

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

**APPLICATION OF MEWBOURNE OIL COMPANY
TO REVOKE THE INJECTION AUTHORITY GRANTED
UNDER SWD-744 FOR THE WILLOW LAKE WELL NO. 1
OPERATED BY PYOTE WELL SERVICE, LLC,
EDDY COUNTY, NEW MEXICO.**

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CASE NO. 15519
ORDER NO. R-14300

JOINT OBJECTION TO MOTION TO STAY ORDER NO. R-14300

The applicant in this matter, Mewbourne Oil Company (“Mewbourne”), Oxy USA, Inc. (an operator of an offsetting producing well in the Bone Spring formation) and Kaiser-Francis Oil Company (an operator in the Bone Spring formation) jointly object to the request by David Baker, Bankruptcy Receiver “for the benefit of Pyote Water Solutions LLC and Pyote SWD II LLC,” to stay Division Order R-14300. This Order, entered after Examiners McMillan, Jones and Brooks received extensive evidence, requires the operator of the Willow Lake SWD “to cease disposal into this well prior to April 1, 2017.” Order R-14300 at p. 5, Ordering ¶(2). The Receiver’s Motion offers no evidence to overcome the Division findings resulting in this order. Further, the Motion does not meet the procedural requirements for a stay and fails to demonstrate the high threshold necessary for issuance of a stay. Finally, the current operator continues to ignore the operational and reporting failures that also support the Division’s order to shut-in this commercial disposal well.

A. The Recent Injection Profile Does Not Negate The Division's Findings That "Any Disposal Into The Bone Spring Formation Through Perforations In the Subject SWD Is Causing Waste."

At the Division hearing, Mewbourne presented evidenced that the First Bone Spring Sand, the Second Bone Spring Sand and the Harkey Sand are within the Willow Lake SWD permitted disposal zone and that disposal into the Bone Spring formation through this well is wasting recoverable oil. *See* Mewbourne hearing Exhibit 2 (type log for the Willow Lake SWD). This extensive evidence is summarized at pages 3 and 4 of Division Order R-14300 and includes demonstrated impacts on producing wells to the northeast and west of the Willow Lake SWD, the latter of which is operated by Oxy USA, Inc. Based on the evidence presented, the Division concluded the existing disposal "has most likely affected offsetting production," that the advent of horizontal drilling has made the Bone Spring formation "a viable target for development," and that *any disposal* into the Bone Spring formation is causing waste, including disposal into currently "undrilled sands":

(17) The record in this case indicates that disposal into a gross Bone Spring interval *has most likely affected offsetting production* in specific sands at least one mile away. The Division has in other cases found that injected fluids were capable of traveling distances over one mile or were at least affecting the formation pressure in wells at distances over one mile.

(18) Owners of oil and gas within the Bone Spring formation have made argument that this disposal is detrimental and wasteful. The weight of the evidence presented supports that this general area in Eddy County *is a viable target for development of the Bone Spring formation since the advent of horizontal drilling and improved completion practices in the Bone Spring formation.*

(19) The disposal interval into the Bone Spring formation as approved in Administrative Order SWD-744 is into a producing or productive interval. *Any disposal into the Bone Spring formation through perforations in the subject SWD well is causing waste of oil and associated gas in the surrounding wells and surrounding, undrilled sands.*

Order R-14300 at p. 5.

The mere fact that the Receiver has a recent Injection Profile indicating this harmful disposal has occurred and continues to occur at a depth of 7,184-7,224 feet does not rebut the

Division findings supporting its order to cease injection into the Bone Spring formation. Indeed, the Receiver's focus on this shallower interval of the Bone Spring formation fails to recognize that it includes the productive First Bone Spring Sand. *See* Mewbourne Exhibit 2 (type log); Mewbourne Ex. 4 (Bone Spring development map). Further, the Order is not dependent upon injection at any particular interval in the Bone Spring formation and concludes this existing injection "has most likely affected offsetting production in specific sands at least one mile away." *Id.* at ¶ (17).

In essence, whether or not the Willow Lake SWD has injected exclusively at a depth of 7,184-7,224 feet or some deeper interval in the Bone Spring formation has no bearing on the findings supporting Division's Order R-14300, nor does it provide any justification for a stay of that order. The fact remains the Division found that "any disposal into the Bone Spring formation through perforations in the subject SWD well is causing waste of oil and associated gas" in both drilled and "undrilled sands." *Id.* at ¶ (19). The Receiver's Motion offers nothing to clearly and indisputably rebut the findings supporting the Division's directive that the operator of the Willow Lake SWD cease injection into the Bone Spring formation by April 1st.

B. The Motion Fails To Meet The Procedural Requirements For A Stay And Fails To Demonstrate Any Gross Negative Consequences To Justify A Stay.

