

Case Nos. 22506 & 23087

BRANDON POWELL, ENGINEERING BUREAU CHIEF

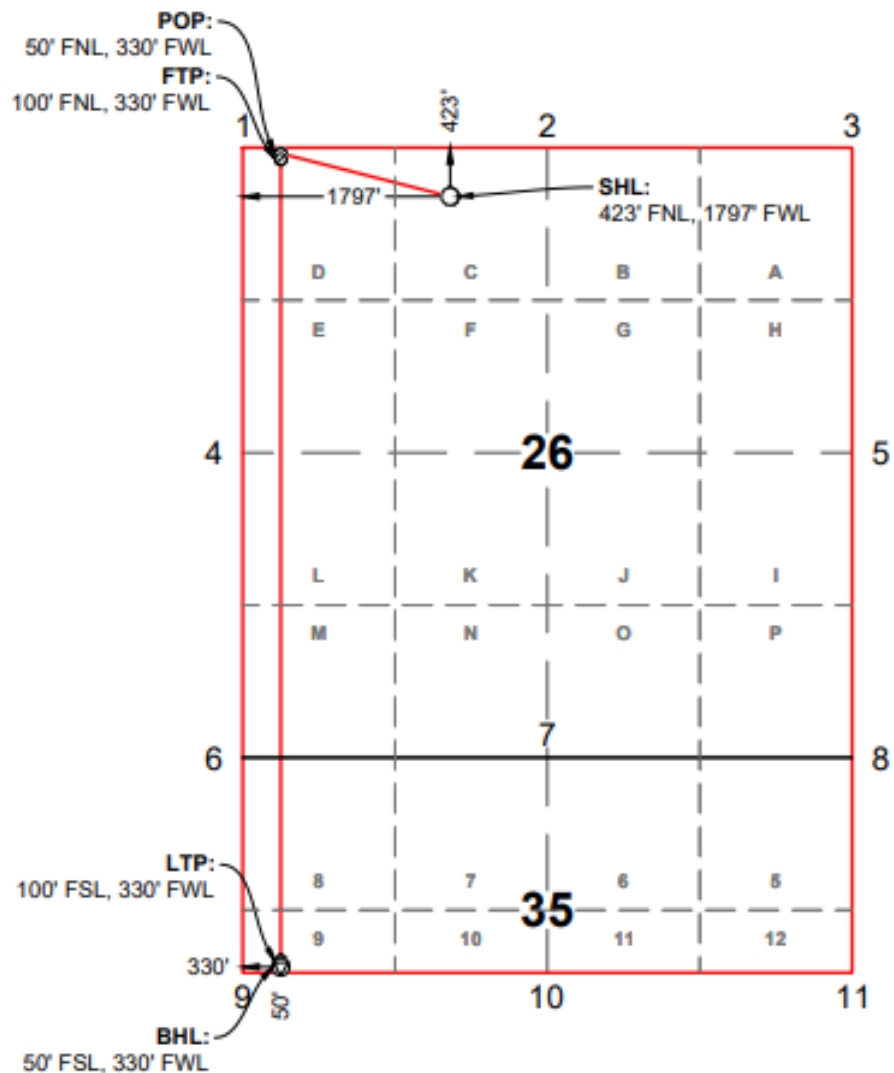
NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

October 6, 2022

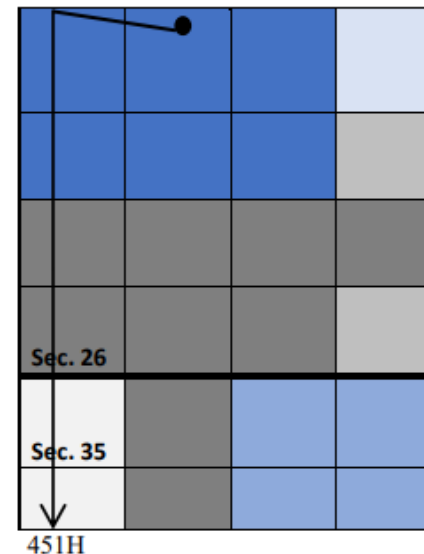
Overview

- Historically spacing has been used by the OCD to ensure proper development of a pool or formation to protect correlative rights and produce the pool without waste
- In this case the OCD is looking for clarification on standard spacing interpretation regarding the orientation of spacing unit building blocks, specifically on how they relate to horizontal wells and to compulsory pooling.
 - These concerns relate to both how spacing is applied by 19.15.16 NMAC, 19.15.15 NMAC and specific pool orders.
 - These concerns are to ensure consistent application on the rules and spacing for horizontal wells.
- In this case the OCD isn't presenting any evidence on WPX's application due to concerns specific to the well's location or construction.
- In this case the OCD isn't presenting any evidence on WPX's application due to concerns relating to any of the specific acreage ownership in the area.

