

MIDDLE PECOS GROUNDWATER CONSERVATION DISTRICT

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Directors

Jerry McGuairt, President John D. Dorris, Vice President M. R. Gonzalez, Secretary/Treasurer
Alvaro Mandujano, Jr. Vanessa Cardwell Ronald Cooper Janet Groth
Weldon Blackwelder Allan Childs Jeff Sims Puja Boinpally

Employees

Ty Edwards, General Manager
Melissa Mills, Office Manager Gail Reeves, Office Assistant

Minutes of April 18, 2017

On this the 18th of April, 2017, a regular board meeting and public hearing and workshop was held by the Middle Pecos Groundwater Conservation District in the office located at 405 North Spring Drive, Fort Stockton, Texas, with the following members present, to-wit:

Jerry McGuairt	President, Precinct 1
John Dorris	Vice President, Precinct 3
M. R. Gonzalez	Secretary/Treasurer, Precinct 2
Janet Groth	Precinct 1
Puja Boinpally	Precinct 2/Appointed at this meeting
Weldon Blackwelder	Precinct 3
Alvaro Mandujano, Jr.	Precinct 4
Ronald Cooper	Precinct 4
Vanessa Cardwell	City of Fort Stockton
Jeff Sims	City of Iraan
Allan Childs, Jr.	At Large

Quorum Present.

Board members absent: None

Others present: Ty Edwards, Mike Gershon, Allan Standen, Dr. Bill Hutchison, Gail Reeves, Harvey Gray, Melissa Mills, Jeff Williams, Brock Thompson, Eddie McCarthy III, Ed McCarthy, Jr., K. D. Foshee, Mike Thornhill, Darrell Peckham, Paula McGuairt, Tommy Ervin, Oscar Hernandez, Gerald D. Lyda, Steve Finch, Alan Murphy, Adam Friedman, Kenneth Heritage, Buck Benson, Nancy Siefken, and Bob Beal/Fort Stockton Pioneer.

REGULAR BOARD MEETING

NOTE: Agenda items are not taken up in the posted order.

- I Call to order regular Board meeting at 10:01 a.m. by President Jerry McGuairt.
- II Comments from **public and media**: No public comments.

V Consider and/or act upon **Minutes of Regular Meeting and Public Hearings on March 21, 2017.**

Ronnie Cooper made a motion to approve the minutes for March 21, 2017. Motion seconded by Janet Groth. Motion Carried Unanimously.

VI Consider and/or act upon **Minutes of Special Meeting and Workshop on March 28, 2017.**

Alvaro Mandujano, Jr., made a motion to approve the minutes of March 28, 2017 and April 3, 2017, and April 6, 2017. Motion seconded by Janet Groth. Motion Carried Unanimously.

VII Consider and/or act upon **Minutes of Special Meeting and Public Forum in Fort Stockton on April 3, 2017.**

Alvaro Mandujano, Jr., made a motion to approve the minutes of March 28, 2017 and April 3, 2017, and April 6, 2017. Motion seconded by Janet Groth. Motion Carried Unanimously.

VIII Consider and/or act upon **Minutes of Special Meeting and Public Forum in Iraan on April 6, 2017.**

Alvaro Mandujano, Jr., made a motion to approve the minutes of March 28, 2017 and April 3, 2017, and April 6, 2017. Motion seconded by Janet Groth. Motion Carried Unanimously.

III Consider and/or act upon **Appointment of New Director for Precinct 2.**

Janet Groth made a motion to appoint Puja Boinpally to fill the open director position for Precinct 2. Motion seconded by M. R. Gonzalez. The motion passed unanimously.

Note: The Mrs. Boinpally's position term is April 18, 2017 to November 6, 2018.

IV **Administer the Statement of Elected Officer and Oath of Office for Precinct 2 Director.**

Jerry McGuairt administered the *Statement of Officer*, and the *Oath of Office* to Puja Boinpally.

IX Consider and/or act upon Accounts Payable and Treasurer's Report and Line Item Transfers for the Month Ending March 31, 2017.

Vanessa Cardwell made a motion to approve the Treasurer's Report and Line Item Transfers and Accounts Payable. Motion seconded by Ronnie Cooper. Motion Carried Unanimously.

XV Progress Reports: Well Registrations, Production Permits, Drilling Permits, Data Loggers, Drought Monitor Map and ongoing Water Quality Analysis.

