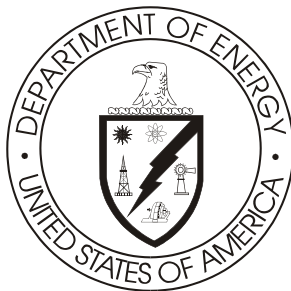


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REV. 3

Delaware Basin Monitoring Annual Report

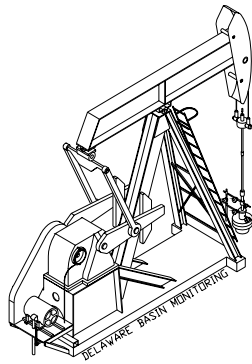


September 2002

**United States Department of Energy
Waste Isolation Pilot Plant**

**Carlsbad Field Office
Carlsbad, New Mexico**

***DELAWARE BASIN DRILLING SURVEILLANCE PROGRAM
ANNUAL REPORT***



***WASTE ISOLATION PILOT PLANT
ENVIRONMENTAL COMPLIANCE
EPA COMPLIANCE***

September 2001 through August 2002

Prepared for
the **Department of Energy** by
Westinghouse TRU Solutions LLC

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1.0 Delaware Basin Drilling Surveillance Program

The Delaware Basin Drilling Surveillance Program (DBDSP) is designed to monitor drilling activities in the vicinity of the Waste Isolation Pilot Plant (WIPP). This program is based on Environmental Protection Agency (EPA) requirements. EPA requires the Department of Energy (DOE) to demonstrate the expected performance of the disposal system using a probabilistic risk assessment or performance assessment (PA). This PA must show that the expected repository performance will not release radioactive material above limits set by the EPA's standard and must consider inadvertent drilling into the repository at some future time.

The EPA provided criteria in Title 40 Code of Federal Regulations (CFR) §194.33 to address the consideration of future deep and shallow drilling in PA. These criteria led to the formulation of conceptual models that incorporate the effects of these activities. These conceptual models use parameter values drawn from the databases in Appendix DEL of the Compliance Certification Application (CCA). Examples of information of interest include the drilling rate of deep and shallow boreholes and data relating to the physical properties of drill holes, such as diameter.

The EPA defined, in Title 40 CFR §194.2, the area to be used for the historical rate of drilling for resources. It reads in part:

Delaware Basin means those surface and subsurface features which lie inside the boundary formed to the north, east and west of the [WIPP] disposal system, by the innermost edge of the Capitan Reef, and formed, to the south, by a straight line drawn from the southeastern point of the Davis Mountains to the most southwestern point of the Glass Mountains.

The Delaware Basin, depicted in Figure 1, includes all or part of Brewster, Culberson, Jeff Davis, Loving, Pecos, Reeves, Ward, and Winkler Counties in West Texas, and portions of Eddy and Lea Counties in southeastern New Mexico.

In accordance with these criteria, the DOE used the historical rate of drilling for resources in the Delaware Basin to calculate a future drilling rate. In particular, in calculating the frequency of future deep drilling, Title 40 CFR §194.33(b)(3)(i) (EPA 1996) provided the following criteria to the DOE:

Identify deep drilling that has occurred for each resource in the Delaware Basin over the past 100 years prior to the time at which a compliance application is prepared.

The DOE used the historical record of deep drilling for resources below 2,150 feet that has occurred over the past 100 years in the Delaware Basin. This was chosen because it is the depth of the repository, and the repository is not directly breached by boreholes less than this depth. In the past 100 years, deep drilling occurred for oil, gas, potash, and sulfur. These drilling events were used in calculating a rate for deep drilling for PA as discussed in Appendix DEL of the

CCA. Historical drilling for purposes other than resource exploration and recovery (such as WIPP Site investigation) were excluded from the calculation in accordance with criteria

provided in §194.33.

In calculating the frequency of future shallow drilling, Title 40 CFR §194.33(b)(4)(i) states that the DOE should:

Identify shallow drilling that has occurred for each resource in the Delaware Basin over the past 100 years prior to the time at which a compliance application is prepared.

An additional criterion for calculation of future shallow drilling rates is provided in §194.33(b)(4)(iii):

... in considering the historical rate of all shallow drilling, the Department may, if justified, consider only the historical rate of shallow drilling for resources of similar type and quality to those in the controlled area.

The only resources present at shallow depths (less than 2,150 feet below the surface) within the controlled area are water and potash. Thus, consistent with §194.33(b)(4), the DOE used the historical record of shallow drilling associated with water and potash extraction in the Delaware

