

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

NMOCD - OGA 03

IN THE MATTER OF WILLIAMS PRODUCTION COMPANY, LLC,

Respondent.

SETTLEMENT AGREEMENT

This settlement agreement ("Agreement") is entered into pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended. ("Act"), and the regulations promulgated under the Act, between and among the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico ("OCD") and WILLIAMS PRODUCTION COMPANY, LLC ("Williams") this ____ day of January, 2004.

WHEREAS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Williams is a limited liability company organized in Delaware and authorized to do business in the State of New Mexico under Public Regulation Commission ("PRC") SCC number 2152643. 3. According to PRC records, Williams is an active entity in good standing with a principal and mailing address at One Williams Center, Tulsa, Oklahoma 74172. Its registered agent for service of process in New Mexico is CT Corporation System, 123 East Marcy, Santa Fe, NM 87501.
4. On June 13, 2003, Mr. Bruce Martin, Deputy Oil and Gas Inspector for the OCD, noticed water spraying at Williams' Rosa Unit Well No. 160B (API# 30-039-

26962) located in Unit Letter L, Section 25, Township 31 North, Range 6 West, Rio Arriba County, New Mexico.

5. Deputy Inspector Martin observed that TRI Star Construction was spraying water for evaporation from a pit at the Rosa Unit Well No. 160B location. Deputy Inspector Martin observed that water was spraying across the location and neighboring vegetation, and that green colored water was pooled on the location. Deputy Inspector Martin also noted that vegetation located on the south and east sides of the location was covered by white residues.
6. The TRI Star Construction operator stated that the water being sprayed was produced water from other well sites. Deputy Inspector Martin directed that the spraying operation be shut down. Williams immediately shut down the operation upon such request.
7. As a result of the OCD investigation, OCD developed evidence that indicates that Williams was in violation of OCD Rules 710.A, 710.B and 711.B. The OCD has not asserted that any environmental damage exists which requires remediation. The evidence developed by the OCD inspectors includes the following:
 - a. Williams was using the reserve pit at the Rosa Unit Well No. 160B without authorization from the OCD to evaporate produced water transported to it from other well sites. Williams had received and relied upon authorization prior to evaporating water from the Farmington Bureau of Land Management, which was later determined to be the incorrect agency.
 - b. A June 16, 2003, inspection of the well site by Deputy Oil and Gas Inspector Denny Foust confirmed that the pit at the Rosa Unit Well No. 160B was being used as a centralized produced water disposal site. Larry Higgins and Mark Lepich of Williams accompanied Deputy Inspector Foust. Mr. Higgins and Mr. Lepich confirmed that the Rosa Unit Well No. 160B reserve pit was being used for produced water disposal while

Williams was waiting for a rig to drill the Rosa Unit Well No.160B well. D&S Trucking Company (D&S) and Dawn Trucking Company (Dawn) were used to bring water to the location starting May 15, 2003. TRI Star Construction was operating the evaporation system.

- c. Produced water had been sprayed onto the location and surrounding vegetation. The spraying had left white residues on the location and surrounding vegetation.
 - d. The unlined, interconnected flare pit was being used for unloading produced water, as evidenced by the presence of a hose and tracks where some water trucks had unloaded, and by interviews with the truck drivers.
 - e. D&S and Dawn delivery tickets for the Rosa Unit Well No. 160B show a volume in excess of 23,000 barrels of produced water was hauled to this location from May 15, 2003, thru June 13, 2003. D&S hauled water from other locations 112 times, and Dawn hauled water from other locations 96 times.
8. OCD Rule 710.A. states [in pertinent part]:
- No person, including any transporter, may dispose of produced water.....in any manner which will constitute a hazard to fresh water supplies.
9. OCD Rule 710.B states [in pertinent part]:
- Delivery of produced water...to a drill site for use in drilling fluids will not be construed as constituting a hazard to fresh water supplies provided the produced waters are placed in tanks or other impermeable storage at such facilities.
10. OCD Rule 711.B states [in pertinent part], "Unless exempt from this Rule, all commercial and centralized facilities...shall be permitted by the Division . . ."

IT IS THEREFORE NOW AGREED AS FOLLOWS:

- 1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2. Williams is a "person" as defined by OCD Rule 7.P.

3. All parties have entered into this Agreement solely for the purpose of avoiding further adversarial proceedings or litigation. OCD will not, in any future proceedings, seek any civil penalties against Williams for any act or omission of either with respect to the incident described in this Agreement. OCD reserves the right to seek civil penalties against Williams for any breach of this Agreement. OCD specifically reserves the right to require remediation of any environmental damage that may be subsequently discovered. Williams' use of the Rosa Unit Well No. 160B reserve pit as a centralized disposal facility for 28 days without a permit is a violation of Rule 711.B.
4. Williams' disposition of the produced water by over-spraying, drift and pooling is a violation of Rule 710.A.
5. Water trucks unloading produced water to the unlined flare pit at the Rosa Unit Well No. 160B site is a violation of Rule 710.B.
6. Williams' conduct, above described, warrants assessment of civil penalties pursuant to NMSA 70-2-31.A. NMSA.
7. Williams agrees to pay to OCD as full and final settlement of the issues contained within this Agreement the total sum of Ten Thousand Dollars (\$10,000). Williams shall pay such settlement amount by remittance to "Director - Oil Conservation Division - Energy, Minerals and Natural Resources Department of the State of New Mexico." Payment shall be due not later than thirty (30) days after service upon Williams of a fully executed copy of this Agreement.

8. Williams and OCD agree to bear their respective costs and attorney's fees.

**ENERGY, MINERALS AND
NATURAL RESOURCES DEPARTMENT
OF THE STATE OF NEW MEXICO**

For the Secretary:

Robert E. Carter
By _____
DATE 1/16/04

WILLIAMS PRODUCTION COMPANY, LLC

mth p th
By: Mike J. Turnbaugh
DATE : 1/12/04