- Well Registrations: Ongoing.
- Drought Monitor Map: The current drought monitor map presented.
- Production Permits: None at this time.
- Drilling Permits: There are 3 new drills for oil and gas for Parsley on section 31 on property they own.
- Monitor Wells: Ongoing.
- Analysis: Semi-annual analysis start in June.

XVI Consider and/or act upon General Manager's Correspondence.

- The 2017 Texas Groundwater Summit will be held August 29-31, 2017 in San Marcos, TX.
- TAGD (Texas Alliance of Groundwater Districts) will have a meeting in Austin on May 31 and June 1st.
- Correspondence: Mark Moore, President of Approach Environmental, LLC, emailed regarding Pearl Resources (Garnet Well #4) and he hopes to gain an understanding of the activities that have been implemented to date regarding notifications, impacts (known and/or potential), abatement, mitigation, and/or remediation to develop a strategy to meet the Railroad Road Commission's requirements. (Note: In October of 2016 Pearl Resources attempted to drill an oil well, there was no surface casing set, and when they drilled into the Capitan Reef Aquifer, there was a blow out and water was 50' in the air, and H₂S was found in water wells up to 1/2 mile away.)

XIV Consider and act on Director and Employee Manual.

Jerry McGuairt reported that at the May meeting the manual will be ready for Board review and a vote in June.

XII Consider and take action as necessary on matters involving Fort Stockton Holdings, LP (FSHLP), Republic LLC and Clayton Williams Farms, Inc.'s settlement and following, related pending lawsuits and contested hearing:

- **Republic LLC's state-court lawsuit**, Court of Appeals Case No. 08-17-00001-CV
- **FSHLP v. Pecos County, MPGCD, et al.**, Court of Appeals Case No. 08-15-00382-CV
- **In re the Application of Republic LLC**, State Office of Administrative Hearings Docket No. 959-17-3195

Board action may include response to settlement proposal.

Fort Stockton Holdings, LP (FSH) submitted a red-line version of a counter settlement offer that was reviewed during two informal meetings on April 17th at the MPGCD office. The FSH proposal was vetted by those present which was the MPGCD Settlement Committee consisting of Jerry McGuairt, John Dorris, Vanessa Cardwell, and Alvaro Mandujano, Jr. Also in attendance was Janet Groth and FSH representatives Ed and Eddie McCarthy, and by the hydrogeologists in attendance which was Allan Standen and Dr. Bill Hutchison for MPGCD and Mike Thornhill and Darrell Peckham for FSH and Republic Water. Another counter settlement was received from FSH at 1:00 a.m. on 04-18-2017. After reviewing the 1 a.m. settlement offer from FSH, MPGCD attorney Mike Gershon took the responses from the MPGCD Subcommittee and forged a new settlement proposal for the full Board to review today.

An Executive Session was called at 10:31 a.m. by Presiding Officer Jerry McGuairt pursuant to the Texas Open Meetings Act, Sections 551.071 of the Texas Government Code, to consult with attorney.

The Executive Session ended at 11:55 a.m. President McGuairt stated that no decisions or votes were made in executive session.

The regular meeting reconvened at 11:59 a.m.

Board discussions:

Weldon Blackwelder asked the MPGCD hydrogeologists if they agreed with the 2% recharge as stated by the USGS.

Dr. Bill Hutchison said that since the estimate is based on a flawed groundwater availability model it is hard to draw a conclusion on the accuracy. He said the opportunity for meaningful recharge impact is reduced when the depth to water is so great.

Weldon Blackwelder asked if Dr. Hutchison if he had an explanation for a well pumping off in a drought, and then a 10" rain brings the water table back up in a few days.

Dr. Bill Hutchison explained that most of the water level rises are due to pressure response. The pressure response can come from rainfall that occurs far away. The pressure propagates very quickly and causes the water level to rise and is not liquid water that is increasing.

Weldon Blackwelder asked if the pressure response from the drawdown in the Belding area effects the springs, and how much further East and North and South does it go.

Dr. Bill Hutchison said that they are using the "Western Pecos County" model to try and find the pumping area that actually impacts the springs. The spring is not an isolated system and is most likely affected from nearby pumping, not far distances.

John Dorris and Jeff Sims asked how pumping in Belding would affect the East end of the county, and if there were any assurances that there would not be a negative impact.

Dr. Bill Hutchison explained that the water basically flows from South to North with a Southwestern to Northeastern component. He said all we can do is rely on what the data tells us. A lot of data has been collected and the models best represent our understanding of interpreting the data. At this point, the best interpretation of the data is that the affects are localized and is not going to extend that far. All studies and models are great tools, but actual data is needed and obtained through the monitoring system to prove it up.

