of surface or ground waters, or the environment.

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

Please note that Section 3104. 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 3107.C., Wood Group ESP, Inc. is 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 3109.H.4., this approval is for a period of five years. **This approval will expire September 29, 2009** and an application for renewal should be submitted in ample time before that date. Pursuant to Section 5101.F. of the regulations, if a discharger submits a discharge plan renewal application at least 120 days before the discharge plan expires and is in compliance with the approved plan, then the existing discharge plan will not expire until the application for renewal has been approved or disapproved. It should be noted that all discharge plan facilities will be required to submit plans for, or the results of, an underground drainage testing program as a requirement for discharge plan renewal.

The discharge plan application for the Hobbs Service Facility GW-164 is subject to the WQCC Regulation 3114. Every billable facility submitting a discharge plan will be assessed a fee equal to the filing fee of $100.00 plus a renewal fee of $1700.00 for brine stations. The OCD has not received the $1700.00 flat fee. The flat fee may be paid in a single payment due on the date of the discharge plan approval or in five equal installments over the expected duration of the discharge plan. Installment payments shall be remitted yearly, with the first installment due on the date of the discharge plan approval and subsequent installments due on this date of each calendar year.

Please make all checks payable to: Water Quality Management Fund
C/o: Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505.

If you have any questions, please contact Wayne Price of my staff at (505-476-3487) or E-mail wprice@state.nm.us. On behalf of the staff of the OCD, I wish to thank you and your staff for your cooperation during this discharge plan review.

Sincerely,

Approved by Wayne Price 11/28/06
Roger C. Anderson
Environmental Bureau Chief
RCA/lwp
Attachment-1
xc: OCD Hobbs Office

ATTACHMENT TO THE DISCHARGE PLAN BW-164 APPROVAL
Wood Group ESP, Inc. Hobbs Service Facility (BW-164)
DISCHARGE PLAN APPROVAL CONDITIONS
October 19, 2004

1. Payment of Discharge Plan Fees: The OCD has received the $1700.00 flat fee.

2. Commitments: Wood Group ESP, Inc. will abide by all commitments submitted in the discharge plan renewal application dated September 01, 2004 and the supplemental information dated October 07, 2004 and these conditions for approval.

3. Drum Storage: All drums containing materials other than fresh water must be stored on an impermeable pad 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 must also be stored on an impermeable pad with curbing.

4. 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.

5. 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 within the berm.

6. 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.

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

8. 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 below grade tanks, sumps and pits must be tested annually, except systems that have secondary containment with leak detection. These systems with leak detection shall have a weekly inspection of the leak detection to determine if the primary containment is leaking. Results of tests and inspections shall be maintained at the facility covered by this discharge permit and available for NMOCD inspection. Any system found to be leaking shall be reported pursuant to Item # 12. Permit holders may propose various methods for testing such as 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.

   Additional requirements: The main sump shall be repaired pursuant to the recommendations as outlined in the October 07, investigation conducted by Highlander Environmental. Please provide proof of this action by December 15, 2004.

9. Underground Process/Wastewater Lines: All underground process/wastewater pipelines must be approved by the OCD prior to installation and must be tested to demonstrate their mechanical integrity every five (5) years. Results of such tests shall be maintained at the facility covered by this discharge plan and available for NMOCD inspection. Permit holders 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.

10. Class V Wells: No Class V wells that inject non-hazardous industrial wastes or a mixture of industrial wastes and domestic wastes will be approved for construction and/or operation 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.

11. Housekeeping: All systems designed for spill collection/prevention, and leak detection will be inspected daily to ensure proper operation and to prevent overtopping or system failure.

12. Spill Reporting: All spills/releases shall be reported pursuant to OCD Rule 116. and WQCC 1203. to the OCD Hobbs District Office.

13. 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 will be approved by OCD on a case-by-case basis.

Rule 712 Waste: Pursuant to Rule 712, disposal of certain non-domestic waste is allowed at solid waste facilities permitted by the New Mexico Environment Department as long as the waste stream is identified in the discharge, and existing process knowledge of the waste stream does not change without notification to the Oil Conservation Division

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. Closure: The OCD will be notified when operations of the facility are discontinued for a period in excess of six months. Prior to closure of the 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.

