

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

**APPLICATION OF READ & STEVENS, INC.
FOR CREATION OF A SPECIAL
WOLFBONE POOL IN SECTIONS 4, 5, 8,
AND 9 IN TOWNSHIP 20 SOUTH, RANGE 34
EAST, NMPM, LEA COUNTY, NEW
MEXICO.**

CASE NO. 24528

**APPLICATION OF CIMAREX
ENERGY CO. FOR THE CREATION
OF A SPECIAL POOL, A WOLFBONE POOL,
PURSUANT TO ORDER NO. R-23089 AND TO
REOPEN CASE NOS. 23448 – 23455, 23594 –
23601, AND 23508 – 23523, LEA COUNTY,
NEW MEXICO.**

CASE NO. 24541

CONSOLIDATED PRE-HEARING STATEMENT

Read & Stevens, Inc. (“Read & Stevens”), the applicant in Case No. 24528, and Permian Resources Operating, LLC (“Permian Resources”) (OGRID No. 372165) (collectively “Permian Resources”), submit this Consolidated Pre-Hearing Statement pursuant to the rules of the Oil Conservation Division.

APPEARANCES

APPLICANT

Read & Stevens, Inc., and
Permian Resources Operating, LLC

ATTORNEY

Michael H. Feldewert
Adam G. Rankin
Paula M. Vance
Holland & Hart, LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421
(505) 983-6043 Facsimile

OTHER PARTIES

Cimarex Energy Co.

MRC Permian Company
and Foran Oil Company

ATTORNEY

Darin C. Savage
Andrew D. Schill
William E. Zimsky
214 McKenzie Street
Santa Fe, New Mexico 87501
Telephone: 970.385.4401
Facsimile: 970.385.4901

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

APPLICANT'S STATEMENT OF THE CASE

Permian Resources seeks creation of a special Wolfbone pool within the Subject Acreage in response to the Division's guidance issued in Order No. R-23089, ¶ 21. The Division issued Order No. R-23089 on April 8, 2024, denying two sets of applications seeking compulsory pooling for separate spacing units within the Subject Acreage in the Bone Spring and Wolfcamp formations.¹ The Division denied the competing pooling applications until either or both companies propose a special Wolfbone pool, "that would account for the lack of [natural barriers] between the Bone Spring and Wolfcamp formations in this area." Order No. R-23089, ¶ 21.

Pursuant to Order No. R-23089, Permian Resources and Cimarex Energy Co. ("Cimarex") have filed these competing applications for the creation of a proposed special Wolfbone oil pool under the captions identified above. The competing special Wolfbone oil pool proposals cover the same acreage and the same vertical intervals in the Lower Bone Spring and Upper Wolfcamp formations.

¹ Cimarex's pooling applications were filed under Case Nos. 23448-23455 and 23594-23601. Permian Resources' competing pooling applications were filed under Case Nos. 23508-23523.

The proposed special Wolfbone pool would comprise approximately 2,562.40 acres, more or less, in Lea County, New Mexico, as follows:

Township 20 South, Range 34 East

Section 4:	All
Section 5:	All
Section 8:	All
Section 9:	All

A complete description of Permian Resources’ proposed pool is included in the Application, which is filed as Permian Exhibit A in the exhibit packet that is being submitted contemporaneously herewith.

The parties agree formation of the proposed special Wolfbone oil pool incorporates an ownership depth severance within the Subject Acreage that is located at the division between the base of the Bone Spring formation and the top of the Wolfcamp formation at a stratigraphic equivalent of approximately 10,876 feet, measured depth, as found in the five-inch Dual Lateral Micro Log SFL in the Matador 5 Federal #1 well (API No. 30-025-31056).

The Oil & Gas Act requires compulsory pooling orders to allocate production among owners “to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit.” NMSA 1978 § 70-2-17(C) (emphasis added). This statutory mandate makes allocation of production within a single pool a challenge where there is an ownership depth severance, unless each portion of the pool with uniform ownership is subject to separate development under separate compulsory pooling orders. This approach maintains uniform ownership within each spacing unit within the pool thereby allowing allocation to be on an “acreage basis,” as required. That has been the only solution to ownership depth severances within a single pool that has been recognized by the Division

in horizontal well compulsory pooling proceedings because that is the only way to comply with the statutory mandate.

The difference between the Cimarex and Permian Resources Wolfbone pool proposals is that, because of the ownership depth severance, Cimarex seeks to incorporate in the special pool a built-in allocation formula based on a PhiHt value derived for the proposed Wolfbone pool. Cimarex's proposal violates the mandate to allocate production on an "acreage basis" because it first adjusts the production by an allocation factor. Neither the Division nor the Commission has ever incorporated a production and cost allocation formula into a special pool before. Doing so would be unprecedented, would violate the Oil and Gas Act, and Cimarex has not demonstrated that such an allocation is necessary.

Under its development plan, Cimarex proposes to drill and complete wells only within the Third Bone Spring interval, which is at the top of the proposed special Wolfbone pool. Because Cimarex's proposed wells "will produce the entire Wolfbone pool," see Cimarex Application at ¶ 28, Case No. 24541 (emphasis added), it proposes a formula to account for production contributed from the Upper Wolfcamp portion of the special Wolfbone pool.

