N.M. Oil Cons. DIV-Dist. 2 1301 W. Grand Avenue Artesia, NM 88210

FORM APPROVED

rm 3160-3	Artesia, NM
pril 2004)	

OMB No. 1004-0137 Expires March 31, 2007 UNITED STATES Lease Serial No. DEPARTMENT OF THE INTERIOR ¥M028992*A* BUREAU OF LAND MANAGEMENT If Indian, Allotee or Tribe Name APPLICATION FOR PERMIT TO DRILL OR REENTER 7 If Unit or CA Agreement, Name and No. la. Type of work: X DRILL REENTER 8. Lease Name and Well No. lb. Type of Well: Oil Well X Gas Well Single Zone Multiple Zone Cedar Lake "23" No. Name of Operator 9. API Well No. Pecos Production Company 30 <u>-015</u> 3b. Phone No. (include area code) 3a. Address 10. Field and Pool, or Exploratory Midland, TX 79701 400 W. (432) 620-8480 Cedar Lake (Morrow) <u>Illinois, Ste 1070</u> 11. Sec., T. R. M. or Blk. and Survey or Area 4. Location of Well (Report location clearly and in accordance with any State requirements RECEIVED 860' FSL & 1780' FML At surface 860' FSL & 1780' At proposed prod. zone Sec 23-T17S, R30E - UL N SEP 1 5 2004 12. County or Parish 14. Distance in miles and direction from nearest town or post office* 13 State OOD ARTERIA 2 Miles East of Loco Hills Eddy NM 15. Distance from proposed* 17. Spacing Unit dedicated to this well 16. No. of acres in lease location to nearest property or lease line, ft. (Also to nearest drig, unit line, if any) 860' 320 20. BLM/BIA Bond No. on file 18. Distance from proposed location* to nearest well, drilling, completed, 19. Proposed Depth applied for, on this lease, ft. 11,600' NA NMB000020 22. Approximate date work will start 23. Estimated duration 21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3656' GL Upon Approval 60 Davs 24. Attachments ROSWELL CONTROLLED WATER BASIN The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form: 1. Well plat certified by a registered surveyor. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above). A Drilling Plan. Operator certification 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office) Such other site specific information and/or plans as may be required by the authorized officer Name (Printed/Typed) Date 25. Signature William R. Huck 8-12-04 Title Name (Printed/Typed) Date 4 SEP 2004 Approved by (Signature) /s/ Joe G. Lara /s/ Joe G. Lara Title Office FIELD MANAGER CARLSBAD FIELD OFFICE Application approval 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 APPROVAL FOR 1 YEAR conduct operations thereon. Conditions of approval, if any, are attached Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make 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.

*(Instructions on page 2)

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico Energy Minerals and Natural Resources

Oil Conservation Division 1220 South St. Francis Dr. Santa Fe, NM 87505 Form C-144
June 1, 2004

