

BW - _____028_____

**COMPLIANCE
REVIEW**

2018

Chavez, Carl J, EMNRD

From: Wayne Price <wayneprice@q.com>
Sent: Monday, April 2, 2018 12:26 PM
To: Griswold, Jim, EMNRD; Chavez, Carl J, EMNRD
Cc: Wayne Price; Rick Graham
Subject: Key Eunice BW-28 Compliance letter response.
Attachments: 2018 04 02 Signed BW-28 Compliance Response.pdf; ATT00001.txt

Dear Mr. Griswold and Mr. Chavez:

Please find attached a response letter to your February 16, 2018 letter requesting record information and a response by May 04, 2018.

Price LLC, a consultant for Key Energy has already supplied the Annual Reports for the 2011-2016 years .

Please note this response has some Minor Modification requests. Please note, you can evaluate them now, or you can wait until we submit the renewal permit application which is due 120 days before expiration of November 08, 2018 of this year.

Please file in the Key OCD BW-28 file. Please let us know if you received this correspondence.

March 30, 2018

Mr. Jim Griswold-Environmental Bureau Chief
New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505

Subject: February 16, 2018 Brine Well Compliance Letter

Reference: Key Energy Services Eunice BW-28 API# 30-025-33547

Dear Mr. Griswold:

Pursuant to your February 16, 2018 letter, Key Energy has provided the OCD with the requested information consisting of a copy of the 2011-2016 annual reports. The information was sent to Carl Chavez on a Flash Drive. Mr. Chavez indicated he has received the required information.

Please find herein specific responses to the items mentioned in your OCD letter. Please note we are hereby requesting certain minor modifications to the current permit, or to be incorporated in the new upcoming renewal permit application.

• **Section 2.A Quarterly analysis of injected fluids and brine.**

Response: ☐ *Key Energy has collected Fresh and Brine water quarterly samples and had them analyzed for the required permit constituents. These results have been submitted in the annual reports. The 2011-2016 annual reports were resubmitted in March of 2018 at the request of OCD.*

• **Section 2.B.1 Surface Subsidence Monitoring Plan information.**

Response: ☐ *Key Energy has submitted the Surface Subsidence Monitoring Plan and currently collects surveyed data twice a year and includes this data in the annual report.*

Special Note: Key **requested a Minor Modifications** that allow the results be supplied in the annual report, unless there is an exceedance as noted in the permit.

• **Section 2. B.2 Solution Cavern Characterization Plan.** □

Response: The 2013 annual report included a Solution Cavern Characterization Plan using a combination of calculated results and experimenting with various geophysical methods, including actually performing an “Induced Current Method”.

To date, the geophysical method proposed has only been partially successful and due to the high cost of other methods, an accurate cavern shape has not been delineated.

We currently are not aware of any one single tool that can accomplish this requirement. The Carlsbad old I&W well is an example where many methods were used and the exact cavern shape is estimated using a consensus of several very expensive methods. When OCD required sonar testing, it also was not totally successful.

The best method still appears to be the “Worst Case” cone calculation method.

OCD has not provided guidance on this issue and Key Energy would like to participate in a study group on this issue.

Therefore, **Key Energy respectfully request a minor modification to the permit to allow the calculation method, unless there is some sort of critical issue that would require such geophysical methods to be used.**

• **Section 2.B.3 Annual Certification.**

Response: □ *Key Energy has certified by signature in the 2011-2016 annual reports that continued salt solution mining will not cause cavern collapse, surface subsidence, property damage, or otherwise threaten public health and the environment, based on geologic and engineering data.*

• **Section 2.J Annual Report (note list of items to be included) due by June 1st of each year.**

Response: □ *Key Energy has submitted the required Annual Reports for the permit years of 2011-2016. Each item of the permit was addressed in detail. During these time periods, Key Energy did request certain variances, as mentioned herein.*

• **Section 3.C Continuous Monitoring Devices; and**

• **Response:** *Key Energy Eunice Brine Station currently has flow meters and pressure gauges installed on both the fresh and brine water lines. In addition there is an automated dispensing and tracking station. The pumping system has hi-pressure cutoff devices to prevent over pressuring of the brine well.*

• **Section 3.K Fluids Injection and Brine Production Volumes and Pressures submittal of**

☐ monthly reports of injection and production volumes on or before the 10th day of the following month. ☐

Response: *Key Energy submitted all injected fluids, production volumes and average pressures in all of the annual reports. Pursuant to OCD's February 2018 compliance letter, Key Energy followed up in March of 2018 by making sure all of these reports were provided to the OCD.*

Special Note: Permit condition 3.K. FLUIDS INJECTION AND BRINE PRODUCTION
VOLUMES AND PRESSURES: Reads

"The Permittee shall continuously monitor the volumes of water injected and brine production. The Permittee shall submit monthly reports of its injection and production volumes on or before the 10th day of the following month. The Permittee shall suspend injection if the monthly injection volume is less than 110% or greater than 120% of associated brine production. If such an event occurs, the Permittee shall notify OCD within 24 hours."

Key Energy's consultant Price LLC has had a number of discussions with OCD (i.e. Mr. Jim Griswold-Environmental Bureau Chief) concerning this requirement.

Due to well dynamics, interruptions in production, well flow parameters, and other issues, the current permit language is not viable as written.

Because of this issue, Key Energy requested a variance in the annual reports and had verbally received permission to utilize the following language.

