

HOLLAND & HART



Ocean Munds-Dry

omundsdry@hollandhart.com

June 29, 2010

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Case 14521

AFFECTED INTEREST OWNERS

Re: Application of Williams Production Co., LLC for Approval of a Closed-Loop System for the Rosa SWD Well No. 2 and for the In-Place Burial of Drilling Wastes at Another Well Location, Rio Arriba County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Williams Production Company has filed the enclosed application with the New Mexico Oil Conservation Commission seeking approval of a closed-loop system at the Rosa SWD Well No. 2 and to haul the waste to a nearby well location for on-site burial in a temporary pit in the Rosa Unit, NMPM, Rio Arriba County.

This application has been set for hearing before the Commission at 9:00 a.m. on July 29, 2010. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement and all exhibits four days in advance of a scheduled hearing. This statement must be filed at the Commission's Santa Fe office at the above specified address and should include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Sincerely,

Ocean Munds-Dry

Attorney for Williams Production Co., LLC

Holland & Hart LLP

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Denver Aspen Boulder Colorado Springs Denver Tech Center Billings Boise Cheyenne Dallas Fort Collins Houston

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

IN THE MATTER OF THE APPLICATION
OF WILLIAMS PRODUCTION CO., LLC FOR
APPROVAL OF A CLOSED LOOP SYSTEM FOR
THE ROSA SWD WELL NO. 2 AND FOR IN-PLACE
BURIAL OF DRILLING WASTES AT ANOTHER
WELL LOCATION, RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. _____

APPLICATION

WILLIAMS PRODUCTION COMPANY, LLC, ("Williams") through its undersigned attorneys, hereby makes application to the Oil Conservation Commission for an order approving a closed-loop system for the Rosa SWD Well No. 2 and the in-place burial of drilling and completion wastes at another well location but is located within the same federal unit. In support of this application, Williams states:

1. Williams is a working interest owner and the designated operator of the Rosa Unit. The horizontal limits of said Unit Area are described as follows:

Township 32 North, Range 6 West

Section 32-36: All

Township 31 North, Range 6 West

Sections 1 -3: All
Sections 4, 5, 8-17, 21-26: All

Township 31 North Range 5 West

Sections 3-36: All

Township 31 North Range 4 West

Sections 1-31: All

2. Williams proposes to drill the Rosa SWD Well No. 2 (API No. 30-039-30812) for the disposal of produced water in the Entrada formation at a location 2460 feet from the North line and 2095 feet from the West line of Section 25, Township 31 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. This location is within the Rosa Unit on surface owned by the Forest Service.

3. This disposal well is important to Williams' operations in this area of the Rosa Unit. Williams currently has only 1 disposal well in operation in the Rosa Unit: the Rosa SWD Well No. 1 located in Section 25, Township 31 North, Range 6 West, NMPM, Rio Arriba County, New Mexico. If this disposal well could not be used, Williams would be forced to haul its produced water to a third party disposal well at considerable expense.

4. In this area of the Rosa Unit, Williams is only allowed to conduct drilling and construction activities from April 1st to November 1st of each year. Drilling and completing the proposed Rosa SWD Well No. 2 and building the associated facilities must be completed within this time period. Williams will need approximately two months to drill and complete the well and one month to construct the facilities for the well.

5. In November 2009, Williams originally applied to the Aztec district office on Form C-144 for authority to construct and use a temporary pit and then on-site closure at the proposed Rosa SWD Well No. 2 location but its application was denied when it was determined that groundwater was less than 50 feet below the bottom of the proposed pit.

6. In January 2010, Williams next submitted an application on Form C-144 to the Aztec district office to employ a closed-loop and temporary pit system for the drilling and completion of the Rosa SWD Well No. 2. The closed-loop portion of the system was proposed to be located immediately adjacent to the drilling/completion rig for solids and fluid handling and to prevent impacts to the immediate environment surrounding the well site. The temporary pit portion of the system needed to provide a place for solids/cuttings management and disposal was to be located nearby at the Rosa Well No. 394A (API No. 30-039-29708) in Section 24, Township 31 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. On March 11, 2010, this application

was also denied by the Aztec district office in consultation with the Environmental Bureau because it was not considered to be on-site closure but rather off-site disposal which "would require the operator to obtain a surface waste management facility permit..." Exhibit A.