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tan Type of action: Registration of a pit of	k covered by a "general or below-grade tank 🔯 Clost	plan"? Yes No		SEP 1 7 2004
Type of autom regulation of a pic	or cerear grade tank 23 Cross	ac of a pit of below-grad	ic talk	CD-ARTEBIA
Operator:Pecos Production CompanyTelephone:	_432-620-8480e-mail :	ddress:billh@pecos		-
Address:400 W. Illinois, Ste 1070, Midland, TX 79701				_
Facility or well name: _Cedar Lake "23" #1API #:	U/L or Qtr/	Qtr_NSec23T	_17SR_30E	•
County: _Eddy Latitude_32*48' 53.91" N Longitude10	03°56' 41.60" W_NAD: 1921	☑ 1983 ☐ Surface O	wner Federal 🛭 State [☐ Private ☐ Indian ☐
<u>Pit</u>	Below-grade tank			
Type: Drilling Production Disposal	Volume:bbl Type o	f fluid:		
Workover	Construction material:			
Lined 🖾 Unlined 🗌	Double-walled, with leak de	tection? Yes 🔲 If not,	explain why not.	
Liner type: Synthetic M Thickness 10-20 mil Clay				
Pit Volumebbl				
Depth to ground water (vertical distance from bottom of pit to seasonal high	Less than 50 feet		(20 points)	
water elevation of ground water.)	50 feet or more, but less tha	n 100 feet	(10 points)	
	100 feet or more √		(0 points) 0	
Wellhead protection area: (Less than 200 feet from a private domestic	Yes		(20 points)	
water source, or less than 1000 feet from all other water sources.)	No √		(0 points) 0	
	Less than 200 feet		(20 points)	
Distance to surface water: (horizontal distance to all wetlands, playas,	200 feet or more, but less th	an 1000 feet	(10 points)	
irrigation canals, ditches, and perennial and ephemeral watercourses.)	1000 feet or more √		(0 points) 0	
	Ranking Score (Total Poin	its)	0	
If this is a pit closure: (1) attach a diagram of the facility showing the pit's	relationship to other equipmen	nt and tanks. (2) Indicate	e disposal location: (ch	eck the onsite box if
your are burying in place) onsite Offsite If offsite, name of facility		. (3) Attach a general de	scription of remedial a	ction taken including
remediation start date and end date. (4) Groundwater encountered: No 🔲 Y				
Attach soil sample results and a diagram of sample locations and excavations		-		
Additional Comments:				
En .	1	Milia		
		And the second s		
I hereby certify that the information above is true and complete to the best of been/will be constructed or closed according to NMOCD guidelines, Date:9-15-04				
Printed Name/TitleWilliam R. Huck	Signature	UKKINI.		
Your certification and NMOCD approval of this application/closure does not otherwise endanger public health or the environment. Nor does it relieve the regulations.	t relieve the operator of liability	ty should the contents of for compliance with any	the pit or tank contamin other federal, state, or l	nate ground water or ocal laws and/or
Approval: Printed Name/Title	Signature		DatSEP	2 0 2004

DRILLING PROGRAM

Attachment to Form 3160-3 Pecos Production Company Cedar Lake "23" No. 1 860' FSL & 1780' FWL Section 23, T17S, R30E Eddy County, New Mexico

1. Geologic Name of Surface Formation

Quaternary Alluvium

2. Estimated Tops of Important Geological Formations

Rustler	450'
Base of Salt Section	1400'
Yates	1500'
Queen	2940'
San Andres	3438'
Bone Spring	6280'
Wolfcamp	8046'
Strawn	10,470'
Atoka	10,650'
Morrow	10,930'
Upper Mississippian	11,440'

3. Estimated Depths of Anticipated Fresh Water, Oil or Gas

Water:

Above 300'

Oil:

2940', 6300', 10,470'

Gas:

10,650', 11,000'

No other formations are expected to yield oil, gas or fresh water in measurable volumes. Any surface fresh water sands are protected by 13-3/8" casing at 450' and circulated cement back to surface. The Salt is isolated with a 8-5/8" intermediate casing string set into the San Andres at 4000' and cement circulated to surface. The Morrow, Wolfcamp, Bone Spring, and Delaware will be isolated with 5-1/2" production casing to total depth and cemented back into the 8-5/8" casing.

4. Casing Program

Hole Size	<u>Interval</u>	Casing OD	Weight	<u>Grade</u>	<u>Type</u>	
17-1/2"	0' - 450'	13-3/8"	48#	H-40	ST&C WITNE	SS
11"	0' - 4000'	8-5/8"	32#	J-55	ST&C	
7-7/8"	0' - 11,600'	5-1/2"	17#	N-80 & HCP-110	LT&C Planned	**.

Cedar Lake "23" No. 1 Drilling Plan Page 2

Cementing Program

450' 13-3/8" Surface Casing:

Cement to surface: 200 sxs Class C containing 4%

Gel, 2% Calcium Chloride followed by 200 sxs Class C

containing 2% Calcium Chloride.

4000' 8-5/8" Intermediate Casing:

Cement to surface: 750 sxs 50/50 Poz C containing

10% gel, 6.0# salt, 1/4#/sx Flocele followed by 250 sxs

Class C containing 1% Calcium Chloride.

11,600' 5-1/2" Production Casing with DVT @ 8500'

First Stage

Lead Slurry:

50:50 Poz H containing 4% gel, 0.5% FLAC, 5#

Gilsonite.

Tail Slurry:

15:61:11 Poz H containing 5# Salt, 0.5% FL-52, 0.5%

FL-25.

Second Stage

Lead Slurry:

50:50 Poz H containing 10% gel, 0.1% FLAC, 5#

Gilsonite.

Tail Slurry:

50:50:2 Poz H containing 2% gel, 0.5% FL-52, 5% Salt.

