BW - ___031____

PERMITS, RENEWALS, & MODS

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 Department

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

Revised June 10, 2003

Submit Original
Plus 1 Copy
to Santa Fe
1 Copy to Appropriate
District Office

RECEIVED OCD
2011 JUL 21 A 11:52

DISCHARGE PLAN APPLICATION FOR BRINE EXTRACTION FACILITES

(Refer to the OCD Guidelines for assistance in completing the application)

☐ New ☒ Renewal

I. Facility Name: H.R.C. Brine Facility – Schubert 7 Well #1

II. Operator: H.R.C., Inc.

Address: P.O. Box 5102 Hobbs, NM 88241

Contact Person: Gary M. Schubert Phone: 575-393-3194

III. Location: NW /4 SE /4 Section 7 Township 19S Range 39E
Submit large scale topographic map showing exact location.

IV. Attach the name and address of the landowner of the facility site.

V. Attach a description of the types and quantities of fluids at the facility.

VI. Attach a description of all fluid transfer and storage and fluid and solid disposal facilities.

VII. Attach a description of underground facilities (i.e. brine extraction well).

VIII. Attach a contingency plan for reporting and clean-up of spills or releases.

IX. Attach geological/hydrological evidence demonstrating that brine extraction operations will not adversely impact fresh water.

X. Attach such other information as is necessary to demonstrate compliance with any other OCD rules, regulations and/or orders.

XI. CERTIFICATION:

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

Name: GARY M. SCHUBERT Title: PRES.

Signature: Gary M. Schubert Date: 7/18/11

E-mail Address: GARYMSCHUBERT@GMAIL.COM

H.R.C. BRINE FACILITY

DISCHARGE PLAN RENEWAL APPLICATION FOR
BRINE EXTRACTION FACILITY

I. H.R.C. Brine Facility – Schubert 7 Well #1

II. H.R.C., Inc.
P.O. Box 5102
Hobbs, NM 88241
Gary M. Schubert (575) 393-3194

III. Brine Well Location:
NW ¼ of SE ¼ Section 7 Township 19S Range 39E
Fluid Transfer and Storage Facility:
SE ¼ of SE ¼ Section 26 Township 19S Range 38E

IV. Landowner:
Gary M. and Marcia Schubert
P.O. Box 5102
Hobbs, NM 88241
Lea County tax and ownership records attached.

V. This facility will store brine water produced from the underground salt formation at the site. No other fluids will be stored at the facility. Salt brine will be recovered up the tubing from the Schubert 7 Well #1 and stored in 500 bbl., above ground tanks. These tanks will be located atop polyethylene with a dike system surrounding them. The diked area will conform to regulations by being capable of holding 133% of the brine tanks combined capacity. The volume of brine production will be determined by demand in association with oil and gas drilling activities, and will vary from month to month. Based on activity at other associated facilities, this volume could be 12,000 to 15,000 barrels per month.

VI. Fluid Transfer and Storage:
Treated effluent water (City of Hobbs) will be received at the brine well for injection from the S & H Enterprises Inc. Farm water supply system via polyethylene pipe, the connection to the system is approximately 4 miles south of the Shubert 7 Well #1. The fresh water line will be connected to the suction side of a pump which will pump fresh water down the annulus of the well casing at a rate of approximately 60 barrels per hour and a normal operating pressure from 200-250 psi. Brine water will be produced through the tubing and delivered to the 500 bbl. tanks by polyethylene piping. All piping is low pressure with tank head pressure less than 50 psi. All piping will be above ground and visible for inspection and on site leak detection.

Brine water will is transported from the site by tanker truck for sale and use in oil and gas drilling/production operations. Tanker trucks are positioned inside a polyethylene lined diked loading area to retain fluids in the event of an accidental discharge or

spill. Brine water flows from the storage tanks to the header system by piping positioned above the poly liner. The header system and loading area has been reconfigured to accommodate more trucks with ease of access and more attention to detail concerning spills and leaks as a result of loading. Tank trucks connect to the header valve by hose and the truck pumps pull brine from the storage tanks and discharge into the tanker. When loading is completed, Operators of the trucks will close the header valve and continue to empty the hose. This should prevent any leaks or spills, however, as an additional precaution; above ground drip tanks are located at each valve to mitigate any spillage or drips. During the loading of brine, the station is never unattended as the operator must also fill out a run ticket with volume and destination of the product. These tickets are used for billing and for monitoring the volume of fresh water and brine production.

