Mr. Joel Martin
Drilling Manager
NADEL AND GUSSMAN PERMIAN, LLC
601 N. Marienfeld, Suite 508
Midland, TX 79701

HOBBS OCD

AUG 15 2012

RECEIVED

15 August 2012

Mr. Geoffrey Leking
OIL CONSERVATION DIVISION
1625 N. French Drive
Hobbs, NM 88240

Re: Loco Ocho State No. 1 Notice of Intent for Drilling Pad Closure
U/L N Sec. 33 16S 35E 660 FSL 1980 FWL

1RP-8-12-2844
API No.: 30-025-36285

Dear Mr. Leking:

Thank you for your time and consideration in reviewing the Nadel and Gussman Permian, LLC (NGP) Loco Ocho State No. 1 drilling pad for final closure following their P&A activities which were completed on this location during February 2012. The following environmental corrective action information is based on the results of your August 2, 2012 onsite inspection of the current site and pad conditions. NGP intends to comply with New Mexico Oil and Gas Commission (NMOCD) regulatory requirements for the closure of this drilling pad and the associated environmental compliance issues.

Initially, NGP had sampled the drilling pad on 18 March 2011 in preparation for closure that is included with this transmittal. Due to the very busy status of the oil field in general, NGP was not able to P&A the Loco Ocho State No. 1 well until February of 2012. However, this location is now in preparation for closure targeted to begin the week of August 20th. NMOCD will be notified of the exact date 24 hours prior to infield implementation.

NGP intends to implement the following infield activities as discussed below:

The two pits located along the northern edge of the drilling pad will be closed by excavation of approximately 3' of contaminated material which will be hauled to disposal from pit 1, then the area treated with calcium sulfate and nitrate, covered with approximately 2' of backfill material, followed by 6" to 8" of topsoil or enough soil cumulatively that the footprint will be commensurate with surrounding topographic relief. Prior to backfill, this excavated area will be tested to ensure compliance with NMOCD Recommended Remediation Action Levels (RRAL's).

Pit 2, which is physically adjacent to pit 1 currently exhibits a vegetative stand comprised mainly of invasive weeds and is not showing much indigenous grass. Therefore, this specific area will no be excavated but be handled separately from pit 1, although handled at the same time since the two are linked together. Once the pit area is completed, it will be tied into the entire remediated site so that no separate areas will be contributing to the existing footprint when remediation is completed.

Approved
Geoffrey Leking
Env. Specialist
NMOCD - DIST 1
8/15/12

Affected areas of the rectangular tank battery located along the south side of the pad will be excavated to meet NMOCD RRAL's. Based on NGP's infield evaluations and NMOCD's onsite visit on August 2, 2012, excavation to approximately 3' or less will be necessary only at the southwest end of the tank battery footprint. However, the southeast end of this tank battery will be sampled along with the southwest end following removal of the contaminated material from the southwest area.

The tank battery area to the northeast and the separator footprint to the northwest will be excavated where necessary to meet NMOCD RRAL's followed by confirmation sampling and NMOCD's clearance to close these areas. Again, based on NGP's infield evaluations and NMOCD's onsite visit on August 2nd, there is approximately only 6 to 8 inches of contaminated material present where the separator was previously located, making this a very small footprint. In fact, infield sampling shows beneath the caliche layer here, soils meet background at 88 mg/Kg. The tank battery area to the northeast only showed surficial contamination during the infield onsite with the exception of pea gravel covering the area within the berms which will be handled with the removal of the drilling pad caliche. Once these areas have been cleared by NMOCD, they will be closed along with the overall drilling pad to incorporate them into one footprint.

The "bald areas" located along the west, north and east sides of the drilling pad will be tested this week for soil chlorides prior to completion of the reclamation process. If these areas are found to be above soil chloride concentration limits, NMOCD will be notified and appropriate action taken. NGP has some concern that this is either a naturally occurring "scar" on the landscape caused by a fungus or lichen or a footprint caused by perhaps, foreign trucks dumping in the area, as similar "bald areas" can be seen very frequently up and down the main service road as well as in areas far removed from the roadbed itself. Should these areas prove to be naturally occurring, NGP will not be responsible for their disposition.

