30-025-09623

HOBBS OCD

DEC 0 6 2011

PECOS DISTRICT
CONDITIONS OF APPROVAL

RECEIVED

OPERATOR'S NAME:	RESACA OPERATING COMPANY
LEASE NO.:	NMLC063965
WELL NAME & NO.:	213 COOPER JAL UNIT
SURFACE HOLE FOOTAGE:	1974' FSL & 662' FWL
BOTTOM HOLE FOOTAGE	
LOCATION:	Section 24, T. 24 S., R. 36 E., NMPM
COUNTY:	Lea County, New Mexico

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Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

I. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

II. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD. (Filing of a Sundry Notice is required for this 60 day extension.)

III. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

IV. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations. Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

V. CONSTRUCTION

A. NOTIFICATION

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Hobbs Field Station at (575) 393-3612 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved APD and Conditions of Approval (COA) on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL

The operator shall stockpile the topsoil in a low profile manner in order to prevent wind/water erosion of the topsoil. The topsoil to be stripped is approximately 6 inches in depth. The topsoil will be used for interim and final reclamation.

C. CLOSED LOOP SYSTEM

Tanks are required for drilling operations: No Pits.

The operator shall properly dispose of drilling contents at an authorized disposal site.

D. FEDERAL MINERAL MATERIALS PIT

Payment shall be made to the BLM prior to removal of any federal mineral materials. Call the Carlsbad Field Office at (575) 234-5972.

E. WELL PAD SURFACING

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational needs.

VI. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified a minimum of 4 hours in advance for a representative to witness:

a. Spudding well
b. CIT
c. BOPE tests

☒ **Lea County**
Call the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240,
(575) 393-3612

1. A Hydrogen Sulfide (H2S) Drilling Plan should be activated prior to drilling cement plug at **2160** feet. **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.**

B. CASING

Changes to the approved APD casing and cement program require submitting a sundry and receiving approval prior to work. Failure to obtain approval prior to work will result in an Incident of Non-Compliance being issued.

A CIT is to be performed on 5-1/2 inch production casing per Onshore Oil and Gas Order 2.III.B.1.h prior to drilling the plug at 2160. Test pressure to be 600 psi. Document the pressure test on a calibrated recorder chart.

If the CIT fails, the operator shall provide a NOI Sundry with plans on how they plan on repairing the casing to pass a CIT

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.

C. PRESSURE CONTROL

1. 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.

2. **Operator to submit a NOI Sundry for a variance request to approve the use of a flex line with Serial #XXXX from BOP to choke manifold.**

3. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the surface casing shoe shall be **2000 (2M)** psi. **After drilling out surface plug and prior to drilling out the plug at approximately 1013 feet a BOP test will be required.**

4. The appropriate BLM office shall be notified a minimum of 4 hours in advance for a representative to witness the tests.

    a. The tests shall be done by an independent service company utilizing a test plug **not a cup or J-packer**. The operator also has the option of utilizing an independent tester to test without a plug (i.e. against the casing) pursuant to Onshore Order 2 with the pressure not to exceed 70% of the burst rating for the casing.

    b. The results of the test shall be reported to the appropriate BLM office.

    c. 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.**

    d. 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.

D. 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.

VII. Well Completion

A. COMPLETION OPERATIONS REQUIREMENTS

1. Note to Operator: completion procedure is approved for Acidizing only. Prior BLM approval of a notice of intent (BLM Form 3160-5) is required for fracture treatment of injection wells
2. Conduct a Mechanical Integrity Test of the tubing/casing annulus after a tubing, packer or casing seal is established. Repair that seal any time more than five barrels of packer fluid is replaced within 30 days.
    a. The minimum test pressure should be 500 psig for 30 minutes, with 200 psig differentials between tubing and casing pressure (at test time) but no more than 70% of casing burst pressure as described by Onshore Order 2.III.B.1.h. (The tubing or reservoir pressure may need to be reduced).
    b. Document the pressure test on a calibrated recorder chart registering within 25 to 85 per cent of its full range. Greater than 10% pressure leakoff will be viewed as a failed MIT. Less than 10% pressure leakoff will be evaluated site specifically and may restrict injection approval.
    c. At least 24 hours before the test: In Eddy County, Paul Swartz (phone 575-200-7902). If there is no response phone 575-361-2822. In Lea County Andy Cortez (phone 575-393-3612 or 575-631-5801). Note the contact notification method, time, & date in your subsequent report.
    d. Submit a subsequent Sundry Form 3160-5 relating the MIT activity. Include a copy of the recorded MIT pressure chart. List the name of the BLM witness, or the notified person and date of notification. NMOCD is to retain the original recorded MIT chart.
    e. Use of tubing internal protection, on/off tubing equipment just above the packer, and a profile nipple installation is required. The setting depths and descriptions of each are to be included in the subsequent sundry. List (by date) descriptions of daily activity of any previously unreported wellbore workover.
    f. **Submit the original subsequent sundry with three copies to BLM Carlsbad.**
3. Compliance with a NMOCD Administrative Order is required, submit documentation of that authorization.
    a. Approved injection pressure compliance is required.
    b. If injection pressure exceeds the approved pressure you are required to reduce that pressure and notify the BLM within 24 hours.
    c. When injection pressure is within 50 psig of the maximum pressure, install automation equipment that will prevent exceeding that maximum and submit a subsequent report.

