

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

**APPLICATION OF SPUR ENERGY
PARTNERS LLC FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO**

CASE NO. 23872

**AMENDED APPLICATION OF RILEY PERMIAN
OPERATING LLC FOR A HORIZONTAL SPACING
UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO**

CASE NO. 24093

SPUR ENERGY PARTNERS LLC'S PRE-HEARING STATEMENT

Spur Energy Partners LLC ("Spur") submits its Pre-Hearing Statement pursuant to the rules of the Oil Conservation Division.

APPLICANT

Spur Energy Partners, LLC

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OPPOSING PARTY

Riley Permian Operating, LLC

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STATEMENT OF THE CASE

In these cases, Spur and Riley Permian Operating Company (“Riley”) propose competing development plans that overlap in the N/2 of Section 10, Township 18 South, Range 27 East in Eddy County. Spur’s development plan is preferable to Riley’s for many reasons, including that it will effectively produce the underlying reserves while Riley’s proposed plan will result in waste by stranding acreage and inhibiting further development. Spur has far more experience drilling, completing, and operating wells in this area, has worked with the BLM regarding surface operations, and negotiated with Riley in good faith prior to pooling. Spur’s proposed development plan also reduces surface and environmental waste and is more cost-effective than Riley’s proposed plan. Accordingly, Spur’s application will best prevent waste and protect correlative rights and should be granted.

In Case No. 23872, Spur applies for an order pooling all uncommitted interests within the Yeso formation underlying a 320-acre, more or less, standard horizontal spacing unit comprised of the N/2 of Section 10, Township 18 South, Range 27 East, Eddy County, New Mexico (“Unit”). The Unit will be dedicated to the following wells: Red Skies 10 Federal Com 10H and Red Skies 10 Federal Com 50H wells, to be drilled from surface hole locations in the NW/4 NW/4 (Unit D) of Section 11 to bottom hole locations in the NW/4 NW/4 (Unit D) of Section 10; and Red Skies 10 Federal Com 11H, Red Skies 10 Federal Com 51H, and Red Skies 10 Federal Com 12H wells, to be drilled from surface hole locations in the SW/4 NW/4 (Unit E) of Section 11 to bottom hole locations in the SW/4 NW/4 (Unit E) of Section 10. The completed intervals of the wells will be orthodox, and the completed interval of the Red Skies 10 Federal Com 11H well will be located within 330’ of the quarter-quarter section line separating the N/2 N/2 and S/2 N/2 of Section 10 to allow for the creation of a 320-acre standard horizontal spacing unit.

In Case No. 24093, Riley seeks an order: (1) creating a 400-acre, more or less, standard horizontal spacing unit composed of the N/2 of Section 10 and the W/2NW/4 of Section 11, Township 18 South, Range 27 East, Eddy County, New Mexico, and (2) an order pooling all uncommitted mineral interests in the Yeso Formation. Riley proposes to dedicate the unit to the Walter 182710111 #11H and Walter 182710111 #22H Wells, which will be horizontally drilled from a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 9 to a bottom hole location in the Yeso Formation in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11; and the Walter 182710111 #13H, Walter 182710111 #15H, and Walter 182710111 #24H, which will be horizontally drilled from a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 9 to a bottom hole location in the Yeso Formation in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11. The completed intervals of the wells will be orthodox, and the Walter 182710111 #24 well is less than 330' from the adjacent tracts.

In evaluating competing development plants, the Division considers the following:

- (a) A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property;
- (b) A comparison of the risk associated with the parties' respective proposal for the exploration and development of the property;
- (c) A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort;
- (d) a comparison of the ability of each party to prudently operate the property and, thereby, prevent waste;
- (e) A comparison of the differences in well cost estimates (AFEs) and other operational costs presented by each party for their respective proposals;
- (f) An evaluation of the mineral interest ownership held by each party at the time the application was heard; and

(g) A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").¹

As demonstrated by Spur's testimony and exhibits and the undisputed facts set out below, these factors weigh in Spur's favor. As a result, Spur's application should be approved and Riley's application should be denied.

STATEMENT OF UNDISPUTED MATERIAL FACTS

1. Spur seeks an order pooling all uncommitted mineral interests within the Yeso formation underlying a 320-acre, more or less, standard horizontal spacing unit comprised of the N/2 of Section 10, Township 18 South, Range 27 East, Eddy County, New Mexico.

2. Spur's Unit will be dedicated to the following wells, which will be completed in the Red Lake, Glorieta Yeso Pool (Code 51120): **Red Skies 10 Federal Com 10H** and **Red Skies 10 Federal Com 50H** wells, to be drilled from surface hole locations in the NW/4 NW/4 (Unit D) of Section 11 to bottom hole locations in the NW/4 NW/4 (Unit D) of Section 10; and **Red Skies 10 Federal Com 11H**, **Red Skies 10 Federal Com 51H**, and **Red Skies 10 Federal Com 12H** wells, to be drilled from surface hole locations in the SW/4 NW/4 (Unit E) of Section 11 to bottom hole locations in the SW/4 NW/4 (Unit E) of Section 10.

3. The completed intervals of the Red Skies Wells will be orthodox.

4. The completed interval of the Red Skies 10 Federal Com 11H well will be located within 330' of the quarter-quarter section line separating the N/2 N/2 and S/2 N/2 of Section 10 to allow for the creation of a 320-acre standard horizontal spacing unit.

