



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



JUNE 24, 2010

**CERTIFIED MAIL
RETURN RECEIPT NO. 3341 0338**

Mr. Ken McQueen
Williams Production Company, LLC
P.O. Box 640
721 South Main Street
Aztec, New Mexico 87410

**RE: Williams Production Co., LLC – OGRID 120782
OCD Review of Williams' June 18, 2010 Permit Application
Rosa Unit SWD No. 2, API# 30-039-30812
Unit Letter F, Section 25, Township 31 North, Range 5 West, NMPM
San Juan County, New Mexico**

RECEIVED OCD
2010 JUL 22 P 3:17

Mr. McQueen:

Williams Production Company, LLC (Williams) filed a permit application with the Environmental Bureau of the Oil Conservation Division's (OCD) Santa Fe office on June 18, 2010, requesting approval to construct and use a closed-loop system for the Rosa Unit SWD No. 2 well and a temporary drilling pit for disposal of oil field waste 10 miles away at another well site (the Rosa Unit 634B). Williams submitted its June 18, 2010 permit application after OCD denied Williams' April 20, 2010 permit application. Williams is the operator of record for the Rosa Unit SWD No. 2.

REASONS FOR DENIAL

OCD denies Williams' permit application because it is inadequate. The permit application is incomplete; Williams inappropriately proposes to dispose of oil field waste off-site; and, parts of Williams' permit application are either unclear or deficient or contain proposals that may require Williams to submit a request for administrative approval for an alternative or an exception to a requirement of the Pit Rule. Please note that OCD did not review Williams' permit application as an application for an alternative or an exception to a requirement of the Pit Rule because Williams did not identify it as such.

Oil Conse

BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico
Case No. 14521 Exhibit No. 9

Submitted by:
WILLIAMS PRODUCTION CO., LLC
Hearing Date: July 29, 2010

* Phone: (505) 476-34

e

l.state.nm.us



INCOMPLETE STATUS OF WILLIAMS' PERMIT APPLICATION

As noted above, OCD denies Williams' permit application because, among other reasons, it is incomplete. Specifically, Williams' permit application does not contain an additional closure method other than on-site closure as required by 19.15.17.9C(1) NMAC and does not contain proof of notice to the surface owner of William's proposal for an on-site closure method as required by 19.15.17.13F(1)(b) NMAC.

Paragraph (1) of 19.15.17.9C NMAC states, "If the operator proposes an on-site closure method, the operator shall also propose other methods to be used if the initial method does not satisfy the on-site closure standards specified in Subsection F of 19.15.17.13 NMAC or, if applicable, other on-site closure standards that the environmental bureau in the division's Santa Fe office approves." Williams did not propose the required additional closure method in addition to its proposed closure method of in-place burial at a remote location not located near the Rosa Unit SWD No. 2 within its permit application.

Subparagraph (b) of 19.15.17.13F(1) NMAC states, "The operator shall provide the surface owner notice of the operator's proposal of an on-site closure method. The operator shall attach the proof of notice to the permit application." Williams did not submit the required proof of notice in its permit application.

OFF-SITE DISPOSAL

As discussed below, OCD has determined that Williams' permit application must also be denied because Williams proposes to dispose of oil field waste generated during drilling operations at the Rosa Unit SWD No. 2 at a temporary pit located at the Rosa Unit 634B, located off-site, approximately 10 miles away.

Williams' permit application provides language that documents Williams' intent and use of the off-site temporary pit. The following statements demonstrate that Williams' proposal is to utilize the temporary pit solely for disposal of waste generated from the drilling of Rosa Unit SWD No. 2 with a closed-loop system.

Page 7, Closed-Loop Design & Construction Plan, 1st Paragraph:

Williams states: "The Closed-Loop System will consist of one or more temporary above-ground tank(s) suitable for holding the cuttings and fluids for rig operations and the planned Drilling/Completion activities. The tank(s) will be of sufficient volume to maintain a safe free-board during rig operations."

Page 7, Closed-Loop Design & Construction Plan, 2nd Paragraph:

Williams states: "A temporary pit will be used to handle the cuttings generated while drilling the disposal well."

Page 7, Closed-Loop Design & Construction Plan, 6th Paragraph:

Williams states: "Haul-off bins or similar containers will be used to temporarily hold dewatered solid before disposal in the temporary pit."