Well and Acreage Being Proposed by WPX



Ownership Breakdown
Steel Guitar 35-26 Fed Com 451H
 Section 26 & Section 35, T-26-S, R-29-E, Eddy County, New Mexico,
 Purple Sage; Wolfcamp Gas Pool (98220) Wolfcamp Formation

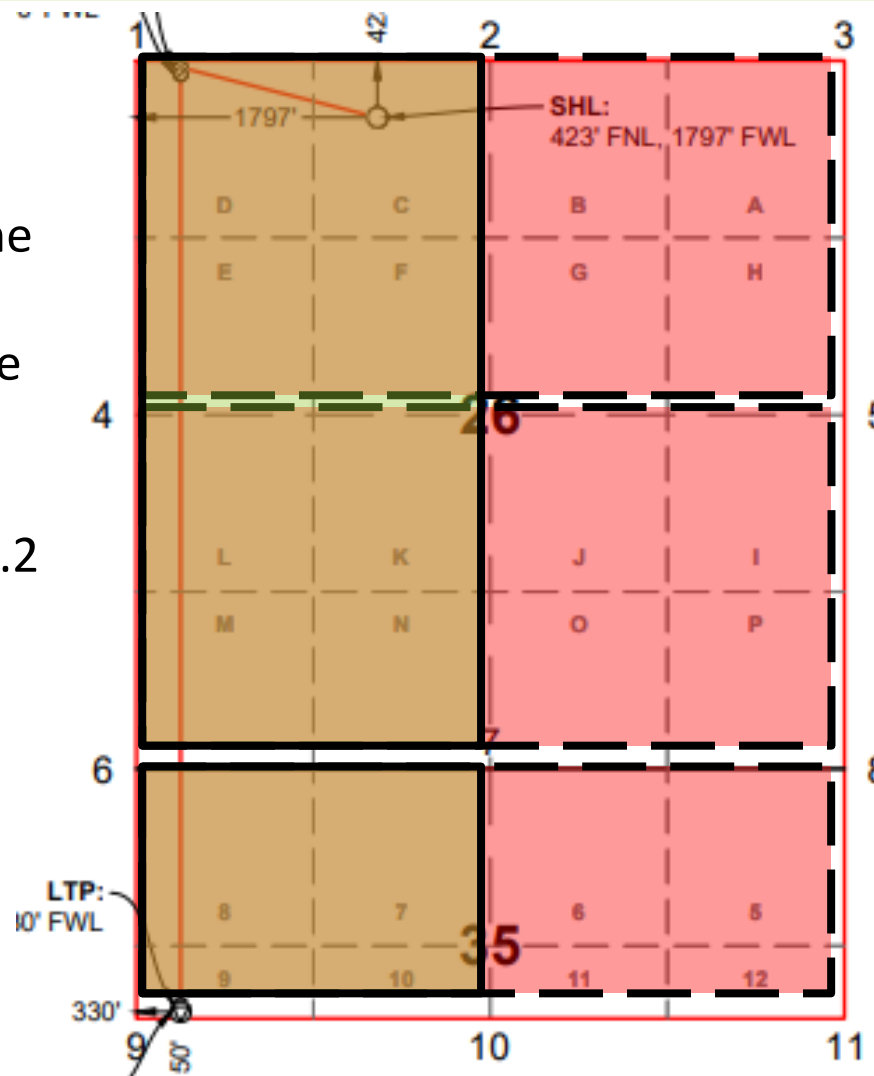


- Tract 1:** NMNM 19609 (240 acres)
- Tract 2:** NMNM 41646 (40 acres)
- Tract 3:** NMNM 21502 (80 Acres)
- Tract 4:** NMNM 13997 (335.80 acres)
- Tract 5:** NMNM 20367 (110.41 acres)
- Tract 6:** NMNM 54998 (56.19 acres)

Spacing for the Well

➤ OCD recommended building blocks

- This only incorporates the west half of the section and the areas that will be produced by well. It reduces the dedicated acres from 862.4 to 431.2



