

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey, Division Director
Oil Conservation Division



April 29, 2014

Mr. Travis Hahn
Land Regulatory Agent
Yates Petroleum Corporation
105 S. 4th Street
Artesia, New Mexico 88210

RE: Approval of Yates Petroleum Dagger Draw Multi Well Fluid Management Pit 1
OCD Permit Number: MWF2-1
Section 16, Township 19 South, Range 25 East, NMPM, Eddy County

Dear Mr. Hahn,

The New Mexico Oil Conservation Division (OCD) District 2 Office has completed the review of a Form C-144 and related documents (permit application), submitted by R.T. Hicks Consultants, LLC. on behalf of Yates Petroleum Corporation (Yates). The permit application requests OCD approval to construct, utilize, and close a Multi Well Fluid Management Pit (MWF2-1), as referenced above. This pit is regulated by OCD in accordance with 19.15.17 of the New Mexico Administrative Code (Part 17). The initial permit application was received by OCD on February 24, 2014. A revision of the permit application was received by OCD on April 14, 2014. In the initial permit application submittal, Yates requested a variance from two specific portions of Part 17. On March 4, 2014, OCD received a request from Yates for a third variance. The variance requests and status of the requests are as follows:

Variance 1:

Yates requested a variance from 19.15.17.11.J(4). Yates proposed to use a 30-mil scrim-reinforced LLDPE (e.g.K30B) or 30 mil HDPE liner, as the secondary liner, in lieu of the prescribed 60 mil HDPE liner. In the April 14, 2014 revision of the permit application, Yates proposes to use 60 mil HDPE as liner medium for the primary and secondary liner. The revision effectively rescinded Yates' variance request.

Variance 2:

Yates requested a variance from 19.15.17.11.J(8). Yates proposed to utilize a 200-mil Hypernet drainage system in lieu of the prescribed two feet of compacted soil for the leak detection system design. OCD approves this variance request.

Variance 3:

Yates requested a variance from 19.15.17.7.L. to include wells without approved APDs or C103s to be associated with the MWFMP. This portion of Part 17 is the definition of a Multi Well Fluid Management Pit. OCD does not consider this to be approvable as a variance and denies Yates' request for this definition modification as a variance.

OCD has reviewed Yates' permit submittal and revisions, and hereby approves the Yates Dagger Draw Multi Well Fluid Management Pit #1 (MWF2-1) with the following conditions of approval:

In addition to the email version, this document will be sent to Yates via USPS Certified Return Receipt Requested mail to meet the requirements of 19.15.17.15. A(2). Yates will have ten days from the date of receipt of the certified mailing, to request a commission hearing on the District's denial of the variance request.

- Furthermore, in correspondence dated March 20, 2014, received by OCD on April 4, 2014, Yates requested OCD to consider a modification to the Operation and Maintenance Plan. The modification request states as follows:

On a quarterly basis the operator will report the following information:

- *Any reports generated as a result of the Yates Petroleum Avian Protection Plan*
- *The location (UL, S, T, R), identifier (e.g. well/ API number and volume of treated produced water used for each hydraulic fracturing event*
- *The volume of fresh water, if any, used for hydraulic fracturing*
- *The total volume of treated produced water and fresh water used in the quarter.*

OCD approves the addition of this modification to the permit and considers it part of the approved permit.

- On page 2 of Appendix B (Design/Construction Plan), Yates states "As the size of the proposed MWFM pit is about 450 feet by 400 feet, installation of an effective net over the pit is feasible, but may not be necessary." In the April 2014 permit revision, on page 2 of Appendix B (Design/Construction Plan), Yates states "As the size of the proposed MWFM pit is about 450 feet by 400 feet, an effective net over the pit would be difficult to manage and problematic to install. Of greater importance than logistics is the fact that such netting may not be necessary." Part 17, specifically, 19.15.17.11.E, requires a multi well fluid management pit to be netted or screened, where feasible.

19.15.17.11.E. Netting. The operator shall ensure that a permanent pit, a multi-well fluid management pit, or an open top tank is screened, netted or otherwise rendered non-hazardous to wildlife, including migratory birds. Where netting or screening is not feasible, the operator shall on a monthly basis inspect for, and within 30 days of discovery, report discovery of dead migratory birds or other wildlife to the appropriate wildlife agency and to the appropriate district division office in order to facilitate assessment and implementation of measures to prevent incidents from reoccurring.