Page 9, Closed-Loop Operational Requirements, 2nd Paragraph:

Williams states: "The liquids will be transferred to and from the temporary above-ground rig tanks using vacuum trucks. Liquid levels will be maintained to provide required free-board and prevent overtopping. Surplus liquids will be stored in the above-ground tanks and transferred to and from the Closed-Loop system as needed to effectively drill and complete the well."

Page 9, Closed-Loop Operational Requirements, 3rd Paragraph:

Williams states: "Solids in the Closed-Loop tanks will be vacuumed out and transferred to the temporary pit on a periodic basis to ensure effective drilling/completion operations and to prevent overtopping."

Based on the statements made by Williams (see above), OCD has determined that the proposed temporary pit would be only used for off-site disposal of oil field waste (*i.e.*; cuttings from the Rosa Unit SWD No. 2). The disposal of oil field waste at an off-site location is only allowable with a permit in compliance with the surface waste management facility provisions of 19.15.36 NMAC. The Surface Waste Management Facility regulations (19.15.36.8A NMAC) specify that "No person shall operate a surface waste management facility (other than a small landfarm registered pursuant to Paragraph (1) of Subsection A of 19.15.36.16 NMAC) except pursuant to and in accordance with the terms and conditions of a division-issued surface waste management facility permit." Since 2008, OCD has consistently addressed the off-site issue in its *Frequently Asked Questions* guidance for the Pit Rule.

CLARIFICATION OF WILLIAMS' PROPOSAL

During OCD's meeting in Santa Fe with Mr. Ken McQueen of Williams on June 16, 2010, OCD explained to Mr. McQueen that based upon Williams' proposal there are only two types of temporary pits. The first type of temporary pit is used for drilling or workover of a well (see 19.15.17.7I NMAC). Mr. McQueen acknowledged during the meeting that it was not practical to use a temporary pit, located approximately 10 miles away from the Rosa Unit SWD No. 2 well being drilled with a closed-loop system, for "pressure control, hole stability and solids management," as described in Williams' April 20, 2010 permit application submittal.

The second type of temporary pit is constructed for the in-place burial of waste generated from a closed-loop system pursuant to 19.15.17.13F NMAC. Williams fails to recognize this type of temporary pit within its permit application and addresses the proposed temporary pit as if it is used for drilling the Rosa Unit SWD No. 2 well. The regulatory requirements specified below identify the provisions associated with a temporary pit constructed for the in-place burial of waste generated from a closed-loop system.

Pursuant to 19.15.17.13F(2)(a) NMAC, "Where the operator meets the siting criteria specified in Paragraphs (2) or (3) of Subsection C of 19.15.17.10 NMAC and the applicable waste criteria specified in Subparagraphs (c) or (d) of Paragraph (2) of Subsection F of 19.15.17.13 NMAC, an operator may use in-place burial (burial in the existing temporary pit) for closure of a temporary pit or bury the contents of a drying pad associated with a closed-loop system in a temporary pit

that the operator constructs in accordance with Paragraphs (1) through (6) and (10) of Subsection F of 19.15.17.11 NMAC for closure of a drying pad associated with a closed loop system."

Pursuant to 19.15.17.13F(2)(b) NMAC, "Prior to closing an existing temporary pit or to placing the contents from a drying pad associated with a closed-loop system into a temporary pit that the operator constructs for disposal, the operator shall stabilize or solidify the contents to a bearing capacity sufficient to support the temporary pit's final cover. The operator shall not mix the contents with soil or other material at a mixing ratio of greater than 3:1, soil or other material to contents."

Pursuant to 19.15.17.13F(2)(e) NMAC, "Upon closure of a temporary pit, or closure of a temporary pit that the operator constructs for burial of the contents of a drying pad associated with a closed-loop system, the operator shall cover the geomembrane lined, filled, temporary pit with compacted, non-waste containing, earthen material; construct a division-prescribed soil cover; recontour and re-vegetate the site. The division-prescribed soil cover, recontouring and re-vegetation shall comply with Subsections G, H and I of 19.15.17.13 NMAC."

Pursuant to 19.15.17.13F(2)(f) NMAC, "For burial of the contents from a drying pad associated with a closed-loop system, the operator shall construct a temporary pit, in accordance with Paragraphs (1) through (6) and (10) of Subsection F of 19.15.17.11 NMAC, within 100 feet of the drying pad associated with a closed-loop system, unless the appropriate division district office approves an alternative distance and location. The operator shall use a separate temporary pit for closure of each drying pad associated with a closed-loop system."