Alvaro Mandujano, Jr. said that the clay soils as compared to sand has a lot to do with it.

Dr. Bill Hutchison agreed that the soil has an impact, but the depth to water is the biggest factor. The recharge is so small that it is not worth the effort to try and quantify it.

Alvaro Mandujano, Jr. made a motion to approve the settlement proposal before the Board today in response to Fort Stockton Holdings, LP (FSHLP), Republic Water Co. of Texas, LLC (Republic LLC) and Clayton Williams Farms, Inc.'s April 18th proposal by authorizing our Board President and Secretary to execute the copies drafted by our legal counsel. Motion seconded by John Dorris. Motion carried.

Vote: **For:** 9 - Dorris, McGuairt, Gonzalez, Mandujano, Cooper, Cardwell, Groth, Sims, and Boinpally. **Against:** 2 – Blackwelder and Childs.

(Four duplicate originals of the MPGCD Counterproposal 4/18/17 were signed. All four originals were handed to Mr. Ed McCarthy.)

The meeting was recessed for lunch at 12:15 p.m.

The meeting reconvened at 1:15 p.m.

* Note: Puja Boinpally returned at 1:30 p.m. Vanessa Cardwell did not return. A quorum was present for the entire meeting.

HEARING TO AMEND AN EXISTING DRILLING, TRANSPORT AND PRODUCTION PERMIT FOR ALPHA WATER RESOURCES, LLC.

I Call to order at 1:16 p.m. the Public Hearing on **Application to Amend an Existing Drilling, Transport and Production Permit for Alpha Water Resources, LLC** by President Jerry McGuairt.

Party representing application: Adam Friedman, Attorney and Alan Murphy.

Protestant to application: None

Public Comment: Kenneth Heritage still opposes the permit.

Manager Ty Edwards presented the application to the Board. The application requests to *Amend an Existing Drilling, Transport and Production Permit* that was originally granted on 12-15-2015 for 5,000 acre feet per year from the San Andres Formation for industrial use. Authorization was approved to drill one exempt monitor well, drill 3 new wells, and either plug or replace the two existing flowing wells (MRK East well #2013110401 and MRK West well #2013110402). A performance bond must be secured, and the bond must be approved by Middle Pecos GCD before proceeding with drilling. Once the monitor well is complete, the hydrogeological report shall be updated and provided to Middle Pecos GCD. Authorization was approved to export up to 5,000 acre feet annually for industrial use with an export fee of \$0.0249 per 1,000 metered gallons produced.

The amendment today is to transfer the ownership of the existing permit from STW Water Process & Technologies to Alpha Water Resources, LLC. and requests to extend to the Drilling permit. MRK is the property owner.

Alan Murphy was sworn in to give testimony. We plan on drilling our original monitor well first and it will have a 150' sanitary easement in both directions. The monitor well will be drilled as if it were a big production well. The goal is to drill and examine what we have down below and provide a hydrogeological report before we begin plugging the two wells.

Mr. Murphy asked the Board if he could divert the water from the flowing wells into lined container ponds, treat the water, and sell it to the oil and gas industry in order to control the flow and begin to dry up the property. He said he wasn't looking for an answer to that question at this time.

Once the monitor well is drilled and we have an understanding of the hydrogeology, then we will come back to this Board and show the design of the production wells.

Weldon Blackwelder asked for a special condition to be added to the permit that states before any new wells are produced that the artesian wells have to be plugged.

Mr. Murphy said the only reason they were hesitant about the plugging wells is because of the sink hole issue. Once the monitor well is drilled we will have a better understanding of the hydrogeology.

Adam Friedman, attorney for Alpha Water Resources, LLC, said the one noticeable change is the legal assignment of the rights to the groundwater with MRK Development and the agreement between Living Water Process & Technologies, LLC (Formerly known as STW Resources Holding, LLC) and Alpha Water Resources, LLC (Formerly known as STW Water Process & Technologies, LLC).

The permit issued by MPGCD was issued to STW Water Process & Technologies, LLC – and they are not in bankruptcy. They are a separate entity than STW Resources Holding, LLC. which is the company in bankruptcy. Now STW Water Process & Technologies, LLC, the current Permittee, is identified in the bankruptcy proceedings, and if you look at the assignment, the terms of the assignment are for an agreement for any work that gets done on this permit. The proceeds from work done through this permit will go back to STW Water Process & Technologies, LLC which was approved by the bankruptcy court.