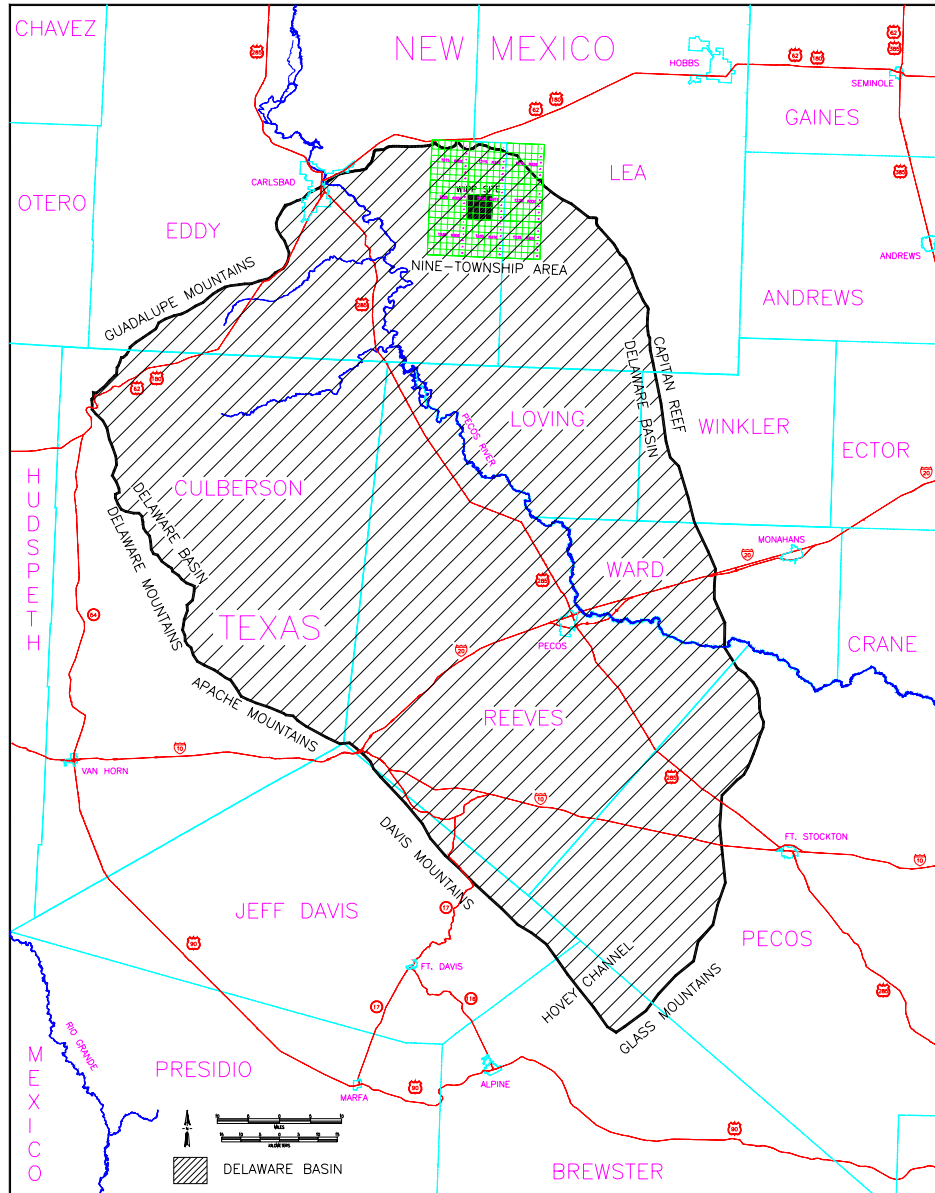


Figure 1
WIPP Site, Delaware Basin, and Surrounding Area

Basin to calculate the rate of shallow drilling within the controlled area. The controlled area is

the 16 sections of land (16 square miles) within the WIPP Site boundary.

The EPA provides further criteria concerning the analysis of the consequences of future drilling events in PAs in Title 40 CFR §194.33(c)(EPA 1996). Consistent with these criteria, the following parameters regarding drilling were considered in the PA as documented in Appendix DEL of the CCA:

- types of drilling fluids
- amounts of drilling fluids
- borehole depths
- borehole diameters
- borehole plugs
- fraction of each borehole that is plugged
- natural processes that will degrade borehole plugs
- instances of encountering pressurized brine in the Castile Formation

The DOE continues to provide surveillance of the drilling activity in the Delaware Basin in accordance with the criteria established in Title 40 CFR 194 during the operational phase, and will continue until the DOE and the EPA agree no further benefit can be gained from continued surveillance. The results of this surveillance activity will be used to determine if a significant change has occurred that would be detrimental to the performance of the disposal system.

The *Delaware Basin Drilling Surveillance Plan* (WP 02-PC.02) places specific emphasis on the nine-township area that includes the WIPP Site. This Plan is focused on gathering data and information to support future compliance applications. The DBDSP supports the Compliance Monitoring Program, required by Title 40 CFR 191. Specifically, this program fulfills the Monitoring Assurance Requirement. The DBDSP is specifically defined in and authorized by the DOE Monitoring Implementation Plan (DOE 1999b). The output of the program is used to generate the Annual Compliance Monitoring Assessment Report, published by Sandia National Laboratories (SNL), and is reported annually to EPA in the Title 40 CFR §194.4(b)(4) Report.

Surveillance of drilling activities within the Delaware Basin will continue after closure for 100 years or until the DOE can demonstrate to the EPA there are no significant concerns to be addressed by further surveillance (Section 7.1.4, DOE 1996b).

2.0 2002 Updates

PA is required by regulation to consider disturbed case scenarios that include intrusions into the repository by inadvertent and intermittent drilling for resources. The probability of these intrusions is based on a future drilling rate of 46.8 boreholes per square kilometer per 10,000 years. This rate is based on consideration of the past record of drilling events in the Delaware Basin. The DOE models multiple types of human intrusion scenarios in the PA. These include both single intrusion events and combinations of multiple boreholes.

Two different types of boreholes are considered: (1) those that penetrate a pressurized brine reservoir in the underlying Castile Formation and (2) those that do not. While the presence of pressurized brine under the repository is speculative, it cannot be completely ruled out based on available information. The primary consequence of contacting pressurized brine is the introduction of an additional source of brine beyond that which is assumed to be released into the repository from the Salado Formation. The human intrusion scenario models are based on extensive field data sets collected by the DOE. The DBDSP collects the drilling related data to be used for future PA calculations. The data have been collected from the time of the 1996 submittal of the CCA to the present and include specific wells drilled during the last year in the New Mexico portion of the Delaware Basin, specifically that of the nine-township area immediately surrounding the WIPP Site. These data are summarized in the following sections.

2.1 Drilling Techniques

The drilling techniques reported in Appendix DEL of the CCA are still being implemented by area drillers. There were a total of 58 wells spudded, not necessarily completed, in the New Mexico portion of the Delaware Basin from September 1, 2001 through August 31, 2002. This number is derived from the databases maintained by the DBDSP. In reality, the number of new wells is higher but the paperwork on some of the wells has not been filed with the New Mexico Oil Conservation Division (NMOCD) or is filed after the writing of this report; therefore, those wells are not included in the count listed above. For example, during the last year 83 wells were added to the databases for New Mexico, meaning 25 wells were reported late.

Rotary drilling rigs were used to drill all 58 wells. Some have been completed as oil wells, others as gas wells, while the rest are still in the process of being completed. All were conventionally drilled utilizing mud as a medium for circulation. Thirty-two of these wells were in the nine-township area. The depths of the completed wells in the nine-township area range from 7,303 feet to 15,250 feet. Outside of the nine-township area the depths of the completed wells range from 5,700 feet to 13,850 feet.

A technique used by operators to increase production is to drill a well directionally or horizontally, which allows for more area of the wellbore to be in the production zone. As reported in Appendix DEL, this technique is not often used in this area because of the increased costs. The DBDSP monitors directional or horizontal drilled wells only in the nine-township area. None of the 32 new wells spudded during the last year in the nine-township area were directional or horizontal drilled wells. One well, spudded in 2000 and reported in Rev. 1 of this report, was completed as a directionally drilled well. This well is located outside of the WIPP

Site, but is drilled into a lease located on Section 31 underneath the WIPP Site. There were nine more wells slated to be drilled into the same lease, of which eight have been canceled since the initial well was drilled.

