

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jon Goldstein
Cabinet Secretary

Jim Noel
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



February 19, 2010

Liquid Resource Services, LLC
1819 N. Turner, Suite B
Hobbs, NM 88240

Certified Mail No.: 7009 2820 0003 9518 2923

FORMAL NOTICE **OPERATOR REQUIRED TO SHUT IN INJECTION WELL**

Re: Liquid Resource Services, LLC, OGRID 243571
Hobbs State #3, 30-025-23621
Administrative Order SWD-121

Dear Operator:

This letter provides formal notice to Liquid Resource Services LLC that it must shut in the Hobbs State #3 well until it can demonstrate that the well confines injected fluids to the authorized injection zone or zones. By copy of this letter, I am notifying the Hobbs District Office that the well must be shut in. Hobbs District Office inspectors will be checking the well to determine if it is in compliance with this notice.

19.15.26.10(E) NMAC authorizes the OCD to shut in injection wells that have exhibited failure to confine injected fluids to the authorized injection zone or zones until the operator has identified and corrected the failure. Liquid Resource Services, LLC (Liquid Resource), the operator of record of the Hobbs State #3, filed a report with the Oil Conservation Division (OCD) indicating that "bad pipe" exists in the well below 4150.' Administrative Order SWD-121 permits the well for disposal into the San Andres from 5144' to 5170.' If "bad pipe" exists below 4150' the well is disposing of water out of the permitted depth range, in violation of Administrative Order SWD-121 and 19.15.26 NMAC.

By letter dated September 9, 2009, the OCD required Liquid Resource to run an e-log from total depth to surface to demonstrate that the well was not injecting out of zone, apply for and obtain an injection permit allowing injection from 4136' to 5170,' or cease injection. A copy of that letter is enclosed. Liquid Resource did not challenge the



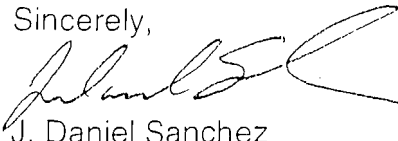
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OCD's assertion that the well was disposing of water outside the permitted depth range. Instead it chose to apply for an injection permit with a revised injection zone. Oxy USA, Inc. protested the application. Liquid Resource has not pursued its application by filing a request for hearing.

Pursuant to 19.15.26.10(E) NMAC the OCD notifies Liquid Resource that it must shut in the Hobbs State #3 until it demonstrates that the well is confining injected fluids to the authorized zone.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Daniel Sanchez", with a long horizontal flourish extending to the right.

J. Daniel Sanchez

Underground Injection Control Director for the State of New Mexico

EC: Larry "Buddy" Hill, Hobbs District Office
Sylvia Dickey, Hobbs District Office
William Jones, OCD Engineer

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Liquid Resource Services, LLC
1819 N. Turner, Ste. B
Hobbs, NM 88240

2. Article Number

(Transfer from service label)

7009 2820 0003 9518 2923

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☐ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

CERTIFIED MAIL

7009 2820 0003 9518 2923

CERTIFIED MAIL RECEIPT
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OFFICIAL U.S. MAIL

Postage \$

Certified Fee \$

Return Receipt Fee (Endorsement Required)

Restricted Delivery Fee (Endorsement Required)

Total Postage & Fees \$

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Sent To Liquid Resource Services, LLC
Street, Apt. No. or PO Box No. 1819 N. Turner, Suite B
City, State, ZIP+4 Hobbs, NM 88240