"The Permittee shall immediately suspend injection and notify the agency within 72 hours, if the Fresh Water Injection does not cause a normal immediate return of Brine Water to the surface, or if the well flows excessively for an unusual amount of time without fresh water injection after the cavern pressure has been stabilized to it's normal operating pressure, or if permittee has become aware of any out of zone injection or communication. The Permittee shall include in each annual report a summary showing the monthly variance, the average monthly variance for the year and the total accumulative variance over the life of the well. The operator shall certify and explain that any yearly variance that falls outside of the range of 20%, (Difference between the Fresh Water input and Brine Water output) will not cause harm to Fresh Water, Public Health or the Environment."

Under Section 2.B.2.b (Solution Cavern Characterization Program:) Somewhat mirrors the above language, except when the permit was written, it included the word Monthly instead of Annually. It Reads;

"The Permit shall compare the ratio of the volume of injected fluids to the volume of produced brine monthly. If the average ratio of injected fluid to produced brine varies is less than 90% or greater than 110%, the Permittee shall report this to OCD and cease injection and production operations of its Class III well within 24 hours. The Permittee shall begin an investigation to determine the cause of this

abnormal ratio within 72 hours. The Permittee shall submit to OCD a report of its investigation within 15 days of cessation of injection and production operations of its Class III well.”

The two permit requirements 3K and 2.B.2.b appear to be in contradiction.

Key Energy recommends that OCD change its permit condition back to annually. As stated above, monthly variances can be substantial at times, but annual variances are generally within the 20% range.

The 10% monthly requirement is simply not valid in a brine well and will cause unnecessary shut downs and loss of revenue.

Therefore, Key Energy respectfully request a minor modification exception to the permit requirements and request the language be changed to:

“The Permittee shall immediately suspend injection and notify the agency within 72 hours, if the Fresh Water Injection does not cause a normal immediate return of Brine Water to the surface, or if the well flows excessively for an unusual amount of time without fresh water injection after the cavern pressure has been stabilized to it's normal operating pressure, or if permittee has become aware of any out of zone injection or communication.

The Permittee shall include in each annual report a summary showing the monthly variance, the average monthly variance for the year and the total accumulative variance over the life of the well. The operator shall certify and explain that any yearly variance that falls outside of the range of 20%, (Difference between the Fresh Water input and Brine Water output) will not cause harm to Fresh Water, Public Health or the Environment. ”

If OCD has any questions concerning the above information and/or the Minor Modification requests please do not hesitate to call Wayne Price-Price LLC (505-715-2809) or E-mail wayneprice@q.com.

Sincerely,



Rick Graham-Key Energy Services
Environmental Director

RG/wp

March 07, 2018

NMOCD-EMNRD
1220 S. Saint Francis Dr.
Santa Fe, NM 87505

Att: Carl Chavez-Environmental Engineer

Subject: Key Brine Well BW-028

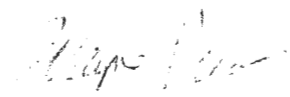
Dear Carl,

On behalf of Key Energy, Price LLC is enclosing a flash drive in the US Mail that contains the 2011-2016 Annual Reports. Hopefully this will up-date your files. We had submitted these in the past, but evidently the OCD files did not reflect this.

If you need further information please let us know and we will provide. Also, once you review the reports, if OCD thinks there is deficiencies please notify us so we can address them ASAP!

We will also go thru your letter dated Feb 16, 2018 and address each item. That will be forthcoming.

Sincerely Yours,



Wayne Price-Price LLC (Consultant for Key Energy)
312 Encantado Rd CT NE
Rio Rancho, NM 87124
505-715-2809
wayneprice@Q.com

CC: Mr. Rick Graham-Key Energy Environmental Director

MAR 09 2018 PM02:51

Chavez, Carl J, EMNRD

From: Marks, Allison, EMNRD
Sent: Friday, February 23, 2018 3:59 PM
To: Wayne Price
Cc: Griswold, Jim, EMNRD; Chavez, Carl J, EMNRD; Riley, Heather, EMNRD
Subject: RE: Complaint of Process

Good afternoon, Mr. Price.

Thank you for your feedback regarding OCD's recent review of Key Energy's permit. The Environment Bureau will review the documentation associated with this file and prepare a more detailed response of any missing documentation. After such review has taken place, it would be helpful for the Bureau and you to determine a path forward.

Please let me know if you have any additional concerns at this time.

Allison R. Marks
New Mexico Oil Conservation Division
1220 S. St. Francis Dr.
Santa Fe, NM 87505
Tel: (505) 476-3206
Fax: (505) 476-3462

From: Wayne Price [mailto:wayneprice@q.com]
Sent: Thursday, February 22, 2018 7:32 PM
To: Marks, Allison, EMNRD <AllisonR.Marks@state.nm.us>
Cc: Wayne Price <wayneprice@q.com>; Griswold, Jim, EMNRD <Jim.Griswold@state.nm.us>; Chavez, Carl J, EMNRD <CarlJ.Chavez@state.nm.us>
Subject: Complaint of Process

Dear Deputy Director Marks,

Recently Key Energy received a letter titled "Compliance Letter" (Attached Below) notifying the operator of the upcoming Discharge Plan Renewal. In the letter, OCD required that Key Energy conduct a 5-year review and audit of the OCD on-line records and submit any deficiencies by May 04, 2018. In addition, OCD made the comment "*The OCD is aware of some of these submittals, but other required information appears to be absent.*"

It long has been known and very well demonstrated that OCD has lost, misfiled or just didn't file submittals. For OCD to require Key to audit what has or has not been properly filed by OCD is an injustice to the system. If OCD was aware of any deficiencies they have had five years to point those out. Now it appears if something is not in your files a company may be fined for a 5-year period?