2.1.1 Drilling Fluids

Employing a rotary rig for drilling involves the use of drilling fluids. Drilling fluid is commonly known as mud, which is the liquid circulated through the wellbore during rotary drilling and workover operations. In addition to its function of bringing cuttings to the surface, drilling mud cools and lubricates the bit and drill stem, protects against blowouts by holding back subsurface pressures, and deposits a mud cake on the wall of the borehole to prevent loss of fluids to the formation.

Typically, a driller will use fresh water and additives to drill the surface section of the hole which ends at the top of the Salado Formation. A change in drilling practices would necessitate a change in the application of drilling fluids. Within the Known Potash Lease Area (KPLA) of southeastern New Mexico, drillers are required under Title 19, Chapter 15, Order R-111-P of the New Mexico Administrative Code (NMAC) to use a saturated brine to drill through the salt formation which is usually called the intermediate section. This requirement is to keep the salt from washing out and making the hole larger than necessary and to protect the potash reserves that occur in this formation. Once this section has been drilled and cased, the driller again changes to fresh water and additives to finish drilling the hole to depth.

All the operators of new wells completed in the New Mexico portion of the Delaware Basin during the last year that reported information on mud weights, listed mud weights from 8.4 to 10.0 pounds per gallon while drilling the intermediate portion of the wellbore. The operators completing wells in the nine-township area that reported mud weights used a solution of 9.9 to 10.2 pounds per gallon saturated brine for drilling the intermediate section of the well through the salt formation.

2.1.2 Air Drilling

A method of hydrocarbon drilling not emphasized in Appendix DEL is air drilling. As defined by the oil industry, air drilling is a method of rotary drilling using compressed air as the circulation medium. The conventional method of removing cuttings from the wellbore is to use a flow of water or drilling mud. In some cases, compressed air removes the cuttings with equal or greater efficiency. The rate of penetration is usually increased considerably when air drilling is used; however, a fundamental problem in air drilling is the penetration of formations containing water, since the entry of water into the system reduces the ability of the air to remove cuttings.

Critics noted the air drilling scenario was not included by DOE in the CCA and raised several issues: (1) air drilling technology is currently successfully used in the Delaware Basin, (2) air

drilling is thought to be a viable drilling technology under the hydrological and geological conditions at the WIPP Site, and (3) air drilling could result in releases of radionuclides that are substantially greater than those considered by the DOE in the CCA. Much research on the issue of air drilling in the Delaware Basin has been done. It has been shown that although air drilling is a common method of drilling wells it is not practiced in the vicinity of the WIPP Site because (1) it is against R-111-P regulations to drill with anything but saturated brine through the salt formation in the KPLA, (2) it is not economical to drill with air when a driller has to use saturated brine for the intermediate section, and (3) if water is encountered prior to or after drilling the salt formation the driller would have to convert to a conventional system of drilling.

Additional information was provided to EPA Air Docket No. A-93-02, IV-G-7. In this information, the following was provided:

The well record search has continued and now includes information from the entire New Mexico portion of the Delaware Basin. Within the nine-townships surrounding the WIPP, the records showed no evidence of air drilling. One possible exception to this may be the Lincoln Federal #1. This well is said to have been air drilled due to a loss of circulation at a depth of 1290 feet, but this has not been verified. The records associated with the Lincoln Federal #1 do not contain any evidence of air drilling. Rather, this information is based on verbal communications with the operating and drilling companies involved with the well. Nonetheless, the Lincoln Federal #1 may have been drilled with air, although it was not a systematic use of the technology. Air drilling at this well was used from 2984' to 4725' merely as a mitigative attempt to continue drilling to the next casing transition depth. After this casing transition, mud drilling was used for the remainder of the hole.

The area of the expanded search contains 3,756 boreholes. Of these, 407 well files were unavailable for viewing (in process), therefore, 3,349 well files constitute the database. Among these wells, 11 instances of air drilling were found in which any portion of the borehole was drilled with air. Only 7 of these were drilled through the Salado Formation at the depth of the repository. This results in a frequency of 7/3349, or 0.0021. This value is conservative in that it includes the Lincoln Federal #1, and four other wells which were proposed to be drilled with air, but no subsequent verification of actual drilling exists in the records.

During the summer of 1999, another search of these same records was conducted as a follow up to the original research. This search of the records was performed by an independent third party and was used as a quality assurance check of the original search. The database consisted of 3,810 boreholes with only 12 records unavailable for viewing. This search added five more wells with indications of some portion of the hole being drilled with air. None were air drilled through the Salado Formation or were located in the nine-township area. Of the five wells added to the count, one (the Sheep Draw "28" Federal #13) had the first 358 feet air drilled while the other four had the conductor pipe drilled with air which consists of the first 40 feet of the borehole and is not usually reported in the drilling process. The conductor casing is typically drilled, set in place, and cemented prior to setting up the rotary drilling rig that will eventually drill the well.

The records on the new wells spudded during the last year (September 1, 2001 thru August 31,

2002) are being checked as they become available at the NMOCD for instances of air drilling. The records submitted to the NMOCD offices can be as late as two years after the well has been drilled. The record review is an ongoing process that is conducted on a monthly basis. None of the records reviewed to date have indicated any instances of air drilling. As was presented in the testimony (public hearings conducted by the EPA on WIPP certification) and continues to be validated by ongoing review, air drilling is not a common practice in the vicinity of the WIPP Site.

2.2 Shallow Drilling Events

One of the requirements of Title 40 CFR Part 194 is that the CCA must adequately and accurately characterize the frequency of shallow drilling within the Delaware Basin, as well as, support the assumptions and determinations, particularly those that limit consideration of shallow drilling events based on the presence of resources of similar type and quantity found in the controlled area. The DOE concluded in Appendix SCR that shallow drilling could be removed from PA consideration based on low consequence. As a result, the DOE did not include shallow drilling in its PA drilling rate calculations and did not include any reduction in shallow drilling rates during the active and passive institutional control periods. In Compliance Application Review Document (CARD) 32, the EPA accepted the DOE's finding that shallow drilling would not be of consequence to repository performance and need not be included in the PA.

