

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 EOG Resources, Inc.  
for Approval of a 1,000-acre  
Non-Standard Spacing Units in the  
Bone Spring & Wolfcamp Formations,  
Comprised of Acreage Subject to a  
Proposed Communitization agreement,  
Lea County, New Mexico

Case 21978

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JULY 1, 2021

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Hearing Examiner, John Garcia, Technical Examiner, on July 1, 2021, via Webex Virtual Conferencing Platform hosted by the New Mexico Department of Energy, Minerals and Natural Resources.

Reported by: Mary Therese Macfarlane  
New Mexico CCR #122  
PAUL BACA COURT REPORTERS  
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A P P E A R A N C E S

FOR EOG RESOURCES, INC.:

PAGE

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C O N T E N T S

CASE NO 21978

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CASE CALLED

4

STATEMENT BY MR FELDEWERT:

4

INQUIRY BY EXAMINER BRANCARD:

11

TAKEN UNDER ADVISEMENT:

14

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1 (Time noted 10:30 a.m.)

2 EXAMINER BRANCARD: Case 21978, No. 24 on our  
3 docket, EOG Resources, Inc., Holland and Hart.

4 MR. FELDEWERT: If it please the Examiner,  
5 Michael Feldewert with the Santa Fe office of Holland and  
6 Hart appearing on behalf of the applicant.

7 EXAMINER BRANCARD: Thank you.

8 Are there any other persons or parties here  
9 on Case 21978? (Note: Pause.) Hearing none,  
10 Mr. Feldewert please explain your request today.

11 MR. FELDEWERT: Certainly. In this matter,  
12 Mr. Brancard, EOG seeks an Order approving a 1,000-acre  
13 non-standard spacing units, one in the Bone Spring one in  
14 the Wolfcamp Formations.

15 If you look at what's been marked as EOG  
16 Exhibit B-2 in the affidavit of Ms. Sawtelle, you'll see  
17 the acreage highlighted that's involved here comprising  
18 these two non-standard spacing units involving Section 10  
19 in the north half and in northwest quarter of the  
20 southwest quarter of Section 15. These are Township 24  
21 South, 32 East.

22 You will see that it involves four  
23 different federal leases, and that we seek this approval  
24 to match a corresponding communitization agreement that  
25 the BLM has indicated it would desire for these federal

1 leases to allow the commingling of production at central  
2 facilities. This would be for EOG's Modelo wells. They  
3 seek to develop various benches in the Bone Spring and the  
4 Wolfcamp Formation underlying this acreage, and they seek  
5 this relief to get the commingling approval so that they  
6 can reduce the necessary surface facilities and also gain  
7 the production efficiencies that would occur from approval  
8 of this non-standard horizontal well spacing unit.

9 Our package of exhibits contain as  
10 Exhibit A, the application.

11 Then we have an affidavit from a landman.  
12 That is Exhibit B.

13 Exhibit C is an affidavit from a geologist.

14 Exhibit D is an affidavit from the  
15 engineer.

16 If you look at the landman affidavit, Ms.  
17 Sawtelle, she has previously testified before the Division  
18 as an expert in petroleum land matters. She provides,  
19 as you will see in Exhibit B-1, the acreage that's  
20 involved if the four federal leases that are at issue  
21 here, and she testifies in her affidavit at paragraph 7  
22 that BLM has told EOG that due to the nature and the  
23 configuration of these federal leases that they will not  
24 approve the commingling of production at central  
25 facilities if this area is developed using standard

1 horizontal spacing units, but if the Division would  
2 approve the non-standard spacing unit the BLM will issue a  
3 corresponding communitization agreement because they want  
4 their communitization agreements to match the spacing unit  
5 approved by the Division.

6 One thing you will note, and its addressed  
7 in paragraph 8, is if you look at configuration here of  
8 the proposed non-standard spacing unit when you get to the  
9 south half of section 15, we are including a 40-acre tract  
10 comprised of the northwest quarter of the northwest  
11 quarter.

12 The offsetting acreage to that in the south  
13 half of 15 directly to the south is owned by XTO Energy,  
14 that 40-acre tract. Ms. Sawtelle testifies that she has  
15 been in contact with XTO Energy about their proposed  
16 non-standard spacing unit, and that she has been informed  
17 by XTO that it will not prevent XTO from effectively  
18 developing their acreage.

19 The remaining acreage in the south half of  
20 Section 15 is operated by Apache. The Division's records  
21 will reflect that Apache is developing their acreage,  
22 their remaining acreage with 1 1/2-mile wells called their  
23 Ghost Rider wells, which are being brought up in a  
24 stand-up fashion from the south of Section 22.

25 So there's not going to be any negative

1 impact on the offsetting owners down there in Section 15.