7. Williams filed an application for hearing before a Division Examiner on March 16th for the April 15th docket. Williams requested approval of the temporary pit to be located at the Rosa Unit 634B rather than the Rosa Unit 394A because it learned that the 394A was no longer on the drilling schedule for the year. See Case No. 14463. An amended C-144 was filed with the Aztec district office on April 20th to reflect the change from the 394A to the 634B.

8. Case No. 14463 was eventually placed on the June 17th Commission docket at the request of the Enforcement and Compliance Manager.

9. A pre-hearing conference was held on June 3rd. As a result of the arguments made at the pre-hearing conference, the Commission Chair concluded that either Williams needed to re-submit an updated C-144 to the district office for review or submit a C-144 to used closed loop and haul the wastes to a disposal facility. However, due to the 20-day notice requirement, Williams was unable to maintain its hearing docket and would have to be moved to the July 15th docket.

10. Williams requested that the district office review its April 20th C-144 and to be allowed to go forward on the July 15th docket.

11. The Division's Environmental Bureau reviewed the April 20th C-144 application and sent Williams a denial letter on June 9, 2010. In that letter, the Environmental Bureau concluded that the application was "inadequate" because it was "incomplete", contained certain deficiencies and because "Williams inappropriately proposes to dispose of oil field waste off-site." Exhibit B.

12. In an effort to address some of the "deficiencies" in the application before it was reviewed by the Commission, Williams amended the C-144 and re-submitted it to the Environmental Bureau on June 18, 2010.

13. The Environmental Bureau sent another denial letter to Williams on June 24, 2010 again denying the application as "inadequate" and because Williams seeks to dispose of "oilfield waste off-site." Exhibit C.

14. Williams seeks authorization to take the waste from the Rosa SWD Well No. 2 to the Rosa Unit Well No. 634B located in Section 22, Township 31 North, Range 6 West, NMPM.

15. Williams seeks approval from the Commission to: (a) utilize a closed-loop system at the Rosa SWD Well No. 2 location; and (b) utilize a temporary pit at another well site within the same unit for solids/cuttings management and disposal. Cuttings in the temporary pit will be buried on-site following completion of the well in accordance with the C-144 application and 19.15.17.13 NMAC.

16. Pursuant to 19.15.17.13.D NMAC, an operator may use one of the following closure methods for closed-loop systems: (1) waste removal; (2) on-site burial; or (3) alternative closure method.

17. Hauling the waste from the proposed Rosa SWD Well No. 2 to a division-approved facility will be extremely costly given its remote location. It will also cause more surface impact to forest lands because of increased truck traffic.

18. Williams proposes therefore to use a closed-loop system at the well site and to bury the waste on-site where the temporary pit is located, constructed and closed in accordance with 19.15.17.13.D(2).

19. This application should be granted because it will protect the public health and environment because it decreases surface impact, places the waste in a non-environmentally sensitive area and is more economic and efficient for Williams' operations in the Rosa Unit.

20. Exhibit D to this application is a list of affected persons as defined by Division Rules. Williams has given notice to the listed parties in accordance with Division Rules.

21. Approval of this application will minimize surface disturbance as encouraged by the surface management agencies.

22. Approval of this application will protect fresh water, public health and the environment and is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Williams Production Company, LLC requests that this application be set for hearing before the Oil Conservation Commission on July 15, 2010

and, after notice and hearing as required by law, that the application be approved. Williams alternatively requests a special hearing date so that this application may be heard as soon as possible. Williams must be drilling the Rosa SWD Well No. 2 by August 1 in order to have drilling and completion operations concluded by the November 1 window imposed by the Forest Service.

Respectfully submitted,

HOLLAND & HART LLP

By: Ocean Munds-Dry

Ocean Munds-Dry
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR WILLIAMS PRODUCTION CO., LLC

EXHIBIT D
NOTIFICATION LIST

Bureau of Land Management
Farmington Field Office
235 La Plata Highway, Suite A
Farmington, NM 87401

United States Forest Service
Carson National Forest - Jicarilla Ranger Station
664 E. Broadway
Bloomfield, NM 87413

CASE _____: **Application of Williams Production Co., LLC for Approval Of A Closed Loop System For The Rosa SWD Well No. 2 And For The In-Place Bural Of Drilling Wastes At Another Well Location, Rio Arriba County, New Mexico.** Applicant, in the above-styled cause seeks approval of a closed loop system at the Rosa SWD Well No. 2 (API No. 30-039-30812) located in Section 25, Township 31 North, Range 5 West, NMPM, Rio Arriba County, New Mexico and to haul the waste to an approved temporary pit at the Rosa Unit Well No. 634B in Section 22, Township 31 North, Range 6 West, NMPM for on-site burial. Said area is located approximately 20 miles east of Navajo Dam, New Mexico.

