

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

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

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

Case No. 23426

TEXAS STANDARD OPERATING NM LLC'S
PROPOSED FINDINGS AND CONCLUSIONS

The following proposed findings and conclusions are submitted by Texas Standard Operating NM LLC ("Texas Standard") as requested by the Oil Conservation Division.

A. INTRODUCTION.

1. Texas Standard seeks to drill its State 9-16 Well Nos. 1H, 2H, 3H, and 4H to test the Upper Penn formation in horizontal well units collectively comprised of the SW/4 of Section 9 and the W/2 of Section 16, Township 17 South, Range 36 East, NMPM (the "State 9-16 Wells"). **Texas Standard Ex. 1.** APDs for these wells were approved by the Division on February 27, 2023. **BTA Ex. A-9.** BTA knew shortly thereafter that the APDs had been approved. **Hearing Transcript ("Tr.") at 204.**

2. The surface locations for the proposed State 9-16 Wells are in the N/2NW/4 of adjoining Section 21, of which the surface estate is owned in fee. **Texas Standard Ex. 1B; Tr. at 205.** Texas Standard has a surface use agreement with the surface estate owner of the N/2NW/4 of Section 21. **Texas Standard Ex. 1 and 1B.**

3. Texas Standard has two surface locations for its wells, one in the NE/4NW/4 of Section 21 for Well Nos. 1 and 2, and one in the NW/4NW/4 of Section 21 for Well Nos. 3 and 4. **Texas Standard Ex. 1C.** The wells will be drilled northward from Section 21, and will not be perforated in Section 21. They will test the Upper Penn formation. **Texas Standard Ex. 2.**

4. BTA Oil Producers, LLC (“BTA”) proposes to drill its Vindicator Canyon State Unit Well Nos. 317H and 318H in (collectively) the W/2 of Section 21 and the W/2 of Section 28, Range 36 East, NMPM to test the Penn formation (the “317H and 318H Wells”). **BTA Ex. A.**

These wells are in the BTA-operated Vindicator Canyon State Exploratory Unit (the “Unit”). **Id.**

5. The surface locations for the proposed 317H and 318H Wells are in the N/2NW/4 of Section 21. BTA also has a surface use agreement with the surface estate owner of the N/2NW/4 of Section 21. The wells will be drilled southward from Section 21. They will test the Lower Penn formation. **Id.; Texas Standard Ex. 2.**

6. BTA also operates the existing Turner Well Nos. 1 and 2, located in the N/2NW/4 of Section 21. They are vertical wells completed in the shallower Abo and San Andres formations. Texas Standard’s surface locations are approximately 300 feet from the locations of these wells. **See BTA Ex. A-11.**

7. The mineral estate of the lands involved in this case is owned by the State of New Mexico, and are or were covered by oil and gas leases issued by the State Land Office (“SLO”). The NW/4 of Section 21 is currently inside the Unit’s boundaries. **BTA Ex. A-10.**

8. In this case BTA seeks an order from the Division rescinding Texas Standard's APDs for the State 9-16 Wells. BTA asserts that these wells will interfere with its development of the Unit. **BTA Ex. A-2.** Texas Standard disagrees, and requests that the application be denied.

B. TEXAS STANDARD'S WELLS.

9. Texas Standard originally proposed a proximity tract well unit which included the SW/4 of Section 9, the W/2 of Section 16, and the NW/4 of Section 21, and filed a compulsory pooling application on that land. BTA objected, because it wanted to include the NW/4 of Section 21 in the Unit. To accommodate BTA, Texas Standard dropped its pooling application and changed its well units to include only the SW/4 of Section 9 and the W/2 of Section 16. **Tr. at 215, 273-274; Texas Standard Ex. 1.**

10. Texas Standard will not drill its wells farther north than the SW/4 of Section 9 because there is faulting in the N/2 of Section 9. Also, due to the faulting it cannot place its surface locations in Section 9. That would cause massive drilling problems. **Tr. at 316.**

11. Texas Standard filed a proximity tract compulsory pooling application (Case No. 23005) in August 2022 on the SW/4 of Section 9 and the W/2 of Section 16. The hearing was held in September 2022, and Order No. R-22435 was subsequently issued. **Tr. at 286-287; BTA Ex. A-8.**

12. In November 2022 the SLO issued a letter canceling the oil and gas lease covering the SW/4 of Section 9. Texas Standard appealed the cancellation within the SLO. During this period Texas Standard acquired that lease from the lessee (who had been pooled), which negated the need for the pooling order. That also meant that Texas Standard need not drill the proximity well described in the pooling order; it may locate its wells as it sees fit. **Tr. at 274.**