2 Ms. Sawtelle notes in Exhibit B-2 that the  
3 Modelo wells that will be utilized to develop various  
4 benches in both the Wolfcamp and the Bone Spring, you'll  
5 see it involves a series of wells.

6 Exhibit B-3 then contains the depiction of  
7 the initial wells that EOG intends to drill in the --  
8 let's see. In the Bone Spring. It would be the lower  
9 portion of the Bone Spring. Let me double check that.

10 I'm sorry. It would be the Second Bone  
11 Spring with their 501H series Modelo wells.

12 That's Exhibit B-3. And then the second  
13 page of that shows the Wolfcamp zone that they will  
14 initially develop with their 700-series of proposed wells.  
15 And they provide the additional information about those  
16 wells in the third page of Exhibit B-3.

17 If you then turn to the geologist's  
18 affidavit, Mr. O'Neal, he has previously testified before  
19 the Division. He provides the Structure Map and then the  
20 Cross Section Maps that you're accustomed to seeing for  
21 each of the initial target zones as his Exhibits C-3, C-4.

22 He opines in paragraph 10, Mr. Brancard,  
23 and I think this is helpful, he opines at paragraph 10  
24 that the approval of this non-standard spacing unit will  
25 allow the company the flexibility to match the well

1 spacing in these various intervals over time to the  
2 reservoir, rather than by the individual spacing units  
3 that would otherwise be required using standard spacing  
4 units, and in his opinion this is going to allow for more  
5 efficient and effective development of this acreage.

6 Mr. Pauls testifies in his affidavit, which  
7 has been marked as EOG Exhibit D, he is a senior  
8 facilities and pipeline engineer for the company. This is  
9 his first time testifying before the Division, so he  
10 provides his credentials there in paragraph 2, and we ask  
11 he be accepted to testify as an expert in petroleum  
12 engineering and petroleum production facilities.

13 He is familiar with this area, he is  
14 familiar with what the company wants to do, and he  
15 provides here in Exhibit D-1 the layout that would be  
16 required if this is developed using the available standard  
17 horizontal well spacing units, and you will see that it  
18 will require, because of the configuration of the federal  
19 leases, at least three tank batteries and pipelines that  
20 have to be connected, and he reflects there in the dotted  
21 lines to connect these surface facilities.

22 And, yes, they can marry the east half  
23 together, but cannot marry the west half together due to  
24 the configuration of the federal leases.

25 So that's the reason that there would be at



1 least three tank batteries and related facilities.

2 In comparison if you look at Exhibit D-2,  
3 he testifies if the non-standard spacing unit is approved  
4 they can utilize a single tank battery over there in the  
5 west half of this acreage and lessen not only the surface  
6 impact of that but also the connecting trains or pipelines  
7 that would be required with standard spacing units.

8 He then provides on Exhibit D-3 the savings  
9 here.

10 And we have two aspects of it: We have the  
11 reduction in the surface disturbance which you are seeing  
12 on the last column, and what you're looking at, a  
13 disturbance of approximately 33 acres if you have to do  
14 this using standard horizontal well spacing units, but if  
15 you go to non-standard units we can do surface disturbance  
16 down to 14 acres, which is a reduction of 19 acres here.

17 You then have the cost savings, which is  
18 also reflected on here in the second-to-the-last column,  
19 and you will see this will result in a cost savings to EOG  
20 of \$5.3 million.

21 And Mr. Pauls testifies in paragraph 7 that  
22 the cost savings is important here because, as he says in  
23 his last sentence, "This will make the project more  
24 competitive with drilling projects," -- for example with  
25 our friends over there in Texas and in other states --

1 "and lower the operating costs for the life of these  
2 proposed wells."

3 He further identifies in paragraph 8, and I  
4 believe this should be important to the Division, that if  
5 they are allowed to do this with their non-standard  
6 spacing unit they will be able to, they believe, reduce  
7 the permitted Fugitive FOC (sic) emissions that are  
8 necessary from the tanks and related surface facilities by  
9 67 percent. So that saves significant savings in at least  
10 the emissions that would otherwise be required.

11 So in his opinion this makes a lot of  
12 sense. It not only reduces the surface disturbance with  
13 all kinds of reductions in emissions but will allow the  
14 company more efficiently and effectively develop the  
15 acreage if this is approved.

16 We have provided Notice under Exhibit E to  
17 all of the affected parties in the offsetting tracts  
18 surrounding the proposed non-standard horizontal well  
19 spacing unit, and you will see that because some of the  
20 postal delivery reporting indicates that the packages  
21 either are going to arrive late or will not be delivered,  
22 we provided as Exhibit F an Affidavit of Publication in  
23 the local newspaper directed by name to these offsetting  
24 affected parties.

25 So we ask that EOG's Exhibits A through F

1 be admitted into evidence in this matter, that the matter  
2 be taken under advisement, and that the Division grant  
3 this request for this non-standard horizontal well spacing  
4 unit.

