

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

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Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



Certified Mail: 7007 2560 0002 2222 8261

August 16, 2012

Mr. Joel Stockford
Murchison Oil & Gas, Inc.
1100 Mira Vista Blvd.
Plano, Texas 75093-4698

RE: Denial of the Mudcat 2H C-144 Drying Pad/Temporary Pit Permit Request
Operator: Murchison Oil & Gas, Inc.
OGRID: 15363
Facility or Well Name: Mudcat 2H
Location: Unit P, Section 11, Township 17 South, Range 28 East, NMPM
Eddy County, New Mexico

Dear Mr. Stockford:

The Oil Conservation Division (OCD) District 2 Office has reviewed Murchison Oil & Gas, Inc.'s (Murchison) request, dated August 11, 2012 and submitted by R.T Hicks Consultants Ltd., to permit a "Drying Pad (Temporary Pit)." The permit request seeks OCD approval of a temporary pit as a drying pad based upon the drying pad regulatory permitting requirements and its associated closure by onsite, in-place burial. OCD hereby denies the C-144 permit request due to the information provided in the application packet demonstrating that the proposed drying pad is a temporary pit.

The permit application packet was submitted as a "Modification to an existing permit." Based on a review of OCD on-line records and recent submittals, it has been determined that OCD is in receipt of a Form C-144 CLEZ for this well, which requests the permitting of a closed-loop system with haul-off bins and using the bins for delivery and disposal of waste at an OCD approved facility. The C-144 CLEZ permit has not been approved at this time. OCD will review the proposal upon receipt and approval of the Application to Drill (APD) for this well. OCD understands, at this time, that the APD is being reviewed by BLM.

OCD was unable to locate the referenced design drawing, Plate 1, within the permit application packet, but was able to determine from the illustration of the pit layout on the pad, Page 1 prior to siting demonstration, that proposed sump has the dimensions of 20' (width) x 60' (length) x 1' (depth – based upon average pit/pad depth of 6'). Based upon the dimensions, the proposed sump has a design capacity of approximately 8,977 gallons. Within the design plan section of the permit application, it states that "The design directs any fluid drainage from the cuttings/mud

to a sump which fluids will be removed prior to accumulation of 500 gallons.” The operational section of the application states “No fluids used or generated during drilling or workover (stimulation) process will be discharged to the temporary pit/drying pad.” The in place closure section of the application provides the contradictory statement “The initial water flow-back from the stimulation process will be discharged to the temporary pit if the pit volume is sufficient.”

A “‘Sump’ means an impermeable vessel, or a collection device incorporated within a secondary containment system, with a capacity less than 500 gallons, which remains predominantly empty, serves as a drain or receptacle for de minimis releases on an intermittent basis and is not used to store, treat, dispose of or evaporate products or wastes.” See 19.15.17.7.H NMAC. “‘Temporary pit’ means a pit, including a drilling or workover pit, which is constructed with the intent that the pit will hold liquids for less than six months and will be closed in less than one year.” See 19.15.17.7.I NMAC.

Other deficiencies in the submittal include, but may not be limited to, the following:

- The permit application indicates ground water may be encountered at 71 feet beneath the bottom of the proposed design or 81 feet below ground surface at this site. The proposed in-place closure standards are based upon an area where ground water is greater than 100 feet beneath the bottom of the proposed design.
- The survey of the pad, provided with the Form C-102, illustrates that the pad is approximately 100 feet east of County Road 209. Figure 3 illustrates that the pad is approximately 200 feet east of County Road 209. This would mean that by shifting the pad location 100 feet west, the 500 foot radius ring moves into the designated wetlands as identified on Figure 5, “*National Wetlands Inventory*.”
- The written description of the proposed average depth of the temporary pit/ drying pad, provided on the illustration of the pit layout on the pad on Page 1 (prior to siting demonstration) , indicates that it will be 6 feet deep. Based upon the proposed design, if Murchison wishes to pursue an on-site closure only 2 feet of waste material (even after stabilizing the waste 3:1) can be placed in the proposed temporary pit/ drying pad in order to install the required soil cover that “consist of a minimum of four feet of compacted, non-waste containing earthen material” that “shall include either the background thickness of topsoil or one foot of suitable material to establish vegetation at the site, whichever is greater” to “to the site’s existing grade.”
- Also, the Form C-144 identifies the liner as a 20-mil LLDPE. The text proposes a 20-mil HDPE liner.

Based upon the information provided in the C-144 permit application, the drying pad/temporary pit design and the incorporated sump design, operation, and closure do not meet the requirements of 19.15.17 NMAC. Therefore, OCD hereby **denies** Murchison’s C-144 permit application.

You have 10 days from receipt of this notice to request a hearing on the denial of your C-144 permit modification application. See 19.15.17.16 NMAC. Please contact Florene Davidson at (505) 476-3458 within 10 days of receipt of this notice if you want to request a hearing on the denial of the C-144 permit modification application.

Mr. Stockford
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Please be advised that permit application and permit modification requests will be processed in the order in which they are received. The submittal of multiple requests from the applicant for existing permits may result in scheduling issues and delays.

If you have any questions regarding this matter, please do not hesitate to contact Mike Bratcher, of my staff, at (575) 748-1283 Ext. 108 or mike.bratcher@state.nm.us

Sincerely,

A handwritten signature in black ink that reads "Randy Dade". The signature is written in a cursive, flowing style.

Randy Dade
OCD District 2 Supervisor
Randy.dade@state.nm.us

Cc: Daniel Sanchez, Compliance & Enforcement Manager, OCD Santa Fe
Glenn von Gonten, Senior Hydrologist, OCD Santa Fe
Randy Dade, District Supervisor, OCD District 2
Mike Bratcher, Environmental Specialist, OCD District 2
R.T. Hicks Consultants, Ltd.

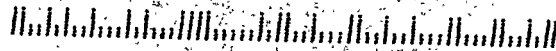
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1. Article Addressed to:

Mr. Joel Stockford
Murchison Oil & Gas
1100 Mina Vista Blvd.
Plano, TX 75093-4698

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