

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

**APPLICATION OF BTA OIL PRODUCERS, LLC TO
RESCIND APPROVAL OF FOUR APPLICATIONS FOR
PERMITS TO DRILL ISSUED TO TEXAS STANDARD
OPERATING NM LLC, LEA COUNTY, NEW MEXICO.**

CASE NO. 23426

PRE-HEARING STATEMENT

BTA Oil Producers, LLC (“BTA” or “Applicant”) submits its Pre-Hearing Statement pursuant to the rules of the Oil Conservation Division (“Division”).

APPLICANT

BTA Oil Producers, LLC

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OPPONENT

Texas Standard Operating NM LLC

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STATEMENT OF THE CASE

BTA seeks an order rescinding approval of Applications for Permits to Drill (“APDs”) that were recently submitted by Texas Standard Operating NM LLC (“TSO”) for the TSO State 9-16 No. 1H (API #30-025-51106), State 9-16 State No. 2H (API #30-025-51128), State 9-16 No. 3H (API #30-025-51129), and State 9-16 No. 4H (API #30-025-51130) wells (“TSO Wells”). The TSO Wells are located in the W/2 of Section 16 and the SW/4 of Section 9, Township 17 South,

Range 36 East and traverse the N/2 NW/4 of Section 21, Township 17 South, Range 36 East, which is included within BTA's Vindicator Canyon State Exploratory Unit ("Unit"). TSO's proposed well locations interfere with BTA's ability to efficiently develop the Unit and thereby violate BTA's correlative rights and result in waste. In addition, TSO does not have the right to drill its wells because there is not a valid state lease for the SW/4 of Section 9, which is included in TSO's spacing unit, and TSO's APDs do not comply with the requirements of the pooling order (Order No. R-22435) that TSO acquired for this acreage in Case No. 23005.

The Division has "jurisdiction, authority, and control over all persons, matters, or things necessary or proper to enforce effectively the provisions of [the Oil and Gas Act] . . ." NMSA 1978, § 70-2-6. The Oil and Gas Act delegates to the Division authority to issue orders that "require wells to be drilled, operated and produced in such manner as to prevent injury to neighboring leases or properties," NMSA 1978, § 70-2-12(B)(7), as well as to prevent waste and protect correlative rights, NMSA 1978, § 70-2-11.

On January 26, 2021, the Division issued Order No. R-21572 approving the Unit consisting of 6,000 acres of State land located in Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico. The unitized interval is the Canyon formation, at the stratigraphic equivalent of the interval between 11,678 feet and 12,202 feet. Manzano LLC ("Manzano") was designated as operator of the Unit.

On April 29, 2021, the Division entered Order R-21572-A, approving the addition of 960-acres of State lands to the Unit. The expanded unit encompassed the following 6,960 acres, more or less, of State lands in Lea County:

TOWNSHIP 17 SOUTH, RANGE 36 EAST, N.M.P.M.
Section 14: SW/4
Section 15: All
Section 20: All

Section 22: All
Section 23: S/2, NW/4
Section 26: All
Section 27: All
Section 28: All
Section 29: All
Section 30: E/2
Section 31: E/2, NE/4
Section 32: N/2, SW/4
Section 33: NE/4
Section 34: E/2 E/2
Section 35: All

In Case No. 22668, Manzano filed an application with the Division to amend Order No. R-21572-A to remove the E/2 of Section 30 and the E/2 NE/4 of Section 31 from the Unit and include all of Section 21 in the Unit. Manzano's application was approved, resulting in a 240-acre net expansion of the geographic area of the Unit. BTA assumed operatorship of the Unit effective October 13, 2022. The New Mexico State Land Office ("NMSLO") granted final approval of the Unit expansion on January 24, 2023, and BTA submitted its annual proposed Plan of Development to the NMSLO on February 20, 2023. BTA's Plan of Development seeks to efficiently develop the Unit for the benefit of the interest owners and the State. BTA intends to complete numerous wells within the Unit, including the Vindicator Canyon State Unit 317H and 318H ("BTA Wells"), which will have surface hole locations in the N/2 NW/4 of Section 21 and will be drilled from North to South to produce from the Pennsylvanian Shale formation.

