



RAILROAD COMMISSION OF TEXAS

OIL AND GAS DIVISION November 30, 2007

Mesquite SWD, Inc. (561951)
P.O. Box 1479
Carlsbad, New Mexico 88221-1479

Re: Calhoun SWD Lease (30156)
Commercial Disposal Permit No. 11678
Well No. 1
Newark, East (Barnett Shale) Field
Montague County, Texas
Job No. 2007-18598

On November 27, 2007, Railroad Commission Field Technician Travis Jonas and myself conducted an inspection of the Calhoun SWD commercial disposal facility. During the inspection and subsequent review of Commission records, the following violations of Commission Statewide Rules and of the subject disposal permit were noted:

SWR 8(d)(1) – (1) An area of oil stained soil, measuring approximately 15' x 10', was found under the disposal pump at the facility. (2) An area of oil stained soil, measuring approximately 15' x 10', was found under and around the oil storage tank at the facility. (3) A skim of oil was observed on the surface of storm water located within the firewalls of the facility
[Immediately remove and properly dispose of all freestanding fluids found within the firewalls of the facility. All of the affected areas are to be turned, disked, or tilled, incorporating unaffected soil, to promote natural bioremediation. The final soil mixture should contain no more than 1% hydrocarbons by weight.]

SWR 9/Commerical Disposal Permit –

Special Condition 10d. – At the time of the inspection it was observed that the dikes around the facility do not comply with the permit. Per the permit, “The dikes shall be constructed so as to be able to contain a volume equal to the holding capacity of the facility.” It was observed that the holding capacity of the facility is 6000 bbls.

Special Condition 10e – At the time of the inspection it was observed that the facility does not have the required security to prevent unauthorized access. Per the permit, “Access shall be secured by a 24 hour attendant, a fence and locked gate when unattended, or a key-controlled access system”.

[Per the authority of the disposal permit and Statewide Rule 9, immediately cease using the subject facility for disposal operation until the subject lease is brought into compliance with the disposal permit and Commission Statewide Rules.]

SWR 9(11)(D) – At the time of the inspection, the subject well had a static pressure of 400 psig on the tubing with an undetermined amount pressure observed on the tubing/casing annulus. A review of Commission records failed to indicate that the operator has reported the pressure change that indicates a leak may be present.

[Immediately shut-in Well No. 1 and disconnect any flow lines from the well. Schedule with this District Office a mandatory witnessed mechanical integrity test (H-5) of the well. This office is to be notified 48 hours in advance of any testing or work-over operations on Well No. 1.]

SWR 53 (a) (1,4) – Even though at the time of the inspection Well No 1 was found to be inactive, a load ticket made out by Lonesome Dove Transports, Ticket No. 59201, was found during this

inspection that indicated that the facility is active. The review of Commission records revealed that the subject lease is listed on the current Proration Schedule as being shut-in.

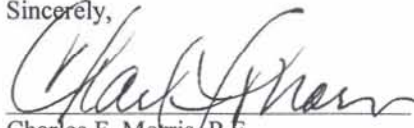
[(1) Submit to Austin and the District Office a copy of a W-2 Completion Report for disposal/injection wells to show that the facility is active.]

Chapter 4, Subchapter F – (1) A NORM survey of the disposal facility, conducted at the time of the inspection, indicted a maximum reading of 300 μ R/hr. (2) A NORM survey of a stack of “junk” tubing” located on the lease, indicted a maximum reading of 200 μ R/hr. No identification that the facility or “junk” tubing contained Naturally Occurring Radioactive Material (NORM) was noted.

[Immediately post the required NORM identification on the facility and all “junk” tubing.]

A re-inspection of the lease is scheduled for the week of December 10, 2007. Pursuant to the provisions of Statewide Rule 9(6) (A) (iii), the Commission, for substantial violations of the terms and conditions of the permit, may cancel or suspend the injection permit. Legal Enforcement action is being prepared regarding the failure to immediately report to this district the pressure of the tubing/casing annulus of the well. Failure to take the required corrective action will result in requesting a hearing to cancel the disposal permit. Please direct any questions with regard to this inspection to Charles F. Morris at (940) 723-2153, ext. 205.

Sincerely,



Charles F. Morris, P.E.
Petroleum Engineer

Asst. Dir

Dist. Dir

cc: Environmental Services, Attn Doug Johnson, RRC, Austin
 Ms. Sharon L. Wilson, 199 PR 2655, Decatur, Texas 76234
TJ (12/10/2007)