➤ Proposed spacing building blocks

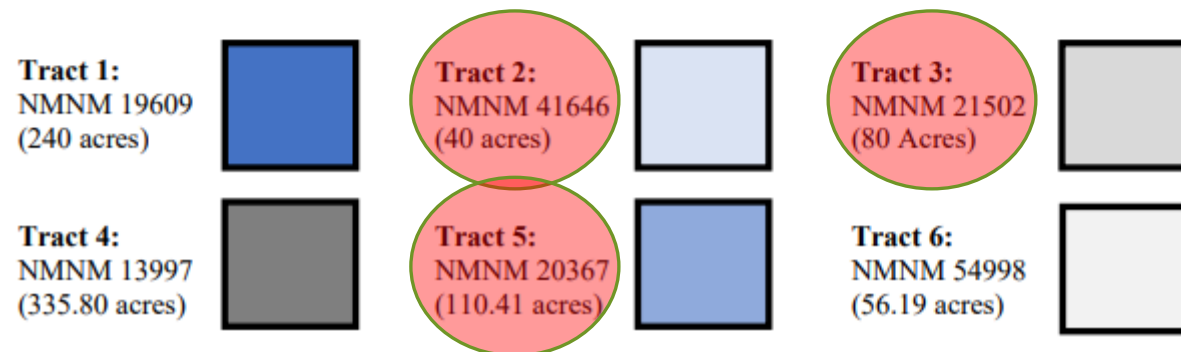
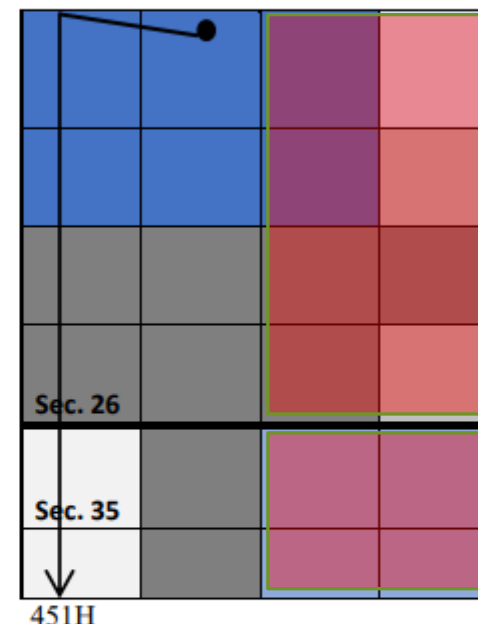
- These incorporate the entire section, including the east half of the section that is approximately 1980' away from the well

