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
Department
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144 CLEZ
July 21, 2008

For closed-loop systems *that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure*, submit to the appropriate NMOCD District Office.

67162

Closed-Loop System Permit or Closure Plan Application

(that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure)

Type of action: X Permit ☐ Closure

Instructions: Please submit one application (Form C-144 CLEZ) per individual closed-loop system request. For any application request other than for a closed-loop system that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure, please submit a Form C-144.

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

1.

Operator: McElvain Oil & Gas Properties, Inc. OGRID #: 22044

RCVD OCT 28 '10
OIL CONS. DIV.
DIST. 3

Address: 1050 17th St., Suite 2500, Denver, CO, 80265-2080

Facility or well name: Pepper No. 2

API Number: 30-045- OCD Permit Number:

U/L or Qtr/Qtr M Section 32 Township 31N Range 13W County: San Juan

Center of Proposed Design: Latitude 36.85288°N Longitude 108.23502°W NAD: ☐1927 X 1983

Surface Owner: ☐ Federal X State ☐ Private ☐ Tribal Trust or Indian Allotment

2.

X **Closed-loop System:** Subsection H of 19.15.17.11 NMAC

Operation: X Drilling a new well ☐ Workover or Drilling (Applies to activities which require prior approval of a permit or notice of intent) ☐ P&A

☐ Above Ground Steel Tanks or ☐ Haul-off Bins

3.

Signs: Subsection C of 19.15.17.11 NMAC

☐ 12"x 24", 2" lettering, providing Operator's name, site location, and emergency telephone numbers

X Signed in compliance with 19.15.3.103 NMAC

4.

Closed-loop Systems Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

X Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
X Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
X Closure Plan (Please complete Box 5) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

☐ Previously Approved Design (attach copy of design) API Number:

☐ Previously Approved Operating and Maintenance Plan API Number:

5.

Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only: (19.15.17.13.D NMAC)

Instructions: Please indentify the facility or facilities for the disposal of liquids, drilling fluids and drill cuttings. Use attachment if more than two facilities are required.

Disposal Facility Name: Solids-JFJ Landfarm Disposal Facility Permit Number: 10

Disposal Facility Name: Liquids-Key Four Corners, Inc. Disposal Facility Permit Number: 9

Will any of the proposed closed-loop system operations and associated activities occur on or in areas that *will not* be used for future service and operations?

☐ Yes (If yes, please provide the information below) X No

Required for impacted areas which will not be used for future service and operations:

☐ Soil Backfill and Cover Design Specifications - - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
☐ Re-vegetation Plan - based upon the appropriate requirements of Subsection I of 19.15.17.13 NMAC
☐ Site Reclamation Plan - based upon the appropriate requirements of Subsection G of 19.15.17.13 NMAC

6.

Operator Application Certification:

I hereby certify that the information submitted with this application is true, accurate and complete to the best of my knowledge and belief.

Name (Print): Robert E. Fielder Title: Agent

Signature: Robert E. Fielder Date: October 27, 2010

e-mail address: pmci@advantas.net Telephone: (505)320-1435

7.
OCD Approval: ☒ Permit Application (including closure plan) ☐ Closure Plan (only)

OCD Representative Signature: Brandon Powell **Approval Date:** 11/9/10

Title: Envir Spec **OCD Permit Number:**

8.
Closure Report (required within 60 days of closure completion): Subsection K of 19.15.17.13 NMAC

Instructions: Operators are required to obtain an approved closure plan prior to implementing any closure activities and submitting the closure report. The closure report is required to be submitted to the division within 60 days of the completion of the closure activities. Please do not complete this section of the form until an approved closure plan has been obtained and the closure activities have been completed.

☐ **Closure Completion Date:**

9.
Closure Report Regarding Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only:

Instructions: Please indentify the facility or facilities for where the liquids, drilling fluids and drill cuttings were disposed. Use attachment if more than two facilities were utilized.

Disposal Facility Name: Disposal Facility Permit Number:

Disposal Facility Name: Disposal Facility Permit Number:

Were the closed-loop system operations and associated activities performed on or in areas that *will not* be used for future service and operations?

☐ Yes (If yes, please demonstrate compliance to the items below) ☐ No

Required for impacted areas which will not be used for future service and operations:

☐ Site Reclamation (Photo Documentation)
☐ Soil Backfilling and Cover Installation
☐ Re-vegetation Application Rates and Seeding Technique

10.
Operator Closure Certification:

I hereby certify that the information and attachments submitted with this closure report is true, accurate and complete to the best of my knowledge and belief. I also certify that the closure complies with all applicable closure requirements and conditions specified in the approved closure plan.

