

Bratcher, Mike, EMNRD

From: Randall Hicks <r@rthicksconsult.com>
Sent: Tuesday, March 04, 2014 3:25 PM
To: Bratcher, Mike, EMNRD; Warnell, Terry G.; Dawson, Scott, EMNRD
Cc: MikeH@yatespetroleum.com; JimP@yatespetroleum.com
Subject: Yates - Dagger Dras MWFM Pit#1- Variance
Attachments: DaggerDrawMWFMPit#1-VarianceRequest.pdf

Mike

This variance request is related to the C-144 permit application for the Yates Dagger Draw MWFM Pit #1. However, OCD's review of this variance should not delay the review of the permit application, as the approval of the permit does not depend upon the approval of this variance.

Note that I have copied this to Scott Dawson in the hope that OCD Santa Fe can look at this variance request and allow you to focus your efforts on the review of the permit.

Hard copy will be delivered by Yates.

Randall Hicks
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R. T. HICKS CONSULTANTS, LTD.

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March 4, 2014

Mr. Mike Bratcher
NMOCD District 2
811 S. First Street
Artesia, New Mexico 88210
Via E-mail and US Mail

RE: Variance Request for Dagger Draw Multi-Well Fluid Management Pit #1

Dear Mike:

On behalf of Yates Petroleum, R.T. Hicks Consultants requests variance from a specific mandate of the Pit Rule. Yates Petroleum has submitted a complete application to store treated produced water in the above-referenced pit. While this variance is a separate submission, it is associated with and limited to the permit application. It is important that OCD's consideration of this variance request not delay the review of the complete permit application. Time is of the essence as the drilling program is ongoing and wells are currently being stimulated at a rate of 1-3 per month.

The program calls for 54 new horizontal wells and 21 recompletions over the next 3-7 years. In addition to stimulation produced water would be used for drilling the new wells and other approved uses. We anticipate that produced water would reduce the consumption of more than 850 acre feet of fresh water over a period of the project. At the time of application submittal, only 14 of the 54 new wells were identified – as these were the new wells with approved APDs.

In order for Yates to create a greater economy of scale to employ treated produced water in lieu of fresh water, we seek a variance from the mandate that a multi-well fluid management pit may remain in use until all wells with approved application for permit to drill that are identified in the pit permit are completed. The language for which we seek a variance is presented below:

F. Multi-well fluid management pits. An operator shall maintain and operate a multi-well fluid management pit in accordance with the following additional requirements.

(5) The operator shall remove all fluids within 60 days from the date the operator ceases all stimulation operations associated with the pit permit. The appropriate division district office may grant an extension of up to two months.

G. Timing requirements for closure. An operator shall close a pit, drying pad associated with a closed-loop system or below-grade tank within the following time periods.

(5) An operator shall close a multi-well fluid management pit within six months from the date that the operator ceases all stimulation operations on all wells

identified in the permit. The operator shall note the date of the cessation of drilling and stimulation operations on form C-105 or C-103 filed with the division. The appropriate division district office may grant an extension for closure not to exceed six months.

Statement Explaining Why the Applicant Seeks a Variance

Obtaining approved APDs for all 54 new wells contemplated in the drilling program prior to submission of the permit and maintaining the proposed drilling/stimulation schedule is neither practical nor possible for Yates. In the absence of OCD approving this variance, construction of the proposed MWFM Pit to service only 14 of the 54 new wells may not be cost-effective.

We understand that the Rule allows for the addition of wells, as provided in the definition of a MWFM Pit, see below:

L. "Multi-well fluid management pit" means a pit used for the storage, treatment and recycling of stimulation fluids and flow-back water during the drilling and completion of multiple wells. Multi-well fluid management pits may not be used for the disposal of drilling, completion or other waste. Multi-well fluid management pits may be located either onsite or offsite of a well drilling location and may remain in use until all wells with approved application for permit to drill that are identified in the pit permit are completed. Any addition of wells or extensions for permits to drill identified in the pit permit shall go to hearing. Any containment structure such as a pond, pit, or other impoundment that holds only fresh water that has not been treated for oil field purposes, is not a multi-well fluid management pit.

We anticipate submission and approval of about 4-6 APDs per month for this project – as this rate of submission is required to keep pace with the drilling schedule. Because of the nature of the hearing process and the need to keep the rigs drilling, OCD and Yates could undergo 10 hearings over the course of the next 9-18 months, with each hearing adding 4 wells with approved APDs to the permit. Yet the location of the 40 wells without approved APDs, which would be the subject of these hearings, are identified today in the attached map and table. The proposed drilling schedule, which creates the operational life of the pit, can also be established today. Thus, a single variance with a certain outcome within a reasonable period of time (60-day review plus 10 days to request a hearing if the variance is denied plus about 45 days for the notice and hearing process) is more expedient process than 10 hearings over the course of a year with uncertain results each time. The variance process allows more certainty of the business decision regarding the \$300,000 to \$500,000 investment in this MWFM Pit.

