

February 16, 2018

Mr. Phillip Goetze
Petroleum Engineer
NMOCD
1220 South St. Francis Drive
Santa Fe, NM 87501

FEB 20 2018 PM 03:39

Via Email and 1st Class Mail

RE: NMOCD ORDER # R-13507 – R-13507-F LUCID RED HILLS AGI #1(API#30-025-40448)
REQUEST FOR APPROVAL OF IMMEDIATE NOTIFICATION PARAMETERS

Dear Mr. Goetze:

Pursuant to our standard practice on AGI wells, Geolex and Lucid Energy Delaware LLC. (Lucid) have discussed the immediate notification parameters for the Red Hills AGI#1 with the Hobbs District NMOCD and with your office and are proposing to use similar immediate notification parameters on what we have already successfully implemented at other AGI facilities in SE NM. These proposed parameters will be implemented when the well is initially put into service (anticipated in late March or early April) and will be reviewed after the well is operating for a couple of months. If that review indicates that no change in the originally implemented parameters is warranted, Lucid will propose the parameters detailed below to become the approved final immediate notification parameters.

The intent of immediate notification parameters is to provide NMOCD with an immediate notification (within four hours of detection of variance or exceedance) of a condition that indicates that the integrity of the well is threatened or has resulted in a violation of the operating conditions approved under NMOCC order R-13507. The monitoring of injection conditions required by the order provide the basis for determining if any of these parameters are outside of an acceptable or approved range that indicates further investigation is needed to ascertain the condition of the well.

The proposed immediate notification parameters are as follows:

1. Exceedance of the approved MAOP of 2085 psig surface for a period greater than two hours.
2. Failure of a mechanical integrity test (MIT) of the well.
3. Confirmation of any condition that indicates a tubing, packer or casing leak.
4. Any consistent increase of the annular pressure to a value that is more than 80% of the injection pressure.
5. Any release of H₂S at the well which results in an activation of the facility's approved Rule 11 H₂S contingency plan.
6. Any workover or maintenance activity that requires intrusive work in the well.

Lucid proposes that if any of the immediate notification parameters is triggered, Lucid will notify the Hobbs District Office of the NMOCD by telephone within 4 hours followed by an email notification within 24 hours to both the District and Santa Fe offices of NMOCD. Depending on the nature of the situation, Lucid, Geolex and NMOCD will jointly determine the appropriate steps to be undertaken to resolve the issue. This immediate notification and coordination procedure has worked well during the normal operations of many AGI wells in SE NM and will be evaluated and confirmed to be appropriate for this well after a couple months normal operation.

Mr. Phillip Goetze
February 16, 2018
Page 2

Lucid intends to commission the well (including injection of TAG into the well) on the last week in March, 2018 following completion and testing of all surface facilities. Lucid will begin the required quarterly reporting of continuously recorded injection data from Red Hills AGI#1 well with the second quarter of 2018.

Please advise if these proposed conditions, which are fully consistent with the previously-approved immediate notification parameters at numerous other SE NM AGI wells are acceptable and approved. Thank you in advance for your prompt attention to this matter.

Sincerely,
Geolex, Inc.

A handwritten signature in black ink, appearing to read 'A. Gutierrez', with a horizontal line drawn underneath.

Alberto A. Gutierrez, RG
President
Consultant to Lucid Energy Delaware, LLC.

cc: via email only: Maxey Brown, NMOCD Hobbs
 Kerry Egan, Lucid Artesia
 Chris Middleton, Lucid Dallas
 Grant McAfee, Lucid Dallas

Goetze, Phillip, EMNRD

From: Goetze, Phillip, EMNRD
Sent: Tuesday, March 20, 2018 12:25 PM
To: Alberto A. Gutierrez <aag@geolex.com> (aag@geolex.com)
Cc: Jones, William V, EMNRD; Brown, Maxey G, EMNRD; Riley, Heather, EMNRD
Subject: Lucid Red Hills No. 1 - H2S Concentrations

Red Hills AGI No. 1; 30-025-40448; R-13507

Alberto:

I reviewed with the Director the proposed scope offered by Geolex for satisfying Ordering Paragraph (2)(f) of R-13507-D [reporting the concentration of H₂S in the TAG and any changes]. With the Director's consent, I am requesting that you proceed with a proposal detailing protocols and methodology for testing and monitoring to satisfy this requirement. Mr. Brancard, legal counsel for the Commission, stated that the item would not require any type of hearing and that Division could approve a plan action. However, I would anticipate a small informative presentation for the Commission sometime after the current rulemaking is completed and after the plan has been operational.

As far as the proposed immediate notification parameters, both the Engineering Bureau and the District I Supervisor approve the parameters detailed in the Geolex correspondence dated February 16, 2018. This correspondence will be made part of the case file and the well file. Please contact me with any questions regarding the content of this e-mail. Thanks. PRG

Phillip Goetze, PG
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