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

Form C-144
July 21, 2008

For temporary pits, closed-loop systems, and below-grade tanks, submit to the appropriate NMOCD District Office.
For permanent pits and exceptions submit to the Santa Fe Environmental Bureau office and provide a copy to the appropriate NMOCD District Office.

4919
Pit, Closed-Loop System, Below-Grade Tank, or
Proposed Alternative Method Permit or Closure Plan Application

Type of action: ☒ Permit of a pit, closed-loop system, below-grade tank, or proposed alternative method
☐ Closure of a pit, closed-loop system, below-grade tank, or proposed alternative method
☐ Modification to an existing permit
☐ Closure plan only submitted for an existing permitted or non-permitted pit, closed-loop system, below-grade tank, or proposed alternative method

Instructions: Please submit one application (Form C-144) per individual pit, closed-loop system, below-grade tank or alternative request

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

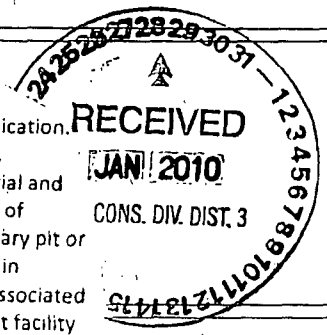
1.
Operator: Williams Operating Co, LLC OGRID #: 120782
Address: PO Box 640 / 721 S Main Aztec, NM 87410
Facility or well name: Rosa SWD Unit No. 2
API Number: 30-039-30812 OCD Permit Number: _____
U/L or Qtr/Qtr F Section 25 Township 31N Range 5W County: Rio Arriba
Center of Proposed Design: Latitude 36.886951N / 36.87077N Longitude -107.311156W / -107.31548W NAD: ☐ 1927 ☒ 1983
Surface Owner: ☒ Federal ☐ State ☐ Private ☐ Tribal Trust or Indian Allotment

2.
☒ **Pit:** Subsection F or G of 19.15.17.11 NMAC
Temporary: ☒ Drilling ☐ Workover
☐ Permanent ☐ Emergency ☐ Cavitation ☐ P&A
☒ Lined ☐ Unlined Liner type: Thickness 20 mil ☒ LLDPE ☐ HDPE ☐ PVC ☐ Other _____
☒ String-Reinforced
Liner Seams: ☒ Welded ☒ Factory ☐ Other _____ Volume: 44,000 bbl Dimensions: L 140' x W 70' x D 25'

3.
☒ **Closed-loop System:** Subsection H of 19.15.17.11 NMAC
Type of Operation: ☐ P&A ☒ Drilling a new well ☐ Workover or Drilling (Applies to activities which require prior approval of a permit or notice of intent)
☐ Drying Pad ☒ Above Ground Steel Tanks ☒ Haul-off Bins ☐ Other _____
☐ Lined ☐ Unlined Liner type: Thickness _____ inil ☐ LLDPE ☐ HDPE ☐ PVC ☐ Other _____
Liner Seams: ☐ Welded ☐ Factory ☐ Other _____

***Denied**

The OCD District office reviewed the permit and due to the complexities the District office also contacted the OCD Environmental Bureau regarding the permit. As a result of the discussions the OCD hereby denies Williams permit application. Williams closure plan proposed hauling the drilling cuttings and materials to an off-site location for burial and disposal. Pursuant to 19.15.17.13.D NMAC, approved closure methods for closed-loop systems include transferring waste material and the drying pad liner to a division-approved facility or on-site burial. Pursuant to the on-site closure method provisions of 19.15.17.13.F 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" on-site. Off-site disposal would require the operator to obtain a surface waste management facility permit (landfill permit) in accordance with 19.15.36 NMAC, unless the waste material is hauled to a division-approved facility.



EXHIBIT

A



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 9, 2010

CERTIFIED MAIL
RETURN RECEIPT NO: 3341 0321

Mr. Michael K. Lane
Williams Operating Company, LLC
P.O. Box 660
Aztec, New Mexico 87410

RE: Williams Production Co., LLC – OGRID 120782
OCD Review of Williams' April 20, 2010 Permit Application
Rosa Unit SWD No. 2, 30-039-30812
Unit Letter F, Section 25, Township 31 North, Range 5 West, NMPM
San Juan County, New Mexico

Mr. Lane:

Williams Operating Company, LLC (Williams) filed a permit application with the Aztec District Office of the Oil Conservation Division (OCD) on April 20, 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 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.