Acreage Tied to the Well

- Tracts the operator is proposing to compulsory pool

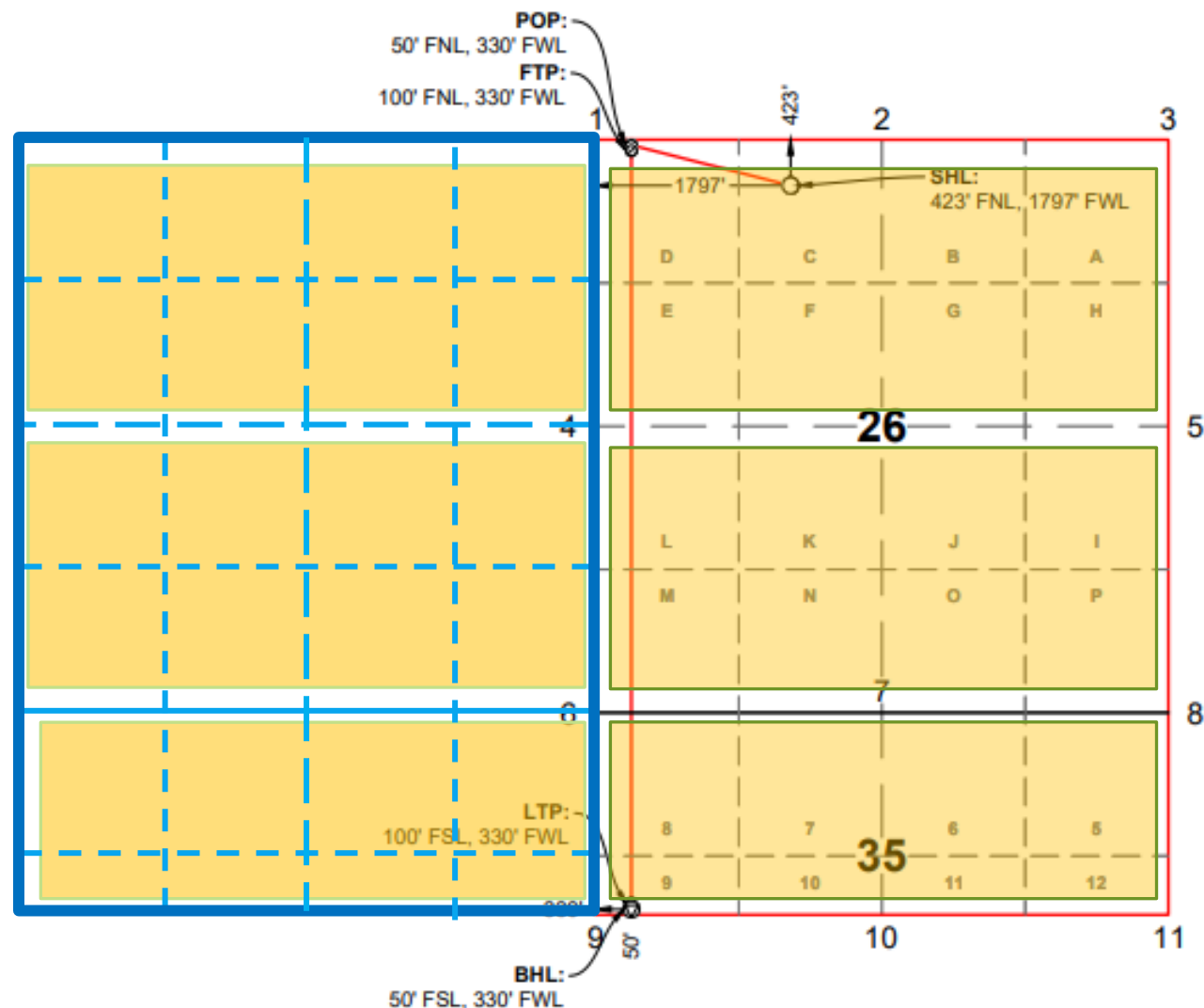
- Spacing areas identified in red won't be produced by the well proposed
- If compulsory pooled, tracts 2, 3, and 5 could participate in the unit and receive revenues while their specific acreage isn't proposed to be drained by the application provided.
- The result is the tracts being drained could be losing revenue from the minerals due to the reduction of working interest percentage from the expanded spacing area.

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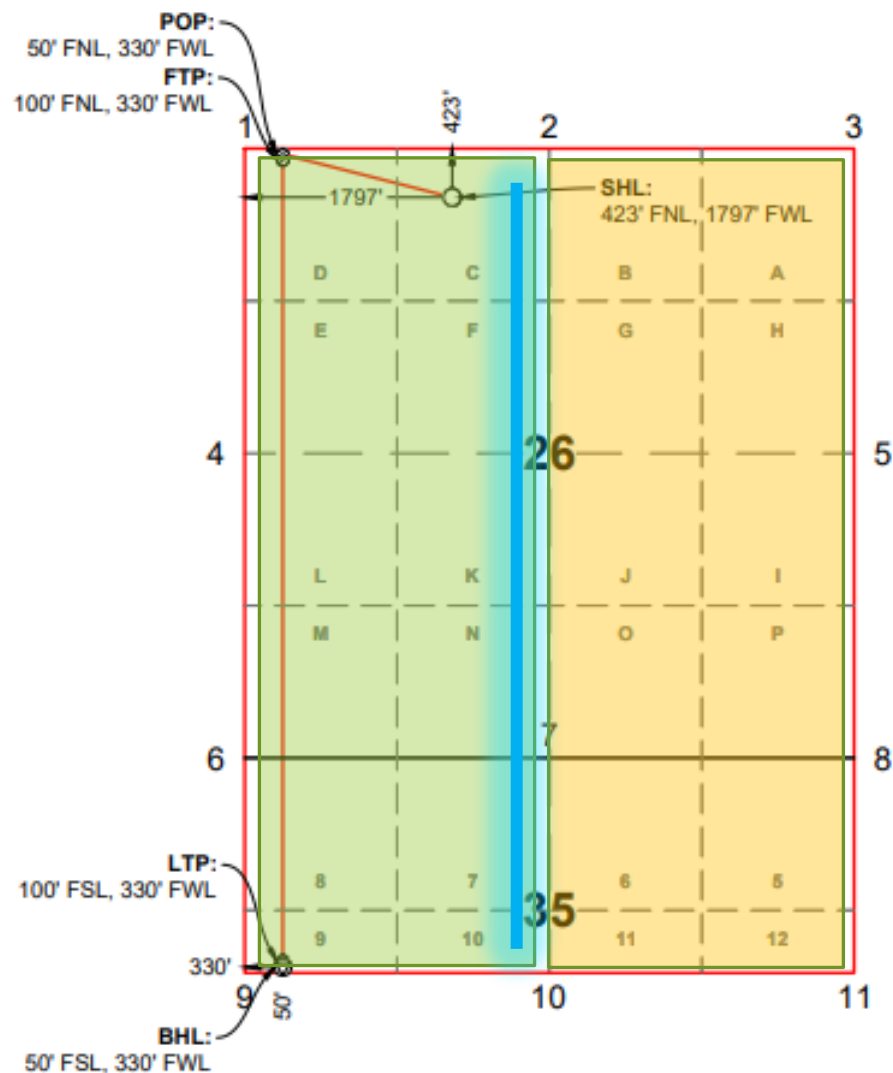
Potential Consequences of Proposed Spacing