I can only hope the letter was not constructed to actually mean that, but a reminder of the up coming deadlines and voluntary compliance.

On behalf of Key Energy, we have submitted annual reports every year and these reports appear to contain all of your requested information. Not once did we every receive any feedback for these submittals, which tells me OCD staff didn't even look at them. So, if OCD found deficiencies, please let us know what they are so we can address them. Exactly what did you noticed was missing?

Sometimes we are not perfect, but a five year total audit is uncalled for and very overreaching, especially when we have submitted the reports in a timely fashion and never once received any acknowledgement from OCD.

If you want to audit our records, then we are willing to set down with OCD anytime and discuss what OCD thinks is a problem, but we have to know your thoughts and concerns first, as some issues are not totally clear, straight forward or interpreted the same way. Communication is "KEY"

I just have to believe this letter was hastily crafted without critical review by the OCD legal staff.

Sincerely,

Wayne Price-Price LLC (Consultant for Key Energy)
312 Encantado Ridge CT NE
Rio Rancho, NM 87124
wayneprice@q.com
505-715-2809

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Subject: Complaint of Process
Attachments: BW-28 Compliance Letter 2-16-18.pdf; ATT00001.htm

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Sincerely,

Wayne Price-Price LLC (Consultant for Key Energy)
312 Encantado Ridge CT NE
Rio Rancho, NM 87124
wayneprice@q.com
505-715-2809

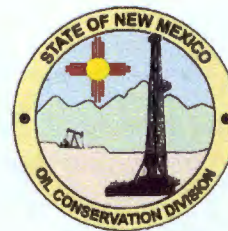
State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

Heather Riley, Division Director
Oil Conservation Division



FEBRUARY 16, 2018

Mr. Dan Gibson
Key Energy Services, LLC
6 Desta Drive, Suite 4300
Midland, Texas 79705

Re: Discharge Plan Permit (BW-28) Key Energy Services, LLC, UIC Class III Brine Well State Brine Well #1 API No. 30-025-33547 UL: E Section 15 Township 21 South, Range 37 East, NMPM, Lea County, New Mexico

The Oil Conservation Division (OCD) notices Key's discharge permit will expire this year on November 8, 2018. The OCD hereby requests that Key review the submittal deadlines for documents over the past 5-years which are required under the permit, i.e.,

- Section 2.A Quarterly analysis of injected fluids and brine
- Section 2.B.1 Surface Subsidence Monitoring Plan information
- Section 2.B.2 Solution Cavern Characterization Plan
- Section 2.B.3 Annual Certification
- Section 2.J Annual Report (note list of items to be included) due by June 1st of each year
- Section 3.C Continuous Monitoring Devices; and
- Section 3.K Fluids Injection and Brine Production Volumes and Pressures submittal of monthly reports of injection and production volumes on or before the 10th day of the following month.

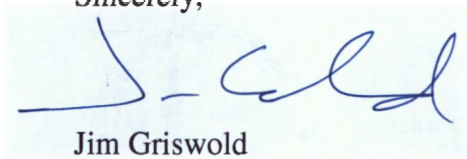
The OCD is aware of some of these submittals, but other required information appears to be absent. Therefore, the OCD is requesting Key to review the OCD administrative record (BW-28) on "OCD Online" and submit all required and/or missing information no later than May 4, 2018. The OCD will then complete its review of the records to determine the scope of any actions, if any, it may take to bring the discharge permit into compliance.

If you have any questions, please contact Carl Chavez of my staff at (505) 476-3490 or by email at Car1J.Chavez@state.nm.us.

February 16, 2018

Page 2

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Griswold", is written over a light blue rectangular background.

Jim Griswold

Environmental Bureau Chief

JG/cc

Enclosure: Discharge Permit BW-28

cc: Hobbs District Office

DISCHARGE PERMIT BW-28

1. GENERAL PROVISIONS:

1.A. PERMITTEE AND PERMITTED FACILITY: The Director of the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department renews Discharge Permit BW-28 (Discharge Permit) to Key Energy Services, LLC. (Permittee) to operate its Underground Injection Control (UIC) Class III wells for the in situ extraction of salt (State Brine Well #1 – API No. 30-025-33547) located 1340 FNL and 330 FWL (SW/4 NW/4, Unit Letter E) in Section 15, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico at its Brine Production Facility (Facility). The Facility is located approximately two miles north of Eunice, New Mexico along the east side of NM 207/CR 18.

The Permittee is permitted to inject water into the subsurface salt layers and produce brine for use in the oil and gas industry. Ground water that may be affected by a spill, leak, or accidental discharge occurs at a depth of approximately 60 feet below ground surface and has a total dissolved solids concentration of approximately 1,200 mg/L.

1.B. SCOPE OF PERMIT: OCD has been granted the authority by statute and by delegation from the Water Quality Control Commission (WQCC) to administer the Water Quality Act (Chapter 74, Article 6 NMSA 1978) as it applies to Class III wells associated with the oil and gas industry (See Section 74-6-4, 74-6-5 NMSA 1978).

The Water Quality Act and the rules promulgated pursuant to the Act protect ground water and surface water of the State of New Mexico by providing that, unless otherwise allowed by 20.6.2 NMAC, no person shall cause or allow effluent or leachate to discharge so that it may move directly or indirectly into ground water unless such discharge is pursuant to an approved discharge plan (See 20.6.2.3104 NMAC, 20.6.2.3106 NMAC, and 20.6.2.5000 through 20.6.2.5299 NMAC).