Therefore, Yates Petroleum seeks the variance to allow operation of the MWFM Pit

1. for a time not to exceed five years after commencement of pit operation and
2. to service the additional wells identified in the attached map and table

Demonstration That the Variance Will Provide Equal or Better Protection of Fresh Water, Public Health and the Environment.

Section AA of the Ultimate Facts and Conclusions of Law on page 48 of the Pit Rule Order (attached) is germane to our request for a variance. This Section says, in part:

The Commission further finds that the size and life span of a multi-well fluid management pit is controlled by the number of wells that may be serviced by the pit, by requiring those wells to be identified in the permit related to the pit, by requiring that the addition of any wells to the pit permit or the extension of any of the permits to drill originally identified to the pit permit will require a hearing, and by requiring that the pit be closed within six months of the date that the operator ceases all stimulation operations on all wells identified in the permit.

We submit that OCD can approve a variance from the two sections of the Rule identified above and maintain consistency with the intent of the Pit Rule, provided that this variance is approved with following conditions:

1. The operator will use the MWFM Pit for the well locations identified on the map and in the table of wells attached hereto.
2. The use of the pit for any additional well locations not shown on the map and table will be subject to the outcome of a hearing.
3. The operator's use of the pit for a period beyond 5-years from the time of initial operation will be subject to the outcome of a hearing.¹

We believe these conditions provide equal protection of fresh water, public health and the environment as they cause the operation of the pit to be limited to five years, as stated in the Findings of Fact and limited to the wells identified in the permit and the wells identified in this variance request.

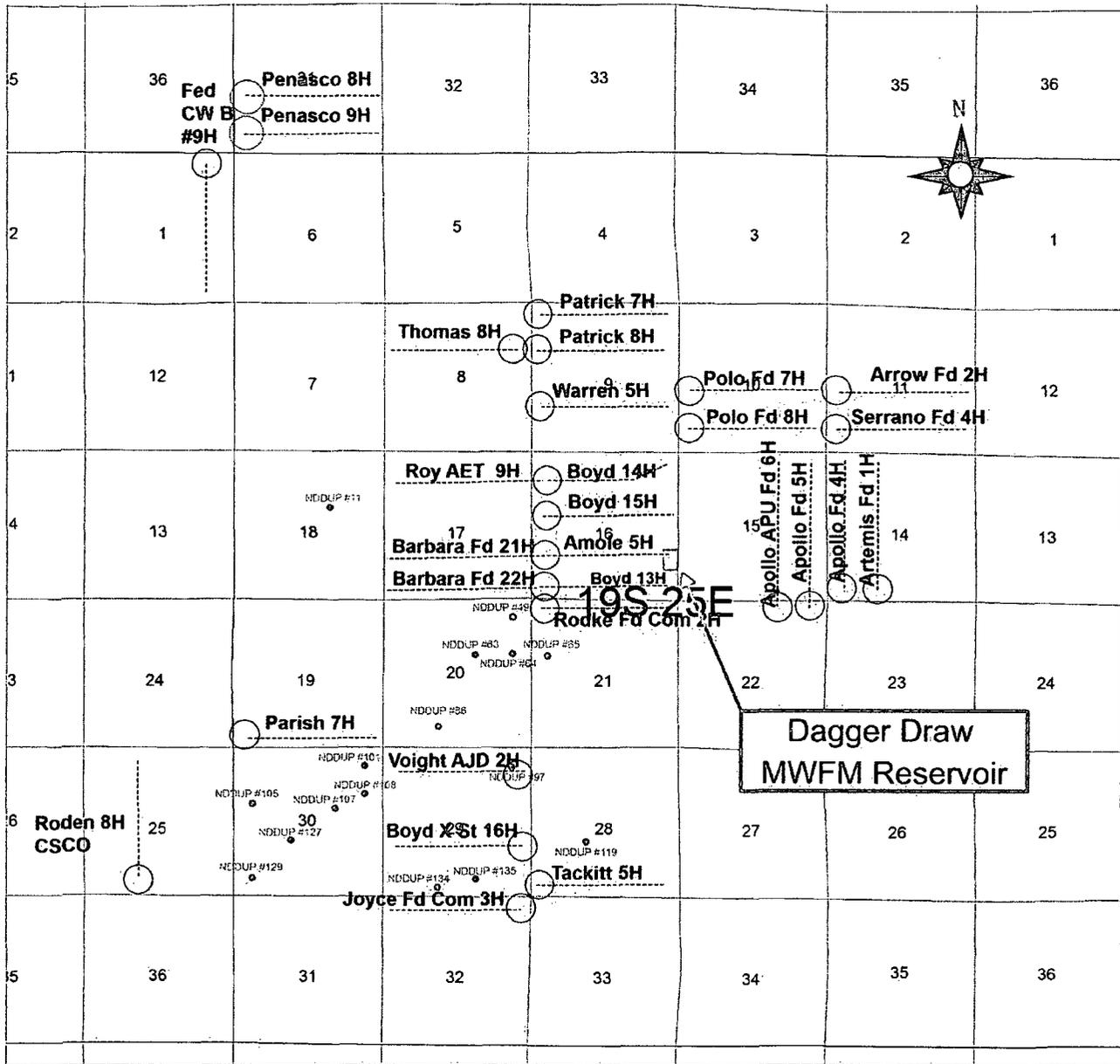
Sincerely,
R.T. Hicks Consultants, Ltd.