The remainder of the drilling pad will be handled by flipping the pad in all areas that qualify for this procedure. Should a serious contamination issue arise, NMOCD will be notified immediately and the infield reclamation action changed accordingly, if necessary. Currently, NGP sees no evidence that other than above described handling shall be necessary.

As stated earlier in this transmittal, NGP had sampled the entire Loco Ocho State No. 1 drilling pad on March 18, 2011 with the exception of the tank batteries and the separator areas because they were occupied with equipment at that time.

The road (.1 mile) will be the last area closed during infield operations. V-F Petroleum, Inc. has contacted NGP regarding their interest in obtaining caliche from the Loco Ocho State No. 1 pad. NGP has subsequently contacted Bill Sonnemacher of the New Mexico Department of State Lands to verify if this was commensurate with state regulations. NGP was told this was acceptable. NGP will notify V-F Petroleum, Inc. when the caliche is ready for harvest from the road area and of any other caliche remaining from the remediation work. At this time, V-F Petroleum, Inc. may obtain the caliche on an "as is where is" basis with a fixed deadline which will coincide with NGP's final reclamation efforts and prior to their departure from the location. However, should NGP determine that the caliche is needed for reclamation efforts, it will not be transferred to V-F Petroleum, Inc. and NGP will continue to handle the area as identified earlier for the entire drilling pad.

Reclamation activities are targeted for completion prior to August 31, 2012. At this time, NMOCD will be notified for final inspection. Following this, the entire footprint will be seeded with a state approved seed mix.

Please call (432-682-4429) should you have questions.

Sincerely

Joel Martin
Drilling Manager

Enclosures: Laboratory Analyticals

Summary Report

Nadel & Gussman Permian LLC
600 N. Marienfeld
Suite 508
Midland, TX 79701

Report Date: April 5, 2011

Work Order: 11032803

Project Location: Drilling Pad Closure - P & A
Project Name: Loco Ocho State No. 1

Sample	Description	Matrix	Date Taken	Time Taken	Date Received
261823	Drilling Pad Closure - SE Area	soil	2011-03-18	13:00	2011-03-25
261824	Drilling Pad Closure - SW Area	soil	2011-03-18	13:20	2011-03-25
261825	Drilling Pad Closure - NE Area	soil	2011-03-18	13:45	2011-03-25
261826	Drilling Pad Closure - NW Area	soil	2011-03-18	14:00	2011-03-25
261827	Drilling Pad Closure - Wellhead Area	soil	2011-03-18	14:10	2011-03-25
261828	Drilling Pad Closure - Background	soil	2011-03-18	14:25	2011-03-25

	BTEX				MTBE	TPH DRO - NEW	TPH GRO
	Benzene	Toluene	Ethylbenzene	Xylene	MTBE	DRO	GRO
Sample - Field Code	(mg/Kg)	(mg/Kg)	(mg/Kg)	(mg/Kg)	(mg/Kg)	(mg/Kg)	(mg/Kg)
261823 - Drilling Pad Closure - SE Area	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00
261824 - Drilling Pad Closure - SW Area	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00
261825 - Drilling Pad Closure - NE Area	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00
261826 - Drilling Pad Closure - NW Area	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00
261827 - Drilling Pad Closure - Wellhead Area	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00
261828 - Drilling Pad Closure - Background	<0.0200	<0.0200	<0.0200	<0.0200		<50.0	<2.00

Sample: 261823 - Drilling Pad Closure - SE Area

Param	Flag	Result	Units	RL
Chloride		**38.5**	mg/Kg	2.50

Sample: 261824 - Drilling Pad Closure - SW Area

Param	Flag	Result	Units	RL
Chloride		**38.5**	mg/Kg	2.50

Sample: 261825 - Drilling Pad Closure - NE Area

Param	Flag	Result	Units	RL
Chloride		**38.5**	mg/Kg	2.50

Sample: 261826 - Drilling Pad Closure - NW Area

Param	Flag	Result	Units	RL
Chloride		**2450**	mg/Kg	2.50

Sample: 261827 - Drilling Pad Closure - Wellhead Area

Param	Flag	Result	Units	RL
Chloride		**721**	mg/Kg	2.50

Sample: 261828 - Drilling Pad Closure - Background

Param	Flag	Result	Units	RL
Chloride		<2.50	mg/Kg	2.50