5. Riley seeks an order pooling a 400-acre horizontal spacing unit comprised of the N/2 of Section 10 and the W/2 NW/4 of Section 11, Township 18 South, Range 27 East. Riley proposes to dedicate the unit to the Walter 182710111 #11H and Walter 182710111 #22H Wells,

¹ See, e.g., Order Nos. R-20223, R-21416-A, R-14518, R-14847.

which will be horizontally drilled from a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 9 to a bottom hole location in the Yeso Formation in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11; and the Walter 182710111 #13H, Walter 182710111 #15H, and Walter 182710111 #24H, which will be horizontally drilled from a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 9 to a bottom hole location in the Yeso Formation in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11.

6. The completed intervals of the wells will be orthodox, and the Walter 182710111 #24 well will be less than 330' from the adjacent tracts.

7. Spur submitted well proposals to the working interest owners on August 31, 2023.

8. Spur filed its application in Case No. 23872 on September 26, 2023.

9. Riley filed its Application in Case No. 24093 on December 5, 2023.

10. Riley did not send Spur a well proposal prior to filing its application.

11. Spur currently operates 2,920 wells in New Mexico.

12. Since acquiring its interests in New Mexico in 2019, Spur has maintained an active rig and has drilled and completed 129 wells, 126 of which have been completed in the Yeso formation.

13. Riley operates 231 wells in New Mexico and has drilled and completed six.

14. Regarding surface facilities, Spur completed its on-site review with the BLM on December 14, 2023, at which time the location and routes were fully approved as proposed.

15. Spur is currently in the process of submitting detailed drill permits for review and consideration with the BLM.

16. Spur's development plan only requires one surface location to develop the N/2 of acreage at issue.

17. Riley's proposed development plan would require two surface locations and therefore would increase surface and environmental impacts.

18. Spur operates many other wells in this area and has contracts in place for the takeaway of gas and water.

19. Spur has an operated SWD system that includes 51 SWD wells with over 180 miles of pipe capable of disposing >190,000 barrels of water / day as well as access to multiple other SWD systems with incremental capacity of >100,000 barrels of water / day.

20. Spur has access to significant gas gathering and processing infrastructure across the position and recently completed a major midstream project with Durango in 2022 allowing Spur to eliminate the need for routine flaring.

21. Spur plans to drill five horizontal wells within two proven and productive members of the Yeso formation. Three wells will be landed in the Paddock member and two wells will be landed in the upper Blinebry member (approximately 400' deeper than the Paddock landing zone). These wells will be spaced ~950+ feet apart from each other stratigraphically (side by side in the same zone), with the lower bench being offset by ~500' feet from the upper bench.

22. Spur's "wine-rack" approach maximizes oil recovery from a volume of rock while reducing chances for vertical communication between wells of different targets. The well spacing and lateral length of Spur's proposed wells is consistent with the landing and spacing of similar Spur operated units along this trend. This maximizes the recovery of the oil and gas, while minimizing potential negative effects of frac hits, well interference (hydraulic communication), and competitive drainage.

23. The landing zones for Riley's proposed wells are located in the same zone at 330' effective same zone spacing, which increases the likelihood of negative interference between wells and decreases the effective drainage of the entire section.

24. Based on Riley's lateral target total vertical depths, there is no allowance for Blinbry development. Subsequent drilling within the Blinbry interval would not be effective after having produced large volumes of oil and gas from the overlying Paddock, as pressure depletion would potentially result in "parent-child" well interference effects.

25. Spur's proposed plan of development is estimated to cost \$875.99 per lateral foot while Riley's proposed plan of development is estimated to cost \$938.53 per lateral foot.

26. Spur controls 56.25% of the working interest in its proposed unit, and Riley controls a 55.2% working interest in its proposed unit. However, Riley only achieved that level of interest in its unit by including the W/2 NW/4 of Section 11 and excising from the unit Spur's acreage in the N/2 of Section 11.

27. Riley's wells are presented as 6250' length laterals because they extend into the W/2 NW/4 of Section 11, where Riley owns the working interest. The inclusion of the W/2 NW/4 of Section in Riley's proposed unit leaves Spur's offsetting acreage in Section 11 in a sub-optimal development having to resort to shorter laterals.

28. Based on the bottom hole location footage calls of Riley's wells, Riley's proposal strands acreage and resource in the south half of the proposed unit.

STATEMENT OF DISPUTED MATERIAL FACTS

The disputed facts and issues relate to whether Spur or Riley's proposed development plans will best prevent waste, protect correlative rights, and prevent the drilling of unnecessary wells, which include the following:

1. Which competing development plan will most efficiently recover the oil and gas reserves underlying the acreage?
2. Is there greater risk associated with Spur or Riley’s respective development proposals?
3. Whether the parties negotiated in good faith to reach voluntary pooling before filing applications for compulsory pooling?
4. Whether differences in the ability of each party to prudently operate the property, and therefore, prevent waste, favor designation of one operator over another?
5. Whether difference in well cost estimates (AFEs) and other operational costs among the proposals favor one development plan over another?
6. Whether differences in the mineral interest ownership held by each party favor designating that party as operator?
7. Whether differences in the ability of Spur and Riley to timely locate well sites and to operate on the surface favors one development plan over another?

PROPOSED EVIDENCE

Witness	Occupation	Estimated Time	Exhibits
Lance Young	Landman	30 minutes	Approx. 6
Matthew Van Wie	Geologist	30 minutes	Approx. 9

PROCEDURAL MATTERS

Spur reserves the right to submit rebuttal exhibits after reviewing Riley’s hearing exhibits.

Respectfully submitted,

HINKLE SHANOR, LLP

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Pre-Hearing Statement was sent to the following counsel of record by electronic mail on this 25th day of January, 2024.

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QUESTIONS
 Action 308156

QUESTIONS

Operator: Spur Energy Partners LLC 9655 Katy Freeway Houston, TX 77024	OGRID: 328947
	Action Number: 308156
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	<i>Not answered.</i>
Testimony time (in minutes)	<i>Not answered.</i>