The TSO Wells have surface locations in the N/2 NW/4 of Section 21, and the laterals will be drilled through the Unit and the unitized formation to reach the Pennsylvanian Shale formation within the W/2 of Section 16 and SW/4 of Section 9. The surface locations for the TSO wells are situated approximately 880 feet from the surface location for the BTA Wells. Although the TSO Wells will not produce from the N/2 NW/4 of Section 21, the location of the TSO surface facilities

and laterals will interfere with the BTA Wells and with BTA's ability to efficiently develop the Unit, including by creating a collision risk. In this regard, TSO's proposed wells and surface locations violate BTA's correlative rights and will result in waste.

TSO also does not have the right to drill the wells as they have been permitted. The SW/4 of Section 9, Township 17 South, Range 36 East, which is included within TSO's proposed spacing unit, consists of unleased state acreage that is not subject to TSO's pooling order in Case No. 23005. Because the acreage is unleased, the party who may acquire the lease, as well as the working interest owners, have not received notice of pooling as required by the Division's adjudication rule, NMAC 19.15.4.12(A)(1).

Further, Order No. R-22435 granted TSO pooling authorization for the State 9-16 No. 1H well to be drilled at a location 1330' FWL of Sections 9 and 16 and designated the well as a proximity tract well (*i.e.* a well located within 330' of the quarter-quarter section line), which was necessary for TSO to pool a 480-acre horizontal spacing unit. Without a proximity tract well, TSO would have needed to pool two separate 240-acre spacing units or seek approval of a non-standard spacing unit under the Division's regulations.¹ TSO subsequently obtained permits for the 1H-4H wells to be drilled 2310 FWL, 1650 FWL, 990 FWL and 330 FWL of Section 9 and 16. As a result, TSO has not permitted the State 9-16 No. 1H well as a proximity tract well and its pooling order approving a 480-acre standard spacing unit is invalid. As a result, TSO does not have the right to drill its wells on the subject acreage and its APDs should be rescinded.

¹ See NMAC 19.15.16.15(B)(1)(b) ("In addition to tracts the horizontal oil well penetrates, the operator may include quarter-quarter sections or equivalent tracts in the standard horizontal spacing unit that are located within 330 feet of the proposed horizontal oil well's completed interval (measured along a line perpendicular to the proposed completed interval or its tangent)")

STATEMENT OF UNDISPUTED MATERIAL FACTS

1. BTA seeks an order rescinding approval of APDs that were submitted for the TSO State 9-16 No. 1H (API #30-025-51106), State 9-16 State No. 2H (API #30-025-51128), State 9-16 No. 3H (API #30-025-51129), and State 9-16 No. 4H (API #30-025-51130) wells. The TSO Wells are located in the W/2 of Section 16 and the SW/4 of Section 9, Township 17 South, Range 36 East and traverse the N/2 NW/4 of Section 21, Township 17 South, Range 36 East, which is included within BTA's Vindicator Canyon State Exploratory Unit.

2. On January 26, 2021, the Division issued Order No. R-21572, approving the Unit, consisting of 6,000 acres of State land located in Township 17 South, Range 36 East, N.M.P.M. Lea County, New Mexico. The unitized interval is the Canyon formation, at the stratigraphic equivalent of the interval between 11,678 feet and 12,202 feet as found on the sonic log for the Deep Sparkling Muddler 15 State #1 well (API No. 30-025-22194) in Section 15, Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico. Manzano was designated as operator of the Unit.

3. On April 29, 2021, the Division entered Order R-21572-A approving the addition of 960-acres of State lands to the Unit.