Based upon the information provided in Williams' June 18, 2010 permit application submittal and as identified above, OCD has determined that the proposed temporary pit at the Rosa Unit No. 634B would be only used for disposal of oil field waste from the closed-loop system at the Rosa Unit SWD No. 2.

DEFICIENCIES IN WILLIAMS' PERMIT APPLICATION

Parts of Williams' permit application include proposals that OCD considers unclear or deficient or which contain proposals that may require Williams to submit a request for administrative approval for an alternative or an exception to a requirement of the Pit Rule.

The Pit Rule (19.15.17.11D(1) NMAC) states, "The operator shall fence or enclose a pit or below-grade tank in a manner that prevents unauthorized access and shall maintain the fences in good repair. Fences are not required if there is an adequate surrounding perimeter fence that prevents unauthorized access to the well site or facility, including the pit or below-grade tank. During drilling or workover operations, the operator is not required to fence the edge of the pit adjacent to the drilling or workover rig."

Williams' permit application proposes to remove the "front" side of the fence for the temporary pit during drilling/completion operations. This would require that Williams submit an exception request because the proposed temporary pit at Rosa Unit No. 634B is not located adjacent to the drilling or workover rig at the Rosa Unit SWD No. 2. In fact, Williams has proposed that the

temporary pit will be located 10 miles away from the associated drilling activities. This item was identified in OCD's June 9, 2010 denial letter of Williams' April 20, 2010 permit application submittal. Williams did not request or pursue an exception to the provision identified above in accordance with the exception requirements of 19.15.17.15 NMAC.

The Pit Rule (19.15.17.13F(1)(f) NMAC) states, "The operator shall file a deed notice identifying the exact location of the on-site burial with the county clerk in the county where the on-site burial occurs." Williams failed to address this provision within its permit application. It is unclear if Williams intends to comply with 19.15.17.13F(1)(f) NMAC or is requesting an exception to this requirement. Williams did not request or pursue an exception to the provision identified above in accordance with the exception requirements of 19.15.17.15 NMAC.

The Pit Rule (19.15.17.13F(2)(a) NMAC) states, "Where the operator meets the siting criteria specified in Paragraphs (2) or (3) of Subsection C of 19.15.17.10 NMAC and the applicable waste criteria specified in Subparagraphs (c) or (d) of Paragraph (2) of Subsection F of 19.15.17.13 NMAC, an operator may use in-place burial (burial in the existing temporary pit) for closure of a temporary pit or bury the contents of a drying pad associated with a closed-loop system in a temporary pit that the operator constructs in accordance with Paragraphs (1) through (6) and (10) of Subsection F of 19.15.17.11 NMAC for closure of a drying pad associated with a closed loop system." Williams' permit application states "WPC meets the siting criteria specified in 19.15.17.10C(2) and the waste criteria specified in 19.15.17.13F(2c) for in-place burial."

It is impossible for Williams to "meet" the "waste criteria specified in 19.15.17.13F(2c) for in-place burial" because the Rosa Unit SWD No. 2 has not yet been drilled for the waste to be tested. It is unclear whether Williams intends to comply with 19.15.17.13F(2)(a) NMAC or is requesting an exception to this requirement. Williams did not request or pursue an exception to the provision identified above in accordance with the exception requirements of 19.15.17.15 NMAC.

The Pit Rule (19.15.17.13G(1) NMAC) states, "Once the operator has closed a pit or trench or is no longer using a drying pad, below-grade tank or an area associated with a closed-loop system, pit, trench or below-grade tank, the operator shall reclaim the pit location, drying pad location, below-grade tank location or trench location and all areas associated with the closed-loop system, pit, trench or below-grade tank including associated access roads to a safe and stable condition that blends with the surrounding undisturbed area. The operator shall substantially restore the impacted surface area to the condition that existed prior to oil and gas operations by placement of the soil cover as provided in Subsection H of 19.15.17.13 NMAC, recontour the location and associated areas to a contour that approximates the original contour and blends with the surrounding topography and re-vegetate according to Subsection I of 19.15.17.13 NMAC."

Williams' permit application does not address the reclamation of areas associated with the closed-loop system. It is unclear whether Williams intends to comply with 19.15.17.13G(1) NMAC or is requesting an exception to this requirement. Williams did not request or pursue an exception to the provision identified above in accordance with the exception requirements of 19.15.17.15 NMAC.