Alan Murphy explained that he is currently the sole acting President of STW Water Process & Technologies, LLC, but that now he has created Alpha Water Resources, LLC. to continue with the work that was started. The project is still the same and the same customer base.

The Board intently stressed that the performance bond must cover the entire project and the plugging of 6 wells if need be. And, Alpha Water Resources will not proceed with any work until the MPGCD Board has reviewed and approved of the Performance Bond.

Regarding the term of the permit, Mr. Edwards said that the rule for a 3 year term permit is that you need to produce water in 1 year out of the 3 year term. The rule is not clear if it would apply since the wells (MRK East and MRK West) are free flowing artesian wells that are currently flowing on the ground.

The Board stressed the sequence of events from this point on:

- 1) Obtain a performance bond that will cover the entire project including the possible plugging and or abandonment of 6 wells and the bond must be approved by Middle Pecos GCD before proceeding with the drilling of the monitor well.
 - 2) A monitor well will be drilled and a hydrogeologic report must be brought before the Board before proceeding further.
 - 3) The MRK East and MRK West well will be plugged prior to proceeding with the drilling of the production wells.
 - 4) Alpha Water Resources will have a design of the production well to present to the Board for their approval before drilling begins.
 - 5) Alpha Water Resources has permission to drill 3 new wells, and to replace the two wells that were plugged.
- * There could possibly be a total of 6 wells. 1 exempt monitor well, and 3 new wells, and 2 newly drilled replacement wells for MRK East and MRK West.

For Reference: *The motion approved on 12-15-2015 is as follows:*

Ronald Cooper made a motion to approve the application for 5,000 acre feet per year from the San Andres Formation for industrial use. Authorization is approved to drill one exempt monitor well, drill 3 new wells, and either plug or replace the two existing flowing wells (MRK East well #2013110401 and MRK West well #2013110402). A performance bond must be secured, and the bond must be approved by Middle Pecos GCD before proceeding with drilling.

Once the monitor well is complete, the hydrogeological report shall be updated and provided to Middle Pecos GCD.

Authorization is approved to export up to 5,000 acre feet annually for industrial use with an export fee of \$0.0249 per 1,000 metered gallons produced.

*Motion seconded by M. R. Gonzalez. The motion passed unanimously.
(8 For, 0 Against, 3 Absent)*

II **Adjourn hearing and consider and/or act on Application to Amend an Existing Drilling, Transport and Production Permit for Alpha Water Resources, LLC**

Jerry McGuairt adjourned the hearing at 1:40 p.m.

Janet Groth made a motion to approve the amendment to transfer the ownership of the existing permit from STW Water Process & Technologies to Alpha Water Resources, LLC and recognize that there is an agreed sequence of activities on the ground as described in discussions between Mr. Murphy and the Board. The special permit condition is that the agreed sequencing of events is to be consistent with the under lying permit approved on 12-15-2015:

- 1) Obtain a performance bond that will cover the entire project including the possible plugging and or abandonment of 6 wells and the bond must be approved by Middle Pecos GCD before proceeding with the drilling of the monitor well.
- 2) A monitor well will be drilled and a hydrogeologic report must be brought before the Board before proceeding further.
- 3) The MRK East and MRK West well will be plugged prior to proceeding with the drilling of the production wells.
- 4) Alpha Water Resources will have a design of the production well to present to the Board for their approval before drilling begins.
- 5) Alpha Water Resources has permission to drill 3 new wells, and to replace the two wells that were plugged.

Weldon Blackwelder seconded the motion. The motion passed unanimously.

REGULAR BOARD MEETING CONTINUED

X **Consider and/or act upon Alpha Water Resources, LLC insurance bond for San Andreas Drilling/Production Permit.**

Alpha Water Resources will return to the Board once they have an insurance bond. No action taken.

XI **Briefing and take action as necessary on Republic Water Company of Texas, LLC (Republic LLC) permit proceeding referred to the State Office of Administrative Hearings (SOAH).**

Attorney Bill Dugat who represents the Board in this matter is in touch with SOAH. There is no assignment of a Judge at this time due to settlement discussions.

The upcoming May Preliminary Hearing may be cancelled depending on the outcome of the current settlement negotiations. The settlement document that the Board approved earlier today specifically addresses this proceeding and provides a timeline for letting SOAH know to abate the proceeding, and then ultimately as one settlement implementation points is for Republic Water Company of Texas, LLC's application to be dismissed and then to dismiss the SOAH proceeding. No action required or taken.

XIII Briefing and take action as necessary on matters regarding 85th Texas Legislative Session, including resolutions regarding legislation that affects the District.