This Discharge Permit for a Class III well is issued pursuant to the Water Quality Act and WQCC rules, 20.6.2 NMAC. This Discharge Permit does not authorize any treatment of, or on-site disposal of, any materials, product, by-product, or oil-field waste.

Pursuant to 20.6.2.5004A NMAC, the following underground injection activities are prohibited:

1. The injection of fluids into a motor vehicle waste disposal well is prohibited.
2. The injection of fluids into a large capacity cesspool is prohibited.
3. The injection of any hazardous or radioactive waste into a well is prohibited except as provided by 20.6.2.5004A(3) NMAC.
4. Class IV wells are prohibited, except for wells re-injecting treated ground water into the same formation from which it was drawn as part of a removal or remedial action.

5. Barrier wells, drainage wells, recharge wells, return flow wells, and motor vehicle waste disposal wells are prohibited.

This Discharge Permit does not convey any property rights of any sort nor any exclusive privilege, and does not authorize any injury to persons or property, any invasion of other private rights, or any infringement of state, federal, or local laws, rules or regulations.

The Permittee shall operate in accordance with the terms and conditions specified in this Discharge Permit to comply with the Water Quality Act and the rules issued pursuant to that Act, so that neither a hazard to public health nor undue risk to property will result (see 20.6.2.3109C NMAC); so that no discharge will cause or may cause any stream standard to be violated (see 20.6.2.3109H(2) NMAC); so that no discharge of any water contaminant will result in a hazard to public health, (see 20.6.2.3109H(3) NMAC); so that the numerical standards specified of 20.6.2.3103 NMAC are not exceeded; and, so that the technical criteria and performance standards (see 20.6.2.5000 through 20.6.2.5299 NMAC) for Class III wells are met. Pursuant to 20.6.2.5003B NMAC, the Permittee shall comply with 20.6.2.1 through 20.6.2.5299 NMAC.

The Permittee shall not allow or cause water pollution, discharge, or release of any water contaminant that exceeds the Water Quality Control Commission (WQCC) standards specified at 20.6.2.3101 NMAC and 20.6.2.3103 NMAC or 20.6.4 NMAC (Water Quality Standards for Interstate and Intrastate Streams). Pursuant to 20.6.2.5101A NMAC, the Permittee shall not inject non-hazardous fluids into ground water having 10,000 mg/l or less total dissolved solids (TDS).

The issuance of this permit does not relieve the Permittee from the responsibility of complying with the provisions of the Water Quality Act, any applicable regulations or water quality standards of the WQCC, or any applicable federal laws, regulations or standards (See Section 74-6-5 NMSA 1978).

1.C. DISCHARGE PERMIT RENEWAL: This Discharge Permit is a permit renewal that replaces the permit being renewed. Replacement of a prior permit does not relieve the Permittee of its responsibility to comply with the terms of that prior permit while that permit was in effect.

1.D. DEFINITIONS: Terms not specifically defined in this Discharge Permit shall have the same meanings as those in the Water Quality Act or the rules adopted pursuant to the Act, as the context requires.

1.E. FILING FEES AND PERMIT FEES: Pursuant to 20.6.2.3114 NMAC, every facility that submits a Discharge Permit application for initial approval or renewal shall pay the permit fees specified in Table 1 and the filing fee specified in Table 2 of 20.6.2.3114 NMAC. OCD has already received the required \$100.00 filing fee. The Permittee is now required to submit the \$1,700.00 permit fee for a Class III well. Please remit payment made payable to the Water Quality Management Fund in care of OCD at 1220 South St. Francis Drive in Santa Fe, New Mexico 87505.

1.F. EFFECTIVE DATE, EXPIRATION, RENEWAL CONDITIONS, AND

PENALTIES FOR OPERATING WITHOUT A DISCHARGE PERMIT: This Discharge Permit becomes effective 30 days from the date that the Permittee receives this discharge permit or until the permit is terminated or expires. This Discharge Permit will expire on **November 8, 2018**. The Permittee shall submit an application for renewal no later than 120 days before that expiration date, pursuant to 20.6.2.5101F NMAC. If a Permittee submits a renewal application at least 120 days before the Discharge Permit expires and is in compliance with the approved Discharge Permit, then the existing Discharge Permit will not expire until OCD has approved or disapproved the renewal application. A discharge permit continued under this provision remains fully effective and enforceable. Operating with an expired Discharge Permit may subject the Permittee to civil and/or criminal penalties (See Section 74-6-10.1 NMSA 1978 and Section 74-6-10.2 NMSA 1978).

1.G. MODIFICATIONS AND TERMINATIONS: The Permittee shall notify the OCD Director and OCD's Environmental Bureau of any Facility expansion or process modification (See 20.6.2.3107C NMAC). The OCD Director may require the Permittee to submit a Discharge Permit modification application pursuant to 20.6.2.3109E NMAC and may modify or terminate a Discharge Permit pursuant to Sections 74-6-5(M) through (N) NMSA 1978.

