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BONDS



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

February 18, 2000

CERTIFIED MAIL
RETURN RECEIPT NO. P-326-936-654

Ms. Yuvonne Doss
Chateau Oil and Gas, Inc
5950 Berkshire Lane
Suite 275
Dallas, TX 75225

**RE: \$25,000 Bond for Commercial Waste Management Facility
Chateau Oil and Gas, Inc., Principal
SE/4 Section 34, Township 31 North, Range 13 West, NMPM,
San Juan County, New Mexico
Underwriters Indemnity Co., Surety
Bond No. B7242**

Dear Mr. Root:

The New Mexico Oil Conservation Division (OCD) approved the transfer of ownership of the above referenced 711 Surface Waste Management Facility from Chateau Oil and Gas, Inc. to Greystone Energy, Inc. on November 9, 1998 and approved the replacement financial assurance on November 3, 1998. The OCD therefore **hereby approves the cancellation** of the above-referenced financial assurance and releases Underwriters Indemnity Co. of any liability.

Sincerely,

A handwritten signature in black ink, appearing to read "Rand Carroll", written over the word "Sincerely".

Rand Carroll
Legal Counsel

RC:mjk

xc with attachment:
Aztec OCD Office

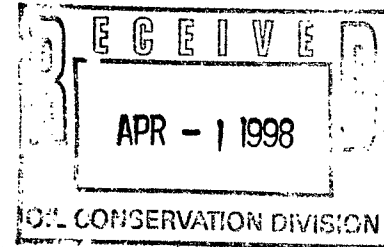
Chateau Oil and Gas, Inc.

5802 HIGHWAY 64
FARMINGTON, NEW MEXICO 87401

PH: (505) 632-8056
FAX: (505) 632-3031

Date: 03-27-98

NM Energy, Minerals and Natural Resources Dept.
Oil Conservation Division - Environmental Division
2040 S. Pacheco Street
Santa Fe, NM 87505



Attn: Martyne J. Kieling

Re: Chateau Oil and Gas, Inc.
Langendorf #3 - Centralized 711 Surface Waste Management Facility
SE/4 of Sec. 34, T31N, R13W, NMPM, San Juan Co., New Mexico

Dear Martyne,

Please find enclosed documentation of the Chateau Oil and Gas, Inc. bond in the amount of \$25,000.00. This should bring Chateau into compliance with Rule 711.B.1.i and 711.B.3. Included also is the permit application Form C- 137 and Attachments A thru F providing documentation for the information required.

In response to your comments from the Inspection Report dated June 11, 1997 the following actions have been taken:

1. **Pond Freeboard:** A white enamel paint stripe will be installed on the SW corner of the pond exactly 1.5' below the freeboard height as a permanent marker. The water in the pond will be pumped into the injection well before the marked height is exceeded.
2. **Pond Levee:** The top and sides of the levee will be maintained in excellent condition. This is to be part of the daily / weekly inspection by the operator of this facility. Any time the height or width of the levee is compromised by erosion it will be rebuilt immediately.
3. **Leak Detection System:** The leak detection system is to be monitored weekly by the operator of this facility. If any water is found in the leak detection system it will be sampled and comparison analysis made to the contents within the pond.
4. **Sludge Build-up:** Inspection of the build up of sludge in the bottom of the pond will take place monthly by the operator of this facility. Any sludge build-up in the bottom of the pond

in excess of (12") will be removed and disposed of at an OCD approved disposal facility.

5. **Security:** The unloading valve has been locked and all other valves have been sealed to prevent any unauthorized dumping. All gates on the perimeter fence are kept locked to help prevent any vandalism or unauthorized dumping at this facility.

6. **Signs:** This facility will keep a clearly labeled sign posted within view.

7. **Drum Storage:** There will be no drums or chemical containers stored at this facility.

8. **Process Area:** Spill collection devices are to be pumped out after each unloading of trucks at this facility. Spill collection devices are to be inspected weekly by the operator of this facility. A sign will be posted above the unloading valve to notify the truck drivers of this expectation.

