

July 31, 2018

Certified Mail Return Receipt Requested; Receipt No.:

Rob Hendricks, Manager
Permian Water Solutions, LLC
600 Travis St., Ste. 4700
Houston, TX 77002-2913

Andy Rickard, Field Operations
Denise Jones, Regulatory Analyst
Cambrian Management, Ltd.
PO Box 272
Midland, TX 79701

*Via Email: arickard@cambrianmgmt.com
 djones@cambrianmgmt.com*

**Re: NOTICE OF POTENTIAL CANCELLATION
New Mexico State Land Office Salt Water Disposal Easement SW-0330-0003
Kaiser State #9, API 30-025-02538**

Dear Mr. Hendricks, Mr. Rickard & Ms. Jones:

The New Mexico State Land Office (SLO) has been in contact with you regarding the June 2018 spill on SW-0330-0003, Kaiser State #9, API # 30-025-02538, a copy of the easement is attached for your reference, and the associated environmental issues. Recent site visits indicate that Permian Water Solutions has been operating out of compliance for some time. As of the date of this letter, there are 7 active remediation permits: 1RP-3512, 1RP-3621, 1RP-4305, 1RP-4525, 1RP-4855, 1RP-4960, and 1RP-5139. SW-0330-0003 expired on January 7, 2018 and will not be renewed until all of the aforementioned environmental issues have been addressed to the satisfaction of the Commissioner of Public Lands. Should the remediation and reclamation not be completed within 60 days, SW-0330-0003 will be cancelled.

SLO seeks immediate communication with you to address its concerns about the lease and the condition of the state trust land. SLO requires that you address the active remediation permits and in particular, clean-up of the standing fluid on the lease and the releases off-lease within 60 days of your receipt of this letter. Your failure to address these issues and to restore the leased premises violates the terms of the easement (*See Paragraphs 5, 6, 7, 8, 17, 22, and 23*); these are legal requirements ***that survive the expiration of the easement and remain your responsibility.*** Should you not address the remediation, SLO has the option of taking enforcement action against you, including securing performance with the bonds on file.

Trespass enforcement

Until such time as a new salt water disposal easement has been negotiated with SLO, your continued operation and the improvements you have placed on the state trust land (storage tanks, equipment shed, telemetry tower, SWD well, truck unloading pad, perimeter fencing, pumps, piping, valves, etc.), are in trespass. Under New Mexico law, trespass on state trust land is a misdemeanor, punishable by a fine of not more than five hundred dollars (\$500) per day and imprisonment of up to six months (per §19-6-3 NMSA, 1978).

Environmental concerns

SLO is concerned about the release of produced water at the site and the open remediation permits.

SWD-0330-0003 contains terms that make the lessee liable for SLO's costs of any enforcement or litigation for default and failure to complete reclamation to SLO's satisfaction (See Paragraphs 8, 20, 22, 23 and 25).

SLO would prefer to negotiate a schedule for reclamation of the leased state trust land and renewal of the salt water disposal easement, rather than terminate the easement and use the judicial process. SLO requires that you complete the following within 60 days of the date of this letter (or by close of business October 1, 2018):

1. Conduct a full site delineation and provide the results to Ryan Mann and Andrea Antillon at the State Land Office;
2. Create a reclamation plan for the Kaiser #9 site to address the open remediation permits and the results of the site delineation, provide copies of the plan to Ryan Mann and Andrea Antillon; and
3. Satisfy all requirements on all open remediation permits.

Doing business with SLO and the Commissioner of Public Lands is very different from doing business with standard landlords and lessors. New Mexico's Commissioner of Public Lands holds a unique constitutional and statutory position and responsibilities, and he has a fiduciary duty to manage state trust land for the benefit of SLO's beneficiaries.

If SLO does not receive the items listed above from you on or before the due date, SLO will be forced to consider the following options:

- A. Cancellation of SW-0330-0003;
- B. Enforcing its trespass authority, including reimbursement of its costs for reclaiming and restoring the leased premises, plus trespass penalties and attorneys' fees; and
- C. Declaring that all improvements were abandoned by Permian Water Solutions and are the property of SLO to dispose of as it wishes.

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I would be happy to discuss this lease or this letter further with you or your attorney; you may contact me at (505) 827-5752 or aaantillon@slo.state.nm.us. Thank you for your cooperation in assisting SLO in fulfilling our trust responsibilities to the beneficiaries. We look forward to negotiating a prompt resolution of the issues raised in this letter.

Kind Regards,

Andrea Antillon
Associate Counsel

Enclosures: SW-330

cc: Olivia Yu, Environmental Specialist
NMOCD, District I
Via email: Olivia.yu@state.nm.us