1. If data submitted pursuant to any monitoring requirements specified in this Discharge Permit or other information available to the OCD Director indicate that 20.6.2 NMAC is being or may be violated, then the OCD Director may require modification or, if it is determined by the OCD Director that the modification may not be adequate, may terminate this Discharge Permit for a Class III well that was approved pursuant to the requirements of 20.6.2.5000 through 20.6.2.5299 NMAC for the following causes:

a. Noncompliance by Permittee with any condition of this Discharge Permit;
or,

b. The Permittee's failure in the discharge permit application or during the discharge permit review process to disclose fully all relevant facts, or Permittee's misrepresentation of any relevant facts at any time; or,

c. A determination that the permitted activity may cause a hazard to public health or undue risk to property and can only be regulated to acceptable levels by discharge permit modification or termination (See Section 75-6-6 NMSA 1978; 20.6.2.5101I NMAC; and, 20.6.2.3109E NMAC).

2. This Discharge Permit may also be modified or terminated for any of the following causes:

a. Violation of any provisions of the Water Quality Act or any applicable regulations, standard of performance or water quality standards;

b. Violation of any applicable state or federal effluent regulations or limitations; or

c. Change in any condition that requires either a temporary or permanent reduction or elimination of the permitted discharge (See Section 75-6-5M NMSA 1978).

1.H. TRANSFER OF CLASS III WELL DISCHARGE PERMIT:

1. The transfer provisions of 20.6.2.3111 NMAC do not apply to a discharge permit for a Class III well.

2. Pursuant to 20.6.2.5101H NMAC, the Permittee may request to transfer its Class III well discharge permit if:

a. The OCD Director receives written notice 30 days prior to the transfer date; and,

b. The OCD Director does not object prior to the proposed transfer date. OCD may require modifications to the discharge permit as a condition of transfer, and may require demonstration of adequate financial responsibility.

3. The written notice required in accordance with Permit Condition 1.H.2.a shall:

a. Have been signed by the Permittee and the succeeding Permittee, and shall include an acknowledgement that the succeeding Permittee shall be responsible for compliance with the Class III well discharge permit upon taking possession of the facility; and

b. Set a specific date for transfer of the discharge permit responsibility, coverage and liability; and

c. Include information relating to the succeeding Permittee's financial responsibility required by 20.6.2.5210B(17) NMAC.

1.I. COMPLIANCE AND ENFORCEMENT: If the Permittee violates or is violating a condition of this Discharge Permit, OCD may issue a compliance order that requires compliance immediately or within a specified time period, or assess a civil penalty, or both (See Section 74-6-10 NMSA 1978). The compliance order may also include a suspension or termination of this Discharge Permit. OCD may also commence a civil action in district court for appropriate relief, including injunctive relief (See Section 74-6-10(A)(2) NMSA 1978). The Permittee may be subject to criminal penalties for discharging a water contaminant without a discharge permit or in violation of a condition of a discharge permit; making any false material statement, representation, certification or omission of material fact in a renewal application, record, report, plan or other document filed, submitted or required to be maintained under the Water Quality Act; falsifying, tampering with or rendering inaccurate any monitoring device, method or record required to be maintained under the Water Quality Act; or failing to monitor, sample or report as required by a Discharge Permit issued pursuant to a state or federal law or regulation (See Section 74-6-10.2 NMSA 1978).

2. GENERAL FACILITY OPERATIONS:

2.A. QUARTERLY MONITORING REQUIREMENTS FOR CLASS III WELLS: The Permittee may use either or both fresh water or water from otherwise non-potable sources. Pursuant to 20.6.2.5207C, the Permittee shall provide analysis of the injected fluids at least quarterly to yield data representative of their characteristics. The Permittee shall analyze the injected fluids for the following characteristics:

- pH;
- density;
- concentration of total dissolved solids; and,
- chloride concentration.

The Permittee shall also provide analysis of the produced brine on a quarterly basis. The Permittee shall analyze the produced brine for the following characteristics:

- pH;
- density;
- concentration of total dissolved solids;
- chloride concentration; and,
- sodium concentration.

2.B. SOLUTION CAVERN MONITORING PROGRAM:

1. Surface Subsidence Monitoring Plan: The Permittee shall submit a Surface Subsidence Monitoring Plan to OCD within 180 days of the effective date of this permit. The Surface Subsidence Monitoring Plan shall specify that the Permittee will install at least three survey monuments and shall include a proposal to monitor the elevation of the monuments at least semiannually.

The Permittee shall survey each benchmark at least semiannually to monitor for possible surface subsidence and shall tie each survey to the nearest USGS benchmark. The Permittee shall employ a licensed professional surveyor to conduct the subsidence monitoring program. The Permittee shall submit the results of all subsidence surveys to OCD within 15 days of the survey. If the monitored surface subsidence at any measuring point reaches 0.10 feet compared to its baseline elevation, then the Permittee shall suspend operation of the Class III well. If the Permittee cannot demonstrate the integrity of the cavern and well to the satisfaction of OCD, then it shall cease all brine production and submit a corrective action plan to mitigate the subsidence.

2. Solution Cavern Characterization Program: The Permittee shall submit a Solution Cavern Characterization Plan to characterize the size and shape of the solution cavern using geophysical methods within 180 days of the effective date of this permit. The Permittee shall characterize the size and shape of the solution cavern using a geophysical method approved by OCD at least once before November 8, 2018. The Permittee shall demonstrate that at least 90% of the calculated volume of salt removed based upon injection and production volumes has been accounted for by the approved geophysical method(s) for such testing to be considered truly representative.

a. The Permittee shall provide an estimate of the size and shape of the solution cavern at least annually, based on fluid injection and brine production data.

b. The Permit shall compare the ratio of the volume of injected fluids to the volume of produced brine monthly. If the average ratio of injected fluid to produced brine varies is less than 90% or greater than 110%, the Permittee shall report this to OCD and cease injection and production operations of its Class III well within 24 hours. The Permittee shall begin an investigation to determine the cause of this abnormal ratio within 72 hours. The Permittee shall submit to OCD a report of its investigation within 15 days of cessation of injection and production operations of its Class III well.