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 a design plan for the closed-loop system as required by 19.15.17.9B(3) NMAC, does not contain a design plan for the

Oil Conserva

* Phone: (505) 476-3441

EXHIBIT

B

St. Francis Drive

505

<http://www.emnrd.state.nm.us>



temporary pit as required by 19.15.17.9B(2) NMAC, and does not contain a C-102 for the temporary pit as required by 19.15.17.9(D)2 NMAC.

Williams indicated in Box 12 of its form C-144 that it was including a design plan for a closed-loop system. However, Williams did not include a design plan for a closed-loop system in its permit application as required by 19.15.17.9B(3) NMAC. Williams did include a *Location of Closed-loop System Map* on Page 11 of its permit application which depicts a reserve pit and blow pit at the Rosa Unit SWD No. 2 location that Williams does not discuss in its permit application.

Williams indicated in Box 11 of its form C-144 that it was including a design plan for a temporary pit. However, Williams did not provide a design plan of the proposed temporary pit in its permit application as required by 19.15.17.9B(2) NMAC.

Paragraph (2) of 19.15.17.9D NMAC states, "If the operator plans to use a temporary pit, the operator shall provide the proposed pit location on form C-102." Williams did not submit the required form C-102 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 off-site at a temporary pit located at the Rosa Unit 634B, located off-site, approximately 10 miles away.

The second paragraph of the Williams introduction to its permit application provides a brief explanation of Williams' proposal to utilize a closed-loop and temporary pit system. Williams clearly states that the closed-loop system will be "located immediately adjacent to the drilling/completion rig." Williams states that the temporary pit "will be needed to provide additional fluids storage for pressure control, hole stability and solids management" and that it "will be located ... within 10 miles west of the SWD #2 wellsite." Williams has not explained how a temporary pit located approximately 10 miles away from the Rosa Unit SWD No. 2 well being drilled with a closed-loop system can possibly be used for "pressure control, hole stability and solids management." If problems with the well were to occur, the location of the temporary pit, approximately 10 miles away (20 miles round trip) means that Williams would be unable to use the pit during an emergency response. It also demonstrates that the closed-loop system that Williams is proposing is not properly designed to handle or contain the anticipated liquids and solids generated from the drilling of Rosa Unit SWD No. 2, as required by 19.15.17.11A NMAC. OCD has determined that the proposed temporary pit would be only used for off-site disposal of oil field waste. 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. Since 2008, OCD has consistently addressed the off-site issue in its *Frequently Asked Questions* guidance for the Pit Rule.

DEFICIENCIES IN WILLIAMS' PERMIT APPLICATION

Parts of Williams permit application include proposals that OCD considers to be 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 (19.15.17.11F(2) NMAC) states, "The operator shall construct a temporary pit so that the slopes are no steeper than two horizontal feet to one vertical foot (2H:1V). The appropriate division district office may approve an alternative to the slope requirement if the operator demonstrates that it can construct and operate the temporary pit in a safe manner to prevent contamination of fresh water and protect public health and the environment." Williams' proposal states that "where steeper slopes are required due to surface owner and right-of-way restriction, an engineer's certification of stability will be provided." If Williams wishes to propose using slopes steeper than the 2H:1V requirement, then Williams must submit a new design drawing, provide a demonstration that Williams can construct and operate the temporary pit in a safe manner to prevent contamination of fresh water and protect public health and the environment, and submit a request for consideration of administrative approval from the appropriate division district office. Williams' proposal incorrectly presumes that OCD will approve its request without Williams going through the administrative process of 19.15.17 NMAC.