16. OCD Inspections: Additional requirements may be placed on the facility based upon results from OCD inspections.

17. On Site Water Well: The On site water well shall be sampled annually and analyzed for BTEX (method 8021) and General chemistry using EPA methods and procedures. Results of such tests shall be maintained at the facility covered by this discharge plan and available for NMOCD inspection. Any exceedence of the New Mexico WQCC ground water standards shall be reported pursuant to Item #12 above.

18. Conditions accepted by: **Wood Group ESP, Inc.** by the officer whose signature appears below, accepts this permit and agrees to comply with all terms and conditions contained herein. **Wood Group ESP, 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.

Wood Group ESP, Inc.

Print Name:_____

Signature: _____

Title:_____

Date:_____

YATES PETROLEUM CORPORATION

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

2006 DEC 15 PM 1 18

December 8, 2006

Mr. Larry Johnson
NMOCD District 1
1625 N. French Drive
Hobbs, NM 88240

Re: Flameco Federal 1 SWD
30-025-31076
Section 7, T 22S, Rg 32E
Lea County, New Mexico

Mr. Larry Johnson,

This letter is in response to your return of the enclosed "Soil Remediation Work Plan" for the Flameco Federal 1 SWD which was submitted for your consideration by Sherry Bonham, Environmental Regulatory Agent of Yates Petroleum, and stamped received by your office November 28, 2006.
The cover letter for the plan was date stamped by your office and someone had made notes on the cover letter in blue ink and highlighted those notes. The significance these notes were unclear and there was no other explanation attached. The notes were as follows; WTR 200' and C-141 NOT ATTACHED. After reviewing the work plan I can only assume that the section titled **"Groundwater",** stated that the search of the NM State Engineers data base ranking revealed depth to groundwater-0. This statement may have been made clearer by saying that "The State Engineers data base reflected depth to groundwater greater than 100 feet at the site giving the sight a ranking of 0."
Concerning the note pertaining to the C-141, an initial C-141 was faxed to your office by former Yates employee Dan Dolan on March 3, 2006 reporting the release. This is the standard way Yates reports releases to the OCD. Once remediation of the site is complete Yates will then submit a C-141 marked as "Final Report". This procedure has always been the accepted method of reporting releases to the NMOCD. If this procedure has changed Yates would appreciate a written notification of such.

It is my sincere desire to continue to have an open dialogue with you on issues concerning Yates' operations. If you need to discuss any of the items above please feel free to email, call or write me so that we can work together in resolving any issue that may arise.

Sincerely,

Jerry D. Fanning, Jr.
Environmental Coordinator
Yates Petroleum Corporation
(505)748-4195
jerryf@ypcnm.com

Cc: Lisa Norton, Environmental Director YPC

Wayne Price, NMOCD

YATES PETROLEUM CORPORATION

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

- WTR 200
- C-141 NOT ATTACHED

November 27, 2006

Mr. Larry Johnson
NMOCD District I
1625 N French Drive
Hobbs, NM 88240

Re: Flamenco Federal 1 SWD
30-025-31076
Section 7, T22S-R32E Unit L
Lea County, New Mexico

Dear Mr. Johnson:

Yates Petroleum Corporation would like to submit for your consideration the enclosed work plan for the Flamenco Federal 1 SWD. Scope of work described in the plan will be initiated as soon as the work plan is approved and a contractor can be scheduled.

Should you have any questions, please don't hesitate to contact me. Thank you.

Respectfully,

Sherry Bonham
Environmental Regulatory Agent

FLAMENCO SWD
Soil Remediation Work Plan

Section 7, Township 22S, Range 32E
Lea, New Mexico
Longitude: 130°72.304W
Latitude: 32°40.333N

Prepared By: Eb Taylor

318 East Taylor Street
Hobbs, New Mexico 88240

Distribution List

Larry Johnson
NMOCD
1625 N. French Dr.
Hobbs, New Mexico88240

Sherry Bonham
Yates Petroleum Corporation
105 S. Fourth Street
Artesia, New Mexico 88210

File
TALONLPE
318 E. Taylor Street
Hobbs, New Mexico 88240

Introduction

The Flamenco SWD is located in rural Lea County, New Mexico on C-29, south of the intersection of 62/180 and C-29 in Section 7, Township 22S, Range 32E at Longitude 103°72.034W and Latitude 32°40.333N. The release occurred on state land utilized for cattle grazing (see Figure 1, site map).