3. Annual Certification: The Permittee shall certify annually that continued salt solution mining will not cause cavern collapse, surface subsidence, property damage, or otherwise threaten public health and the environment, based on geologic and engineering data.

If the solution cavern is determined by either OCD or the Permittee to be potentially unstable by either direct or indirect means, then the Permittee shall cease all fluid injection and brine production within 24 hours. If the Permittee ceases operations because it or OCD has determined that the solution cavern is unstable, then it shall submit a plan to stabilize the solution cavern within 30 days. OCD may require the Permittee to implement additional subsidence monitoring and to conduct additional corrective action.

2.C. CONTINGENCY PLANS: The Permittee shall implement its proposed contingency plan(s) included in its Permit Renewal Application to cope with failure of a system(s) in the Discharge Permit.

2.D. CLOSURE: Prior to closure of the facility, the Permittee shall submit for OCD's approval, a closure plan including a completed form C-103 for plugging and abandonment of the Class III well. The Permittee shall plug and abandon its well pursuant to 20.6.2.5209 NMAC and as specified in Permit Condition 2.D.

1. Pre-Closure Notification: Pursuant to 20.6.2.5005A NMAC, the Permittee shall submit a pre-closure notification to OCD's Environmental Bureau at least 30 days prior to the date that it proposes to close or to discontinue operation of its Class III well. Pursuant to 20.6.2.5005B NMAC, OCD's Environmental Bureau must approve all proposed well closure activities before Permittee may implement its proposed closure plan.

2. Required Information: The Permittee shall provide OCD's Environmental Bureau with the following information:

- Name of facility;
- Address of facility;
- Name of Permittee (and owner or operator, if appropriate);
- Address of Permittee (and owner or operator, if appropriate);
- Contact person;
- Phone number;
- Number and type of well(s);

- Year of well construction;
- Well construction details;
- Type of discharge;
- Average flow (gallons per day);
- Proposed well closure activities (*e.g.*, sample fluids/sediment, appropriate disposal of remaining fluids/sediments, remove well and any contaminated soil, clean out well, install permanent plug, conversion to other type of well, ground water and vadose zone investigation, other);
- Proposed date of well closure;
- Name of Preparer; and,
- Date.

2.E. PLUGGING AND ABANDONMENT PLAN: Pursuant to 20.6.2.5209A NMAC, when the Permittee proposes to plug and abandon its Class III well, it shall submit to OCD a plugging and abandonment plan that meets the requirements of 20.6.2.3109C NMAC, 20.6.2.5101C NMAC, and 20.6.2.5005 NMAC for protection of ground water. If requested by OCD, Permittee shall submit for approval prior to closure, a revised or updated plugging and abandonment plan. The obligation to implement the plugging and abandonment plan as well as the requirements of the plan survives the termination or expiration of this Discharge Permit. The Permittee shall comply with 20.6.2.5209 NMAC.

2.F. RECORD KEEPING: The Permittee shall maintain records of all inspections, surveys, investigations, *etc.*, required by this Discharge Permit at its Facility office for a minimum of five years and shall make those records available for inspection by OCD.

2.G. RELEASE REPORTING: The Permittee shall comply with the following permit conditions, pursuant to 20.6.2.1203 NMAC, if it determines that a release of oil or other water contaminant, in such quantity as may with reasonable probability injure or be detrimental to human health, animal or plant life, or property, or unreasonably interfere with the public welfare or the use of property, has occurred. The Permittee shall report unauthorized releases of water contaminants in accordance with any additional commitments made in its approved Contingency Plan. If the Permittee determines that any constituent exceeds the standards specified at 20.6.2.3103 NMAC, then it shall report a release to OCD's Environmental Bureau.

1. Oral Notification: As soon as possible after learning of such a discharge, but in no event more than twenty-four (24) hours thereafter, the Permittee shall notify OCD's Environmental Bureau. The Permittee shall provide the following:

- The name, address, and telephone number of the person or persons in charge of the facility, as well as of the owner and/or operator of the facility;
- The name and location of the facility;
- The date, time, location, and duration of the discharge;
- The source and cause of discharge;
- A description of the discharge, including its chemical composition;
- The estimated volume of the discharge; and,

- Any corrective or abatement actions taken to mitigate immediate damage from the discharge.

2. Written Notification: Within one week after the Permittee has discovered a discharge, the Permittee shall send written notification (may use form C-141 with attachments) to OCD's Environmental Bureau verifying the prior oral notification as to each of the foregoing items and providing any appropriate additions or corrections to the information contained in the prior oral notification.

The Permittee shall provide subsequent written reports as required by OCD's Environmental Bureau.

2.H. OTHER REQUIREMENTS:

1. Inspection and Entry: Pursuant to Section 74-6-9 NMSA 1978 and 20.6.2.3107A NMAC, the Permittee shall allow any authorized representative of the OCD Director, to:

- Upon the presentation of proper credentials, enter the premises at reasonable times;
- Inspect and copy records required by this Discharge Permit;
- Inspect any treatment works, monitoring, and analytical equipment;
- Sample any injection fluid or produced brine; and,
- Use the Permittee's monitoring systems and wells in order to collect samples.

