

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0135
Expires July 31, 1996

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE - Other instructions on reverse side

1. Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other		2. Name of Operator Gruy Petroleum Management Co.	3a. Address P.O. Box 140907 Irving, TX 75014-0907	3b. Phone No. (include area code) 972.401.3111	2.5. Lease Serial No. NMLC 029389E
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) 990' FNL & 1650' FWL Sec. 6 T18S R31E					6. If Indian, Allottee or Tribe Name
					7. If Unit or CA/Agreement, Name and/or No.
					8. Well Name and No. Neste Kenwood Fed 6 #1
					9. API Well No. 30-015-31850
					10. Field and Pool, or Exploratory Area Shugart Morrow North
					11. County or Parish, State Eddy

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input checked="" type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other Request Water Disposal permission
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Gruy requests permission to dispose of the produced water on this lease at Loco Hills Water Disposal Co. Facility R6811-B
For water analysis and state permit information, please see the attached documents.

14. I hereby certify that the foregoing is true and correct	
Name (Printed/Typed) Zeno Farris	Title Manager, Operations Administration
Signature <i>Zeno Farris</i>	Date June 25, 2004

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by	Title	Date
Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.		Office

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Neste Kenwood Federal 6 # 1

Gruy Petroleum Management Co.

Date 6/10/2004

Water Production & Disposal Information

In order to process your disposal request, the following information must be completed:

1. Name of formations producing water on this lease: Morrow
2. Amount of water produced from all formations in barrels per day:
one barrel per day.
3. Attach a current water analysis of produced water from all zones showing at least the total dissolved solids, PH, and the concentrations of chlorides and sulfates (one sample will suffice if the water is commingled):
4. How water is stored on this lease: 300 barrel steel tank.
5. How water is moved to the disposal facility: trucked.
6. Identify the disposal facility by:
 - A. Facility Operator's Name: Hughes.
 - B. Name of facility or well name and number: Local Hills water disposal - # R6811 - B
 - C. Type of facility or well (WDW, WIW, ect.): WDW.
 - D. Location by $\frac{1}{4}$ $\frac{1}{4}$ section 16 township 17 South range 30 East
7. Attach a copy of the state-issued permit for the Disposal Facility.

Submit to this office (414 West Taylor; Hobbs, NM 88240) the above-required information on a sundry notice 3160-5. Submit 1 original and 5 copies within the required time frame. This form may be used as an attachment to the sundry notice. Call me at 505-393-3612 if you need to further discuss this matter.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7720
Order No. R-6811-B

APPLICATION OF LOCO HILLS WATER
DISPOSAL COMPANY FOR AN AMENDMENT
TO DIVISION ORDER No. R-6811-A,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 29, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 30th day of December, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Loco Hills Water Disposal Company, seeks an order amending Division Order No. R-6811-A to remove the present maximum disposal limit of 2,500 barrels per acre per month imposed upon the salt water disposal facility authorized, therein, in Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) That said Order No. R-6811-A was issued by the Commission following the hearing of Case No. 7329 De Novo on July 14, 1982.

(4) That in said Order No. R-6811-A, the Commission made, among others, the following findings:

"(5) That Order (3) of Division Order No. R-3221, as amended, prohibits in that area encompassed by Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico, the disposal, subject to minor exceptions, of water produced

in conjunction with the production of oil or gas, or both, on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which would constitute a hazard to any fresh water supplies and said disposal has not previously been prohibited.

(7) That the aforesaid Order No. R-3221 was issued in order to afford reasonable protection against contamination of fresh water supplies designated by the State Engineer through disposal of water produced in conjunction with the production of oil or gas, or both, in unlined surface pits.

(8) That the State Engineer has designated, pursuant to Section 65-3-11 (15), N.M.S.A., 1953 Compilation, all underground water in the State of New Mexico containing 10,000 parts per million or less of dissolved solids as fresh water supplies to be afforded reasonable protection against contamination; except that said designation does not include any water for which there is no present or reasonably foreseeable beneficial use that would be impaired by contamination.

(9) That the applicant seeks an exception to the provisions of the aforesaid Order (3) of Division Order No. R-3221, as amended, to permit the commercial disposal of produced salt water into the aforesaid pits at the site described above.