A meter is installed at the fresh water connection. This meter is used by S & H Farms for billing purposes and by H.R.C. in calculating volumes. The brine well injection pump is a positive displacement system. The pump generally pumps at the same flow rate. A pressure gauge is installed on the pump discharge which records operating pressure and run time. Run time multiplied by pump flow rate gives an indication of water volume pumped into the formation and brine water recovered. Tank gauges, fresh water meter readings, pump run time and product run tickets are all compared to assess the integrity of the operation. The volume of fresh water injected and the volume of brine produced will be recorded monthly and submitted to the OCD office in Santa Fe on a quarterly schedule.

Tanks and piping are above ground for leak detection and quick response. Diked areas prevent storm water run-off. Any water that does accumulate will be vacuumed up and hauled to an OCD approved disposal facility. H.R.C. makes daily inspections of the facility for leaks and damaged equipment, with these records being kept on file, including any corrections or repairs to the facility.
After original approval the casing was pressure tested for integrity. The MIT testing schedule has remained in effect for the 5 year schedule. The tubing-casing formation test is still conducted annually to insure integrity.

No fluids or solids are disposed of on site. All brine fluids will be sold for use or stored in tanks. In the event it becomes necessary to dispose of brine fluids, they will be taken to an OCD approved facility for disposition. Any solids requiring disposal will also be taken to an OCD approved facility.

Closure Plan:
In the event it becomes necessary to abandon this facility, the well will be properly plugged and abandoned according to the specifications recommended by the OCD at the time of closure, and will meet the groundwater protection requirements of the WQCC. All fluids and solids that remain will be transported to an OCD approved waste facility for disposition. After all surface equipment is removed; the area will be remediated and graded in a manner to reflect its original condition.

VII. Description of Underground Facilities:

The brine well's construction and piping are the only underground facilities. A schematic of the completion and its existing status are included.

The well contains 8 5/8" production casing set at approximately 1600' with cement circulated to surface. 2 7/8" production tubing drilled into salt cavity and set approximately 2400'.

General operation is to pump fresh water down the tubing casing annulus and produce brine up the tubing. Once a month the flow is reversed for 24 hours to dissolve any buildup in the tubing.

Mechanical integrity tests are conducted on the well and salt dome foundation as OCD designates. The well and formation are pressured up to one and one half times the normal operating pressure and shut in for four hours with pressure recorded on a pressure chart. The OCD notifies H.R.C. of the date and time for testing so it can be witnessed.

Cavity configuration tests will be conducted as required by OCD to determine size and orientation of the mined cavity. Although the Cavity Configuration Test is due this year, H.R.C. would respectfully request that it be deferred till a later date. Supporting evidence of this request includes the references to all fresh and brine water is metered, all MIT initiated by the OCD have been passed and this particular facility is relatively new in its operation in comparison to the fiscal responsibility of the test to be conducted.

The OCD office will be notified for approval prior to any drilling, deepening, or plug back operations, as well as any remedial work, altering the well or if a plugging procedure has been initiated, using the appropriate forms and notification channels.

VIII. Reporting and Cleanup of Spills:

All above ground piping and tanks are visually inspected for leaks by company personnel during each site visit. Any associated problems with leaks or damage to equipment, or well abnormality will be taken to the attention of H.R.C. supervisor immediately. The supervisor will assess the problem and proceed with proper notification and corrective actions to resolve the issue as required by rule 116.