Although the EPA has agreed shallow drilling can be eliminated from PA and need not be tracked, the DBDSP collects data on all wells drilled within the boundaries of the Delaware Basin. The program makes no distinctions between shallow and deep drilling events except when calculating the intrusion rate for deep drilling. Information on all wells drilled is vital for trending future activities.

2.3 Deep Drilling Events

In the Delaware Basin, deep drilling events are usually associated with oil and gas drilling. Commercial sources and visits to the NMOCD offices are used to identify these events. The DBDSP collects data on all drilled wells within the Delaware Basin, making no distinction between resources. Two separate databases are maintained on hydrocarbon wells, one for Texas and one for New Mexico. As information on wells is acquired, it is entered into the individual databases. The Texas database contains information only on the current status of the well, when it was drilled, its location, who the operator is, and the total depth of the well. The Texas portion of the Delaware Basin is used only for calculating the drilling rate. The database for the New Mexico portion of the Delaware Basin contains the same basic information as Texas along with all the information required for PA related drilling events.

The DBDSP continues to monitor all hydrocarbon drilling activity and any new potash, sulfur, water, or monitoring wells for deep drilling events. Information from the drilling of these wells is added to the databases maintained for these separate resources. During the last year, there

were 160 new wells added to the databases. All wells were drilled for hydrocarbon extraction and all were deep drilling events. Thirty-two of these new wells are in the nine-township area immediately surrounding the WIPP Site.

2.4 Past Drilling Rates

The EPA provided a formula for calculating the current drilling rate or intrusion rate when 40 CFR Part 194 was promulgated. The formula is as follows: number of holes times 10,000 years divided by the area of the Delaware Basin (23, 102.1 Sq. Km.) divided by 100 years (1897-1996, the year the CCA was submitted). This formula is used to calculate both shallow and deep drilling rates for each resource. Since shallow drilling events are of no consequence, only deep drilling events are applied to the formula. The DBDSP uses all deep drilling events of any resource (potash, oil, gas, water, etc.) to calculate the drilling or intrusion rate. Including resources other than hydrocarbon will not affect the product of the formula due to the high number of deep drilling events recorded over the last 100 years in the Delaware Basin.

YEAR	NO. OF DEEP HOLES	DRILLING RATE
1996	10,804 Holes Deeper Than 2,150 Ft.	46.8
1997	11,444 Holes Deeper Than 2,150 Ft.	49.5
1998	11,616 Holes Deeper Than 2,150 Ft.	50.3
1999	11,684 Holes Deeper Than 2,150 Ft.	50.6
2000	11,828 Holes Deeper Than 2,150 Ft.	51.2
2001	12,056 Holes Deeper Than 2,150 Ft.	52.2

The drilling rates since the submittal of the CCA in 1996 are shown in Table 1. The large increase between 1996 and 1997 is the result of updating the databases with information from June 1995 through August 1997. Also, the 100-year window is considered a sliding window, in which 100 years worth of data is used each time the calculation is performed. As each new year's data is added, the oldest year's data will be dropped. For example, the drilling rate was calculated in 1999 by using the data from 1900 through 1999. In 2000, the data from 1901 through 2000 was used to calculate the drilling rate.

2.5 Current Drilling Rate

The calculated intrusion or drilling rate for 2002 is shown in Table 2. There were 18,080 resource holes within the Delaware Basin, of those, 12,219 were deeper than 2,150 feet. Applying the formula results in the following: 12,219 boreholes x 10,000 years / 23,102.1 square kilometers / 100 years. This results in a drilling or intrusion rate of 52.9 boreholes per square kilometer over 10,000 years.

The intrusion rate has risen from 46.8 holes per square kilometer to 52.9 holes per square kilometer since 1996 and will continue to climb because of the method of calculation. Since the first well drilled in the area occurred in 1911, it will be 2011 before one well is dropped and 2014 before a second well is dropped from the count. In the meantime, numerous wells will have been added thus driving up the count. The true state of the drilling rate is depicted in Table 3. Petroleum exploration activity is directly related to the price of crude oil and gas. The number of wells drilled per year for the last 23 years in the Delaware Basin and the average price per barrel of domestic crude oil is shown in Table 3.

2.5.1 Nine-Township Area Drilling Activities

From September 1, 2001, through August 31, 2002, there were 32 new wells spudded in the nine-township area immediately surrounding the WIPP Site. No new wells were drilled in the one-mile buffer area surrounding the WIPP Site. Figure 2 shows the status of all known hydrocarbon wells drilled within the one-mile buffer area of the WIPP Site, of the 32 new wells, 25 were drilled in Eddy County and seven in Lea County. Seventeen of the wells were to the northeast and east of the site while the rest were all south of the site. Pogo Producing Company and Devon Energy Production Company each drilled ten new wells in the nine-township area during the last year. These same two companies are the major producers in the area along with other companies such as Yates Petroleum, EOG Resources, Bass Enterprises Production Company, Chevron USA, Harvard Petroleum, Maralo Inc., and Matador Operating Company.

2.6 Pressurized Brine Encounters

**Table 2
Drilling Rate for 2002**

<i>Hydrocarbon Holes</i>			
<u>Well Type</u>	<u>Texas</u>	<u>N.M.</u>	<u>Totals</u>
Dry Hole	2,496	988	3,484
Oil Well	3,902	1,809	5,711
Gas Well	838	609	1,447
Oil/Gas Well	93	5	98
Drilling or Waiting on Paperwork	54	44	98
Injection Well	253	71	324
Plugged Oil Well	522	289	811
Plugged Gas Well	177	128	305
Plugged Injection Well	0	20	20
Plugged Oil & Gas Well	36	0	36
Salt Water Disposal Well	5	105	110
Plugged Salt Water Disposal Well	0	10	10
Junked & Abandoned Hole	114	43	157
Service Well	114	3	117
	8,604	4,124	12,728

<i>Other Resource Holes</i>			
<u>Well Type</u>	<u>Texas</u>	<u>N.M.</u>	<u>Totals</u>
Sulfur Boreholes	587	0	587
Potash Boreholes	0	1,005	1,005
WIPP Boreholes	0	199	199
Stratigraphic Test Holes	1,213	2	1,215
Water Wells	1,706	590	2,296
Salt Wells	8	2	10
Plugged Salt Well	0	2	2
Core Holes	36	2	38
	3,550	1,802	5,352
Total Resource Holes in the Basin	12,154	5,926	18,080