Name (Print): Title:

Signature: Date:

e-mail address: Telephone:

Closed Loop

Operating and Maintenance Procedures

McElvain Oil & Gas Properties, Inc. (MOG)

Pepper No. 2

I. Design and Construction Specifications

a. Prior to leveling location, the top 3 – 7 inches of topsoil will be pushed to the construction buffer area outside of the cut/fill slope areas as illustrated on the attached drilling wellsite layout.

b. In lieu of a pit sign, MOG will install and maintain a sign on the wellsite in accordance with the provisions of Rule 103.

c. The proposed depression and steel tank will be fenced on all sides with a four foot hogwire fence installed on steel tee posts since this location is over 1000 feet from the nearest residential building. This fence will be maintained to insure no access by livestock or wildlife as long as there is fluid in the steel tank.

d. After the location leveling is complete, MOG will construct a 35 ft. long X 12 ft. wide X 3 ft. deep depression with vertical walls to set the steel tank in. This is necessary due to the limited height (3 ft. ± above GL) of the flow nipple of the D & D Services rig we propose to use for this operation. The soil removed for this excavation will be stockpiled on the northwest corner of the level well pad. A one foot tall berm, using the excavated soil for material, will be constructed around the perimeter of the depression to prevent run on from entering the depression.

e. No drying pads or sumps will be used in conjunction with this closed loop system.

II. Operational Plan

a. MOG will operate and maintain the closed loop system to contain the liquids and solids associated with the drilling phase of this operation, prevent contamination of the fresh water supply and protect the public health and the environment.

b. MOG will not dispose of or store any hazardous material in this steel tank. All workover and completion fluids associated with flow back or circulation during these operations will be stored in a flow back tank on location.

c. MOG will monitor the condition of the installed steel tank from the date it is installed until the drilling operation is completed to insure there are no leaks from the steel tank to the depression. Visual inspection will be daily while the rig is onsite and weekly from rig release date to interim closure date. MOG will take the appropriate measures to repair and report to NMOCD any breach of the steel pit integrity within 48 hours of detection.

d. One foot of freeboard will be maintained in the steel tank while drilling operations are in progress during the day. The liquid level will pulled down to the two feet of freeboard level each evening, before drilling operations are suspended for the night, by

transferring fluid to the circulating tank. MOG will not discharge any drilling fluids or solids to the depression.

e. Solids will be removed by vacuum truck from the solids bin of the steel tank as needed during the drilling operation. The solids will be hauled to the JFJ Landfarm, NM permit # 10.

f. MOG will remove all free liquid from the steel tank and haul it to the circulating fluid tank for the next well or to the Key Four Corners facility, permit # 9 if another well is not planned, immediately upon cessation of the drilling operation. All fluids associated with drilling or workover operations that are accumulated and stored in the flow back tank will be removed within 30 days of cessation of these operations and hauled to the Key Four Corners facility. Accumulated solids in the steel mud tank and the flowback tank will be removed by a vacuum truck and hauled to the JFJ Landfarm as soon as the liquids are removed.

g. The steel tank will be maintained free of any solid refuse. This will be stored in a trash basket on the location.

h. The steel pit will be maintained free of any oil accumulation. MOG will keep an oil absorbent boom on location for the entire time the pit is open.

III. Closure Plan

a. MOG will close this closed loop system within 60 days of the release of the drilling rig. MOG will provide 72 hour notice to the District 3 office prior to commencing closure operations.

b. MOG will remove the steel tank as soon as the liquids and solids removal is complete. A sample collection program, in accordance with the closure requirements of 19.15.17.13.B(1)(b)(i) will be initiated as soon as the steel tank is removed of any areas stained by accidental discharge to the depression. The samples will be analyzed and reported in accordance with the regulations.

   i. If the testing of the soil meets the quality standards of 19.15.17.13.B(1)(b)(i), shown in the table below, MOG will proceed with reclamation as outlined in c. below.

   ii. If test results of the soil do not meet the quality standards of 19.15.17.13.B(1)(b)(i), shown in the table below, MOG will consult with the Aztec district office and the applicable closure method determined by this office will be initiated.