13. The SLO upheld the lease termination on the SW/4 of Section 9 near the hearing date. Therefore, in order to drill the well units for the State 9-16 Wells into Section 9 a new lease must be issued on that acreage. Or, Texas Standard may drill 1 mile laterals in the W/2 of Section 16 by amending its APDs; no further action is needed. **Tr. at 272.**

C. BTA'S WELLS.

14. BTA initially proposed that the 317H and 318H be drilled from Section 28 northward in to Section 21. APDs for those plans were approved by the Division on February 27, 2023. **Texas Standard Exs. A-1 to A-4.**

15. BTA subsequently changed plans to drill the wells from locations in the N/2NW/4 of Section 21 southward. APDs for these wells were approved by the Division on May 10, 2023, after BTA knew of Texas Standard's planned locations. **Texas Standard Exs. B-1 and B-2; Tr. at 204.**

15. The 317H and 318H Wells were not in the SLO-approved Plan of Development for the Unit for 2023. BTA, by its testimony at the hearing, now plans on drilling the wells in late 2023. **Tr. at 214, 219.**

D. BTA'S CLAIMS.

16. BTA presented testimony and evidence regarding its claims that Texas Standard's proposed operations will interfere with its development of the Unit as follows:

(a) Canceled Lease and Proximity Tract Well: Because of the cancellation of the lease on the SW/4 of Section 9, Texas Standard cannot drill into Section 9. **BTA Ex. 1.**

Also, because of the pooling order, Texas Standard must drill a proximity tract well, and its current APDs do not reflect such a well. **Tr. at 194, 204.**

(b) Interference with Surface Facilities: Texas Standard did not inform BTA about its APDs. Texas Standard's wells will interfere with BTA's surface facilities, including BTA's existing and proposed SWD lines, and roads, for both its vertical and horizontal wells. **Tr. at 205.**

(c) Formation Damage: Texas Standard's drilling plans will cause formation damage which will adversely affect BTA's wells. **Tr. at 228-229; BTA Ex. B.**

(d) Collision Risk: There is a collision risk due Texas Standard's wells being too close to both its vertical and horizontal wells. **BTA Ex. C.**

Also, Texas Standard can drill from surface locations in Section 16 and back-build to achieve its desired first take points in Section 16. **Tr. at 239.**

(e) Fracing Issues: BTA asserted that there is a fracing risk during well completion. **Tr. at 240.**

(f) Irregular Units: If Texas Standard's locations are approved, BTA must drill "irregular units." **Tr. at 227; BTA Ex. 2.**

E. TEXAS STANDARD'S RESPONSE.

17. Texas presented testimony and evidence countering BTA's claims, as follows:

(a) Canceled Lease and Proximity Tract Well: Texas Standard testified that it cannot drill on an unleased state tract. If it cannot lease the SW/4 of Section 9 or come to agreement with a new lessee, it will either pool the well units anew or drill one mile laterals in Section 16. Even if BTA had standing to raise this issue, it does not affect BTA in the slightest. Either way, Texas Standard still needs surface locations in the N/2NW/4 of Section 21. **Tr. at 272, 284-285.**

As to drilling the proximity tract well, the pooling order is now ineffective. Therefore Texas Standard can locate its wells without regard to the pooling order. **Id.**

(b) Interference with BTA's surface facilities: Texas Standard placed its wells a sufficient distance from BTA's wells to avoid problems. It knew nothing of BTA's planned facilities until the hearing. **Tr. at 280.** In fact, after Texas Standard's well locations were known, it appears that BTA planned its surface facilities so that they would cross through the heart of Texas Standard's well pads. **BTA Ex. A-11.** That plat is dated May 2023. BTA has plenty of room to move its surface facilities without interfering with Texas Standard's plans. **Tr. at 277.** BTA admitted it had the leeway to change the locations of its facilities. **Tr. at 216.**

BTA complained that Texas Standard did not inform BTA of its APDs. **Tr. at 205.** Likewise, BTA did not inform Texas Standard of its new proposed surface facilities, or its changes to its wells' surface locations. **Tr. at 214.** It seems these plans were only promulgated after BTA learned of Texas Standard's APDs. **Tr. at 292.**

As to locations of facilities, Texas Standard is willing to work with BTA, but BTA has expressed no interest in such cooperation. **Tr. at 291-292.** Texas Standard is aware of BTA's development plans in its Unit, and will drill its wells so as not to interfere with BTA's proposed operations. Likewise, if Texas Standard is willing to move facilities, it is only reasonable for BTA to do the same. **Tr. at 316.** Neither party has an exclusive right to use the surface.