2. Advance Notice: The Permittee shall provide OCD's Environmental Bureau and Hobbs District Office with at least five (5) working days advance notice of any environmental sampling to be performed pursuant to this Discharge Permit, or any well plugging, abandonment or decommissioning of any equipment associated with its Class III well.

3. Environmental Monitoring: The Permittee shall ensure that any environmental sampling and analytical laboratory data collected meets the standards specified in 20.6.2.3107B NMAC. The Permittee shall ensure that all environmental samples are analyzed by an accredited "National Environmental Laboratory Accreditation Conference" (NELAC) Laboratory. The Permittee shall submit data summary tables, all raw analytical data, and laboratory QA/QC.

2.I. BONDING OR FINANCIAL ASSURANCE: Pursuant to 20.6.2.5210B(17) NMAC, the Permittee shall maintain at a minimum, a single well plugging bond in the amount that it shall determine, in accordance with Permit Condition 5.B, to cover potential costs associated with plugging and abandonment of the Class III well, surface restoration, and post-operational monitoring, as may be needed. OCD may require additional financial assurance to ensure adequate funding is available to plug and abandon the well and/or for any required corrective actions.

Methods by which the Permittee shall demonstrate the ability to undertake these measures shall include submission of a surety bond or other adequate assurances, such as financial statements or other materials acceptable to the OCD Director, such as: (1) a surety bond; (2) a trust fund with a New Mexico bank in the name of the State of New Mexico, with the State as Beneficiary; (3) a

non-renewable letter of credit made out to the State of New Mexico; (4) liability insurance specifically covering the contingencies listed in this paragraph; or (5) a performance bond, generally in conjunction with another type of financial assurance. If an adequate bond is posted by the Permittee to a federal or another state agency, and this bond covers all of the measures specified above, the OCD Director shall consider this bond as satisfying the bonding requirements of Sections 20.6.2.5000 through 20.6.2.5299 NMAC wholly or in part, depending upon the extent to which such bond is adequate to ensure that the Permittee will fully perform the measures required hereinabove.

2.J. ANNUAL REPORT: The Permittee shall submit its annual report pursuant to 20.6.2.3107 NMAC to OCD's Environmental Bureau by **June 1st** of the following year. The annual report shall include the following:

- Cover sheet marked as "Annual Class III Well Report, Name of Permittee, Discharge Permit Number, API number of well(s), date of report, and person submitting report;
- Summary of Class III well operations for the year including a description and reason for any remedial or major work on the well with a copy of form C-103;
- Monthly fluid injection and brine production volume, including the cumulative total carried over each year;
- Injection pressure data;
- A copy of the quarterly chemical analyses shall be included with data summary and all QA/QC information;
- Copy of any mechanical integrity test chart, including the type of test, *i.e.*, duration, gauge pressure, etc.;
- Brief explanation describing deviations from the normal operations;
- Results of any leaks and spill reports;
- An Area of Review (AOR) update summary;
- A summary with interpretation of MITs, surface subsidence surveys, cavern volume and geometry measurements with conclusion(s) and recommendation(s);
- A summary of the ratio of the volume of injected fluids to the volume of produced brine;
- A summary of all major Facility activities or events, which occurred during the year with any conclusions and recommendations;
- Annual Certification in accordance with Permit Condition 2.B.3.
- A summary of any new discoveries of ground water contamination with all leaks, spills and releases and corrective actions taken; and,
- The Permittee shall file its Annual Report in an electronic format with a hard copy submittal to OCD's Environmental Bureau.

3. CLASS III WELL OPERATIONS:

3.A. OPERATING REQUIREMENTS: The Permittee shall comply with the operating requirements specified in 20.6.2.5206A NMAC and 20.6.2.5206A NMAC to ensure that:

1. Injection will occur through the innermost tubing string and brine production through the annulus between the casing and tubing string to promote cavern development at depth. Injection and production flow can be reversed as required to achieve optimal cavern shaping, mine salt most efficiently, and to periodically clean the tubing and annulus. Injection must only occur in the intended solution mining interval.

2. Injection between the outermost casing and the well bore is prohibited in a zone other than the authorized injection zone. If the Permittee determines that its Class III well is discharging or suspects that it is discharging fluids into a zone or zones other than the permitted injection zone specified in Permit Condition 3.B.1., then the Permittee shall within 24 hours notify OCD's Environmental Bureau and Hobbs District Office of the circumstances and action(s) taken. The Permittee shall cease operations until proper repairs are made and it has received approval from OCD to re-start injection operations.

3.B. INJECTION OPERATIONS:

1. **Well Injection Pressure Limit:** The Permittee shall ensure that the maximum wellhead or surface injection pressure on its Class III well shall not exceed the fracture pressure of the injection salt formation and will not cause new fractures or propagate any existing fractures or cause damage to the system.

2. **Pressure Limiting Device:** The Permittee shall equip and operate its Class III well or system with a pressure limiting device which shall, at all times, limit surface injection pressure to the maximum allowable pressure for its Class III well. The Permittee shall monitor the pressure-limiting device daily and shall report all pressure exceedances within 24 hours of detecting an exceedance to OCD's Environmental Bureau.

The Permittee shall take all steps necessary to ensure that the injected fluids enter only the proposed injection interval and is not permitted to escape to other formations or onto the ground surface. The Permittee shall report to OCD's Environmental Bureau within 24 hours of discovery any indication that new fractures or existing fractures have been propagated, or that damage to the well, the injection zone, or formation has occurred.