No resolution(s). No action taken.

XVII Directors' comments.

Janet Groth asked for a report that details three year permit renewals to watch for.

There was a discussion on a quorum of the Board attending the Texas Groundwater Summit in August, and Mike Gershon said as long as Groundwater Business was not discussed in a quorum then everything is good. But if they want to discuss business then an agenda would need to be posted.

XVIII Consider and/or act upon agenda for next meeting. Nothing discussed.

XIX Adjourn Board meeting.

Alvaro Mandujano, Jr. made a motion to adjourn the meeting. Seconded by Weldon Blackwelder. Motion carried unanimously. The meeting adjourned at 1:53 p.m.

BOARD WORKSHOP

I Call to order at 1:53 p.m. by President Jerry McGuairt.

II Conduct Board workshop with District's hydrogeologists and engineer to discuss (a) possible changes to Management Zone 1 boundaries; (b) monitoring aquifer levels and setting aquifer drawdown thresholds for pro rata cutbacks and cutback amounts for Management Zone-based and District-wide management; (c) possible associated changes to Section 10 of the District's rules; (d) feedback on modeling tools for the Edwards-Trinity and Pecos Valley aquifers; and (e) update on adoption of desired future conditions within Groundwater Management Areas 3 and 7.

(a) possible changes to Management Zone 1 boundaries

Dr. Bill Hutchison explained that Management Zone 1 as defined in the 2010 Management Plan includes Leon Belding and parts of Coyanosa.

Fort Stockton Holdings has prepared a map with replacement boundaries that are linked to the settlement boundaries. One thing that I suggested was to consider the area that contributes to Comanche Springs.

(b) monitoring aquifer levels and setting aquifer drawdown thresholds for pro rata cutbacks and cutback amounts for Management Zone-based and District-wide management

The underlying philosophy is that the lowest threshold value would be the historic level that was measured in a well. The thought is that when the lowest level was hit there didn't seem to be issues with water quality or with water production.

(c) possible associated changes to Section 10 of the District's rules

Production limitations: We took the Desired Future Conditions (DFC) and applied them to the management zones.

(d) feedback on modeling tools for the Edwards-Trinity and Pecos Valley aquifers

Dr. Bill Hutchison explained that there 3 models that cover our area.

- 1) The regional model that was used as part of the DFC development is only good for DFC development and is not suitable as a District Management tool. This model is suitable for understanding the interaction/inter-relationships between Pecos County and surrounding counties.
- 2) The Harden and Thornhill and LBG Guyton model that was done on the original Fort Stockton Holdings case. This model is suitable for the issues we are dealing with as we move forward on the settlement on the establishment of minimum thresholds. This model appears to have a reasonable representation of the system, for example when you pump water you get spring flow reductions, and when you stop pumping you get spring flow recoveries. This coincides with the data that has been collected on the ground. The model is better suited for long term evaluations, like 2 years or more. This model is specifically designed for the Belding Area. Trigger points are being set for the

monitor wells in the Belding Area that will determine if cutbacks are needed and will help the permit holder watch water levels to avoid being cutback.

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- 3) The third and most recent model is the United States Geological Survey (USGS) model. This model is deeply flawed and unusable for DFC's or anything. Basically, there was geochemical evidence that a deeper formation water from the Rustler formation was moving up through the Trinity and into the Edwards. The problem occurred when the USGS hard wired that so much in the model it was unusable. The USGS is currently in the process of correcting and updating the model.

(e) update on adoption of desired future conditions within Groundwater Management Areas 3 and 7.

The DFC's adopted by Groundwater Management Area (MAG) 3 and 7 were taken and subdivided into the management zones.

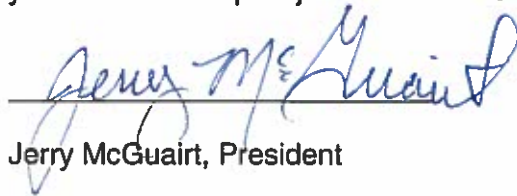
Discussion: Fort Stockton Holdings, LP gave the settlement committee a map depicting an amendment to the Management Zone 1 boundaries. We are in the beginning discussions and this is the first cut. All parties are philosophically on the same page.

III Adjourn workshop.

Jeff Sims made a motion to adjourn the workshop. Seconded by Weldon Blackwelder. Motion carried unanimously. The workshop adjourned at 2:15 p.m.



M. R. Gonzalez, Secretary/Treasurer



Jerry McGuairt, President

Date Approved 6-20-17