(10) That the applicant proposes to install and operate an effective system, composed of holding and separating tanks, and a skimming pit, for the removal of oily and solid wastes from the waters to be disposed of into said system.

(11) That there is no fresh water in the immediate vicinity of said disposal system, but there are wells producing fresh water some nine miles south of the proposed disposal pits.

(12) That the native soils underlying said pits will permit the vertical percolation of some of the waters disposed of in said system.

(13) That the vertical percolation of waters from said system should not endanger any fresh waters.

(14) That to ensure that waters percolating from said pits move only vertically, monitor wells should be

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drilled in a pattern as shown on Exhibit "A" designed to detect horizontal movement of water from said disposal area.

(15) That in the event salt water is detected in any monitor well, Case No. 7329 should be reopened within 90 days to permit applicant to appear and show cause why the authority to use said pits for water disposal should not be rescinded.

(16) That the maximum volume of produced water to be disposed of through said system should not exceed 2500 barrels per acre per month.

(17) That a freeboard of a minimum of three feet should be maintained at all times."

(5) That said Order No. R-6811-A did contain provisions limiting the maximum disposal volume to 2500 barrels per acre per month, requiring maintenance of a minimum three foot freeboard in all pits and the drilling and equipping of monitor wells.

(6) That the applicant now seeks the amendment of said Order No. R-6811-A to remove only the 2500 barrels per acre per month disposal volume limitation.

(7) That the application was opposed by a surface and ground water interest owner in the area which might be affected by the disposal operation.

(8) That the applicant presented evidence designed to demonstrate that the change in disposal volume would not significantly alter the hydrologic regime established by institution of the disposal operation nor threaten contamination of any fresh water supplies.

(9) That the protestant presented new evidence which tended to show that there were both southeast and southwest trending slopes on the interface between the Santa Rosa formation and the Rustler formation under the disposal pits.

(10) That the protestant further presented testimony tending to show that an impermeable clay barrier exists at the base of the Santa Rosa formation which would effectively stop the vertical infiltration of the disposed waters into the Rustler formation.

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(11) That if the disposed water which percolates through the Santa Rosa formation from said pits cannot move into the Rustler formation, it may move laterally through the Santa Rosa formation where it may endanger fresh water supplies.

(12) That in order to verify that any water percolating from said pits ultimately enters the Rustler formation and does not move laterally within the Santa Rosa formation, the well monitoring system provided for in said Order No. R-6811-A should be expanded.

X (13) That the additional monitor wells should be drilled to the Rustler formation and should be located at points approximately 250 feet north of the present monitor well No. 9 located to the east of the disposal facility, approximately 150 feet from monitor well No. 2 along a line connecting monitor well 2 and monitor well 3, and at a third location approximately midway between the present monitor holes No. 4 and 5 all as depicted on Exhibit "A" to said Order No. R-6811-A.

(14) That provided that these additional monitor wells are drilled and utilized in the same manner as the original monitor wells, no increased threat to fresh water supplies should result from lifting the 2500 barrels-per-acre disposal limitation contained in Order No. R-6811-A.

(15) That the application should be approved and the additional monitor wells should be required.

(16) That the granting of this application restricted in the manner set forth above will not cause waste, or impair correlative rights, or endanger designated fresh water supplies.

IT IS THEREFORE ORDERED:

(1) That the application of Loco Hills Water Disposal Company for an amendment of Division Order No. R-6811-A to remove the 2500 barrel per acre per month disposal limitation included in Order No. (1), thereof, is hereby approved.

PROVIDED HOWEVER, that this order shall not become effective until the applicant has drilled and completed three additional monitor wells located approximately (1) 250 feet to the North of present monitor hole No. 9, (2) 150 feet from present monitor well No. 2 along a line connecting monitor well No. 2 and 3 and (3) midway between the present monitor holes Nos. 4 and 5.

PROVIDED FURTHER, that each of said monitor wells shall be drilled to the top of the Rustler formation and that such wells

Steve Baker

Loco Hills

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shall be cased and operated in the same manner as those monitor wells required by Order No. R-6811-A.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

Ed Kelley
ED KELLEY, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

**CAPITAN CHEMICAL
WATER ANALYSIS REPORT**

Lease Name : Gruy Petroleum
Well Number : NESTE Karwood 6-1
Location : #1
Eddy County, N.M.