4. In Case No. 22668, Manzano filed an application with the Division to amend Order No. R-21572-A to remove the E/2 of Section 30 and the E/2 NE/4 of Section 31 from the Unit and include the entirety of Section 21 in the Unit. On July 26, 2022, the Division issued Order R-21572-B approving Manzano's application. As a result, the Unit currently includes the following 7,200 acres, more or less, of state lands in Lea County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 36 EAST, N.M.P.M.
Section 14: SW/4
Section 15: All
Section 20: All

- Section 21: All
- Section 22: All
- Section 23: S/2, NW/4
- Section 26: All
- Section 27: All
- Section 28: All
- Section 29: All
- Section 32: N/2, SW/4
- Section 33: NE/4
- Section 34: E/2 E/2
- Section 35: All.

Manzano was designated operator of the Unit.

5. BTA assumed operatorship of the Unit effective October 13, 2022.
6. The NMSLO issued final approval of the Unit expansion on January 24, 2023.
7. BTA submitted its annual proposed Plan of Development to the NMSLO on February 20, 2023.
8. BTA intends to complete numerous wells within the Unit, including the Vindicator Canyon State Unit 317H and 318H, which will have surface hole locations in the N/2 NW/4 of Section 21 and will be drilled from North to South to produce from the Pennsylvanian Shale formation.
9. In Case No. 23005, TSO sought an order pooling all uncommitted interests in the Upper Penn Shale formation, in a 480-acre standard horizontal spacing unit underlying the SW/4 of Section 9 and the W/2 of Section 16, Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico. On December 5, 2022, the Division issued Order No. R-22435 granting TSO's application.
10. Order No. R-22435 granted TSO pooling authorization for the State 9-16 No. 1H 1H well to be drilled 1330' FWL of Sections 9 and 16 and designated the well as a proximity tract well that would hold the 480-acre standard spacing unit.

11. TSO subsequently obtained approval of its APDs, which show that the TSO Wells have surface locations in the N/2 NW/4 of Section 21. The laterals will be drilled through the Unit and the unitized formation to reach the Pennsylvanian Shale formation within the W/2 of Section 16 and SW/4 of Section 9.

12. As permitted, the State 9-16 No. 1H well is not located within 330' of the quarter-quarter section line and does not satisfy the Division's requirement for a proximity tract well.

13. The surface locations for the TSO wells are situated approximately 880 feet from the surface location for the BTA Wells.

14. Lease No. B0-9042-1 (comprised of the SW/4 of Section 9), which is included within TSO's proposed horizontal spacing unit, terminated on November 28, 2022.

STATEMENT OF DISPUTED MATERIAL FACTS

1. Whether TSO's proposed well locations interfere with BTA's ability to efficiently develop the Unit and thereby violate BTA's correlative rights and result in waste.

2. Whether TSO's proposed surface facilities interfere with BTA's ability to efficiently develop the Unit and thereby violate BTA's correlative rights and result in waste.

3. Whether TSO has the right to drill its wells on the subject acreage when Lease No. B0-9042-1 has expired.

4. Whether TSO's APDs are valid after the expiration of Lease No. B0-9042-1.

5. Whether TSO's APDs are valid when TSO failed to permit the proximity tract well approved in Order No. R-22435.

6. Whether TSO's pooling order, Order No. R-22435, is valid when Lease No. B0-9042-1 has expired.

7. Whether TSO's pooling order, Order No. R-22435, is valid when TSO failed to permit the proximity tract well approved in the order.

PROPOSED EVIDENCE

Witness	Occupation	Estimated Time	Exhibits
Alex Beal	Landman	30 minutes	13
David Childers	Geologist	15 minutes	2
Nick Eaton	Engineer	20 minutes	1

PROCEDURAL MATTERS

BTA reserves the right to call rebuttal witness(es) if appropriate. In accordance with the Pre-Hearing Order, copies of the exhibits that BTA proposes to offer in evidence at the hearing are being filed contemporaneously with this pre-hearing statement.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on May 12, 2023, I served a true and correct copy of the foregoing pleading on the following counsel of record by electronic mail:

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State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
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QUESTIONS
 Action 216609

QUESTIONS

Operator: BTA OIL PRODUCERS, LLC 104 S Pecos Midland, TX 79701	OGRID: 260297
	Action Number: 216609
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	3
Testimony time (in minutes)	48