Components	Tests Method	Limit (mg/Kg)
Benzene	EPA SW-846 8021B or 8260B	0.2
BTEX	EPA SW-846 8021B or 8260B	50
TPH	EPA SW-846 418.1	2500
GRO/DRO	EPA SW-846 8015M	500
Chlorides	EPA 300.1	1000

c. MOG will use the depression dirt stockpile to provide a compacted fill over the depression area. This area will then be used as part of the producing well pad for future operations. MOG will file the applicable closure report with attachments within 60 days of completion of closure.

d. The location cut and fill slopes will be seeded by pushing the topsoil stockpile back onto the cut and fill slopes and then seeded with a free of noxious weeds seed mix consisting of at least three native plant species, including at least one grass, in the next applicable seeding season. Seeding will be accomplished by disc and broadcast seeding methods with a mixture containing no noxious weeds. 70% coverage will be maintained through two successive growing seasons. MOG will provide notice to NMOCD at the end of the second successful season. At the time of final abandonment the pad area will be re-contoured and seeded by disc and drill methods using a free of noxious weeds seed mix consisting of at least three native plant species, including at least one grass, in the next applicable seeding season. The seeded area will be monitored to insure 70% coverage during the next two growing seasons and re-seeded or supplemented as necessary and in compliance with the desires of the grazing lessee.

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State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number	2 Pool Code	3 Pool Name
	71629	Basin Fruitland Coal

4 Property Code	5 Property Name	6 Well Number
	PEPPER	2

7 OGRID No.	8 Operator Name	9 Elevation
22044	McELVAIN OIL & GAS PROPERTIES, INC.	5635

10 Surface Location

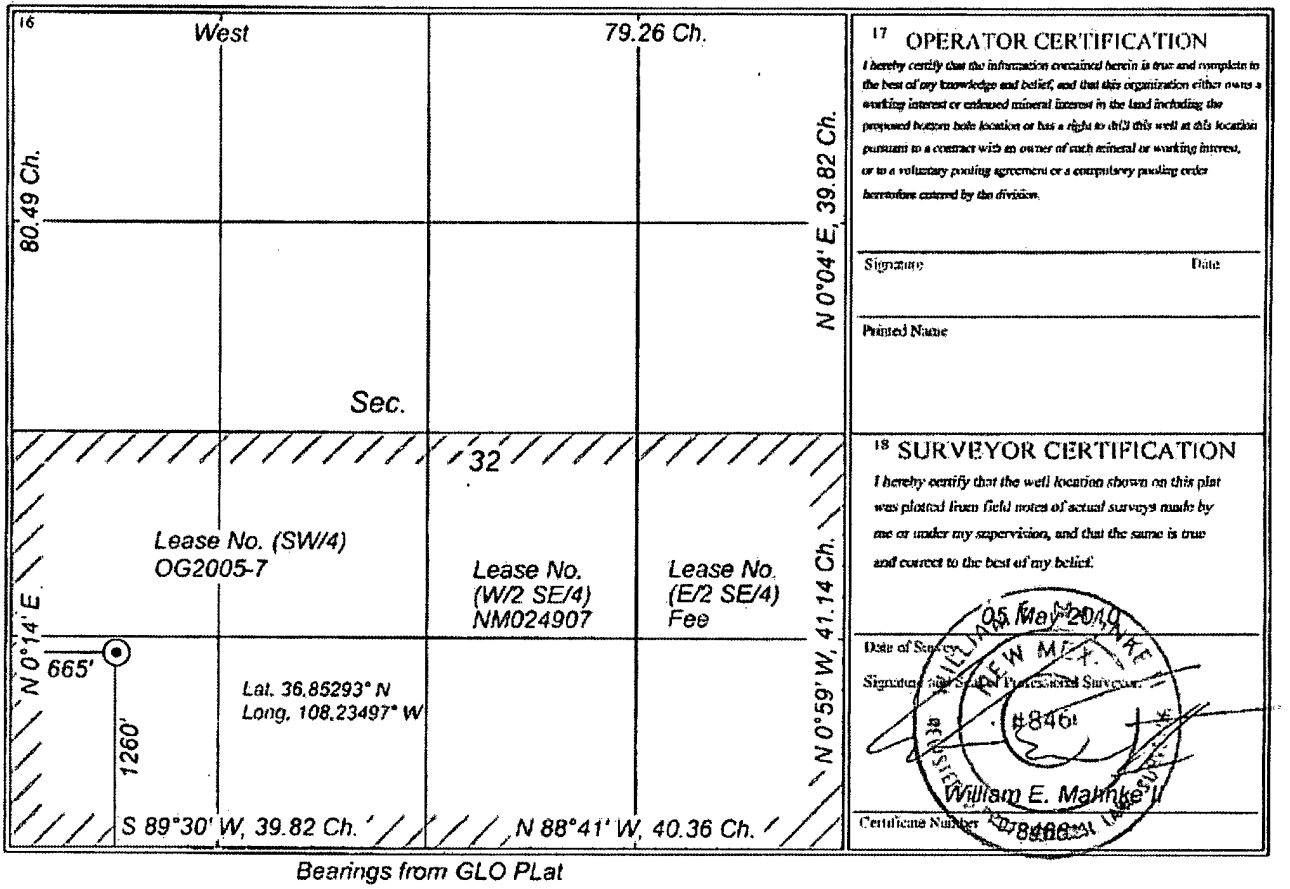
UL or Lot No.	Section	Township	Range	Lot Idn.	Feet from the	North/South Line	Feet from the	East/West Line	County
M	32	31 N	13 W		1260	South	665	West	San Juan