On March 1, 2006 a release of approximately 50 barrels (bbls) of produced water occurred due to a ruptured hose at the wellhead. Approximately 1 bbl of produced water was recovered. Larry Johnson of the NMOC was notified via voice mail by Dan Dolan from the Yates Petroleum Corporation of the spill on March 1, 2006.

On April 19, 2006 Eb Taylor, previously with HMR&V services, along with Sherry Bonham and Bob Asher (Yates Petroleum) collected soil samples to determine the horizontal and vertical extent of the impacted soils. Eight soil samples points were collected (see Figure 2, sample map) at this time in an effort to complete the horizontal delineation (SP-4 – SP-7). SP-1 and SP-2 demonstrated a parts per million (ppm) decrease with each 6" interval and SP-3 the pooling area demonstrated an increasing trend with each 6" interval (see Table 1).

Groundwater

A search of the New Mexico State Engineers database ranking revealed depth to groundwater-0, wellhead protection-0, distance to groundwater-0.

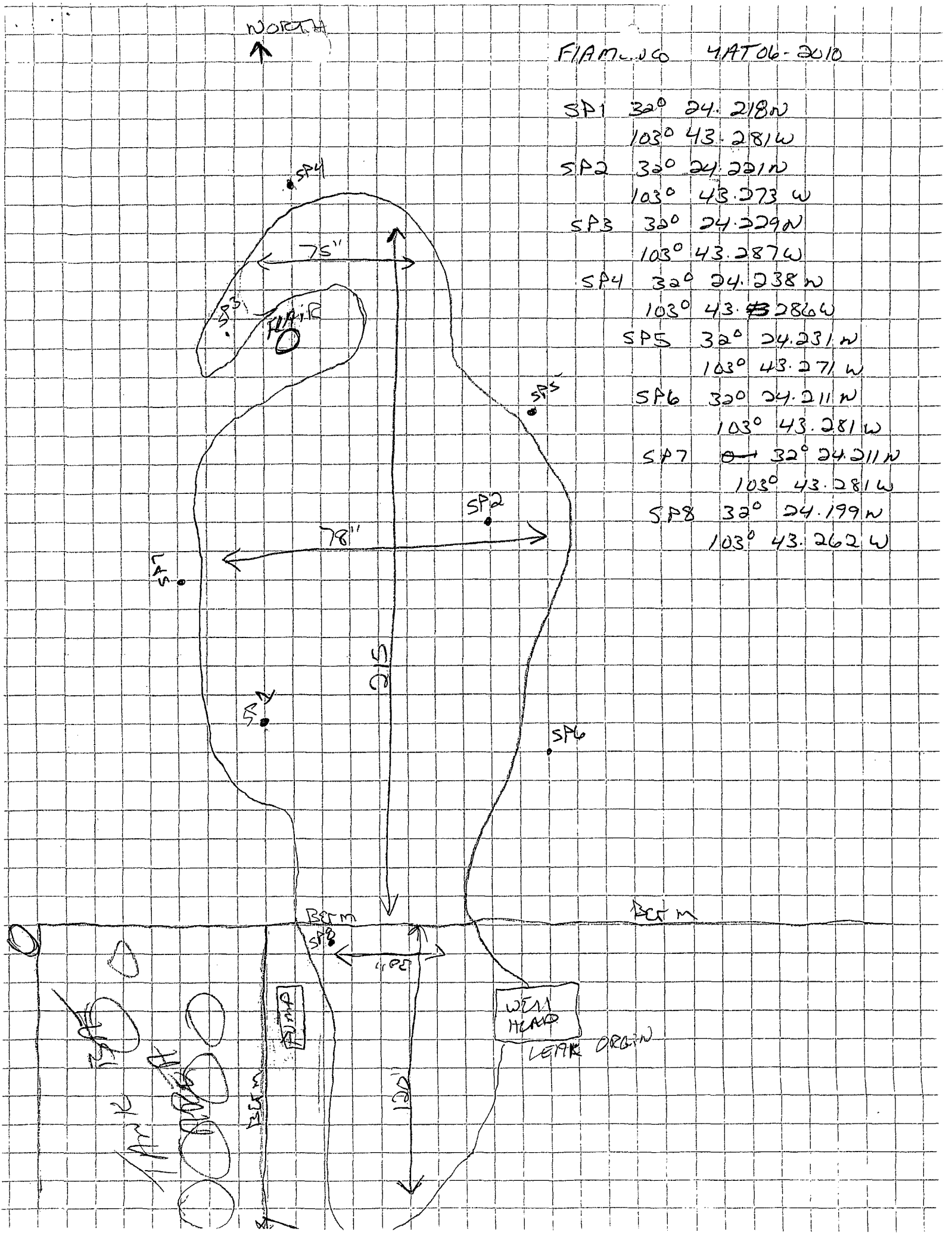
Remediation Recommendations

The proposed plan would be to excavate the impacted soils approximately two foot below ground surface and then backfill with clean soil to establish vegetation. During excavation the impacted soils will be placed on a 6-mil poly-liner and transported to an approved NMOCD landfill. After backfilling the area would be reseeded with the approved BLM seed appropriate for this area. Upon completion of these remedial activities Yates Petroleum Corporation and TALONLPE would ask that this site be considered remediated and closed.

Tables

Soil sample results for chlorides
Samples collected 4/19/06

Sample point	Depth	Results
SP-1	0-6"	20500
SP-1	6-12"	8470
SP-1	12-24"	2490
SP-1	24-36"	581
SP-2	0-6"	7630
SP-2	6-12"	11500
SP-2	12-24"	8020
SP-2	24-36"	3190
SP-3	0-6"	1030
SP-3	6-12"	4860
SP-3	12-24"	5770
SP-3	24-36"	12300
SP-4	0-6"	16.5
SP-5	0-6"	21
SP-6	0-6"	22.7