BTA also complains of excessive surface disturbance and inefficiency. **Tr. at 207-208.** This is also a non-issue, because BTA does not own the surface nor does it have

exclusive rights to use thereof. Only the surface owner has standing to assert such claims, and the owner is conspicuously absent from this proceeding.

(c) Formation Damage: BTA admitted that permeability in the Penn is very low, in the nanodarcy range. **Tr. at 230.** Thus any effects from Texas Standard drilling in the Penn in Section 21 will only extend at most a few feet. **Tr. at 231.** There will be no infiltration of cement or drilling fluid that will affect BTA's wells. **Tr. at 303.**

There is "no chance" of formation damage from Texas Standard's wells. **Tr. at 303, 327.**

(d) Collision Risk: Texas Standard's well locations are about 300 feet from the Turner wells, and 850 or 1300 feet from the 317H and 318H Wells. **Tr. at 205.**

As to the Turner wells, they are shallower and will not be harmed by Texas Standard's deeper wells. In addition, Texas Standard is willing to revise its drilling plans to avoid the vertical holes, either by drilling under them or to the sides of them. Finally, drilling through depleted reservoirs is a common occurrence which is easily resolved by proper planning. **Tr. at 302, 325-326.**

As to the horizontal wells, there is substantial separation of the surface locations of all the horizontal wells, as noted above. And, the vertical separation of the Upper Penn and Lower Penn is approximately 400 feet. **Tr. at 296, 310.**

Texas Standard's drilling engineer, who has 42 years of experience, including offshore drilling, testified that offshore rigs drill 16-20 wells from one rig, and it is common practice to avoid other nearby wellbores. Onshore, it is common to have up to 8 wells drilled from common surface facilities, and the risks can be managed. **Tr. at 288-289, 298, 301.**

Texas Standard has prepared Anti-Collision reports to assess the risk of drilling near the 317H and 318H Wells, and the chance of a collision is minimal. **Texas Standard Exs. 2C and 2D; Tr. at 299.** Current technology is available to prevent collisions in cases such as this. **Texas Standard Ex. 2; Tr. at 298-299.**

There is no fracing risk. The first operator to complete a well will have to set a plug and pressurize while the subsequent well is completed. **Tr. at 315.** Texas Standard is willing to do so.

Texas Standard has no intent to harm BTA's wellbores, much less its own. **Tr. at 299.**

Texas Standard chose its locations to maximize the productive interval of its proposed wells. Back-building will reduce the productive interval of Texas Standard's wells by 400-500 feet, which would severely affect economics. **Tr. at 293, 295, 298, 315.**

(f) Irregular units: BTA stated that if Texas Standard's well locations are not moved, it will have to drill "irregular" well units. **Tr. at 225.** Under questioning, BTA's witness could not explain what an irregular unit was, or why or how this would occur. BTA's well units will remain the same regardless of Texas Standard's wellbores. **Tr. at 227-228.** Again, this is a non-issue.

18. Texas Standard testified that it is more than willing to take reasonable steps to mitigate BTA's concerns, including moving some surface facilities and paying for that, taking more rigorous subsurface surveys, shutting in wells during completion operations, *etc.* BTA has not agreed to discuss these issues with Texas Standard. **Tr. at 246-248, 290-292, 295, 302, 319, 324.**

F. CONCLUSIONS.

19. Texas Standard and BTA have equal rights to use the surface of the N/2NW/4 of Section 21 for their proposed operations. Surface issues should be resolved by discussions among the operators.

20. Both operators are concerned with protecting the integrity of their wellbores, and the parties have adequate ability to do so.

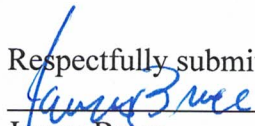
21. The horizontal and vertical distances between the existing and proposed wellbores is sufficient, with current technology, to avoid collision.

22. Due to its shorter laterals, Texas Standard must take reasonable steps to maximize the productive interval of its wellbores, and thus locations in Section 21 are necessary.

23. There has been an insufficient showing by BTA that wellbore collisions or formation damage will occur, or that surface issues cannot be resolved.

24. BTA's application should be denied.

Respectfully submitted,



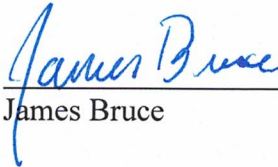
James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Texas Standard Operating NM
LLC

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 14th day of July, 2023 by e-mail:

- Dana Hardy - dhardy@hinklelawfirm.com
- Jaclyn McLean - JMcLean@hinklelawfirm.com
- Yarithza Pena - ypena@hinklelawfirm.com



James Bruce