

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF COG OPERATING LLC
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

Case No. 20923

**APPLICATION OF COG OPERATING LLC
FOR COMPULSORY POOLING,
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Case No. 20924

**APPLICATION OF COG OPERATING LLC
FOR COMPULSORY POOLING,
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Case No. 20925

**APPLICATION OF COG OPERATING LLC
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

Case No. 20926

CLOSING STATEMENT OF EOG RESOURCES INC.

For its Closing Argument, EOG Resources, Inc. (“EOG”), by and through its undersigned counsel of record, states:

I. *Introduction:*

In these cases, COG Operating LLC (“COG”) seeks to apply an unsavory aspect of forced pooling. For its own advantage, COG has delayed and seeks to destroy EOG’s drilling plans for 43 wells on acreage where EOG owns and controls 100% of its proposed spacing units for its Igor and Double ABJ drilling prospects. COG seeks to acquire, at no expense, fifty percent of its West Mastiff spacing unit and one-fourth of its East Mastiff spacing unit through the forced pooling of EOG’s owned and controlled acreage, without having any interest in the EOG acreage. By its applications, COG contravenes the Division’s horizontal rules, which, at NMAC 19.15.16.15 (A)(a), requires the “consent of at least one working interest owner or unleased mineral interest owner of each tract ... in which any part of the horizontal oil or gas well’s completed interval will be located...” Here, COG has no interest in the EOG acreage and has no agreement with or support from any working interest

owner therein. TR 47 (20-25); TR 48 (1). Furthermore, because COG owns no interest in EOG's acreage, it is unnecessary for EOG to bring its own compulsory pooling application against COG in order to fully develop the interests it owns or controls. Id. (2-5).

COG brought its applications for compulsory pooling under Part (A) (b) of the rule despite the existence of the JOA to which the Igor spacing unit is already committed. EOG's development plans for its Igor and Double ABJ spacing units did not commence as a response to COG's applications. Rather, EOG made preparations for its plan of development as follows:

December 12, 2018 – Surveying of EOG Surface Location initiated. See, C-102s attached to Exhibits 3f-3o.

August 7, 2019—Proposals to working interest owners for the Igor prospect. See EOG Exhibits 3a-3e. These exhibits include AFEs and C-102s for each of EOGs proposed wells.

August 12, 2019—Proposal to working interest owner for the Double ABJ wells. See EOG Exhibits 3f-3o.

August 2019—Submission of APDs to BLM commenced. TR 50 (1-3).

The foregoing timeline indicates that EOG had made plans ahead of COG's Mastiff applications. TR 61 (13-19). After its receipt of the applications, and in keeping with its plans to fully develop its own acreage, EOG notified COG of its intentions not to participate in the Mastiff well proposals. See EOG Exhibits 6 and 7 dated September 19, 2019.

II. ***Land Overview and Ownership***

EOG's proposed spacing units are:

A. The Igor Spacing Unit:

This spacing unit is composed of a single federal oil and gas lease bearing Serial No. NMNM-77063, and commits the W/2 of Sections 28 and 33, T23S, R32E, Lea County, New Mexico. This acreage is also controlled under a Joint Operating Agreement, in which EOG is the named operator,

and has long standing development plans of twenty wells with two-mile lateral lengths for the development of the Bone Spring and Wolfcamp formations. TR 45 (18-21).

Ownership of the Igor Spacing Unit is as follows: EOG—70%; OXY Y-1—30%. TR 45 (5-9). OXY Y-1 granted to EOG the right to represent its interests in the hearing of these cases. Therefore, COG's force pooling applications are objected to by 100% of the interests COG seeks to force pool. See, EOG Ex. 5, TR 46 (16-21); TR 54 (7-25). EOG stands ready, willing, and able to commence drilling operations under its Igor development plan, and were it not for COG's unwarranted interference and obstruction in this case and through its protest of EOG's drilling permits, EOG would likely have already begun development.

B. The Double ABJ Spacing Unit:

This spacing unit is composed of the SE/4 of Section 9, under federal oil and gas lease NMNM-55953, and the E/2 of Section 16, under State of New Mexico oil and gas lease VO-4095-5, both tracts located in T24S, R32E, Lea County, New Mexico. See Ex. 1 and TR 45 (24-25). EOG's proposed development plan call for the drilling of twenty-three wells with 1.5-mile lateral lengths for the development of the Bone Spring and Wolfcamp formations. See, Exhibits 3f-3o. Ownership of the SE/4 of Section 9, which interests COG seeks to force pool, is as follows: EOG—75%; Tom Jennings and First Roswell Company—25%. *Id.* Tom Jennings and First Roswell Company have committed their interest to EOG and plan to participate by signing EOG's Joint Operating Agreement. See EOG Ex. 4; TR 53 (12-25); TR 54 (1-6). As Tom Jennings and First Roswell supports EOG's planned development and object to their interests being force pooled by COG, COG's force pooling applications are objected to by 100% of the interests COG seeks to force pool. See, *Id.*

C. The Impact of COG's Applications:

EOG Exhibit 2 clearly shows the disastrous effect that COG's applications will have on EOG's development plans. The Igor spacing unit will be split in half, preventing EOG from exercising its rights and developing the acreage it lawfully controls and in which COG owns no interest. The Double ABJ spacing unit will be cut by one-third, further preventing EOG from exercising its lawful rights to develop its own acreage.