5 EXAMINER BRANCARD: Thank you. Mr. Garcia,  
6 questions?

7 EXAMINER GARCIA: I have no questions.

8 EXAMINER BRANCARD: Thank you. Sorry, I'm  
9 staring at your exhibits, Mr. Feldewert.

10 You mentioned in here about -- and we get  
11 this -- first of all, thank you for all the detail on what  
12 the change and impacts are due to the approval; in other  
13 words, what is the real justification for a non-standard  
14 spacing unit.

15 We appreciate that, as I'm sure you have  
16 heard us talk before in hearings wanting other parties to  
17 do so, provide us that information.

18 You mention, and again we get this comment  
19 in all these non-standard spacing unit applications, that  
20 BLM has said that we are not going to approve it unless  
21 the State does a non-standard spacing unit. Is that just  
22 some person at BLM speaking or are they actually sending  
23 you guys an email or a letter to that effect?

24 MR. FELDEWERT: Well, in this case, I mean EOG  
25 had some substantial conversations with the BLM, and as

1 Ms. Sawtelle testifies, you know, the BLM made it very  
2 clear to them, and did so for purposes of this hearing,  
3 that they cannot authorize commingling under standard  
4 horizontal spacing units because of not only the  
5 configuration of these federal leases -- you'll see there  
6 is different sizes, but also the nature of those leases.

7 So one of the things that the company  
8 certainly obtained and wanted to obtain was: Do we really  
9 have to do this or will you allow commingling? And they  
10 made it very clear that they can't allow commingling.

11 And I know the Division does not work for  
12 the BLM, I heard that comment, but in this case we are not  
13 asking the Division to work for the BLM but to take note  
14 of the fact that BLM's hands are tied here, that this is  
15 an option that they believe will work most efficiently for  
16 them, and certainly it works more efficiently for the  
17 company, and, more importantly, gives the company the  
18 certainty, Mr. Brancard, that they need to be able to plan  
19 their surface facilities to avoid this additional  
20 disturbance and expense.

21 EXAMINER BRANCARD: Thank you. And I think your  
22 exhibits do provide information that your wells are  
23 touching all of the tracts in these spacing units.

24 MR. FELDEWERT: Either touching or developing.

25 EXAMINER BRANCARD: Correct. And that you did

1 discuss the standard spacing units that would be required.

2 And I think you're correct that there is  
3 these BLM leases provide an additional complication here.  
4 And in particular it results in a somewhat  
5 irregular-shaped spacing unit here, which of course is  
6 always a little bit of a concern.

7 But you have addressed the question of  
8 whether we are stranding any acreage here, right, because  
9 that's that one quarter section down there at the bottom  
10 of that section that looks like the southwest/southwest  
11 that's stuck out there.

12 MR. FELDEWERT: Yes, that's the acreage,  
13 Mr. Brancard, that's operated or owned by XTO, which Ms.  
14 Sawtelle addresses any concerns there. And remaining  
15 acreage is being developed by Apache using their Ghost  
16 Rider wells and mile-and-a-half wells from down there in  
17 20 up in the 15.

18 So one of the things the company wants to  
19 make sure is that not only that they notified these  
20 particular offsetting parties but they had conversations  
21 with them.

22 EXAMINER BRANCARD: Thank you.

23 Are there any other persons interested or  
24 wanting to comment on Case 21978?

25 And Mr. Feldewert, do we have all your

1 information? Is there anything necessary to supplement  
2 here?

3 MR. FELDEWERT: I hope not. We tried to meet  
4 the concerns of the Commission -- or the Division, I'm  
5 sorry. I believe we have, and I think this makes a lot of  
6 sense here.

7 EXAMINER BRANCARD: Thank you.

8 Any further questions, Mr. Garcia?

9 EXAMINER GARCIA: I do not.

10 EXAMINER BRANCARD: Thank you. So with that,  
11 the exhibits in Case 21978 will be admitted and this case  
12 had will be taken under advisement. Thank you.

13 MR. FELDEWERT: Thank you very much.

14 (Time noted 10:47 a.m.)

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1 STATE OF NEW MEXICO )  
2 : SS  
3 COUNTY OF TAOS )

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5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter  
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday, July 1,  
8 2021, the proceedings in the above-captioned matter were  
9 taken before me; that I did report in stenographic  
10 shorthand the proceedings set forth herein, and the  
11 foregoing pages are a true and correct transcription to  
12 the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by  
14 nor related to nor contracted with (unless excepted by the  
15 rules) any of the parties or attorneys in this case, and  
16 that I have no interest whatsoever in the final  
17 disposition of this case in any court.

18 /s/ Mary Macfarlane  
19 \_\_\_\_\_

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