Date Sampled : 05/12/04
Capitan Rep. : Joe Hughes
Company Rep. : Mike Braswell

ANALYSIS

- | | | |
|---|--------|------------------------------------|
| 1. pH | 7.5 | |
| 2. Specific Gravity @ 60/60 F. | 1.039 | |
| 3. CaCO ₃ Saturation Index @ 80 F. | +1.095 | 'Calcium Carbonate Scale Possible' |
| @ 140 F. | +2.025 | 'Calcium Carbonate Scale Possible' |

Dissolved Gases

- | | | |
|---------------------|-----|-----|
| 4. Hydrogen Sulfide | 0 | PPM |
| 5. Carbon Dioxide | 151 | PPM |
| 6. Dissolved Oxygen | NR | PPM |

Cations

- | | mg/L | / | Eq. Wt. | = | MEQ/L |
|----------------------------|----------------|---|---------|---|----------|
| 7. Calcium (Ca++) | 1,500 | / | 20.1 | = | 74.63 |
| 8. Magnesium (Mg++) | 1,519 | / | 12.2 | = | 124.49 |
| 9. Sodium (Na+) Calculated | 23,550 | / | 23.0 | = | 1,023.92 |
| 10. Barium (Ba++) | Not Determined | / | 68.7 | = | 0.00 |

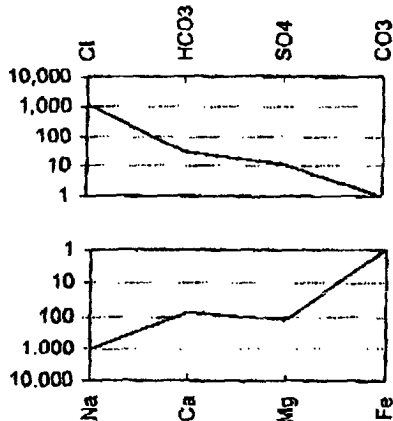
Anions

- | | | | | | |
|--------------------------------------|--------|---|------|---|----------|
| 11. Hydroxyl (OH-) | 0 | / | 17.0 | = | 0.00 |
| 12. Carbonate (CO ₃ =) | 0 | / | 30.0 | = | 0.00 |
| 13. Bicarbonate (HCO ₃ -) | 1,806 | / | 61.1 | = | 29.55 |
| 14. Sulfate (SO ₄ =) | 507 | / | 48.8 | = | 10.39 |
| 15. Chloride (Cl-) | 42,000 | / | 35.5 | = | 1,183.10 |

Other

- | | | | | | |
|---|--------|------------|------|-------------|------|
| 16. Soluble Iron (Fe) | 5 | / | 18.2 | = | 0.27 |
| 17. Total Dissolved Solids | 70,882 | | | | |
| 18. Total Hardness As CaCO ₃ | 10,000 | | | | |
| Calcium Sulfate Solubility @ 90 F. | 4,553 | | | | |
| 20. Resistivity (Measured) | 0.150 | Ohm/Meters | @ 82 | Degrees (F) | |

Logarithmic Water Pattern



PROBABLE MINERAL COMPOSITION

COMPOUND	Eq. Wt.	X	MEQ/L	=	mg/L
Ca(HCO ₃) ₂	81.04	X	29.55	=	2,395
CaSO ₄	68.07	X	10.39	=	707
CaCl ₂	55.50	X	34.69	=	1,925
Mg(HCO ₃) ₂	73.17	X	0.00	=	0
MgSO ₄	60.19	X	0.00	=	0
MgCl ₂	47.62	X	124.49	=	5,928
NaHCO ₃	84.00	X	0.00	=	0
NaSO ₄	71.03	X	0.00	=	0
NaCl	58.46	X	1,023.92	=	59,859