5. Minimum Specifications for Pressure Control

The blowout preventor equipment (BOP) shown in Exhibit #1 will consist of a (5M system) double ram type (5000# WP) preventor and annular. This unit will be hydraulically operated. The BOP will be installed on the 13-3/8" casing and utilized continuously until total depth is reached. As per BLM Drilling Operatings Order #2, prior to drilling out of the 8-5/8" casing shoe, the BOP will be function and pressure tested.

Pipe rams will be operated and checked each 24 hour period and each time the drill pipe is out of the hole. These function test will be documented on the daily driller's log. Other accessory BOP equipment will include a kelly cock, floor safety valve, choke lines and choke manifold having a 5000# WP rating.

Cedar Lake "23" No. 1 Drilling Plan Page 3

6. Types and Characteristics of Proposed Mud System

This well will be drilled to total depth with fresh water, cut brine and starch mud systems. Depths are as follows:

Depth	Type	Weight (ppg)	Viscosity	Water Loss
0' - 450'	FW/Native	8.6	32	NC
450' - 4000'	Brine	10.0	29	NC
4000' - 8500'	FW	8.4	28	NC
8500' - 9800'	Cut Brine	8.6 - 9.0	29	NC
9800' - 11.600'	Duo-Vis/Starch	9.0 - 9.6	34 - 40	12 - 6 cc

7. Auxiliary Well Control and Monitoring Equipment

- A. A kelly cock will be in the drill string at all times.
- B. A full opening drill pipe stabbing valve having the appropriate connections will be on the rig floor at all times.

8. Logging, Testing and Coring Program

- A. Drillstem tests possible in Strawn and Morrow formations.
- B. The open hole electrical logging program will be:
 - 1. DLL/MSFL/GR (TD-4000')
 - 2. DEN/NEU/CAL (TD to 4000')
 Note: GR-CNL will be recorded to surface.
- C. No coring program is planned.
- D. No additional testing will be required prior to setting the 5-1/2" production casing.

9. Abnormal Pressures, Temperatures and Potential Hazards

No abnormal pressures or temperatures are expected. The anticipated bottom hole temperature at total depth is 140 degrees and maximum bottom pressure is 5000 psia. No major lost circulation intervals have been encountered in adjacent wells. Small quantities of hydrogen sulfide gas are associated with the Queen, Grayburg and San Andres formations in this area. However Radii of exposure is such that this operation is exempt from specific requirements. However a hydrogen sulfide plan has been prepared (See Attached).

SURFACE USE AND OPERATING PLAN

Attachment to Form 3160-3 Pecos Production Company Cedar Lake "23" No. 1 860' FSL & 1780' FWL Section 23, T17S, R30E Eddy County, New Mexico

1. Existing Roads

- A. The well site and elevation plat for the proposed Cedar Lake "23" No. 1 are reflected on Exhibit #2. The well was staked by John West Engineering of Hobbs, New Mexico.
- B. Existing roads will be utilized as shown on Exhibit #3.
- C. From Loco Hills 2.0 miles east on Highway 82, right .25 miles on existing lease road to Cedar Lake "23" No. 1.

2. Proposed Access Road

No new road.

3. Location of Existing Wells

Exhibit #4 shows all existing wells within a one-mile radius of the proposed Cedar Lake "23" No. 1.

4. Location of Existing and/or Proposed Facilities

- A. If the well is productive, new facilities will be on the well pad as reflected on Exhibit #6.
- B. The well will be operated by means of an adjustable choke. Power lines, if required will follow the lease road to location.
- C. If the well is productive, rehabilitation plans are as follows:
 - 1. The reserve pit will be back-filled after the contents of the pit are dry (within 120 days of completion, weather permitting).
 - 2. Caliche from unused portions of the drill pad will be removed. The original topsoil from well site will be returned to the location. The drill site will then be contoured to the original natural state.

5. Location and Type of Water Supply

The Cedar Lake "23" No. 1 will be drilled using a combination of fresh water, brine and XCD mud systems (outlined in Drilling Program). The water will be obtained from commercial sources and trucked to location.

Cedar Lake "23" No. 1 Surface Use and Operating Plan Page 2

6. Sources of Contruction Materials

All caliche utilized for the drilling pad will be obtained from an existing BLM approved pit.