IX. Site Characteristics:

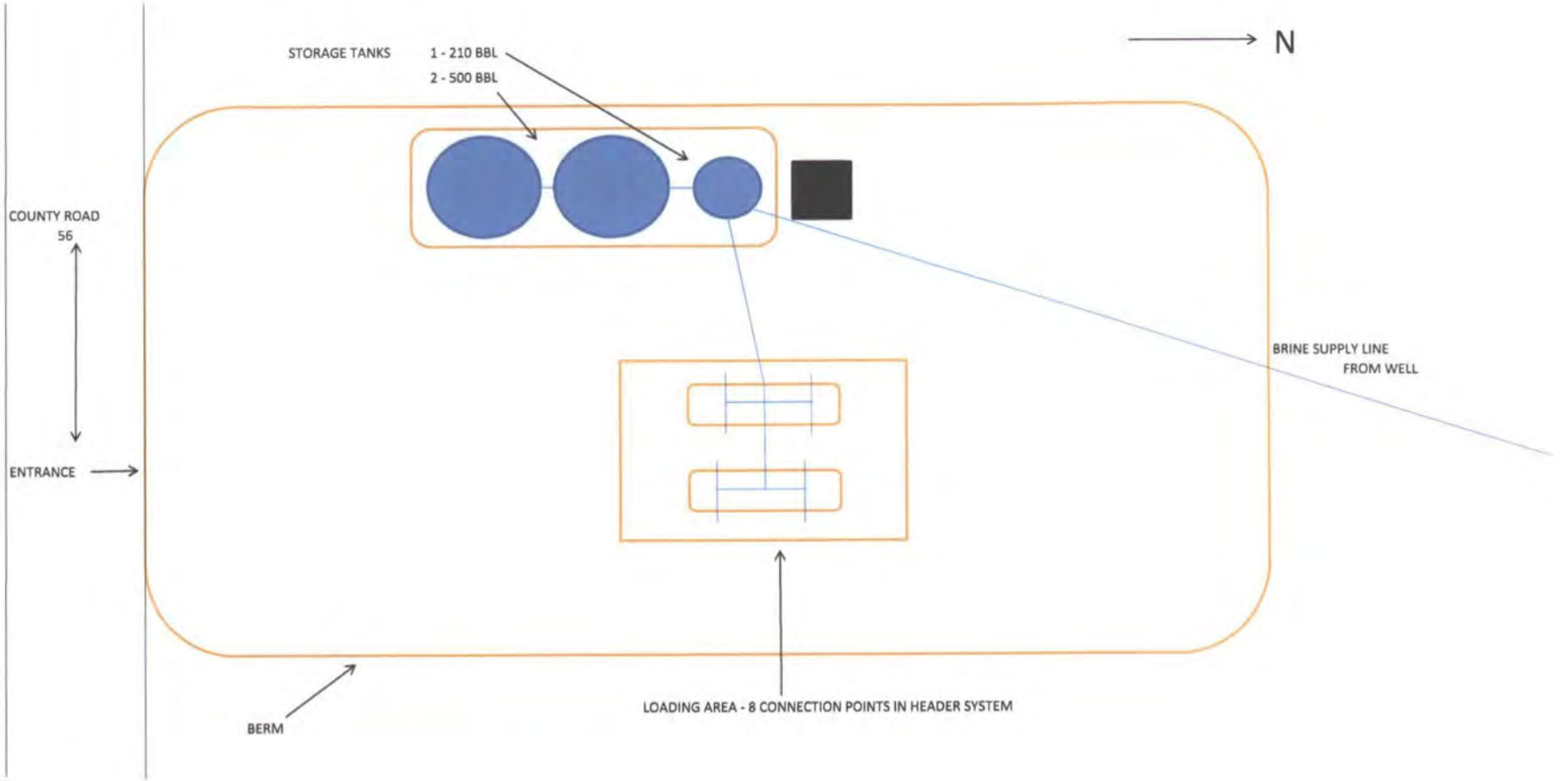
The brine storage facility is located southeast of Hobbs, NM adjacent to county road #56. The area is relatively flat with only slight differences in elevation. There is no surface water within close proximity to the site. Average rainfall for this area is 12 to 15 inches annually. The last recorded 100 year flood was in 1990, where 10 inches of rain was recorded in a 24 hour period. In normal conditions, rain soaks in and is absorbed into the soil as fast as it precipitates. With the present facility design, it is highly unlikely any run off or run on of the property would occur. If, in the future, problems were to occur, revisions to the discharge plan for this facility would be incorporated.

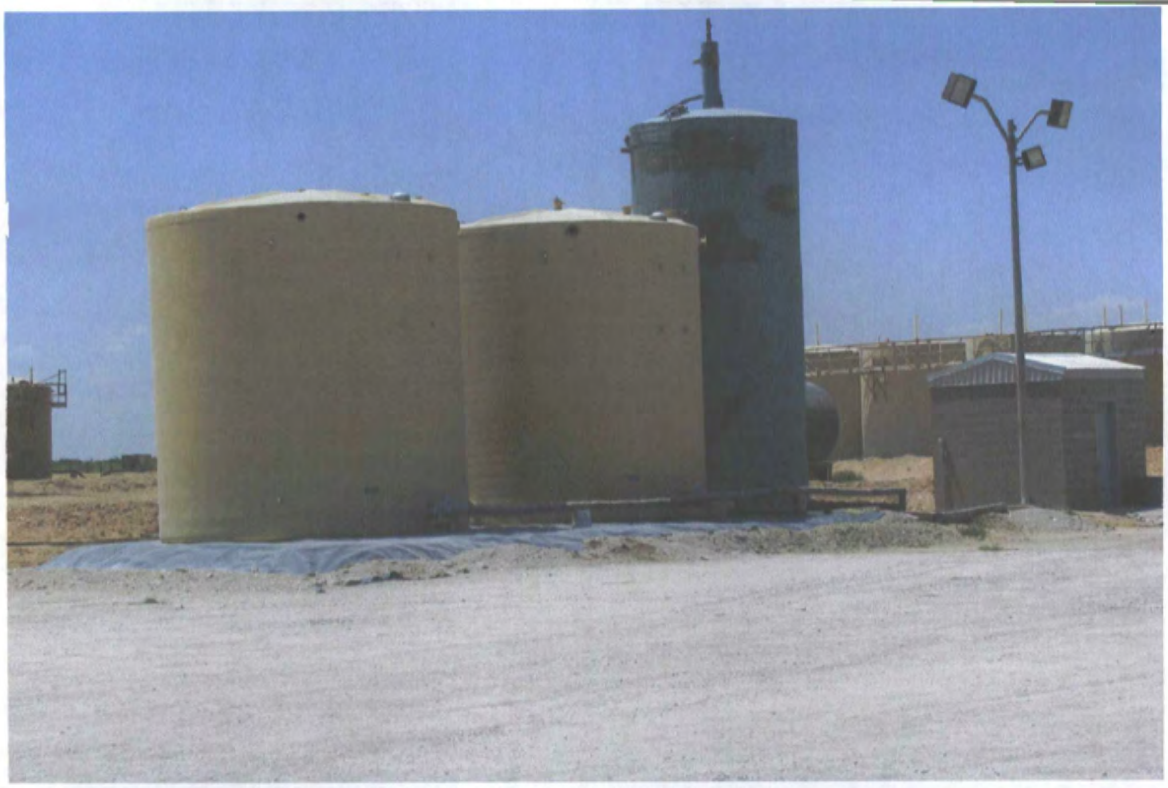
Hydrology:
Underground aquifers in this area are the Ogallala and Quaternary Alluvium formations. The groundwater in these formations is unconfined where the underlying red beds are relatively impermeable. This underlying layer prevents further downward or upward movement. From information reviewed, the groundwater flow from the Ogallala flows to the south, southeast and ranges in water level from 50' to 70' below ground surface, with the average depth of water supply wells being 150'. Please find attached a list of wells within the general area and analytical results from one of them.