The Pit Rule (19.15.17.11F(3) NMAC) states, "The geomembrane liner shall be composed of an impervious, synthetic material that is resistant to petroleum hydrocarbons, salts and acidic and alkaline solutions. The liner material shall be resistant to ultraviolet light." Williams' permit application states, "The temporary pit will be lined with a 20-mil, string reinforced, LLDPE liner, complying with EPA SW-86 method 9090A requirements." It is unclear if Williams intends to comply with all of the provisions of 19.15.17.11F(3) 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 (19.15.17.11F(4) NMAC) states, "The operator shall minimize liner seams and orient them up and down, not across a slope. The operator shall use factory welded seams where possible. Prior to field seaming, the operator shall overlap liners four to six inches and orient seams parallel to the line of maximum slope, *i.e.*, oriented along, not across, the slope. The operator shall minimize the number of field seams in corners and irregularly shaped areas. Qualified personnel shall perform field seaming. The operator shall weld field liner seams." Williams' permit application states, "Field seams will be overlapped per manufacturer's specifications." However, Williams did not indicate that it will overlap the liners by four to six inches, nor did it specify that qualified personnel would perform any field seaming. Williams' permit application is unclear whether Williams intends to comply with all of the requirements of 19.15.17.11F(4) 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 (19.15.17.12B(4) NMAC) states, "The operator shall remove all free liquids from a temporary pit within 30 days from the date that the operator releases the drilling or workover rig. The operator shall note the date of the drilling or workover rig's release on form C-105 or C-103 upon well or workover completion. The appropriate division district office may grant an extension of up to three months." Williams' permit application does not specify that it will note

the date of the drilling or workover rig's release on form C-105 or C-103 upon well or workover completion. It is unclear if Williams intends to comply with 19.15.17.12.B(4) 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 (19.15.17.12A(5) NMAC) states, "If a pit, below-grade tank, closed-loop system or sump develops a leak, or if any penetration of the pit liner, below-grade tank, closed-loop system or sump occurs below the liquid's surface, then the operator shall remove all liquid above the damage or leak line within 48 hours, notify the appropriate division district office within 48 hours of the discovery and repair the damage or replace the pit liner, below-grade tank, closed-loop system or sump." Williams' permit application does not specify that Williams will remove all liquids above the damage or leak line of the closed-loop system within 48 hours of discovery. It is unclear whether Williams intends to comply with 19.15.17.12A(5) 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.

Williams' permit application states "In the event that the criteria are not met (See Table 1) all contents will be handled per 19.15.17.13(B)(1)(a) (*i.e.*; dig and haul to a Division approved facility)." The Pit Rule (19.15.17.13B(1)(a) NMAC) states, "The operator shall close the temporary pit by excavating all contents and, if applicable, synthetic pit liners and transferring those materials to a division-approved facility." The temporary pit closure method for waste excavation and removal requires that all of the applicable provisions, Subparagraphs (a) through (d), be considered and completed by the operator - not just the first provision. Williams did not request or pursue an exception to the provisions identified above in accordance with the exception requirements of 19.15.17.15 NMAC.

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 temporary pit is not located adjacent to the drilling or workover rig. In fact, Williams has proposed that the temporary pit will be located 10 miles away from the associated drilling activities. 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 (19.15.17.12A(5) NMAC) states, "If a pit, below-grade tank, closed-loop system or sump develops a leak, or if any penetration of the pit liner, below-grade tank, closed-loop system or sump occurs below the liquid's surface, then the operator shall remove all liquid above the damage or leak line within 48 hours, notify the appropriate division district office within 48 hours of the discovery and repair the damage or replace the pit liner, below-grade tank, closed-loop system or sump." Williams' permit application proposes to report releases in accordance with 19.15.29 NMAC, which, unlike the Pit Rule, considers the volume of the release. The

Operational Requirements of the Pit Rule (19.15.17.12A(5) NMAC) requires the operator to report if the pit liner's integrity is compromised, or if any penetration of the liner occurs above the liquid's surface. This would be an exception request because Williams is proposing to use a different notification standard than the one required under the Pit Rule. 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.

Williams' proposes in its permit application to use the sampling requirements for waste removal and excavation in 19.15.17.13B(1)(b) NMAC, sampling beneath the temporary pit, for in-place burial rather than the correct sampling requirements - sampling the pit contents for in-place burial as specified in 19.15.17.13F(2) NMAC. 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.

Williams' proposed closure limit for chlorides is 1000 mg/kg. Williams' proposal incorrectly states that ground water is greater than "100 feet below the pit bottom." This assertion is not supported by the design dimensions provided in Box 2 of form C-144 and the information provided in the hydrogeologic data and supporting maps. The design information provided in Box 2 of form C-144 indicates that the proposed depth of the temporary pit is 20 feet. The information provided in the hydrogeologic data sheet concludes that the "depth to moisture is between 110 and 300 feet." Williams Siting Criteria Map 1 (Page 16) of the permit application indicates that the depth to moisture is 115 feet below the ground surface for Cathodic Well Rosa 18, which is located 110 feet from the proposed temporary pit. Based upon the proposed design and Williams' determination of the depth to ground water below the ground surface, the separation from the bottom of the proposed temporary pit and ground water is between 90 to 95 feet. The vertical separation between the bottom of the temporary pit and the ground water determines the in-place burial chloride standards. Based on the information provided in the application, the in-place burial standard for chlorides cannot exceed 500 mg/kg or the background concentration, whichever is greater. 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.