<i>Additional Information</i>	
<u>Well Type</u>	<u>Totals</u>
Hydrocarbon Holes >2,150 Feet Deep	12,045
Hydrocarbon Holes <2,150 Feet Deep	683
Sulfur Boreholes >2,150 Feet Deep	89
Potash Boreholes > 2,150 Feet Deep	19
WIPP Boreholes > 2,150 Feet Deep	10
Stratigraphic Test Holes > 2,150 Feet Deep	56
Water Wells >2,150 Feet Deep	0
Total Resource Holes >2,150 Feet Deep	12,219
Total Resource Holes < 2,150 Feet Deep	5,861
Total Resource Holes Within the Delaware Basin	18,080

<i>Area Information</i>			
<u>Location</u>	<u>Acres</u>	<u>Sq. Miles</u>	<u>Sq. Kilometers</u>
Delaware Basin	5,708,682.50	8,919.76	23,102.1

Intrusion Rate

The intrusion rate is calculated as follows: (number of holes) x 10,000 years / area / 100 years. The intrusion rate is 52.9 boreholes per square kilometer over 10,000 years.

WIPP PA included the assumption that a borehole results in the establishment of a flow path between the repository and a pressurized brine pocket that might be located beneath the repository in the Castile Formation. Research was performed in an attempt to verify this assumption. Studies recorded a total of 27 encounters with pressurized brine in the Castile Formation, of these, 25 were hydrocarbon wells scattered over a wide area in the vicinity of the WIPP Site. Two wells, ERDA 6 and WIPP 12, were drilled in support of WIPP Site characterization.

As indicated earlier, the independent search of the records performed in 1999 for instances of air drilling also looked for instances of pressurized brine. Although the search of the records noted a number of instances of encounters with sulfur water and brine water, none but the original 27 were found to have been pressurized brine encounters in the Castile Formation.

Table 3
New Wells in Relationship to the Cost of Crude Oil Since 1980

<i>YEAR</i>	<i>No. of New Wells in NM¹</i>	<i>No. of New Wells in Texas¹</i>	<i>Total No. of New Wells</i>	<i>Domestic Price of Crude Oil²</i>
1980	99	232	331	\$21.59
1981	133	327	460	\$31.77
1982	149	295	444	\$28.52
1983	99	235	334	\$26.19
1984	101	268	369	\$25.88
1985	127	231	358	\$24.09
1986	81	223	304	\$12.51
1987	50	143	193	\$15.40
1988	42	179	221	\$12.58
1989	29	103	132	\$15.86
1990	79	166	245	\$20.03
1991	112	139	251	\$16.54
1992	125	75	200	\$15.99
1993	199	67	266	\$14.25
1994	192	58	250	\$13.19
1995	193	54	247	\$14.62
1996	149	75	224	\$18.46
1997	181	121	302	\$17.23
1998	118	54	172	\$10.87
1999	38	30	68	\$15.56
2000	95	42	137	\$26.72
2001	122	151	273	\$21.84
2002	77	83	160	\$19.60 ³

- 1 Retrieved from Delaware Basin Drilling Surveillance Program Database
- 2 Price per barrel from the DOE-Energy Information Administration
- 3 Price for current year is average of the first six months-does not reflect the entire year

The DBDSP researches the well files of all new wells drilled in the New Mexico portion of the

Delaware Basin each year looking for instances of encounters with pressurized brine. The program also sends out an annual survey to operators of new wells asking if they encountered pressurized brine during the drilling process. As of this report, none of the records reviewed indicated encounters with pressurized brine during the drilling process on new wells spudded in the New Mexico portion of the Delaware Basin between September 2001 and August 2002.

As reported in Rev. 2 of this report, there were two Castile Brine encounters by area drillers reported to WIPP Site personnel but not reported in records on file at NMOCD offices. This year there were three more brine encounters, all unofficial as they do not appear in the records for these wells at the NMOCD offices. Two were located near ERDA 6 northeast of the WIPP Site and reported encountering several

hundred barrels of brine per hour. All brine was contained within the pits thus requiring no report to the NMOCD. The other encounter was to the southwest of the WIPP Site reporting an initial flow from four to 500 barrels per hour. Flow dissipated in a matter of minutes. Of the five new Castile Brine encounters, four were picked up when WIPP Site personnel performing field work talked to area drillers. The other encounter was reported on by an operator in the Annual Survey of area drillers. All new encounters since 1996 have been in areas where Castile Brine is expected to be encountered during the drilling process.