7. Methods of Handling Water and Waste Disposal

- A. Drill cuttings will be disposed into the reserve pit, which will be constructed according to existing OCD "Guidelines".
- B. Drilling fluids will be contained in steel mud tanks or lined earthen pits and the reserve pit. The reserve pit will contain excess drilling fluid or fluid from the well during drilling, cementing and completion operations. The reserve pit will be an earthen pit roughly 125' x 125' x 8' in size.
- C. The working pits & reserve pit will be fenced on three sides throughout drilling operations and will be totally isolated upon removal of the rotary rig. The pit will be lined using a 10-20 mil plastic to prevent loss of drilling fluids.
- D. Water produced from the well during completion operations will be disposed into a steel tank. After placing the well on production through the production facilities, all water will be collected in tanks, and trucked to a commercial disposal. Produced oil will be separated into steel stock tanks until sold. Gas will be pipe to as-yet-to-be-determined market.
- E. Garbage, trash and waste paper produced during drilling operations will be collected in a contained trailer and disposed at an approved landfill. All waste material will be contained to prevent scattering by the wind. All water, fluids, salt or other chemicals will be disposed into the reserve pit. No toxic waste or hazardous chemicals will be generated by this operation.
- F. All waste material will be removed within 30 days after the well is either completed or abandoned. The reserve pit will be completely fenced until it has dried. At the point the reserve pit is found sufficiently dry, it will be encapsulated according to OCD "Guidelines", backfilled and reclaimed. The portion of the drilling pad used by the production equipment will remain in use. If the well is deemed non-commercial, the pad will be re-ripped and only a dry hole marker will remain.

8. Ancillary Facilities

No campsite or other facilities will be constructed as a result of this well.

Cedar Lake "23" No. 1 Surface Use and Operating Plan Page 3

9. Well Site Layout

- A. The drill pad is shown on Exhibit #5. Approximate dimensions of the pad, pits and general location of the rig equipment are displayed. Top soil, from the pit area, will be stored adjacent to the pad until reclamation efforts are undertaken. No cuts will be necessary to build the pad which will be re-compacted caliche, except under the drilling rig itself, which will be fresh caliche.
- B. No permanent living facilities are planned, but a temporary trailer for the tool pusher, may be on location throughout drilling operations.
- C. The reserve pit and earthen pits will be lined using plastic sheeting of 10-20 mil thickness.

10. Plans for Restoration of Surface

- A. After concluding the drilling, completion and/or production operations, if the well is found non-commercial, the fresh caliche will be removed from the pad and the remaining pad re-ripped. The reserve pit area will be broken covered to grade after drying to a condition where these efforts are feasible. The original top soil will again be returned to the pit and contoured, as close as possible, to the original topography.
- B. The location will be rehabilitated as recommended by the BLM.

11. Surface Ownership

This well site is owned by the U.S.A.

12. Other Information

- A. The area surrounding the well site is gypsiferous and supportive of desert scrub and grassland formation. The vegetation is moderately sparse with desert scrub.
- B. No permanent water or water wells are within a 1 mile radius of this location.
- C. A cultural resources examination has been requested from SENMAS and will be forwarded to the BLM office in Carlsbad, New Mexico.

13. Lessee's and Operator's Representative

The Pecos Production Company representative responsible for ensuring compliance of the surface use plan is:

William R. Huck VP – Engr. and Operations (432) 620-8480 Pecos Production Company 400 W. Illinois, Suite 1070 Midland, TX 7970 Cedar Lake "23" No. 1 Surface Use and Operating Plan Page 4

Certification

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access road, that I am familiar with the conditions that presently exist; that the statements made in this plan are, to the best if my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Pecos Production Company and its contractors under which it is approved.