Randall Hicks
Principal

Copy : Yates Petroleum
Scott Dawson, NMOCD

¹ From page 48 of the Order of the Commission
...the Commission finds that the size and life span of a multi-well fluid management pit, which could be up to 5 years, and the fact that it is fluid bearing for that period of time, it is more prudent to treat the multi-well fluid management pit more like a permanent pit, with respect to siting, construction, operation and closure.



New Horizontals					
WELL NAME	LOCATION			SHL UNIT (E/Z W/2)	Anticipated Simulation Date
	T	R	S		
1 Penasco 9H	18	25	31	M	6/1/2014
2 Penasco 8H	18	25	31	L	6/26/2014
3 Fed CW B #9H	19	24	1	B	7/21/2014
4 Thomas 8H	19	25	8	H	8/15/2014
5 Warren 5H	19	25	9	L	9/9/2014
6 Patrick 8H	19	25	9	E	10/4/2014
7 Patrick 7H	19	25	9	D	10/29/2014
8 Polo Fed 7H	19	25	10	L	11/23/2014
9 Polo Fed 8H	19	25	10	M	12/18/2014
10 Arrow APW Fed Com 2H	19	25	11	L	1/12/2015
11 Serrano Fed Com 4H	19	25	11	M	2/6/2015
12 Artemis BJA Fd Com 1H	19	25	14	N	3/3/2015
13 Apollo APU Fd Com 4H	19	25	14	M	3/28/2015
14 Apollo APU Fd Com 5H	19	25	15	P	4/22/2015
15 Apollo APU Fd Com 6H	19	25	15	O	5/17/2015
16 Boyd X St Com 14H	19	25	16	D	6/11/2015
17 Roy AET 9H	19	25	16	D	7/6/2015
18 Boyd X St Com 15H	19	25	16	E	7/31/2015
19 Amole 5H	19	25	16	L	8/25/2015
20 Barbara Fd 21H	19	25	16	L	9/19/2015
21 Boyd X St Com 13H	19	25	16	M	10/14/2015
22 Barbara Fd 22H	19	25	16	M	11/8/2015
23 Parish IV 7H	19	25	19	M	12/3/2015
24 Rodke Fd Com 2H	19	25	21	D	12/28/2015
25 Tackitt 5H	19	25	28	M	1/22/2016
26 Boyd X St 16H	19	25	29	I	2/16/2016
27 Voight ADJ 2H	19	25	29	A	3/12/2016
28 Joyce Fd Com 3H	19	25	32	A	4/6/2016
29 Roden GD Fed Com 8H	19	24	25	N	5/1/2016

YESO Vertical Re Completions					
Current Well Name	Former Well Name	TWNS	RNG	Sec	
1 NDDUP Unit # 63	Ross EG Fed Com #10	19	25	20	6/1/2014
2 NDDUP Unit # 67H	Binger AKU #4H	19	25	26	6/15/2014
3 NDDUP Unit # 129	Pincushion AHN #1	19	25	30	6/29/2014
4 NDDUP Unit # 134	Aepden AOH Fed Com #2	19	25	29	7/13/2014
5 NDDUP Unit # 135	Boyd X Stake Com #6	19	25	29	7/27/2014
6 NDDUP Unit # 11	Conoco Com #9	19	25	18	8/10/2014
7 NDDUP Unit # 49	Hooper AMP Com #4	19	25	20	8/24/2014
8 NDDUP Unit # 64	Hooper AMP Com #3	19	25	20	9/7/2014
9 NDDUP Unit # 65	Hooper AMP #2	19	25	21	9/21/2014
10 NDDUP Unit # 86	Patriot AIZ #4	19	25	20	10/5/2014
11 NDDUP Unit # 101	Dagger Draw 30N Com #15	19	25	30	10/19/2014
12 NDDUP Unit # 105	Dagger Draw 30N Com #9	19	25	30	11/2/2014
13 NDDUP Unit # 107	Dagger Draw 30N Com #12	19	25	30	11/16/2014
14 NDDUP Unit # 108	Dagger Draw 30N Com #17	19	25	30	11/30/2014
15 NDDUP Unit # 127	Dagger ZN #1	19	25	30	12/14/2014
16 NDDUP Unit # 119	Stato K #3H	19	25	28	12/28/2014