The cross-sections (A-A', B-B', and C-C') of the proposed temporary pit design (page 15) do not match any of the other drawings or information provided in the permit application. Based upon the horizontal and vertical scales provided for the cross-section B-B', the illustrated temporary pit design would have a top width of 230 feet and a bottom width of 212 feet. These dimensions are inconsistent with the information that Williams provided in Box 2 of the form C-144 which identifies a proposed temporary pit that will have a length of 100 feet, a width of 100 feet, and a depth of 20 feet. The cross-sections seem to represent the well pad illustrated on page 14 of the application rather than the proposed temporary pit. The design drawing does not represent the temporary pit proposed within Williams' permit application. Williams failed to provide an appropriate design plan of the proposed temporary pit in its permit application as required by of 19.15.17.9B(2) NMAC.

As noted above, OCD did not review Williams' permit application as an application for approval of administrative approvals or an exception to a requirement of the Pit Rule because Williams did not submit the permit application as an administrative approval or exception request. Because some of these proposals could be exceptions to the Pit Rule, Williams must follow the procedures set out in 19.15.17.15 NMAC to apply for an exception if it wishes to seek an exception to any provisions of the Pit Rule. If Williams wishes to seek an alternative to a requirement of 19.15.17 NMAC, subject to an administrative approval, then Williams must identify the provisions in which an administrative approval is requested and provide the demonstrations specified within the provision for OCD's consideration.

ADDITIONAL ISSUES REGARDING WILLIAMS' PROPOSAL

Although OCD's denial of Williams' permit application for its Rosa Unit SWD No. 2 is based solely on Williams' permit application of June 18, 2010, OCD also considered the activities currently approved for the drilling of Williams' Rosa Unit 634B well. The following are issues not identified or addressed in Williams' permit application for the June 18, 2010 Rosa Unit SWD No. 2 proposal:

Williams is currently drilling its Rosa Unit 634B well. The C-144 permit application for this well which was approved by OCD's Aztec district office on March 16, 2010, includes the construction and use of a temporary pit in the same location of the temporary pit proposed in the June 18, 2010 permit application for Rosa Unit SWD No. 2. The dimensions of the temporary pit approved for Rosa Unit 634B are as follows: 80 feet (length) by 40 feet (width) by 20 feet (depth). OCD approved Williams' proposal to close the temporary pit for Rosa Unit 634B by the on-site closure method of in-place burial.

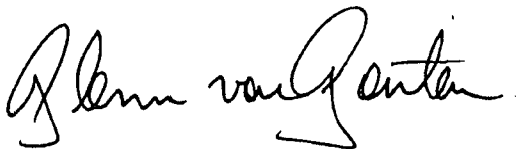
Williams' proposal regarding the construction of a temporary pit at the Rosa Unit 634B well site for the disposal of waste generated from the drilling of Rosa Unit SWD No. 2 with a closed-loop system does not consider the excavation of the waste generated from the drilling of the Rosa Unit 634B well and buried in-place (burial in the existing temporary pit). The dimensions of the proposed temporary pit in the Rosa Unit SWD No. 2 permit application are 100 feet (length) by 100 feet (width) by 20 feet (depth). The installation of the proposed temporary pit would require the complete excavation of the existing buried waste from the drilling of the Rosa Unit 634B well. Williams does not address the excavation of the existing buried waste at the Rosa Unit

634B well site in its June 18, 2010 permit application in order to construct its proposed temporary pit for disposal of waste generated from the drilling of Rosa Unit SWD No. 2 with a closed-loop system.

As noted above, OCD's review of Williams' permit application resulted in the identification of several items that might require Williams to submit an exception request or to seek administrative approval to the requirements of 19.15.17 NMAC as well as certain other deficiencies. If Williams wishes to seek an exception to a requirement of 19.15.17 NMAC, it must follow the procedures set out in 19.15.17.15 NMAC to apply for an exception. If Williams wishes to seek an administrative approval to an alternative to a requirement of 19.15.17 NMAC, then Williams must identify the alternatives to which an administrative approval is requested and provide the demonstration justifying its request.

If there are any questions regarding this matter, please do not hesitate to contact Mr. Brad Jones at (505) 476-3487 or brad.a.jones@state.nm.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn von Gonten". The signature is fluid and cursive, with the first name "Glenn" being more prominent.

Glenn von Gonten
Acting Environmental Bureau Chief

GvG/baj

cc: OCD District III Office, Aztec
Ocean Munds-Dry, Holland & Hart, LLP