NMAC 19.15.4.23.B requires that a party requesting a stay of a Division order "shall attach a proposed stay order to the motion." The Receiver has not met this mandatory procedural requirement, thereby subjecting his motion to an immediate denial.

NMAC 19.15.4.23.B further provides that a stay of a Division order may be granted only if "the stay is necessary to prevent waste, protect correlative rights, protect public health and the environment or prevent gross negative consequences to any affected party." Offering no direct evidence on this requirement, the Receiver suggests "gross negative consequences" are "self-

evident” by the customers and “well operators (including Mewbourne and Oxy)” that will be affected by the Division’s order. See Motion at p. 2-3. However, three of these operators/customers -- Mewbourne (the applicant), Oxy U.S.A. and Kaiser Francis – appeared at the Division hearing to support ending disposal into the Bone Spring formation through this well. Order R-14300 at ¶ (7). These operators continue to oppose any stay of the Division’s order. Further, the witness offered by the Receiver testified that Matador, another operator of a nearby well, is concerned about the impact the Willow Lake SWD is having on Matador’s recently completed Tiger well:

- Q. Now, if I look at your Exhibit Number 12, that is the Tiger well?
- A. Yes.
- Q. And that's the well directly offsetting the disposal well to the northeast?
- A. Yes, sir.
- Q. It's a south half-south half lay-down well?
- A. Yes.
- Q. Okay. Which means the toe of that well is closer to the disposal well?
- A. I believe that's what I showed in Exhibit 17, yes.
- Q. Because it's oriented differently than the Stent well. And if I'm reading your Exhibit Number 12 correctly and I look at the water-to-oil ratio that shows that the water-to-oil ratio for the Tiger well is increasing, correct?
- A. I believe I testified that in the most recent couple of months, it shows an upward trend.
- Q. Okay. So both -- the two closest wells to the disposal well, one to the west and one into the northeast, are both showing increasing water-to-oil ratios?
- A. *I agree that the couple of -- most recent couple of months on the Tiger well show an increasing water-to-oil ratio, and like was testified to, Matador is concerned. I don't know that it's conclusive, but you can make some conclusions from that.*

Tr. 159-60.

In contrast not a single operator or customer appeared in opposition to Mewbourne’s application. *Id.* at ¶ (9). Not a single operator has come forth since the hearing to suggest it will be “grossly harmed” by the Division’s order halting injection into the Bone Spring formation through the Willow Lake SWD. The only point “self-evident” is that the Receiver stands alone

in suggesting the Willow Lake SWD should be allowed to continue its harmful injection while his de novo appeal is heard and decided by the Commission.

Further, Mewbourne has been discussing with Pyote the harmful effects confirmed by the Division's Order since January of 2016. The Receiver himself was informed of Mewbourne's Application and concerns at least by July 15, 2016. *See* Receiver's Motion for a Continuance (filed 8/19/16) at p. 2. Accordingly, the operator of the Willow Lake SWD has known about the potential shut-in of this disposal well for over eight months. The Division further provided the Receiver and the current operator an additional month "to notify all customers and to cease disposal into this well." Order R-14300 at ¶ (21). These customers provide no basis to allow harmful injection to continue unabated during the period of time necessary to hear and decide the de novo appeal to the Commission. Instead, waste and correlative rights are protected only if the Division's Order remains in effect while a de novo hearing is held and the Commission enters a final Order in this matter.

C. This Commercial SWD Continues To Ignore The Operational And Reporting Failures Also Supporting the Division's Shut-in Order.

In addition to the finding that "any disposal in the Bone Spring formation" through the Willow Lake SWD "is causing waste," the Order reflects the following:

(16) The receiver could not explain the inadequate reporting or abnormally low disposal pressures or verify that a pressure limiting device was installed near the well and operating to prevent disposal at pressures higher than allowed in the disposal permit.

R-14300 at p. 4. While the Receiver suggests the new operator, Cambrian, is "working diligently" to address "various regulatory shortcomings" associated with the Willow Lake SWD and other assets (Motion at p. 2, fn. 1), Division records still reflect that:

- It remains unknown whether the pressure limiting device required by the 1999 Administrative Order SWD-744 has been installed on this well;

- Actual injection pressures for the Willow Lake SWD remain unreported since Pyote became the operator in 2013; and
- Actual injection volumes for the Willow Lake SWD remain unreported since the Division hearing in September of 2016.

Enforcing regulatory requirements to prevent the waste of hydrocarbons and protect correlative rights does not amount to “gross negative consequences” for any regulated entity. The operator’s continued failure to meet the operational and reporting requirements for this commercial SWD provides yet another basis to deny the request for a stay of the shut-in order.

WHEREFORE, Mewbourne, Oxy and Kaiser Francis request that the Division Director deny the motion to stay Division Order R-14300.

Respectfully submitted,

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