Cimarex's proposed formula uses PhiHt porosity from the Third Bone Spring formation in the Wolfbone Pool, determined to be 72.8%, and the Upper Wolfcamp formation, determined to be 27.2%, as a basis to allocate production from anywhere in the proposed Wolfbone pool. See Cimarex Application ¶ 32, Case No. 24541. However, Cimarex's proposed allocation formula excludes the PhiHt porosity measurement for the Wolfcamp A shale interval, which is in the Upper Wolfcamp and within the proposed

Wolfbone pool. Based on Cimarex's type log for the proposed special Wolfbone pool, the PhiHt for the Wolfcamp A shale is approximately 46% of the total PhiHt within the proposed special Wolfbone pool. Including the Wolfcamp A shale in a PhiHt allocation therefore would generate a ratio more like 40% Third Bone Spring and 60% Upper Wolfcamp; not 72.8% Third Bone Spring and 27.2% Upper Wolfcamp.

Despite excluding the Wolfcamp A shale interval from its PhiHt allocation formula, Cimarex contends its proposed formula "accurately accounts for the depth severance, providing all owners in the Wolfbone Pool with their just and equitable shares of oil[.]" *Id.* at ¶ 19 However, because Cimarex's allocation excludes the Wolfcamp A shale, its formula does not recognize approximately 40% of the PhiHt contributed from the Wolfcamp A shale to the proposed Wolfbone pool. Cimarex's allocation proposal is terribly flawed and would irreparably harm Wolfcamp owners because it does not afford each Wolfcamp owner its "just and equitable share of the oil or gas or both in the pool[.]" under Cimarex's own assumptions. NMSA 1978, § 70-2-33(H).

Cimarex's allocation formula is also flawed because PhiHt is a demonstrably unreliable and inaccurate means to allocate actual production. PhiHt is a good tool to identify and compare reservoir quality of prospective development targets at a high level. PhiHt is a valid proxy for predicting reserves for purposes of identifying prospective development targets because it represents the total storage or pore space in the rock and, therefore, serves as a reasonable proxy for potential production but is not accurate enough to allocate production of hydrocarbons in a way that is protective of correlative rights.

In contrast, Permian Resources' proposed special Wolfbone oil pool and wells will allow for the simultaneous co-development of the Third Bone Spring interval and

Wolfcamp XY/A intervals. That is expected to stimulate production of incremental reserves substantially beyond what would be produced by targeting the Third Bone Spring interval by itself, as Cimarex proposes, thereby preventing waste.

Permian Resources' proposal complies with the Oil and Gas Act mandate to allocate production under compulsory pooling orders among owners on a surface acreage basis, NMSA 1978 § 70-2-17(C). Complying with this provision ensures that the correlative rights of owners in the Bone Spring and Wolfcamp formations are protected. And maximizing production by co-developing the Third Bone Spring with the Wolfcamp XY/A will prevent waste compared to Cimarex's plan.

As demonstrated by Permian Resources' immediately offsetting Batman wells, co-development of the Third Bone Spring with the Upper Wolfcamp will generate substantial incremental reserves that will not be developed under Cimarex's plan, thereby preventing waste. Moreover, allocating production of Third Bone Spring-only development, as Cimarex proposes, will result in the allocation of less production to both Bone Spring and Wolfcamp owners compared to Permian Resources' co-development approach with depth-severed pooling.

To avoid impairment of correlative rights and to comply with the Division's conclusions under Order No. R-23089, Permian Resources requests the Division create a special Wolfbone oil pool within the Subject Acreage and contract the vertically offsetting Teas; Bone Spring, East Pool (Pool Code 96637) and the Tonto; Wolfcamp Pool (Pool Code 59500), as proposed in Permian Resources Application under Case No. 24528.

Permian Resources also requests that the Division approve its related compulsory pooling cases in Case Nos. 23508-23523. Approval protects correlative rights, prevents waste, and will avoid the drilling of unnecessary wells.

Permian Resources requests that the Division deny Cimarex’s proposed special Wolfbone pool and deny its related pooling cases in Case Nos. 23448-23455 and 23594-23601.

APPLICANT’S PROPOSED EVIDENCE

WITNESS Name and Expertise	ESTIMATED TIME	EXHIBITS
Travis Macha, Landman	Self-Affirmed Statement	Approx. 8
Ira Bradford, Petroleum Geology	Self-Affirmed Statement	Approx. 5
John Fechtel, Reservoir Engineer	Self-Affirmed Statement	Approx. 4

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

HOLLAND & HART LLP

By: 

 Michael H. Feldewert
 Adam G. Rankin
 Paula M. Vance
 Post Office Box 2208
 Santa Fe, NM 87504
 505-988-4421
 505-983-6043 Facsimile
 mfeldewert@hollandhart.com
 agrankin@hollandhart.com
 pmvance@hollandhart.com

**ATTORNEYS FOR READ & STEVENS, INC. &
PERMIAN RESOURCES OPERATING, LLC**

CERTIFICATE OF SERVICE

I hereby certify that on August 6, 2024, I served a copy of the foregoing document and witness testimony and exhibits to the following counsel of record via Electronic Mail to:

Darin C. Savage
Andrew D. Schill
William E. Zimsky
214 McKenzie Street
Santa Fe, New Mexico 87501
Telephone: 970.385.4401
Facsimile: 970.385.4901
darin@abadieschill.com
andrew@abadieschill.com
bill@abadieschill.com

Attorneys for Cimarex Energy Co.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
505-982-2043
jamesbruc@aol.com

***Attorney for MRC Permian Company
& Foran Oil Company***



Adam G. Rankin

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(575) 393-6161 Fax:(575) 393-0720

District II
 811 S. First St., Artesia, NM 88210
 Phone:(575) 748-1283 Fax:(575) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

QUESTIONS

Action 371018

QUESTIONS

Operator: Permian Resources Operating, LLC 300 N. Marienfeld St Ste 1000 Midland, TX 79701	OGRID: 372165
	Action Number: 371018
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

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