I & E CFO

**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT**

NOTICE OF INCIDENTS OF NONCOMPLIANCE

☒ Certified Mail - Return
Receipt Requested
7002315000320601743

☐ Hand Delivered Received
by

Identification	
ID	
Lease	NMLC029389E
CA	
Unit	
PA	

Bureau of Land Management Office CARLSBAD FIELD OFFICE				Operator GRUY PETROLEUM MANAGEMENT CO			
Address 620 E GREENE STREET CARLSBAD NM 88220				Address P O BOX 140907 IRVING TX 75014			
Telephone 505-234-5906				Attention			
Inspector CLEGHORN				Attn Addr			
Site Name NESTE KENWOOD FEDERAL	Well or Facility C	1/4 1/4 Section NENW 6	Township 18S	Range 31E	Meridian NMP	County EDDY	State NM
Site Name (FACILITY)	Well or Facility	1/4 1/4 Section	Township	Range	Meridian	County	State

THE FOLLOWING VIOLATION WAS FOUND BY BUREAU OF LAND MANAGEMENT INSPECTORS ON THE DATE AND AT THE SITE LISTED ABOVE

Date	Time (24 - hour clock)	Violation	Gravity of Violation
06/22/2004	08:30	ONSHORE ORDER #7 III,B,2	MINOR
Corrective Action To Be Completed By	Date Corrected	Assessment for Noncompliance	Assessment Reference
07/24/2004			43 CFR 3163.1()

Remarks
APPLICATION FOR OFF-LEASE DISPOSAL OF WATER NOT ON FILE---SUBMIT SUNDRY NOTICE TO BE APPROVED AS PER ONSHORE #7.

When violation is corrected, sign this notice and return to above address.

Company Representative Title Mgr. Operations Admin Signature Zero Faus Date 6-25-26
Company Comments Sundry for water disposal submitted 6-25-04

WARNING

Incidents of Noncompliance correction and reporting timeframes begin upon receipt of this Notice or 7 business days after the date it is mailed, whichever is earlier. Each violation must be corrected within the prescribed time from receipt of this Notice and reported to the Bureau of Land Management office at the address shown above. Please note that you already may have been assessed for noncompliance (see amount under "Assessment for Noncompliance"). If you do not comply as noted above under "Corrective Action To Be Completed By" you may incur an additional assessment under (43 CFR 3163.1) and may also incur Civil Penalties (43 CFR 3163.2). All self-certified corrections must be postmarked no later than the next business day after the prescribed time for correction.

Section 109(d)(1) of the Federal Oil and Gas Royalty Management Act of 1982, as implemented by the applicable provisions of the operating regulations at Title 43 CFR 3163.2(f)(1), provides that any person who "knowingly or willfully" prepares, maintains, or submits, false, inaccurate, or misleading reports, notices, affidavits, record, data, or other written information required by this part shall be liable for a civil penalty of up to \$25,000 per violation for each day such violation continues, not to exceed a maximum of 20 days.

REVIEW AND APPEAL RIGHTS

A person contesting a violation shall request a State Director review of the Incidents of Noncompliance. This request must be filed within 20 working days of receipt of the Incidents of Noncompliance with the appropriate State Director (see 43 CFR 3165.3). The State Director review decision may be appealed to the Interior Board of Lands Appeals, 801 North Quincy Street, Suite 300, Arlington VA 22203 (see 43 CFR 3165.4). Contact the above listed Bureau of Land Management office for further information.

Signature of Bureau of Land Management Authorized Officer [Signature] Date 6/22/04 Time 0911

FOR OFFICE USE ONLY

Number 53	Date	Assessment	Penalty	Termination
Type of Inspection RR				

600 East Las Colinas Blvd.
Suite 1100
Irving, TX 75039
972-401-3111
469-420-2710

Gruy Petroleum Management Co

July 9, 2004

United States Department of the Interior
Bureau of Land Management
Carlsbad Field Office
620 East Green Street
Carlsbad, NM 88220
Attn: Mr. Don Cleghorn

us ~ Midland
Bryan



Re: Written Order #04-DC-266

Dear Mr. Cleghorn:

Enclosed, please find the documents you requested regarding water disposal for the Neste Kenwood 6 Federal No. 1.

If you need anything else, please feel free to contact Zeno Farris at 972-443-6489.

Thanks for your assistance!

Sincerely,

Natalie Krueger

Natalie Krueger
Production Assistant

nkrueger@magnumhunter.com

Accepted for record - NMOCD