Geology:
The location of the facility is within the region known as the Central Basin Platform of the Permian Basin. The sub-surface formations are transitional between the Delaware Basin's back reef or shelf area and the platform. The brine product is from the Salado formation of the Ochoa series. This series is of upper Permian Age, and extends across the Delaware Basin, Central Basin Platform, thins and pinches out on the eastern shelf. Layers in this series are predominately evaporates which contain strings of dolomite, shale, siltstone, and sandstone. The thickness of the salt section averages around 1000'. The Triassic rock overlying the Permian formation is the Dockum group, and is divisible into the Santa Rosa sandstone and Chinle formation. The Tertiary rocks are represented by the Ogallala formation and ranges in thickness from 0' to 300' within this generalized area. Chiefly calcareous, unconsolidated sand, clay, silt and gravel, this formation is where most of Lea County obtains its drinking water from.

X. H.R.C., Inc. will comply with any rule, regulation or order which the OCD currently has or any new rule and regulation that pertains to this type of facility that OCD may initiate in the future.

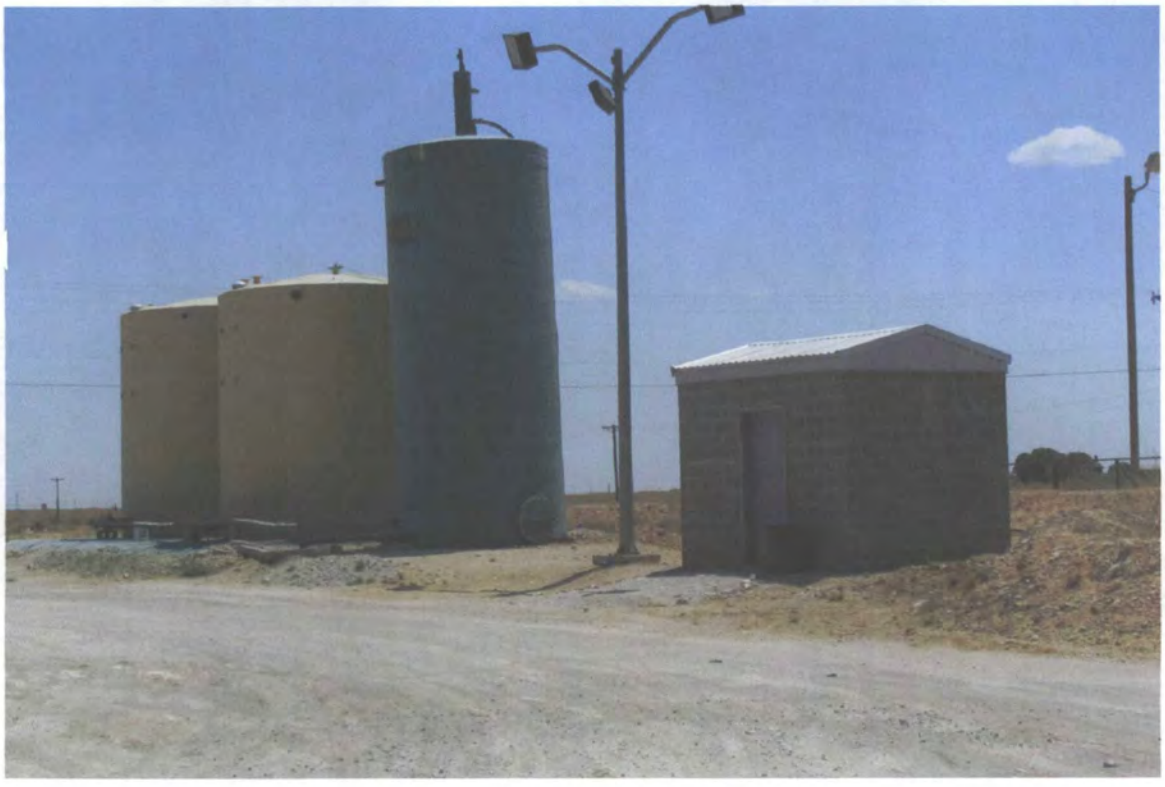
H.R.C., INC.
BRINE STORAGE/LOADING FACILITY