In consideration of Yates' ongoing programs that are currently in place and the proposed monitoring and reporting program, Yates may, initially, forgo the installation of netting or screening to determine if such netting or screening is necessary. However, during the construction phase of the pit, OCD will require

Yates to incorporate measures to facilitate rapid deployment of netting or screening should it be determined necessary to protect avian species, including nocturnal avian species, as well as nocturnal flying mammals. Yates is to provide OCD with details as to what steps will be taken to allow for netting or screening, prior to commencement of construction.

- Yates is to provide the OCD District Office with a copy of the pit inspection log every 60 days.
- A Form C-102 is to be submitted to the OCD District Office prior to commencement of construction of the pit.
- Yates must properly handle and dispose of all waste streams that are generated as a result of treating produced water.

The OCD received a final list of new wells to be drilled and recompletions from Yates on April 28, 2014.

The OCD has reviewed Yates' final list and has prepared the following list of wells to be utilized with the MWFMP. Any additional wells added to the final list will need to go to hearing. The hearing should be fairly simple and will not require a full Oil Conservation Commission Hearing.

Final List

Upon final review and merging of the lists submitted to the OCD on February 21, 2014 and March 4, 2014, the following new wells and recompletions may utilize the Multi-well Fluid Management Pit:

	New Well Name #	API #	U/L or Lot Section-Township-Range
1.	McAdory BTC #1H	30-015-41611	1-19-T20S-R25E
2.	McAdory BRC #2H	30-015-41605	2-19-T20S-R25E
3.	Roy AET Com #10H	30-015-41804	E-17-T19S-R25E
4.	Patriot AIZ #13H	30-015-41755	I-21-T19S-R25E
5.	Patriot AIZ # 14H	30-015-41787	M-21-T19S-R25E
6.	Patrick API #7H	30-015-42222	A-9-T19S-R25E
7.	Boyd X State Com #14H	30-015-42253	A-16-T19S-R-25E
8.	Patrick API #8H	30-015-42254	E-9-T19S-R25E
9.	Boyd X State Com #15H	30-015-42223	H-16-T19S-R25E
10.	Voight AJD Com #2H	30-015-42011	D-29-T19S-R25E
11.	Alto AOL #2H	30-015-41757	H-21-T19S-R25E
12.	Cutter APC #2H	30-015-41786	P-21-T19S-R25E
13.	Amole AMM State Com. #5H	30-015-41987	I-17-19S-25E
	Recompletion Well Name #	API #	U/L or Lot Section-Township-Range
14.	NDDUP Unit #11	30-015-26292	G-18-T19S-R25E
15.	NDDUP Unit #41	30-015-27314	M-16-T19S-R25E
16.	NDDUP Unit #42	30-015-28552	N-16-T19S-R25E
17.	NDDUP Unit #49	30-015-28374	A-20-T19S-R25E
18.	NDDUP Unit #63	30-015-26997	G-20-T19S-R25E
19.	NDDUP Unit #64	30-015-28188	H-20-T19S-R25E
20.	NDDUP Unit #65	30-015-27356	F-21-T19S-R25E
21.	NDDUP Unit #86	30-015-27777	N-20-T19S-R25E
22.	NDDUP Unit #97H	30-015-30881	A-29-T19S-R25E
23.	NDDUP Unit #101	30-015-27689	A-30-T19S-R25E
24.	NDDUP Unit #105	30-015-26489	2-30-T19S-R25E
25.	NDDUP Unit #107	30-015-27012	G-30-T19S-R25E
26.	NDDUP Unit #108	30-015-27378	H-30-T19S-R25E
27.	NDDUP Unit #119	30-015-28053	K-28-T19S-R25E
28.	NDDUP Unit #127	30-015-25787	K-30-T19S-R25E
29.	NDDUP Unit #129	30-015-26364	4-30-T19S-R25E
30.	NDDUP Unit #134	30-015-28346	N-29-T19S-R25E
31.	Apollo APU Fed Com #1	30-015-28840	B-15-T19S-R25E

If you have any questions or concerns, and for District notifications, please contact Mike Bratcher, District 2 Environmental Specialist.
575-748-1283 Extension 108
mike.bratcher@state.nm.us

Sincerely,

A handwritten signature in black ink, appearing to read "R Dade". The signature is fluid and cursive, with the first name "Randy" and last name "Dade" clearly distinguishable.

Randy Dade
OCD District 2 Supervisor
randy.dade@state.nm.us

Cc: Scott Dawson, Deputy Division Director, OCD Santa Fe
Jim Griswold, Environmental Bureau Chief, OCD Santa Fe
Glenn VonGonten, Senior Hydrologist, OCD Santa Fe