

OCT 27 2016

RECEIVED

**PECOS DISTRICT
DRILLING OPERATIONS
CONDITIONS OF APPROVAL**

OPERATOR'S NAME:	Chevron USA Inc.
LEASE NO.:	NMNM118723
WELL NAME & NO.:	3H-SD WE 23 Fed P25
SURFACE HOLE FOOTAGE:	260'/S & 2653'/W
BOTTOM HOLE FOOTAGE	180'/N & 2290'/E
LOCATION:	Section 23, T.26 S., R.32 E., NMPM
COUNTY:	Lea County, New Mexico

Communitization Agreement

- The operator will submit a Communitization Agreement to the Carlsbad Field Office, 620 E Greene St. Carlsbad, New Mexico 88220, at least 90 days before the anticipated date of first production from a well subject to a spacing order issued by the New Mexico Oil Conservation Division. The Communitization Agreement will include the signatures of all working interest owners in all Federal and Indian leases subject to the Communitization Agreement (i.e., operating rights owners and lessees of record), or certification that the operator has obtained the written signatures of all such owners and will make those signatures available to the BLM immediately upon request.
- If the operator does not comply with this condition of approval, the BLM may take enforcement actions that include, but are not limited to, those specified in 43 CFR 3163.1.
- In addition, the well sign shall include the surface and bottom hole lease numbers. When the Communitization Agreement number is known, it shall also be on the sign.

Well Name

Operator must submit a sundry to add "Com" to the well name

I. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified in advance for a representative to witness:

- Spudding well (minimum of 24 hours)
- Setting and/or Cementing of all casing strings (minimum of 4 hours)
- BOPE tests (minimum of 4 hours)

☐ **Lea County**

Call the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240,
(575) 3933612

1. A Hydrogen Sulfide (H₂S) Drilling Plan shall be activated 500 feet prior to drilling into the Delaware formation. **As a result, the Hydrogen Sulfide area must meet Onshore Order 6 requirements, which includes equipment and**

personnel/public protection items. If Hydrogen Sulfide is encountered, please provide measured values and formations to the BLM.

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval. **If the drilling rig is removed without approval – an Incident of Non-Compliance will be written and will be a “Major” violation.**

3. Floor controls are required for 3M or Greater systems. These controls will be on the rig floor, unobstructed, readily accessible to the driller and will be operational at all times during drilling and/or completion activities. Rig floor is defined as the area immediately around the rotary table; the area immediately above the substructure on which the draw works is located, this does not include the dog house or stairway area.

4. **The record of the drilling rate along with the GR/N well log run from TD to surface (horizontal well – vertical portion of hole) shall be submitted to the BLM office as well as all other logs run on the borehole 30 days from completion. If available, a digital copy of the logs is to be submitted in addition to the paper copies. The Rustler top and top and bottom of Salt are to be recorded on the Completion Report.**

II. CASING

Changes to the approved APD casing program need prior approval if the items substituted are of lesser grade or different casing size. The Operator can exchange the components of the proposal with that of superior strength (i.e. changing from J-55 to N-80, or from 36# to 40#).

Changes to the approved cement program need prior approval if the altered cement plan has less volume or strength or if the changes are substantial (i.e. Multistage tool, ECP, etc.).

Centralizers required on surface casing per Onshore Order 2.III.B.1.f.

Wait on cement (WOC) for Water Basin:

After cementing but before commencing any tests, the casing string shall stand cemented under pressure until both of the following conditions have been met: 1) cement reaches a minimum compressive strength of 500 psi at the shoe, 2) until cement has been in place at least 8 hours. WOC time will be recorded in the driller's log. See individual casing strings for details regarding lead cement slurry requirements.

No pea gravel permitted for remedial or fall back remedial without prior authorization from the BLM engineer.

Medium Cave/Karst

Possible water flows in the Salado and Castile.

Possible lost circulation in the Rustler, Red Beds and Delaware.

A. The 13-3/8 inch 54.5 lbs (See Diagram 1) surface casing shall be set at approximately 750 feet (**in a competent bed below the Magenta Dolomite, which is a Member of the Rustler, and if salt is encountered, set casing at least 25 feet above the salt**) and cemented to the surface.

1. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with surface log readout will be used or a cement bond log shall be run to verify the top of the cement. Temperature survey will be run a minimum of six hours after pumping cement and ideally between 8-10 hours after completing the cement job.

2. **Wait on cement (WOC) time for a primary cement job is to include the lead cement slurry.**

3. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.

4. If cement falls back, remedial cementing will be done prior to drilling out that string.

B. The minimum required fill of cement behind the 9-5/8 inch intermediate casing is: (Set Casing in the base of the Castile or the Lamar at approximately 4600')

☐ Cement to surface. If cement does not circulate see B.1.a, c-d above.

Formation below the 9-5/8" shoe to be tested according to Onshore Order 2.III.B.1.i. Test to be done as a mud equivalency test using the mud weight necessary for the pore pressure of the formation below the shoe (not the mud weight required to prevent dissolving the salt formation) and the mud weight for the bottom of the hole. Report results to BLM office.

If 75% or greater lost circulation occurs while drilling the intermediate casing hole, the cement on the production casing must come to surface.

C. The minimum required fill of cement behind the 5-1/2 inch production casing is:

☐ Cement should tie-back at least 200 feet into previous casing string. Operator shall provide method of verification.

4. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

III. PRESSURE CONTROL

A. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.

B. Operator has proposed a multi-bowl wellhead assembly. This assembly will only be tested when installed on the surface casing. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the surface casing shoe shall be psi.

- a. Wellhead shall be installed by manufacturer's representatives, submit documentation with subsequent sundry.
- b. If the welding is performed by a third party, the manufacturer's representative shall monitor the temperature to verify that it does not exceed the maximum temperature of the seal.
- c. Manufacturer representative shall install the test plug for the initial BOP test.
- d. Operator shall perform the intermediate casing integrity test to 70% of the casing burst. This will test the multi-bowl seals.
- e. If the cement does not circulate and one inch operations would have been possible with a standard wellhead, the well head shall be cut off, cementing operations performed and another wellhead installed.

5M system requires an HCR valve, remote kill line and annular to match. The remote kill line is to be installed prior to testing the system and tested to stack pressure.

C. The appropriate BLM office shall be notified a minimum of hours in advance for a representative to witness the tests.

1. In a water basin, for all casing strings utilizing slips, these are to be set as soon as the crew and rig are ready and any fallback cement remediation has been done. The casing cut-off and BOP installation can be initiated four hours after installing the slips, which will be approximately six hours after bumping the plug. For those casing strings not using slips, the minimum wait time before cut-off is eight hours after bumping the plug. BOP/BOPE testing can begin after cut-off or once cement reaches 500 psi compressive strength (including lead when specified), whichever is greater. However, if the float does not hold, cut-off cannot be initiated until cement reaches 500 psi compressive strength (including lead when specified).
2. The tests shall be done by an independent service company utilizing a test plug **not a cup or J-packer**.
3. The test shall be run on a 5000 psi chart for a 2-3M BOP/BOP, on a 10000 psi chart for a 5M BOP/BOPE and on a 15000 psi chart for a 10M BOP/BOPE. If a linear chart is used, it shall be a one hour chart. A circular chart shall

have a maximum 2 hour clock. If a twelve hour or twenty-four hour chart is used, tester shall make a notation that it is run with a two hour clock.

4. The results of the test shall be reported to the appropriate BLM office.
5. All tests are required to be recorded on a calibrated test chart. **A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.**
6. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug. This test shall be performed prior to the test at full stack pressure.

IV. DRILL STEM TEST

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

V. WASTE MATERIAL AND FLUIDS

All waste (i.e. drilling fluids, trash, salts, chemicals, sewage, gray water, etc.) created as a result of drilling operations and completion operations shall be safely contained and disposed of properly at a waste disposal facility. No waste material or fluid shall be disposed of on the well location or surrounding area.

Porto-johns and trash containers will be on-location during fracturing operations or any other crew-intensive operations.

TMAK 09302016

Purpose	From	To	Hole Size	Csg Size	Weight	Grade	Thread	Condition
Surface	0'	650' 750'	17-1/2"	13-3/8"	55 # 54.5#	J55	STC	New
Intermediate	0'	4,700' 4600'	12-1/4"	9-5/8"	40 #	HCK-55	LTC	New

Diagram 1