ETZ
ETZ


BRINE
WATER




ETZ
WATER STATION
575-393-3194

ATTACHMENT TO THE DISCHARGE PLAN BW-031 APPROVAL
H.R.C. Inc. Schubert '7' Well No.1 Brine Station (BW-031)
DISCHARGE PLAN APPROVAL CONDITIONS
June 22, 2006

1. Payment of Discharge Plan Fees: The $100.00 filing fee has been received by OCD. The $1700.00 flat fee shall be submitted upon receipt of this approval. The required flat fee may be paid in a single payment due at the time of approval, or in equal annual installments over the duration of the plan, with the first payment due upon receipt of this approval.

2. Commitments: H.R.C. Inc. will abide by all commitments submitted in the discharge plan application, subsequent information supplied and these conditions for approval.

3. Production Method: Fresh water (City of Hobbs effluent) will be injected down the casing and brine shall be recovered up the tubing. Reverse flow will be allowed only once a month for up to 24 hours for clean out.

4. Maximum Injection Pressure: The maximum operating injection and/or test pressure at the well head will be such that the fracture pressure of the injection formation will not be exceeded and will not cause new fractures or propagate existing fractures or cause damage to the system.

   The maximum injection pressure will be limited to 250 psig and the maximum test pressure will not exceed 375 psig.

5. Mechanical Integrity Testing: H.R.C. Inc. will conduct an annual open to formation pressure test by pressuring up the formation with fluids to 375 psig for four hours. However, no operator may exceed surface injection or test pressures that may cause formation fracturing (see item 4 above) or system failures. Systems requiring test pressures less than 300 psig or methods that use testing media other than fluids, i.e. gas, must be approved by OCD prior to testing. Brine supply wells operating with isolation packers will have to pressure test both the cavern formation and casing/tubing annuals.

   At least once every five years and during well work-overs the cavern formation will be isolated from the casing/tubing annuals and the casing pressure tested at 300 psig for 30 minutes. All pressure test must be witnessed by OCD.

6. Production/Injection Volumes/Annual Report: The volumes of fluids injected (fresh water) and produced (brine) will be recorded monthly and submitted to the OCD Santa Fe Office in an annual report due on the thirty-first (31) day of January of each year.

7. Analysis of Injection Fluid and Brine: Provide an analysis of the injection fluid and brine with each annual report. Analysis will be for General Chemistry (Method 40 CFR 136.3) using EPA methods.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. Below Grade Tanks/Sumps: All below grade tanks, sumps, and pits must be approved by the OCD prior to installation or upon modification and must incorporate secondary containment and leak-detection into the design. All pre-existing sumps and below-grade tanks must be tested to demonstrate their mechanical integrity no later than December 31, 2002 and every year from tested date, thereafter. Permittees 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. The test results will be submitted to OCD in the annual report.

14. Underground Process/Wastewater Lines: All underground process/wastewater pipelines must be tested to demonstrate their mechanical integrity no later than December 31, 2002 and every 5 years, from tested date, thereafter. Permittees 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. The test results will be submitted to OCD in the first annual report.

15. 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.

16. Well Work Over Operations: OCD approval will be obtained from the Director prior to performing remedial work, pressure test or any other Work over. Approval will be requested on OCD Form C-103 "Sundry Notices and Reports on Wells" (OCD Rule 1103.A.) with appropriate copies sent to the OCD Hobbs District Office.

17. 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. All spill collection and/or secondary containment devices will be emptied of fluids within 48 hours of discovery. A record of inspections will be retained on site for a period of five years.

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

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

20. 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 plan, and existing process knowledge of the waste stream does not change without notification to the Oil Conservation Division.

21. 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.

22. 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.