SP-7	0-6"	23.2
SP-8	0-12"	3550
SP-8	12-24"	4050



FIAM...CO 4AT06-2018

SP1 32° 24.218 N
103° 43.281 W

SP2 32° 24.221 N
103° 43.273 W

SP3 32° 24.229 N
103° 43.287 W

SP4 32° 24.238 N
103° 43.286 W

SP5 32° 24.231 N
103° 43.271 W

SP6 32° 24.211 N
103° 43.281 W

SP7 32° 24.211 N
103° 43.281 W

SP8 32° 24.199 N
103° 43.262 W

YATES PETROLEUM CORPORATION

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

December 11, 2006

Mr. Larry Johnson
NMOCD District 1
1625 N. French Drive
Hobbs, NM 88240

Re: Kiwi "AKX" State #8
30-025-31889
Section 16, Township 22S, Range 32E
Lea County, New Mexico

Mr. Larry Johnson,

This letter is in response to the returned C-141 marked "Initial Report" which was originally faxed to your office on November 22, 2006 by Robert Asher, Environmental Regulatory Agent for Yates Petroleum Corporation and stamped received by your office the same date.

The C-141 was returned to us with a cover sheet which read **AE Order Number Banner.** Attached to this sheet was a "sticky note" with the words "**NEEDS CHLORIDES!".** It is unclear to Yates why this C-141 was returned, the significance of the **AE Order Number Banner** cover sheet and the attached sticky note. If you could provide Bob Asher with a written detailed explanation for these items I am sure he would be glad to provide you with what you need. In the future I would like to request that you provide Yates with a detailed letter explaining what you are requesting in lieu of vague "sticky notes". This would avoid confusion and be helpful for us as well as for you in getting these matters resolved in a timely and efficient manner.

If you should have any questions or concerns pertaining to this matter please feel free to email, call or write me.

Sincerely,

Jerry D. Fanning, Jr.
Environmental Coordinator
Yates Petroleum Corporation
(505)748-4195
jerryf@ypcnm.com

Cc: Lisa Norton, Environmental Director YPC

Wayne Price, NMOCD