4. Other unexplained significant variations of rate or pressure to be reported within 5 days of notice.
5. **The casing/tubing annulus is required to be monitored for communication with injection fluid or loss of casing integrity**.
6. The annulus is to be maintained full of packer fluid. A BLM inspector may request verification of this fluid level at any time.
7. Submit a subsequent report (Sundry Form 3160-5) describing the installation of packer fluid level monitoring equipment within 30 days of beginning injection.
8. The operator shall keep monthly records documenting that the casing annulus is fluid filled. Copies of those records shall be furnished at the request of a BLM authorized officer.
9. Loss of packer fluid above five barrels per month requires notification of the BLM authorized officer within 5 days.
10. Gain of annular fluid requires notification within 24 hours. Cease injection and maintain a production casing pressure of 0 psia. Notify the BLM's authorized officer (Paul R. Swartz phone 575-200-7902). If there is no response phone 575-361-2822.
11. Also submit to this office a (Sundry Form 3160-5) Notice of Intent (NOI) for planned well work involving a formation change, casing repair/replacement, and injection well fracture treatment for approval by BLM and NMOCD. Verbal approval for the plan may be given by a BLM authorized officer, with the NOI filed within five business days. Packer and tubing repair (normal maintance procedures) do not require a NOI, but a subsequent sundry needs to be filed. Note that NM Federal Regulations & Forms may be found on the web:
    http://www.blm.gov/nm/st/en/prog/energy/oil_and_gas.html
    (in particular reference §3162.3-2 subsequent well operations).
12. Submit a (Sundry Form 3160-5) subsequent report (daily reports) describing all wellbore activity and Mechanical Integrity Test as per item 1) above. Include the date(s) of the well work, and the setting depths of required equipment: tubing, one on/off tool, one profile nipple, and a single packer.

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VIII. INTERIM RECLAMATION

During the life of the development, all disturbed areas not needed for active support of production operations should undergo interim reclamation in order to minimize the environmental impacts of development on other resources and uses.

Within six (6) months of well completion, operators should work with BLM surface management specialists (Jim Amos: 575-234-5909) to devise the best strategies to reduce the size of the location. Interim reclamation should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche that is free of contaminants may be used for road repairs, fire walls or for building other roads and locations. In order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

All disturbed areas after they have been satisfactorily prepared need to be reseeded with the seed mixture provided below.

Upon completion of interim reclamation, the operator shall submit a Sundry Notices and Reports on Wells, Subsequent Report of Reclamation (Form 3160-5).

IX. FINAL ABANDONMENT & RECLAMATION

At final abandonment, well locations, production facilities, and access roads must undergo "final" reclamation so that the character and productivity of the land are restored.

Earthwork for final reclamation must be completed within six (6) months of well plugging. All pads, pits, facility locations and roads must be reclaimed to a satisfactory revegetated, safe, and stable condition, unless an agreement is made with the landowner or BLM to keep the road and/or pad intact.

After all disturbed areas have been satisfactorily prepared, these areas need to be revegetated with the seed mixture provided below. Seeding should be accomplished by drilling on the contour whenever practical or by other approved methods. Seeding may need to be repeated until revegetation is successful, as determined by the BLM.

Operators shall contact a BLM surface protection specialist prior to surface abandonment operations for site specific objectives (Jim Amos: 575-234-5909).

Seed Mixture 2, for Sandy Sites

The holder shall seed all disturbed areas with the seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed (PLS)* per acre. There shall be no primary or secondary noxious weeds in the seed mixture. Seed will be tested and the viability testing of seed will be done in accordance with State law (s) and within nine (9) months prior to purchase. Commercial seed will be either certified or registered seed. The seed container will be tagged in accordance with State law(s) and available for inspection by the authorized officer.

Seed will be planted using a drill equipped with a depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture will be evenly and uniformly planted over the disturbed area (smaller/heavier seeds have a tendency to drop the bottom of the drill and are planted first). The holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed will be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre are to be doubled. The seeding will be repeated until a satisfactory stand is established as determined by the authorized officer. Evaluation of growth will not be made before completion of at least one full growing season after seeding.

Species to be planted in pounds of pure live seed* per acre:

Species	lb/acre
Sand dropseed (Sporobolus cryptandrus)	1.0
Sand love grass (Eragrostis trichodes)	1.0
Plains bristlegrass (Setaria macrostachya)	2.0

*Pounds of pure live seed:

Pounds of seed **x** percent purity **x** percent germination = pounds pure live seed