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

24. Storm Water Plan: H.R.C. Inc. will submit in the first annual report a storm water run-off plan for OCD approval.

25. Capacity/ Cavity Configuration and Subsidence Survey: The operator shall provide information on the size and extent of the solution cavern and geologic/engineering data demonstrating that continued brine extraction will not cause surface subsidence, collapse or damage to property, or become a threat to public health and the environment. This information shall be supplied in each annual report. OCD may require the operator to perform additional well surveys, test, and install subsidence monitoring in order to demonstrate the integrity of the system. If the operator cannot demonstrate the integrity of the system to the satisfaction of the Division then the operator may be required to shut-down, close the site and properly plug and abandoned the well.

26. Monitor Well: The monitor well shall be located along the local groundwater flow direction and directly down-gradient of the brine well and situated within 50 feet of the brine well. The well shall be constructed, developed, purged and samples analyzed pursuant to approved EPA methods. Except for the initial well sampling event as proposed in the discharge plan, the monitor well shall be sampled and analyzed for general chemistry twice a year with the results submitted in the annual report. Discovery of groundwater contamination shall be reported pursuant to Item #18 above.

27. Area of Review: There are no wells located within the applicable area of review.

28. Well Construction / Recompletion: Prior to commencing operations, H.R.C. Inc. will recomplete the existing wellbore to include a water protection string of casing from surface to the "Red Beds". Additionally, the 8-5/8" casing will extend a minimum of 100 feet into the salt section with both strings cemented back to surface.

29. Certification: **H.R.C. Inc.** by the officer whose signature appears below, accepts this permit and agrees to comply with all terms and conditions contained herein. **H.R.C. 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.

Conditions accepted by: **H.R.C. Inc.**

Gary M. Schubert
Company Representative - print name

_____ Date 7/24/06
Company Representative - signature

Title Pres.

HRC, INC.

Water Quality Management Fund	Discharge Permit	7/24/2006	[redacted]
			1,700.00

First National Bank	Schubert 7 Well #1	1,700.00

	Description	FUND	CES	DFA ORG	DFA ACCT	ED ORG	ED ACCT	AMOUNT	
									1
1	___ CY Reimbursement Project _____ Tax ___	064	01		2329	900000	2329134		2
5	___ Gross Receipt Tax	064	01		1696	900000	4169134		3
3	___ Air Quality Title V	092	13	1300	9696	900000	4969014		4
4	___ PRP Prepayments	248	14	1400	9696	900000	4969015		5
2	___ Climax Chemical Co.	248	14	1400	9696	900000	4969248		6
6	___ Circle K Reimbursements	248	14	1400	9696	900000	4169027		7
7	___ Hazardous Waste Permits	339	27	2700	1696	900000	4169339		8
8	___ Hazardous Waste Annual Generator Fees	339	27	2700	1696	900000	4169339		8
10	✓ Water Quality - Oil Conservation Division	341	29		2329	900000	2329029	1700 00	10
11	___ Water Quality - GW Discharge Permit	341	29	2900	1696	900000	4169029		11
12	___ Air Quality Permits	631	31	2500	1696	900000	4169031		12
13	___ Payments under Protest	851	33		2919	900000	2919033		13
*14	___ Xerox Copies	652	34		2349	900000	2349001		*14
15	___ Ground Water Penalties	652	34		2349	900000	2349002		15
16	___ Witness Fees	652	34		2349	900000	2439003		16
17	___ Air Quality Penalties	652	34		2349	900000	2349004		17
18	___ OSHA Penalties	652	34		2349	900000	2349005		18
19	___ Prior Year Reimbursement	652	34		2349	900000	2349006		19
20	___ Surface Water Quality Certification	652	34		2349	900000	2349009		20
21	___ Jury Duty	652	34		2349	900000	2349012		21
22	___ CY Reimbursements (i.e. telephone)	652	34		2349	900000	2349014		22
*23	___ UST Owner's List	783	24	2500	9696	900000	4969201		*23
*24	___ Hazardous Waste Notifiers List	783	24	2500	9696	900000	4969202		*24
*25	___ UST Maps	783	24	2500	9696	900000	4969203		*25
*26	___ UST Owner's Update	783	24	2500	9696	900000	4969205		*26
*28	___ Hazardous Waste Regulations	783	24	2500	9696	900000	4969207		*28
*29	___ Radiologic Tech. Regulations	783	24	2500	9696	900000	4969208		*29
*30	___ Superfund CERLIS List	783	24	2500	9696	900000	4969211		*30
31	___ Solid Waste Permit Fees	783	24	2500	9696	900000	4969213		31
32	___ Smoking School	783	24	2500	9696	900000	4969214		32
*33	___ SWQB - NPS Publications	783	24	2500	9696	900000	4969222		*33
*34	___ Radiation Licensing Regulation	783	24	2500	9696	900000	4969228		*34
*35	___ Sale of Equipment	783	24	2500	9696	900000	4969301		*35
*36	___ Sale of Automobile	783	24	2500	9696	900000	4969302		*36
**37	___ Lust Recoveries	783	24	2600	9696	900000	4969814		**37
**38	___ Lust Repayments	783	24	2500	9696	900000	4969815		**38
39	___ Surface Water Publication	783	24	2500	9696	900000	4969801		39
40	___ Exxon Reese Drive Ruidoso - CAF	783	24	2500	9696	900000	4969242		40
41	___ Emerg. Hazardous Waste Penalties NOV	957	32	9600	1696	900000	4164032		41
42	___ Radiologic Tech. Certification	987	05	0500	1696	900000	4169005		42
44	___ Ust Permit Fees	989	20	3100	1696	900000	4169020		44
45	___ UST Tank Installers Fees	989	20	3100	1696	900000	4169021		45
46	___ Food Permit Fees	991	26	2600	1696	900000	4169026		46
43	___ Other								43
							TOTAL	1700 00	