D. COG Ownership in the Igor and Double ABJ Spacing Units:

ZERO!

III. *Geological and Reservoir Quality Considerations.*

The geological presentations made by the parties through their respective geological experts do not present any controversy, nor were there any geological impediments to drilling in the area. TR 73, (1-21); TR74 (14-21). Importantly, there is no reason why COG cannot continue to drill its wells in Section 4 as one-mile laterals. TR 75 (9-11). However, the presence of COG's preexisting one-mile lateral Mastiff Fed 3H, affects the reservoir quality of their proposed two-mile pooling unit. This well, with the surface location in the NE/4NW/4 of Section 4 was completed in May of 2016 and cumulatively produced 194,650 barrels of oil, 397,487,000 standard cubic feet of gas, 475,990 barrels of water. EOG Ex. 10 pg. 10; TR 75 (21-24); TR 90 (21-24) . Surprisingly, COG was unable to offer any testimony about the correct age of the well, its production, or what effect such production would have on the surrounding reservoir pressure TR 36 (24-25; TR 37 (1); TR 39 (8-23) TR 40 (1-8). In contrast, EOG provided evidence that if COG's West Mastiff applications are approved, COG will commit significantly depleted acreage as to that producing interval. TR 84 (19-25), TR 85 (1); TR 90 (18-25), TR 91 (1-24). Within the COG proposed spacing unit, COG seeks to contribute acreage with drawn-down pressure while EOG would be forced to contribute acreage with virgin pressure. Id. See, page 10 of Exhibit 10 indicating a significant depletion across the center of Section 4, which concludes that "reservoir quality of depleted rock is not equivalent to that of undepleted rock." The

forced combination of COG's depleted acreage with EOG's virgin acreage is an inequitable balancing of the parties' correlative rights.

IV. *EOG's Analysis of Correlative Rights and Waste.*

EOG presented a comprehensive analysis of how COG's drilling plans would affect EOG's correlative rights, i.e., EOG's opportunity to recover its and its co-interest owners' fair share of oil and gas production from its proposed spacing units. Of equal and critical import, the analysis showed that if COG's applications are approved, oil and gas reserves in all of the target intervals will be left in the ground and not recovered—thereby causing waste.

Pages 17, 18 and 19 of EOG's Exhibit 10 show lost discounted net present value to working interest owners and lost barrel of oil equivalents if COG's applications are granted and COG develops EOG's assets. The ultimate conclusion of EOG's analysis, which was not refuted by COG, was as follows:

- **Lost Discounted Net Present Value to Working Interest Owners--\$165,830,000**
- **Unrecovered Barrel of Oil Equivalents—9,170,000 BOE**

These figures were derived through an economic comparison of COG and EOG operated wells normalized to two-mile laterals for geologic equivalents. Exhibit 10 has a series of graphs and calculations showing that EOG-operated wells out-perform COG wells over time. An excellent distinction is shown on page 15 of Exhibit 10 between EOG and COG operated 700 series (Wolfcamp) wells. Another contrast is exhibited on page 11 of Exhibit 10 which shows a considerable gap for 500 series (Second Bone Spring) wells.

Page 4 of Exhibit 10 shows yet another comparison for 200 series wells which, again, shows the superior production of the EOG operated wells. At TR 86 (3-120) EOG's engineering expert explains his method for graphing production and EOG's expectations for its development plans. The authorization for expenditures that were offered as exhibits by both companies reflect dramatically

higher drilling and completions costs (in some cases to the extent of several million dollars per well) for COG's planned wells that will create significant economic waste. An order granting COG's application and allowing COG to develop EOG's acreage will result in EOG and its working interest partners spending more money, and ultimately recovering less oil and gas, than if EOG is properly allowed to develop its own interests..

V. ***Conclusion.***

By filing these applications, COG is exploiting the use of compulsory pooling in an attempt to improve its current acreage position to the detriment of the force pooled parties. By contrast, EOG's development plan has the full support of all interest owners, and the only hindrances to EOG executing these plans are COG's pooling applications at issue here and its protest of EOG's pending Igor and Double ABJ APDs with the BLM. EOG's development plan is at a lower cost and maximizes production without impairing COG's correlative rights. COG's development plan does the exact opposite by impairing the correlative rights of all the force pooled parties, recovering less oil and gas from the force pooled acreage, and doing so at a much higher cost than if EOG is allowed to develop its own interests. COG can continue to drill one-mile laterals in the W/2 of Section 4 as it has already done. It can also drill 1.5 mile laterals in the E/2 of Section 4 and the NE/4 of Section 9 without interfering with EOG's planned developments.

The COG applications should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the forgoing Closing Argument was served to counsel of record by electronic mail this 9th day of March, 2020 as follows:

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