3.C. CONTINUOUS MONITORING DEVICES: The Permittee shall use continuous monitoring devices to provide a record of injection pressure, flow rate, flow volume, and pressure on the annulus between the tubing and the long string of casing.

3.D. MECHANICAL INTEGRITY FOR CLASS III WELLS:

1. Pursuant to 20.6.2.5204 NMAC, the Permittee shall demonstrate mechanical integrity for its Class III well at least once every five years or more frequently as the OCD

Director may require for good cause during the life of the well. The Permittee shall demonstrate mechanical integrity for its Class III well every time it performs a well workover, including when it pulls the tubing. A Class III well has mechanical integrity if there is no detectable leak in the casing or tubing which OCD considers to be significant at maximum operating temperature and pressure; and no detectable conduit for fluid movement out of the injection zone through the well bore or vertical channels adjacent to the well bore which the OCD Director considers to be significant. The Permittee shall conduct a casing Mechanical Integrity Test (MIT) from the surface to the approved injection depth to assess casing integrity. The MIT shall consist of a 30-minute test at a minimum pressure of 300 psig measured at the surface.

The Permittee shall notify OCD's Environmental Bureau 5 days prior to conducting any MIT to allow OCD the opportunity to witness the MIT.

2. The following criteria will determine if the Class III well has passed the MIT:

- a. Passes MIT if zero bleed-off during the test;
- b. Passes MIT if final test pressure is within $\pm 10\%$ of starting pressure, if approved by OCD;
- c. When the MIT is not witnessed by OCD and fails, the Permittee shall notify OCD within 24 hours of the failure of the MIT.

3. Pursuant to 20.6.2.5204C NMAC, the OCD Director may consider the use by the Permittee of equivalent alternative test methods to determine mechanical integrity. The Permittee shall submit information on the proposed test and all technical data supporting its use. The OCD Director may approve the Permittee's request if it will reliably demonstrate the mechanical integrity of the well for which its use is proposed.

4. Pursuant to 20.6.2.5204D NMAC, when conducting and evaluating the MIT(s), the Permittee shall apply methods and standards generally accepted in the oil and gas industry. When the Permittee reports the results of all MIT(s) to the OCD Director, it shall include a description of the test(s), the method(s) used, and the test results.

3.E. WELL WORKOVER OPERATIONS: Pursuant to 20.6.2.5205A(5) NMAC, the Permittee shall provide notice to and shall obtain approval from OCD's District Office in Hobbs and the Environmental Bureau in Santa Fe prior to commencement of any remedial work or any other workover operations to allow OCD the opportunity to witness the operation. The Permittee shall request approval using form C-103 (Sundry Notices and Reports on Wells) with copies sent to OCD's Environmental Bureau and Hobbs District Office. Properly completed Forms C-103 and/or C-105 must be filed with OCD upon completion of workover activities and copies included in that year's Annual Report.

3.K. FLUIDS INJECTION AND BRINE PRODUCTION VOLUMES AND PRESSURES: The Permittee shall continuously monitor the volumes of water injected and brine production. The Permittee shall submit monthly reports of its injection and production volumes on or before the 10th day of the following month. The Permittee shall suspend injection if the monthly injection volume is less than 110% or greater than 120% of associated brine production. If such an event occurs, the Permittee shall notify OCD within 24 hours.

3.L. AREA OF REVIEW (AOR): The Permittee shall report within 72 hours of discovery any new wells, conduits, or any other device that penetrates or may penetrate the injection zone within a 1-mile radius from its Class III well.

4. CLASS V WELLS: Pursuant to 20.6.2.5002B NMAC, leach fields and other waste fluids disposal systems that inject non-hazardous fluid into or above an underground source of drinking water are UIC Class V injection wells. This Discharge Permit does not authorize the use of a Class V injection well for the disposal of industrial waste. Pursuant to 20.6.2.5005 NMAC, the Permittee shall close any Class V industrial waste injection well that injects non-hazardous industrial wastes or a mixture of industrial wastes and domestic wastes (*e.g.*, septic systems, leach fields, dry wells, *etc.*) within 90 calendar days of the issuance of this Discharge Permit. The Permittee shall document the closure of any Class V wells used for the disposal of non-hazardous industrial wastes or a mixture of industrial wastes and domestic wastes other than contaminated ground water in its Annual Report. Other Class V wells, including wells used only for the injection of domestic wastes, shall be permitted by the New Mexico Environment Department.

5. SCHEDULE OF COMPLIANCE:

5.A. ANNUAL REPORT: The Permittee shall submit its annual report to OCD by June 1st of each year.

5.B. BONDING OR FINANCIAL ASSURANCE: The Permittee shall submit an estimate of the minimum cost to properly close, plug and abandon its Class III well, conduct ground water restoration if applicable, and any post-operational monitoring as may be needed (see 20.6.2.5210B(17) NMAC) within 90 days of permit issuance (See 20.6.2.5210B(17) NMAC). The Permittee's cost estimate shall be based on third person estimates. After review, OCD will require the Permittee to submit a single well plugging bond based on the third person cost estimate.

5.C. SURFACE SUBSIDENCE MONITORING PLAN: The Permittee shall submit the Surface Subsidence Monitoring Plan required in accordance with Permit Condition 2.B.1 within 180 days of permit issuance.

5.D. SOLUTION CAVERN CHARACTERIZATION PLAN: The Permittee shall submit the Solution Cavern Characterization Plan required in accordance with Permit Condition 2.B.2 within 180 days of permit issuance.