Gross Receipt Tax Required — Site Name & Project Code Required

ontact Person: Wayne Price Phone: 476-3490 Date: 8/25/06

eceived in ASD By: _____ Date: _____ RT #: _____ ST # : _____

FS8025
Revised 07/07/00

ACKNOWLEDGEMENT OF RECEIPT OF CHECK/CASH

I hereby acknowledge receipt of check No. [redacted] dated 7/24/06

or cash received on _____ in the amount of $ 1700 00

from HRC, Inc

for BW-031

Submitted by: Lawrence Romero Date: 8/25/06

Submitted to ASD by: Lawrence Romero Date: 8/25/06

Received in ASD by: _____ Date: _____

Filing Fee _____ New Facility _____ Renewal _____

Modification _____ Other _____

Organization Code 521.07 Applicable FY 2004

To be deposited in the Water Quality Management Fund.

Full Payment ✓ or Annual Increment _____

HRC, INC.
P.O. BOX 1606
HOBBS, NM 88241
(505) 393-3194

FIRST NATIONAL BANK
600 W. BENDER (505) 392-9200
P.O. BOX 460
HOBBS, NM 88241
95-43/1122

[redacted]

7/24/2006

PAY TO THE ORDER OF Water Quality Management Fund $ **1,700.00

One Thousand Seven Hundred and 00/100********** DOLLARS

Water Quality Management Fund
C/O Oil Conservation Dept.
1220 S. Saint Francis Dr.
Santa Fe, NM 87505

AUTHORIZED SIGNATURE

MEMO Schubert 7 Well #1

[redacted]

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

June 22, 2006

Mr. Gary Schubert
H.R.C. Inc.
P.O. Box 5102
Hobbs, New Mexico 88241

Re: Discharge Plan Application
H.R.C. Inc. Schubert '7' Well No.1 Brine Well BW-031
Lea County, New Mexico

Dear Mr. Schubert:

The groundwater discharge plan for the Schubert '7' Well No.1 (API No.30-025-36781, formerly Sahara No.1) Brine Well and Station BW-031 operated by H.R.C. Inc. located 2313 feet FSL and 2313 feet FEL (NW/4 SE/4) of Section 7, Township 19 South, Range 39 East, NMPM, Lea County, New Mexico **is hereby approved to construct and operate** 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 discharge plan application was submitted on March 23, 2005. Subsequent data was requested by this office and received from H.R.C. Inc. on January 10, 2006. This application including attachments was submitted pursuant to Section 5101.B.3. of the New Mexico Water Quality Control Commission (WQCC) Regulations. The discharge plan is issued 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 H.R.C. 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., H.R.C. 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 June 22, 2011** 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.

The discharge plan application for the H.R.C. Inc. Schubert '7' Well No.1 Brine Station 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 flat 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 Ben Stone of my staff at (505-476-3487). 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,

Wayne Price
Environmental Bureau Chief
LWP/BES

Cc: Hobbs District Office

Attachments: Approval Conditions
C-101 - APD

ATTACHMENT TO THE DISCHARGE PLAN BW-031 APPROVAL
H.R.C. Inc. Schubert '7' Well No.1 Brine Station (BW-031)
DISCHARGE PLAN APPROVAL CONDITIONS
June 22, 2006

1. Payment of Discharge Plan Fees: The $100.00 filing fee has been received by OCD. The $1700.00 flat fee shall be submitted upon receipt of this approval. The required flat fee may be paid in a single payment due at the time of approval, or in equal annual installments over the duration of the plan, with the first payment due upon receipt of this approval.