Signed:	1 Il What	Date:	8-12-04	
_	William R Huck - VP-Fnor & Operations			

BLOWOUT PREVENTOR ARRANGEMENT

II" SHAFFER TYPE LWS, 5000 psi WP
II" CAMERON SPHERICAL, 5000 psi WP
I20 GALLON, 5 STATION KOOMEY ACCUMULATOR
5000 psi WP CHOKE MANIFOLD

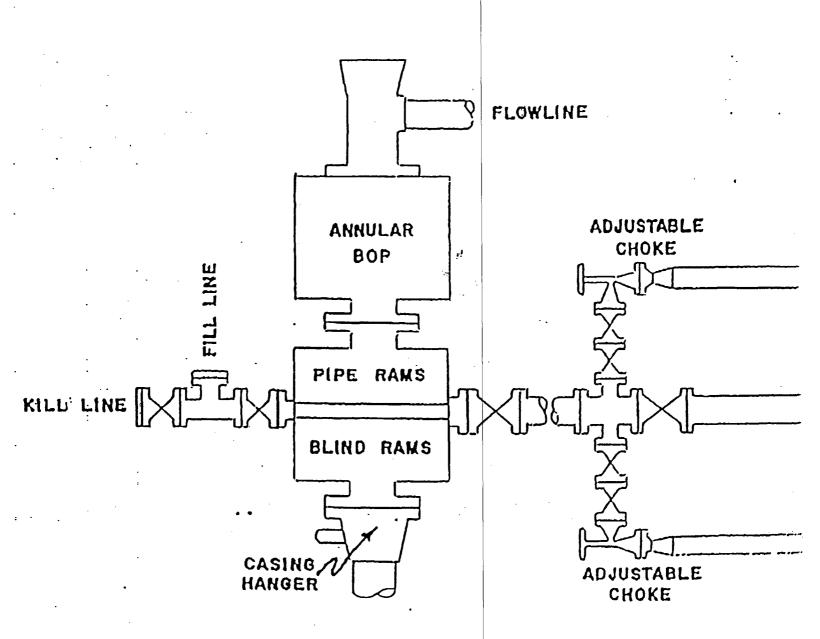


Exhibit #1
Pecos Production Company
Cedar Lake "23" No. 1
860' FSL & 1780' FNL
Sec. 23, T-17-S, R-30-E
Eddy Co., NM

Attachment to Exhibit #1
Attachment to Form 3160-3
Pecos Production Company
Cedar Lake "23" No. 1
860' FSL & 1780' FWL
Section 23, T17S, R30E
Eddy County, New Mexico

- 1. Drilling nipple will be constructed so it can be removed mechanically without the aid of a welder. The minimum internal diameter will equal BOP bore.
- 2. Blowout preventor and all associated fittings will be in operable condition to withstand a minimum 5000 psi working pressure.
- 3. All fittings will be flanged.
- 4. A full bore safety valve tested to a minimum 5000 psi WP with proper thread connections will be available on the rotary rig floor at all times.
- 5. All BOP equipment will be equal to or larger in bore than the internal diameter of the last casing string.
- 6. Will maintain a kelly cock attached to the kelly.
- 7. Hand wheels and wrenches will be properly installed and tested for safe operation.
- 8. All BOP equipment will meet API standards and include a minimum 40 gallon accumulator having two independent means of power to initiate closing operation.