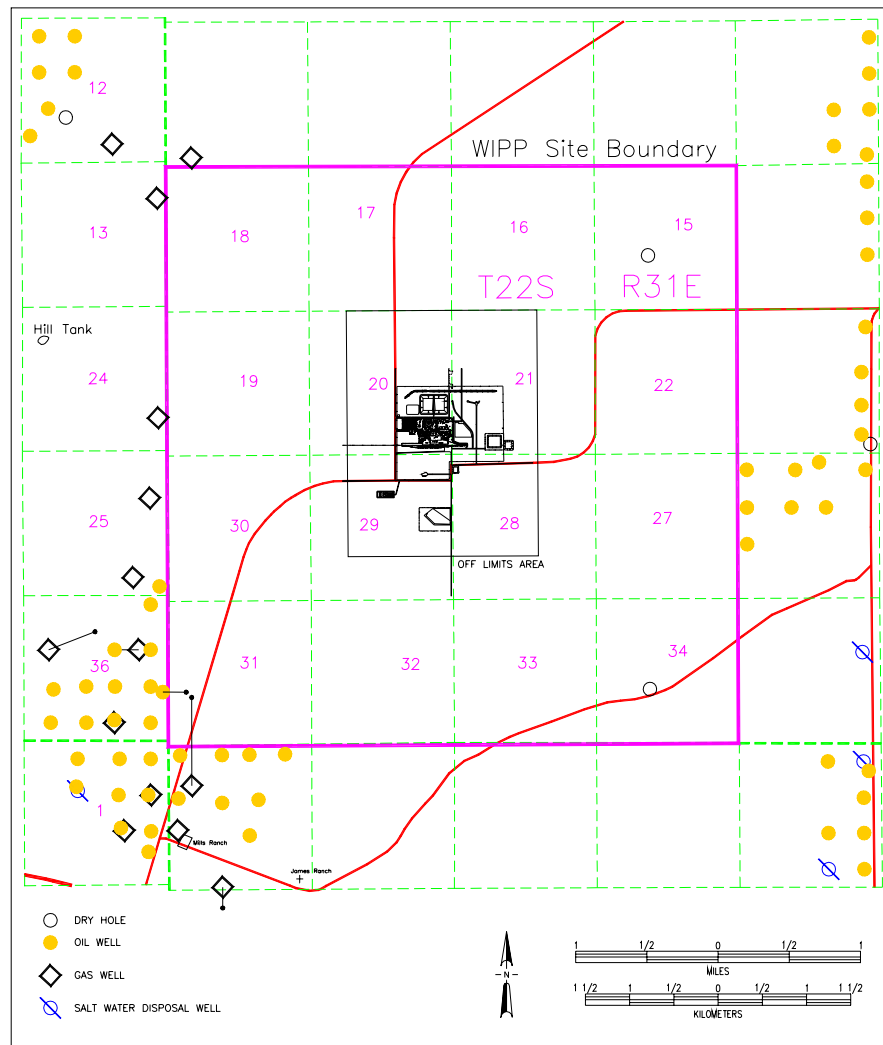


Figure 2
Oil and Gas Wells Within the One-Mile Buffer Area of the WIPP Site

2.7 Borehole Permeability Assessment - Plugging Practices

The hydrocarbon well plugging practices used for the borehole permeability assessment remain valid. The regulations in place during the submittal of the CCA have not changed. The assessment will not change unless the regulations change to allow a different method of plugging. Regulations require the well be plugged in a manner that will permanently confine all oil, gas, and water in the separate strata in which they were originally found. These regulations require a notice of intent to plug from the operator. This notice includes a diagram of the well bore and the placement of the plugs. A 24-hour notice to the NMOCD or to the Bureau of Land Management (BLM) is required before plugging may commence.

Most of the wells in the vicinity of the WIPP Site are in the KPLA. Under R-111-P regulations, the operator is required to run a solid cement plug through the entire salt section and water bearing zones in addition to installing a bridge plug above the perforations. Installing a solid cement plug through the salt provides additional assurance no fluids or gases escape through the casing into potash mining areas or fresh water formations.

In the New Mexico portion of the Delaware Basin, the DBDSP retrieves a copy of the plugging report from the appropriate NMOCD office when a well has been plugged and abandoned. This information is added to the records maintained by the DBDSP on each well drilled within the Delaware Basin. By maintaining records in such a fashion, should the regulations change and the plugging methods differ from what is now occurring, a trend would be noticed and the borehole permeability assessment revisited.

<i>SURFACE CASING</i>		
<i>Hole Diameter</i>	<i>Casing Size</i>	<i>No. of Wells</i>
17 1/2"	13 3/8"	20
14 3/4"	10 3/4"	2
12 1/4"	8 5/8"	4
<i>INTERMEDIATE CASING</i>		
<i>Hole Diameter</i>	<i>Casing Size</i>	<i>No. of Wells</i>
12 1/2"	9 5/8"	5
11"	8 5/8"	15
9 7/8"	7 5/8"	2
7 7/8"	5 1/2"	4

This table compiles data from 26 of the 58 new wells drilled in the New Mexico portion of the Delaware Basin between Sep-01 and Aug-02. The other wells were not used as not all of the information has been reported on those wells.

There have been no hydrocarbon wells plugged in the nine-township area during the last year, in fact, none have been plugged since 1999. All new wells drilled are in production.

2.8 Borehole Depths and Diameters

The DBDSP tracks borehole depths for all wells drilled in the Delaware Basin. Borehole depths tracked by the DBDSP range from 19 feet to 25,201 feet. The 19 foot hole is an exhaust shaft water monitoring well located on the WIPP Site, and the 25,201 foot hole is a gas well located in Texas. Borehole depths in the immediate vicinity of the WIPP Site typically range from 8,000 to 9,000 feet for oil wells and 13,000 to 16,000 feet for gas wells.

The diameter of each well bore is more difficult to ascertain. The DBDSP tracks the casing size and depth for each section of the hole (Table 4). Drill bit size is not a reportable element, although hole sizes are sometimes reported on Sundry notices (miscellaneous forms) maintained by the NMOCD. The casing size or hole size is used to determine the size of the bit used to drill that particular section of the well. Currently, the most common bit sizes being used are 17 1/2" for the surface section, 11" for the intermediate section, and 7 7/8" for the production section of the hole.