- Applying WPX's spacing interpretation,
- 19.15.16.15.B.(3)(b) "In addition to tracts the well penetrates, the operator may include quarter sections or equivalent tracts in the standard horizontal spacing unit that are located within 330 feet of the proposed horizontal gas well's completed interval (measured along a line perpendicular to the proposed completed interval or its tangent)"
- If this well was moved 1' to the west and inside of 330' setback the operator could use the rule to double their dedicated acres from 862.4 to 1724.8 defined by a single well.



Possible Well Location Alternative

Utilizing 19.15.16.15.B.(3)(b) if WPX would have proposed the well within 330' of the center of the section they would have been proposing production in both areas of the acreage and the OCD may not have opposed the application.



Applicable Oil & Gas Act Information & OCD Rules

70-2-2 NMSA. [Waste prohibited.]

The production or handling of crude petroleum oil or natural gas of any type or in any form, or the handling of products thereof, in such manner or under such conditions or in such amounts as to constitute or result in waste is each hereby prohibited.

70-2-3 NMSA. Waste; definitions.

As used in this act the term "waste," in addition to its ordinary meaning, shall include:

A. "underground waste" as those words are generally understood in the oil and gas business, and in any event to embrace the inefficient, excessive or improper, use or dissipation of the reservoir energy, including gas energy and water drive, of any pool, and the locating, spacing, drilling, equipping, operating or producing, of any well or wells in a manner to reduce or tend to reduce the total quantity of crude petroleum oil or natural gas ultimately recovered from any pool, and the use of inefficient underground storage of natural gas; [...].

19.15.16.15.B(4) NMAC

(4) **Exception for pools with larger spacing.** If the horizontal gas well is located entirely or partially in an area or pool for which 19.15.15.10 NMAC or existing or subsequently adopted special pool orders prescribe gas spacing units larger than 160 acres, then the horizontal spacing unit may, as an alternative to quarter sections, comprise one or more tracts of the size and configuration so prescribed, provided that the standard horizontal spacing unit shall include only such tracts that are oriented in the same direction. If a horizontal gas well's completed interval is located within two or more pools for the same formation, and the operator elects to construct a standard horizontal spacing unit utilizing tracts of the size and configurations prescribed by 19.15.15.10 NMAC or special pool orders, the operator shall use the maximum tract size prescribed for any of the included pools.

Conclusion and Requested Outcome

- OCD is of the opinion that the spacing units as applied by WPX is not consistent with the requirements of 70-2-2 and 70-2-3 NMSA as they are inefficient and excessive and could result in underground waste and/or correlative rights issues because there is acreage being proposed that is not being drained as a whole leaving potential resources in the ground.

- To reduce underground waste and protect correlative rights the OCD is asking the Commission for the following:
 - A clarification that the “same direction” spacing orientation pursuant to 19.15.16.15.B(2) (oil pools) and 19.15.16.15.B(3) (gas pools) NMAC should be oriented in a manner to drain the acreage identified for the proposed well. For example: North/South wells should have standup orientated building blocks and East/West wells should have laydown building blocks.
 - As a result, the OCD also asks that the compulsory pooling application be denied as proposed.
 - If WPX would have proposed additional dedicated or infill wells with their 23087 application for a non-standard spacing unit, it would have possibly met the requirements of 19.15.16.15.B(5)(a).
 - If the applicant applies for additional infill wells and a non-standard spacing unit that the future application be heard by the Division eliminating the need for it to be reheard by the OCC as it would be more of a typical hearing request.