State of New Mexico

DISTRICT I P.O. Box 1980, Hobbs, NM 88241-1980

Energy, Minerals and Natural Resources Department

Form C-102 Revised February 10, 1994 Submit to Appropriate District Office

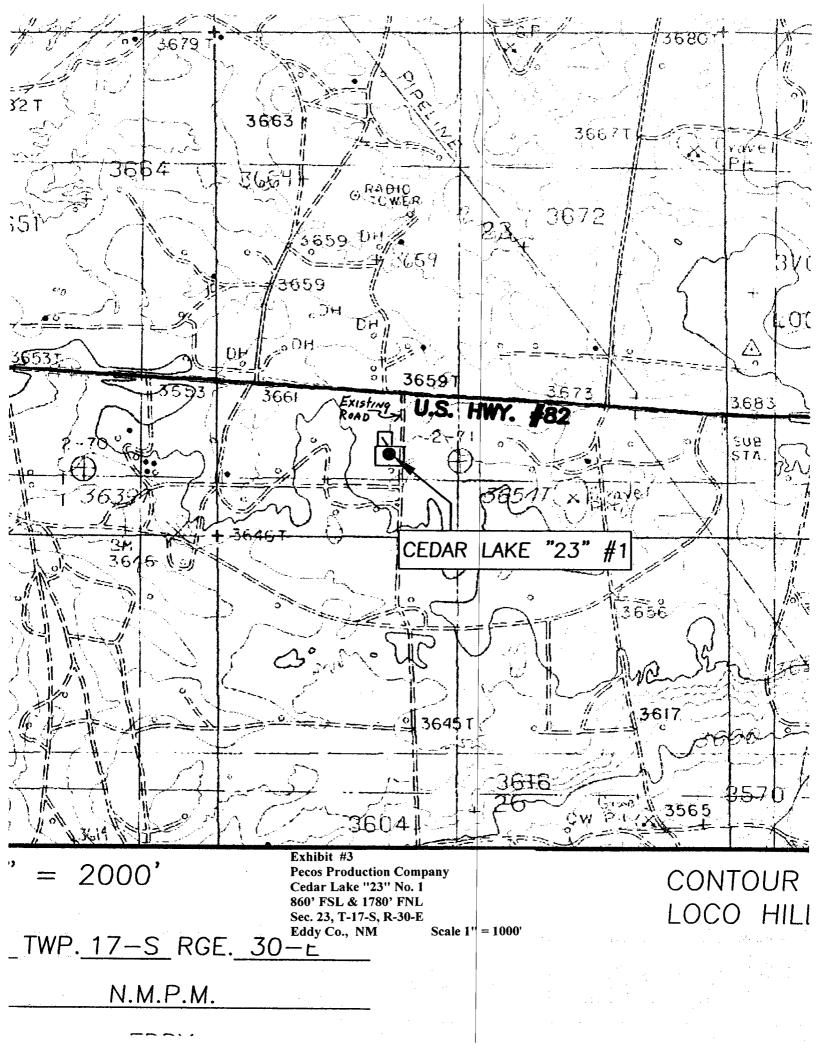
DISTRICT II P.O. Drawer DD, Artesia, NM 88211-0719

OIL CONSERVATION DIVISION

bmit to Appropriate District Office State Lease — 4 Copies Fee Lease — 3 Copies

DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410 P.O. Box 2088
Santa Fe, New Mexico 87504-2088

API N	umber			Pool C	ode		1			Pool Name		
			٠.						Ceda	ır Lake (Mor	row)	
Property Co	de				CE	_	erty Nan	"23"		•••	Well Num	nber
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PECOS PRODUCTION COMPANY

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

I. HYDROGEN SULFIDE TRAINING

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

- 1. The hazards and characteristics of hydrogen sulfide (H2S).
- 2. The proper use and maintenance of personal protective equipment and life support systems.
- 3. The proper use of H2S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
- 4. Proper alarm response procedures and the proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

- 1. The effects of H2S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
- 2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
- 3. The contents and requirements of the H2S Drilling Operations Plan and the Public Protection Plan.

There will be an initial training session just prior to encountering a known or probable H2S zone (within 3 days or 500 feet) and weekly H2S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H2S Drilling Operations Plan and the Public Protection Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H2S SAFETY EQUIPMENT AND SYSTEMS

Note: All H2S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H2S.

- 1. Well Control Equipment:
 - A. Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.
 - B. Auxiliary equipment to include: annular preventer, mud-gas separator, rotating head.

- 2. Protective Equipment For Essential Personnel:
 - A. Mark II Surviveair 30-minute units located in the dog house and at briefing areas, as indicated on well site diagram.
- 3. H2S Detection and Monitoring Equipment:
 - A. Minimum of 2- portable H2S monitors positioned on location for best coverage and response. These units have warning lights and audible sirens when H2S levels of 20 ppm are reached.
- 4. Visual Warning Systems:
 - A. Wind direction indicators as shown on well site diagram.
 - B. Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used, when appropriate. See example attached.
- 5. Mud Program:
 - A. The mud program has been designated to minimize the volume of H2S circulated to the surface. Proper mud weight, safe drilling practices, and the use of H2S scavengers will minimize hazards when penetrating H2S bearing zones.
 - B. If abnormal pressures anticipated. A mud-gas separator will be utilized.
- 6. Communication:
 - A. Cellular telephones in company vehicles.
 - B. Land line (telephone) communications at field office.
- 7. Well Testing:
 - A. Drill stem testing will be performed with a minimum number or personnel in the immediate vicinity which are necessary to safely and adequately conduct the test. If necessary the drill stem testing will be conducted during daylight hours. A thorough check of all monitors, safety equipment, and drill floor conditions will be made before all drill stem testing operations conducted in an H2\$ environment.
- 8. Alarm Response:
 - A. If, during any drilling or production operations, an alarm sounds, move immediately upwind of the source. Count heads before proceeding with assessment and corrective actions.