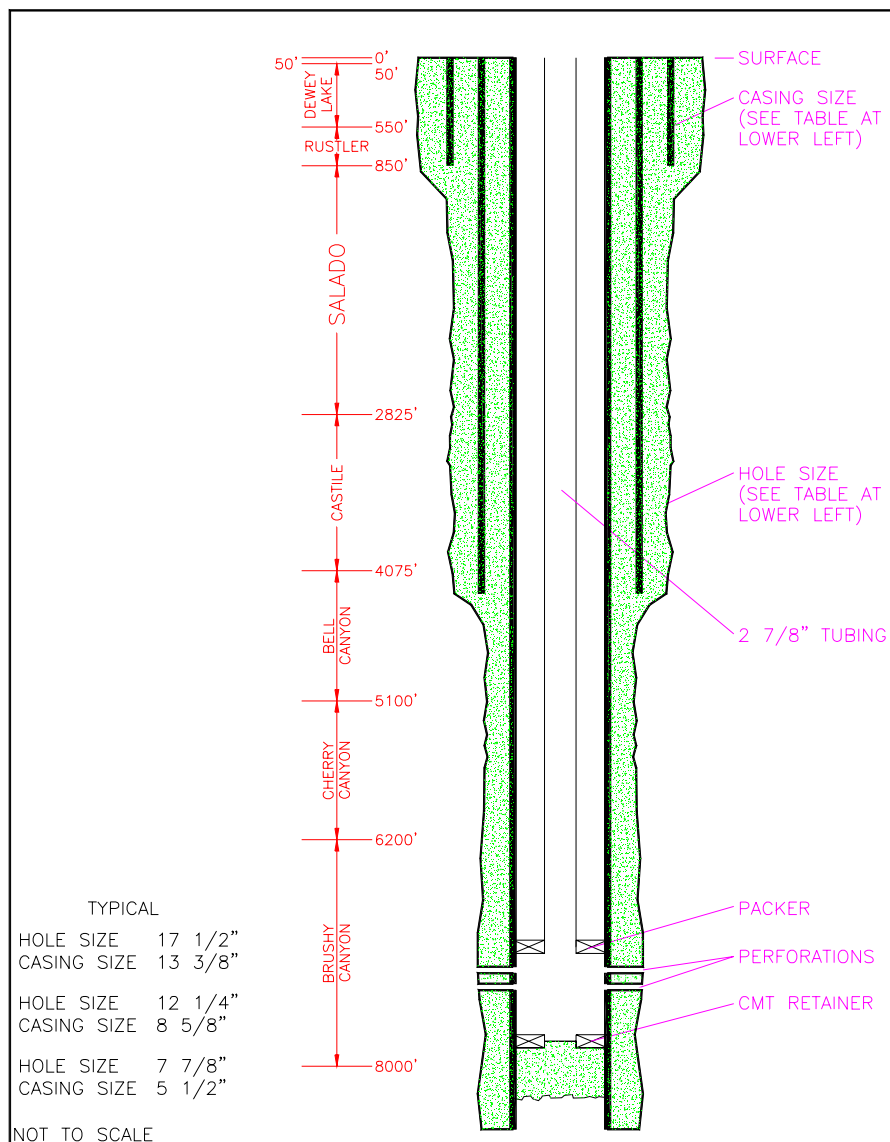


Figure 3
Typical Well Structure and General Stratigraphy Near the WIPP Site

In the early days of well drilling, the 12 1/4" bit was popular with rotary drill operators for the

surface section of the hole. In those days, the wells were much shallower and did not require the larger sections of casing. Most holes drilled at that time were a two-string (string refers to the different size of casing in the wellbore) hole versus the three- and four-strings commonly used now. In the area of the WIPP Site, regulations require a three-string hole making the larger bit sizes more popular. The typical hole and casing sizes for a three-string well in the vicinity of the WIPP Site are shown in Figure 3.

2.9 Secondary and Tertiary Recovery

Secondary recovery is defined by the oil industry as the first improved recovery method of any type applied to a reservoir to produce oil not recoverable by primary recovery methods. Water flooding is one such method. This method involves pumping water through the existing perforations in a well in which production has decreased sufficiently to merit stimulation. As the water is pumped into a formation, it stimulates production of oil or gas in other nearby wells. This is a proven method of recovering hydrocarbons that otherwise would be economically unretrievable. Water flooding has been a popular form of secondary recovery for over 40 years. Water flooding can be accomplished by one injection well or several injection wells in the immediate vicinity of other producing wells.

In the New Mexico portion of the Delaware Basin, there are three major water flood projects and several one and two injection well operations. One of the major waterflood projects in the area is the El Mar, located in T26S-R32E, on the Texas border. At one time, this project (currently operated by Quay Valley Inc.) had 31 permitted injection wells. Currently, there are only two wells actively injecting water. The remaining wells are either shut-in (not being used) or plugged and abandoned. The operation for this facility has not changed since last year. The Paduca water flood project, located in T25S-R32E, has 19 permitted injection wells with seven (down from eight this time last year) injecting water into the formation. The third major water flood project in this area (Indian Draw), located in T22S-R28E, is currently not injecting into the ten permitted wells.

Tertiary recovery is defined by the oil industry as the use of any improved recovery method to remove additional oil after secondary recovery. One method of tertiary recovery practiced in the industry, where conditions permit, is the injection of carbon dioxide (CO₂) into the formation. This consists of injecting a prescribed amount of CO₂ into the reservoir followed by an injection of water and a subsequent injection of CO₂. Although CO₂ can be injected continuously, it is not cost effective to implement this process. At the time of this report, there are no known CO₂ injection wells or tertiary recovery projects being operated in the vicinity of the WIPP Site, although several are being operated by oil companies in the Texas portion of the Delaware Basin.

2.9.1 Nine-Township Injection Wells

Secondary recovery projects occurring in the nine-township area are on a small scale. There are five injection wells located in the nine-township area surrounding the WIPP Site. Phillips

Petroleum operates two injection wells, James "A" #3 and #12, located in section 2-T22S-R30E, northwest of the site. Both are active and injecting near the maximum permitted pressure of 945 psi for #3 and 1,120 psi for #12. Both first injected water in the early 1990s. The other three injection wells are operated by Pogo Producing Company. The Neff Federal #3 is located in section 25-T22S-R31E. This well went on-line in 1995 and has injected approximately 2,850,700 barrels (2,097,154 barrels this time last year) of water at a maximum permitted pressure of 1,410 psi. The Pure Gold "B" Federal #20 (23S-31E-20) has injected 244,642 barrels to date. The other Pogo well (Prize Federal #4 located in 22S-32E-27) recently went on-line and no injection data has been reported at this time. All five wells are injecting into the Brushy Canyon Formation of the Delaware Mountain Group at approximately 7,200 feet.

2.9.2 Nine-Township Salt Water Disposal Wells

The most common type of injection well is for the disposal of brine water coming from the producing formation in oil and gas wells. Most producing oil and gas wells produce water along with oil or gas. Salt Water Disposal (SWD) wells have become necessary as a result of the EPA's ruling that formation water may no longer be disposed of on the surface. The oil companies now dispose of this water by injecting it into approved SWD wells.

There are currently 34 SWD wells, an increase of one over the last year, operated by 12 companies (14 companies in 2000) located in the nine-township area surrounding the WIPP Site. Two operators, Devon Energy and Pogo Producing, operate the majority of the SWD wells. Injection depths range from 3,800 to 8,200 feet. During the last year, all operated within their maximum permitted injection pressure. The volume of disposed brine water depends on the number of producing wells maintained by the operator in the immediate vicinity of the SWD well.

2.10 Pipeline Activity

Pipeline activity is monitored in the nine-township area, specifically within a five mile radius of the WIPP Site. Only pipelines of permanent construction, such as buried rigid metal pipelines, are of concern to the DBDSP. Many oil, gas, and SWD wells are connected to tank batteries by gathering systems constructed of poly flowlines (flexible plastic pipe) that may or may not be buried. These flowlines are semi-permanent. When they are no longer needed they are removed for use elsewhere. This type of pipeline activity is not monitored by the DBDSP. Metal pipeline activity is of interest because it will be around for a long time thus requiring the locations of these pipelines to be documented. Only natural gas and water pipelines are located within the immediate vicinity of the WIPP Site. The natural gas pipelines are owned and operated by three

companies, El Paso Natural Gas Company, Natural Gas Pipeline Company of America, and Transwestern Pipeline Company.