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.

REPRESENTATIONS MADE BY WILLIAM'S LEGAL COUNSEL

Although OCD's denial of the permit application is based solely on the permit application, OCD also reviewed the application in light of the representations that Williams' counsel made at the June 3, 2010 pre-hearing conference in Case No. 14463. Williams' counsel represented:

- 1) that Williams intends to use the pit at the Rosa Unit 634B well site both as a drilling pit for the Rosa Unit 634B well and as a waste disposal pit for the waste generated at the closed-loop system used at the Rosa Unit SWD No. 2 well site;
- 2) that waste generated by the drilling of the two wells will be commingled in the temporary pit located at the Rosa Unit 634B wellsite for disposal; and
- 3) that Williams is not required by the Pit Rule to take any further action to obtain approval to use the pit requested under the April 20, 1010 application as a drilling pit for the Rosa Unit 634B.

OCD's responses to the representations made by Williams' counsel follow:

Williams' intention is to use the pit at the Rosa Unit 634B well site both as a drilling pit for the Rosa Unit 634B well and as a waste disposal pit for the waste generated at the closed-loop system used at the Rosa Unit SWD No. 2 well site is not allowable. Williams may only dispose of oil field waste off-site with a surface waste management facility permit in compliance with the provisions of 19.15.36 NMAC. Since 2008, OCD has consistently addressed the off-site issue in its *Frequently Asked Questions* guidance for the Pit Rule.

Williams' intention is to commingle the waste generated by the drilling of the Rosa Unit SWD Well No. 2 with the waste generated by the drilling of the Rosa Unit 634B in the same pit at the Rosa Unit 634B location. OCD has approved the commingling and disposal of waste generated from the drilling of multiple wells before. However, OCD's past approvals were for sites where the operator was drilling multiple directional wells from the same well pad which utilized one temporary pit for drilling and disposal of waste generated from all the directional wells. This is not the same as Williams' proposal to dispose and commingle waste generated at one location with waste from a well being drilled approximately 10 miles away. This would be off-site disposal, which as discussed above, is only allowable with a surface waste management facility permit in compliance with the provisions of 19.15.36 NMAC.

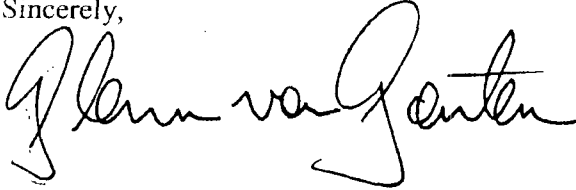
Williams' representation that it does not need to take any further action to obtain approval to use the pit requested under the April 20, 1010 application, as a drilling pit for the Rosa Unit 634B is not correct. Williams' must obtain a Part 36 permit for off-site disposal of oil field waste and may not commingle drilling waste from two separate wells.

As noted above, OCD's review identified items in Williams' permit application that may require Williams to submit 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 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 demonstration justifying its request.

Mr. Lane
June 9, 2010
Page 7 of 7

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 cursive script, reading "Glenn von Gonten". The signature is written in dark ink and is positioned above the printed name and title.

Glenn von Gonten
Acting Environmental Bureau Chief

GvG/baj

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



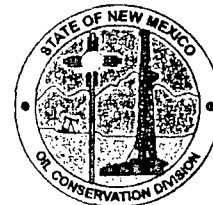
New Mexico Energy, Minerals and Natural Resources Department

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

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 Conservation Division

* Phone: (505) 476-3440 * Fax:

EXHIBIT

C

Francis Drive

www.emnrd.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 19.15.17.71 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

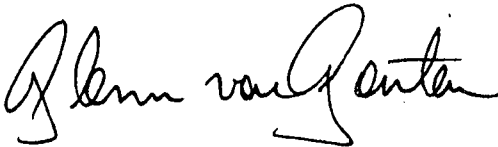
Mr. McQueen
June 24, 2010
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634B well site in its June 18, 2010 permit application in order to construct its proposed temporary pit for disposal of waste generated from the drilling of Rosa Unit SWD No. 2 with a closed-loop system.

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,



Glenn von Gonten
Acting Environmental Bureau Chief

GvG/baj

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