9. **Above Ground Tanks:** The berm around the above ground tanks has been recently rebuilt. This berm will contain any spillage. The berm will contain more than the appropriate volume of the tanks as any spillage will return into the lined pond.

10. **Open Top Tanks and Pits:** New Bird Netting has been ordered to replace the current netting over this pond. The pond will be skimmed of all oil and the sides of the liner steam cleaned during the installation of the new netting. This pond will be kept free of any skim oil at all times by skimming the oil and returning it to the gunbarrel tank. In case of upset during frigid weather the pit will be skimmed as soon as the weather is warm enough to allow this operation to proceed.

11. **Above Ground Saddle Tanks:** There will be no above ground saddle tanks at this facility.

12. **Tank Labeling:** All tanks are now labeled as to their contents with the proper hazard placards.

13. **Below Grade Sumps:** the below grade sumps at the truck off-load area will have annual integrity testing. Testing is to include cleaning and visually inspecting the bottom and sides of the sump. This testing should be completed during the second week of July annually.

14. **Underground Process/Wastewater Lines:** The flow line from the water storage tank to the injection pump will have an annual mechanical integrity test run during the second week of July by the operator of this facility. This test will be accomplished by filling the water tank to the height of 14' to maximize the head pressure on the line. Head pressure is to be measured at the pump end of the line and monitored overnight. If there is any pressure drop over night the line must be uncovered and visually inspected for leaks. Any leaks are to be repaired immediately. The area where the line is buried is to be visually inspected weekly by the operator of this facility to determine if there are any wet spots on the surface. Any time a wet spot is noticed the line should

be immediately uncovered and the leak repaired. Historically there has been no leaks on this line. This line is constructed of PVC 3" plastic pipe and is not subject to corrosion. This line is buried therefore the ultraviolet rays of the sun cannot compromise the integrity of this line.

15. **Housekeeping:** The operator of this facility is responsible for continued good housekeeping practices. All spill collection devices are to be kept free of any spillage. Any spillage into these containers should be pumped out immediately. All used filter elements should be dried and bagged then removed to an approved disposal facility immediately. The filter drying container should never be found containing filters accept during the drying process. Waste Management of the Four Corners, Land Fill will take these bagged filters as they contain only the dried filter element and elemental salt.

16. **Trash and Potentially Hazardous Materials:** This facility will be kept free of all trash such as oily rags, soda cans and bottles, weekend shooter targets, old pipe connections, hoses belts, or other oil field related refuse. There will be no storage of potentially hazardous materials at this facility due to frequent vandalism in this area.

17. **Spill Reporting:** All spills/releases will be reported pursuant to OCD Rule 116 and WQCC 1203 to the appropriate OCD Office. Historically there has not been any reportable spills or releases at this facility.

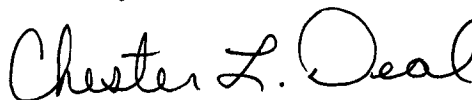
18. **Naturally Occurring Radioactive Material (NORM):** This facility has been inspected for NORM. The tanks, filters, injection pump, and the sludge on the bottom of the pond were inspected. There were no radiation levels found over normal back ground levels of 14 to 16 Micro-Roentgens per hour. See the signed NORM declaration (Attachment F) attached to the 711 application form.

19. **Application Requirements for Permit Under the New Rule 711:** As stated above this is included in this package.

If you need further information about this facility or this application please feel free to contact me at the above address or by phone at (505)632-8056.

Thank you for your attention to this matter.

Sincerely,



Chester L. Deal - Superintendent
Chateau Oil and Gas, Inc.

cc: Denny Foust - NMOCD
Dana Dutcher - Chateau
Don Ellsworth - BLM

BOND NO. B7242
(For Surety Company Use)

Address

1. (For a natural person acting in his own right:)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____.

My commission expires:

Date

Notary Public

2. (For a partnership acting by one or more partners)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____,
_____, partner(s) on behalf of
_____, a partnership.