One type of pipeline activity of major concern to the DBDSP is CO₂ pipelines. A form of tertiary recovery of oil discussed previously involves the use of CO₂. An indicator of this form

of recovery would be the construction of a CO₂ pipeline in the area. Currently, there are no CO₂ pipelines within the New Mexico portion of the Delaware Basin. The nearest CO₂ pipeline is located south of the WIPP Site in the Texas portion of the Delaware Basin.

2.11 Mining

Resources found in the Delaware Basin that can be mined are potash, sulfur, caliche, gypsum, and halite. Potash and sulfur are present in quantities large enough to be mined profitably. Only caliche, of the other resources available, is economically extracted from the earth in conventional mining methods. Caliche is mainly used in the construction of pads for oil and gas well drilling rigs.

2.11.1 Potash Mining

Potash mining in the immediate vicinity of the WIPP Site continues as reported in Appendix DEL of the CCA. There have been several changes to the companies that operate in the area, most notably, only two potash mining companies remain in operation. No plans have been promulgated by either company to sink new shafts or encroach upon the potash reserves identified in Appendix DEL. Currently, these reserves are not economically recoverable.

In August 1996, Mississippi Potash (a subsidiary of Mississippi Chemical Corporation) purchased all the assets of New Mexico Potash Corporation and Eddy Potash, Inc. These plants were renamed Mississippi East and Mississippi North, respectively. December 1997 saw the Mississippi North plant shut down because it could no longer be economically operated. Mississippi Potash continues to produce potash fertilizer from both the east and west plant mines and refineries.

The other potash producer in the area, IMC Kalium Potash, is a wholly owned subsidiary of IMC Global. Western Ag-Minerals was purchased by IMC Global September 1997. This acquisition doubled the potash reserves for IMC Kalium and increased their other reserves by 30 percent. IMC Global merged with Freeport-McMoRan, a major world potash producer, December 1997 with IMC Global as the surviving entity in the transaction.

2.11.2 Sulfur Extraction

The only viable sulfur mining activity within the Delaware Basin was being conducted by Freeport-McMoRan Sulphur Inc., a wholly owned subsidiary of McMoRan Exploration Company. The mine is located in Culberson County, Texas. The mine recovered sulfur utilizing the Frasch process which consists of a hole drilled into the sulfur bearing formation and then

cased. The next step involves the placement of three concentric pipes within the protective casing to facilitate pumping superheated water down the hole, melting the sulfur, and recovering the molten sulfur to the surface. In June 1998, it was announced the mine would cease production September 1998 because it was no longer economically feasible to operate. Because of problems at other sulfur facilities, the Culberson mine was operated until it permanently ceased production on June 30, 1999. Abandonment and salvage operations continued until the early summer of 2000.

Recently, a number of sulfur exploration coreholes were found in the BLM records. These coreholes were drilled in the late 1960s through the early 1980s in the Yeso Hills near Washington Ranch in the far southwest corner of the New Mexico portion of the Delaware Basin. These coreholes have yet to be added to the databases. All were shallow (less than 2,150 feet) drilling events that were conducted for various small-time operators. There have been no reports on whether any of the holes encountered sufficient quantities of mineable sulfur.

2.11.3 Solution Mining

Solution mining is the process by which water is injected into a mineral formation, circulated to dissolve the mineral, and then the solution is pumped back to the surface where the minerals are precipitated out of the water, usually by evaporation. There are several brine mines or wells in the area (two in New Mexico and eight in Texas) that use this process to provide a brine solution for area drilling operators to use in the drilling process. These are all shallow wells using injected fresh water to dissolve the salt into a brine solution.

In early 1997, Mississippi Potash proposed to set up a pilot potash solution mining project at the former Eddy Potash mine located north of the WIPP Site and outside of the Delaware Basin. BLM was provided with all of the necessary documentation to acquire a permit to operate the pilot project, and if it shows merit, be considered a full blown project later. This project was put off until a later date. In March 2002, Mississippi Potash again applied for a permit to operate a pilot potash solution mining project. In May 2002, the project was given approval to proceed by the BLM though the project has not been started. If the project is initiated, it will be approximately three acres in size. Although this project is outside of the Delaware Basin, it will be closely followed because of its importance.

In the late 1960s, Conoco Minerals installed a pilot solution mining project on leases it held in the former AMAX property north of the WIPP Site. The project was designed to test solution mining of potassium minerals and consisted of one injection well and three withdrawal wells, but the potash ore zone was deemed too thin to make this method economically viable.

2.12 New Drilling Technology

New drilling methods are being researched by the DBDSP for impacts to the drilling methods currently used in the area. To date, no new methods of drilling have been identified or

implemented in the vicinity of the WIPP Site.

3.0 Survey of Well Operators for Drilling Information

Periodically a survey of local well operators is performed to acquire information on drilling practices normally not available on the Sundry notices supplied to the local state and federal offices by the operator or through commercial sources maintained by the DBDSP. There are no regulatory requirements to provide the information. This survey requests information on other items of interest to the WIPP such as hydrogen sulfide (H₂S) encounters, Castile Brine encounters, or if any section of the well was drilled with air. DBDSP personnel review the records on all new wells drilled to look for the above data. The survey provides an additional source of information on drilling activities in the New Mexico portion of the Delaware Basin.

The first such survey of area operators was performed July 1999 to acquire information on drilling practices not available from the state and federal offices or commercial sources. Drilling information was requested on the 16 wells drilled in the nine-township area of the New Mexico portion of the Delaware Basin. In July 2000, 45 surveys were sent out to nine different operators on wells their companies drilled in the nine-township area during that year (twelve surveys were returned). In July 2001, 44 surveys were sent out to nine different operators and no responses were received. This year, 27 surveys were mailed to three local operators. One operator returned five surveys on wells drilled by their company in the nine-township area. One of the surveys reported on a Castile Brine encounter as discussed in Section 2.6 of this report. To date, no responses have been received from the other two operators.

4.0 Summary - 2002 Delaware Basin Drilling Surveillance Program

Very little has changed since 1996 when the CCA was submitted to the EPA. Drilling practices continue to be the same, as do the methods for mineral extraction. The 2002 drilling rate is in a decline from previous years although the price of oil is relatively high. The potash mining activity has declined from five companies to two companies in recent years with several mines operated by these two companies ceasing active production.

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