11 Bottom Hole Location If Different From Surface

UL or Lot No.	Section	Township	Range	Lot Idn.	Feet from the	North/South Line	Feet from the	East/West Line	County

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
320			

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.



Bearings from GLO PLat

17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature Date

Printed Name

18 SURVEYOR CERTIFICATION

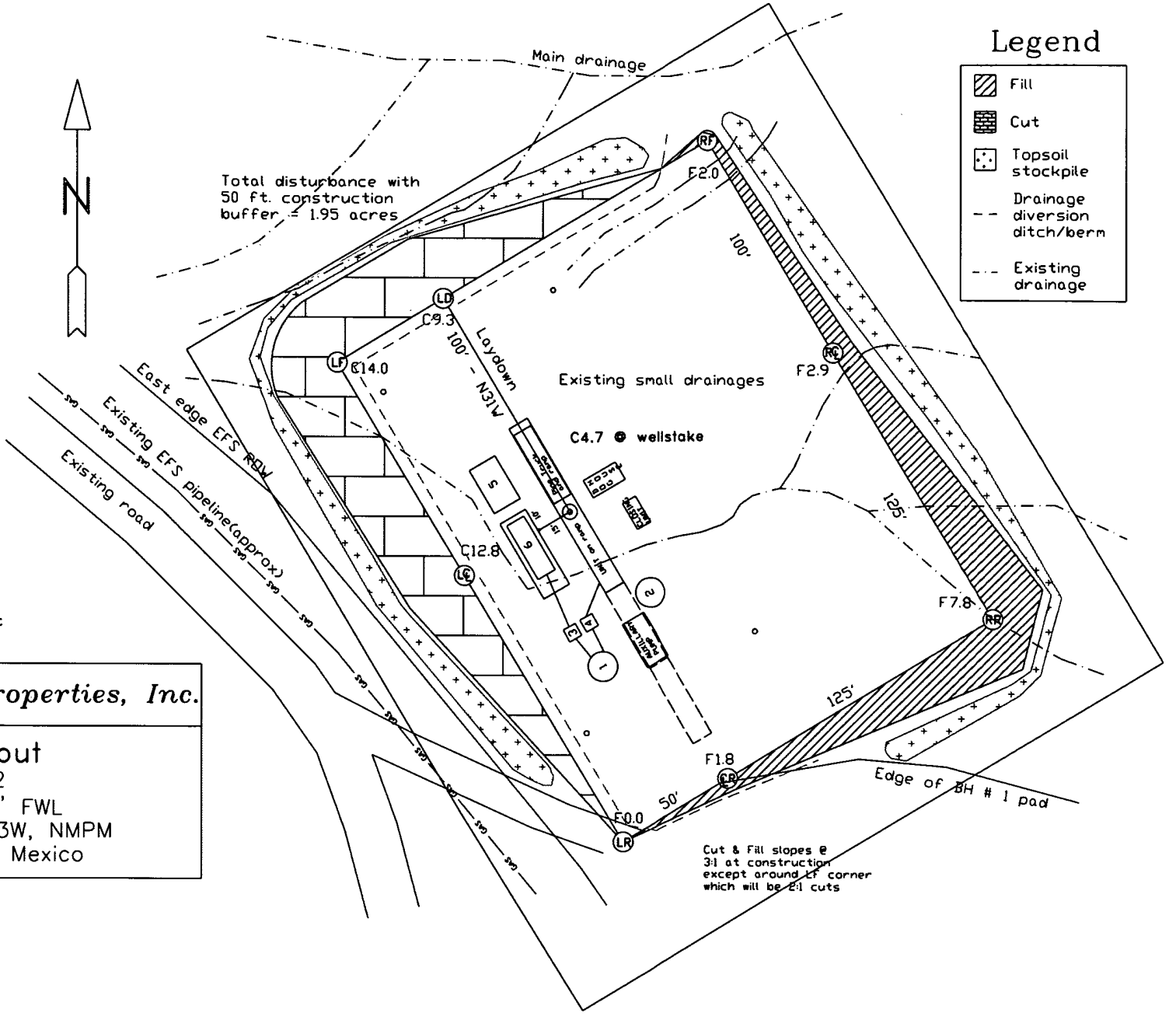
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