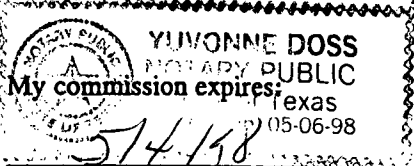
My commission expires:

Date

Notary Public

3. (For a corporation or incorporated association)

The foregoing instrument was acknowledged before me this 24th day of March, 1998,
by Dana M. Dutcher, President, Challenge Oil and Gas Inc.
a corporation, on behalf of said corporation.



Date

Yvonne Doss
Notary Public

NOTE: When Lessor is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

APPROVED BY:
OIL CONSERVATION DIVISION

By: _____

GENERAL POWER OF ATTORNEY

CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That **UNDERWRITERS INDEMNITY COMPANY**, a corporation organized and existing under the laws of the State of Texas, and having its principal office in the City of Houston, Texas, does hereby constitute and appoint:

ROY C. DIE

its true and lawful attorney-in-fact to execute, seal and deliver for and on its behalf as surety, any and all bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, which are or may be allowed, required or permitted by law, statute, rule, regulation, contract or otherwise, in an amount not to exceed:

*******FIFTY THOUSAND AND NO/100 DOLLARS*******

and the execution of all such instrument(s) in pursuance of these presents, shall be binding upon said **UNDERWRITERS INDEMNITY COMPANY** as fully and amply, to all intents and purposes, as if the same had been duly executed and acknowledged by its regularly elected officers at its principal office. This Power of Attorney is executed, and may be certified to and may be revoked, pursuant to and by authority of a resolution enacted by the Board of Directors of **UNDERWRITERS INDEMNITY COMPANY**. The following is a true transcript of said resolution:

That at all times since the formation of this corporation, the President or any Vice President, Assistant Vice President, Secretary or Assistant Secretary shall have power and authority.

(1) to appoint attorneys-in-fact, and to authorize them to execute on behalf of the Company; and attach the Seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and

(2) to appoint special attorneys-in-fact, who are hereby authorized to certify to copies of any power-of-attorney issued in pursuance of this section and/or any of the Bylaws of the Company, and

(3) to remove, at any time, any such attorney-in-fact or special attorney-in-fact and revoke the authority given to him.

Further, this Power of Attorney is signed and sealed by facsimile pursuant to resolution of the Board of Directors of said Company adopted by consent of which the following is a true excerpt:

"Now therefore the signatures of such officers and the seal of the Company may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached."

IN TESTIMONY WHEREOF, **UNDERWRITERS INDEMNITY COMPANY** has caused this instrument to be signed and its corporate seal to be affixed by its authorized officer, E.H. Frank, III, on this the 30th day of April 1996.



E.H. Frank III

President

STATE OF TEXAS
COUNTY OF HARRIS

On this 30th day of April 1996, before me came the individual who executed the preceding instrument, to me personally known, and, being duly sworn, said that he is the therein described and authorized officer of **UNDERWRITERS INDEMNITY COMPANY**; that the seal affixed to said instrument is the Corporate Seal of said Company; that the said Corporate Seal and his signature were duly affixed by order of the Board of Directors of said Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal, at the City of Houston, Texas, the day and year first above written.



Robin N. Neville

NOTARY PUBLIC, Harris County, Texas

CERTIFICATION

I, the undersigned officer of **UNDERWRITERS INDEMNITY COMPANY**, do hereby certify that I have compared the foregoing copy of the Power of Attorney and affidavit, and the copy of the Section of the By-Laws of said Company as set forth in said Power of Attorney, and that the same are correct transcripts thereof, and of the whole of the said originals, and that the said Power of Attorney has not been revoked and is now in full force and effect.

IN TESTIMONY WHEREOF, I have hereunto set my hand this 13th day of March, 19 98



Greg E. Chilson

Assistant Secretary

Only a certified copy of Power of Attorney bearing the Certificate of Authority No. printed in red on the upper right corner is binding. Photocopies, carbon copies or other reproductions of this document are invalid and not binding upon the Company.

ANY INSTRUMENT ISSUED IN EXCESS OF THE PENALTY AMOUNT STATED ABOVE IS TOTALLY VOID AND WITHOUT VALIDITY.