2. Commitments: H.R.C. Inc. will abide by all commitments submitted in the discharge plan application, subsequent information supplied and these conditions for approval.

3. Production Method: Fresh water (City of Hobbs effluent) will be injected down the casing and brine shall be recovered up the tubing. Reverse flow will be allowed only once a month for up to 24 hours for clean out.

4. Maximum Injection Pressure: The maximum operating injection and/or test pressure at the well head will be such that the fracture pressure of the injection formation will not be exceeded and will not cause new fractures or propagate existing fractures or cause damage to the system.

   The maximum injection pressure will be limited to 250 psig and the maximum test pressure will not exceed 375 psig.

5. Mechanical Integrity Testing: H.R.C. Inc. will conduct an annual open to formation pressure test by pressuring up the formation with fluids to 375 psig for four hours. However, no operator may exceed surface injection or test pressures that may cause formation fracturing (see item 4 above) or system failures. Systems requiring test pressures less than 300 psig or methods that use testing media other than fluids, i.e. gas, must be approved by OCD prior to testing. Brine supply wells operating with isolation packers will have to pressure test both the cavern formation and casing/tubing annuals.

   At least once every five years and during well work-overs the cavern formation will be isolated from the casing/tubing annuals and the casing pressure tested at 300 psig for 30 minutes. All pressure test must be witnessed by OCD.

6. Production/Injection Volumes/Annual Report: The volumes of fluids injected (fresh water) and produced (brine) will be recorded monthly and submitted to the OCD Santa Fe Office in an annual report due on the thirty-first (31) day of January of each year.

7. Analysis of Injection Fluid and Brine: Provide an analysis of the injection fluid and brine with each annual report. Analysis will be for General Chemistry (Method 40 CFR 136.3) using EPA methods.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. Below Grade Tanks/Sumps: All below grade tanks, sumps, and pits must be approved by the OCD prior to installation or upon modification and must incorporate secondary containment and leak-detection into the design. All pre-existing sumps and below-grade tanks must be tested to demonstrate their mechanical integrity no later than December 31, 2002 and every year from tested date, thereafter. Permittees 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. The test results will be submitted to OCD in the annual report.

14. Underground Process/Wastewater Lines: All underground process/wastewater pipelines must be tested to demonstrate their mechanical integrity no later than December 31, 2002 and every 5 years, from tested date, thereafter. Permittees 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. The test results will be submitted to OCD in the first annual report.

15. 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.

16. Well Work Over Operations: OCD approval will be obtained from the Director prior to performing remedial work, pressure test or any other Work over. Approval will be requested on OCD Form C-103 "Sundry Notices and Reports on Wells" (OCD Rule 1103.A.) with appropriate copies sent to the OCD Hobbs District Office.

17. 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. All spill collection and/or secondary containment devices will be emptied of fluids within 48 hours of discovery. A record of inspections will be retained on site for a period of five years.

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

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

20. 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 plan, and existing process knowledge of the waste stream does not change without notification to the Oil Conservation Division.

21. 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.

22. 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.

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

24. Storm Water Plan: H.R.C. Inc. will submit in the first annual report a storm water run-off plan for OCD approval.

25. Capacity/ Cavity Configuration and Subsidence Survey: The operator shall provide information on the size and extent of the solution cavern and geologic/engineering data demonstrating that continued brine extraction will not cause surface subsidence, collapse or damage to property, or become a threat to public health and the environment. This information shall be supplied in each annual report. OCD may require the operator to perform additional well surveys, test, and install subsidence monitoring in order to demonstrate the integrity of the system. If the operator cannot demonstrate the integrity of the system to the satisfaction of the Division then the operator may be required to shut-down, close the site and properly plug and abandoned the well.

26. Monitor Well: The monitor well shall be located along the local groundwater flow direction and directly down-gradient of the brine well and situated within 50 feet of the brine well. The well shall be constructed, developed, purged and samples analyzed pursuant to approved EPA methods. Except for the initial well sampling event as proposed in the discharge plan, the monitor well shall be sampled and analyzed for general chemistry twice a year with the results submitted in the annual report. Discovery of groundwater contamination shall be reported pursuant to Item #18 above.

27. Area of Review: There are no wells located within the applicable area of review.

28. Well Construction / Recompletion: Prior to commencing operations, H.R.C. Inc. will recomplete the existing wellbore to include a water protection string of casing from surface to the "Red Beds". Additionally, the 8-5/8" casing will extend a minimum of 100 feet into the salt section with both strings cemented back to surface.

29. Certification: **H.R.C. Inc.** by the officer whose signature appears below, accepts this permit and agrees to comply with all terms and conditions contained herein. **H.R.C. 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.

Conditions accepted by: **H.R.C. Inc.**

_____
Company Representative - print name

_____Date_____
Company Representative - signature

Title_____