05 May 2010

Date of Survey

Signature and Seal of Professional Surveyor:

Certificate Number 8466

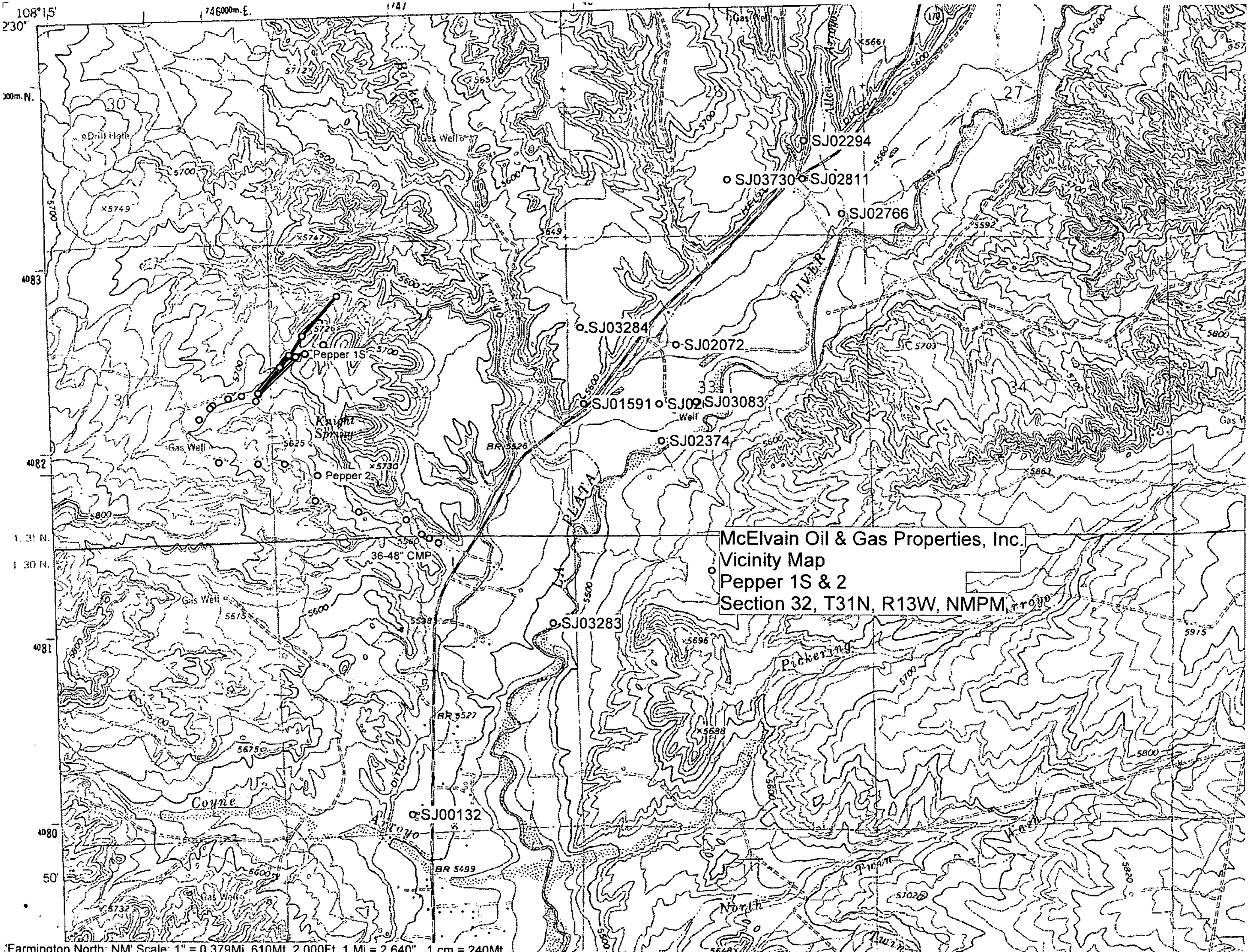


Scale: 1 inch = 60 feet

McElvain Oil & Gas Properties, Inc.

Wellsite Layout

Pepper No. 2
1260' FSL & 665' FWL
Section 32, T31N, R13W, NMPM
San Juan Co., New Mexico



McElvain Oil & Gas Properties, Inc.
Vicinity Map
Pepper 1S & 2
Section 32, T31N, R13W, NMPM

Farmington North; NM' Scale: 1" = 0.379Mi 610Mt 2,000Ft, 1 Mi = 2.640" , 1 cm = 240Mt