**ATES
PETROLEUM
CORPORATION**

DAGGER DRAW
MWFM RESERVOIR

Author: MKS/100	Date: 27 February, 2014
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Table 1: Wells Associated with Variance Request

New YESO Horizontals

	WELL NAME	LOCATION			SHL UNIT (E/2 W/2)	Anticipated Stimulation Date
		T	R	S		
1	Penasco 9H	18	25	31	M	6/1/2014
2	Penasco 8H	18	25	31	L	6/26/2014
3	Fed CW B #9H	19	24	1	B	7/21/2014
4	Thomas 8H	19	25	8	H	8/15/2014
5	Warren 5H	19	25	9	L	9/9/2014
6	Patrick 8H	19	25	9	E	10/4/2014
7	Patrick 7H	19	25	9	D	10/29/2014
8	Polo Fed 7H	19	25	10	L	11/23/2014
9	Polo Fed 8H	19	25	10	M	12/18/2014
10	Arrow ARW Fed Com 2H	19	25	11	L	1/12/2015
11	Serrano Fed Com 4H	19	25	11	M	2/6/2015
12	Artemis BUA Fd Com 1H	19	25	14	N	3/3/2015
13	Apollo APU Fd Com 4H	19	25	14	M	3/28/2015
14	Apollo APU Fd Com 5H	19	25	15	P	4/22/2015
15	Apollo APU Fd Com 6H	19	25	15	O	5/17/2015
16	Boyd X St Com 14H	19	25	16	D	6/11/2015
17	Roy AET 9H	19	25	16	D	7/6/2015
18	Boyd X St Com 15H	19	25	16	E	7/31/2015
19	Amole 5H	19	25	16	L	8/25/2015
20	Barbara Fd 21H	19	25	16	L	9/19/2015
21	Boyd X St Com 13H	19	25	16	M	10/14/2015
22	Barbara FD 22H	19	25	16	M	11/8/2015
23	Parish IV. 7H	19	25	19	M	12/3/2015
24	Rodke Fd Com 2H	19	25	21	D	12/28/2015
25	Tackitt 5H	19	25	28	M	1/22/2016
26	Boyd X St 16H	19	25	29	I	2/16/2016
27	Voight ADJ 2H	19	25	29	A	3/12/2016
28	Joyce Fd Com 3H	19	25	32	A	4/6/2016
29	Roden GD Fed Com 8H	19	24	25	N	5/1/2016

Table 1: Wells Associated with Variance Request

YESO Vertical Re Completions

	Current Well Name	Former Well Name	TWNS	RNG	Sec	
1	NDDUP Unit # 63	Ross EG Fed	19	25	20	6/1/2014
2	NDDUP Unit # 97H	Binger AKU #	19	25	29	6/15/2014
3	NDDUP Unit # 129	Pincushion A	19	25	30	6/29/2014
4	NDDUP Unit # 134	Aspden AOH	19	25	29	7/13/2014
5	NDDUP Unit # 135	Boyd X State	19	25	29	7/27/2014
6	NDDUP Unit # 11	Conoco Com	19	25	18	8/10/2014
7	NDDUP Unit # 49	Hooper AMP	19	25	20	8/24/2014
8	NDDUP Unit # 64	Hooper AMP	19	25	20	9/7/2014
9	NDDUP Unit # 65	Hooper AMP	19	25	21	9/21/2014
10	NDDUP Unit # 86	Patriot AIZ #4	19	25	20	10/5/2014
11	NDDUP Unit # 101	Dagger Draw	19	25	30	10/19/2014
12	NDDUP Unit # 105	Dagger Draw	19	25	30	11/2/2014
13	NDDUP Unit # 107	Dagger Draw	19	25	30	11/16/2014
14	NDDUP Unit # 108	Dagger Draw	19	25	30	11/30/2014
15	NDDUP Unit # 127	Dagger ZW #	19	25	30	12/14/2014
16	NDDUP Unit # 119	State K #3H	19	25	28	12/28/2014