

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

**APPLICATION OF 3R OPERATING, LLC FOR
APPROVAL OF STANDARD HORIZONTAL
SPACING UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO**

CASE NOS. 25123 & 25124

3R OPERATING, LLC'S CLOSING STATEMENT

Pursuant to the instructions of the Oil Conservation Division ("Division") during the April 29-30, 2025, hearing in Case Nos. 25123 & 25124 and Case Nos. 25204 & 25205, 3R Operating, LLC, OGRID No. 331569 ("3R") submits the following closing statement in support of its applications ("3R Applications") in the above-referenced matters.

I. INTRODUCTION

A. The 3R Applications should be approved

3R requests that the Division approve the 3R Applications and deny the applications of WPX Energy Permian, LLC (“WPX”) in Case Nos. 25204 & 25205 (“WPX Applications”). 3R has imminent development plans for seven wells in the Wolfcamp Formation, which will best prevent waste, protect correlative rights, and efficiently and economically develop its proposed units. 3R’s plan will reduce waste and protect correlative rights, and 3R prevails on six of the 7 Evaluation Factors (defined below), with no advantage for either party on the seventh factor.

B. The WPX Applications should be denied

WPX’s development plan will cause waste and impair correlative rights, and WPX does not clearly prevail on any of the 7 Evaluation Factors.

C. The Division should reject WPX’s objections

WPX failed to show that 3R’s development plan will cause waste, impair correlative rights, or result in the drilling of unnecessary wells. WPX conceded that the B bench can and should be developed under the appropriate economic conditions. WPX’s case focused almost entirely on a subject profitability comparison, which is an irrelevant consideration.

D. Conclusion

The 3R Applications are necessary to prevent waste, protect correlative rights, and economically develop 3R’s proposed units. Conversely, approval of the WPX Applications would cause waste, impair correlative rights, and adversely impact the surface and the environment. WPX offered no credible evidence of waste, just arguments not relevant to the Division’s analysis.

II. STANDARDS OF REVIEW FOR SPACING APPLICATIONS

A. The Act

New Mexico’s Oil and Gas Act, NMSA § 70-2-1, *et seq.* (the “Act”) and § 70-2-17 address

the criteria for establishing units:

The division may establish a proration unit for each pool [...] and in so doing the division shall consider the economic loss caused by **the drilling of unnecessary wells**, the **protection of correlative rights**, including those of royalty owners, the **prevention of waste**, the avoidance of the augmentation of risks arising from **the drilling of an excessive number of wells**, and the prevention of reduced recovery which might result from the **drilling of too few wells.**”

B. New Mexico’s Administrative Rules

The Division’s Rules, NMAC 19.15.1, *et seq.* (the “Rules”) establish additional criteria. The applicant’s burden includes: (i) proper application and notice; and (ii) a showing that the unit is necessary to either (a) prevent waste, or (b) protect correlative rights. 19.15.16.15 NMAC.

C. Precedent

The Division shall consider seven factors when evaluating competing development plans in a compulsory pooling case: (1) geologic evidence, including efficient recovery; (2) risk of each proposal; (3) pre-application negotiations; (4) each party’s ability to prudently operate and prevent waste; (5) differences in AFEs and operational costs; (6) ownership held by each party; and (7) the surface factor (collectively, the “7 Evaluation Factors”). Order No. R-20368. Of these, geologic evidence is “the most important consideration in awarding operations to competing interest owners” Order No. R-14518, citing to OCC Order No. R-10731-B, Findings Paragraph (23)(f).

III. ARGUMENT

A. Introduction

3R will immediately, efficiently, and economically begin developing the entire Wolfcamp Formation so as to prevent waste and protect correlative rights. WPX’s plan will cause waste, impair correlative rights, and impose greater surface and environmental impacts. WPX offered no evidence that the 3R Applications will cause waste, harm correlative rights, or adversely impact the surface or environment. 3R proved that it prevails on the 7 Evaluation Factors, whereas WPX

focused on afactors not relevant to the Division's analysis.

B. 3R met its burden for the 3R Applications

1. The 3R Applications and notice were proper.

The 3R Applications and notice were proper. 3R Exhibits 11, 16, 28, 31, and 32. No party raised concerns about or contradicted the propriety thereof. 3R also proved that it made good faith attempts to obtain the voluntary participation of WPX in 3R's development plans prior to filing the 3R Applications. Tr. 176:20-178:5 (Apr. 29, 2025).

2. 3R has immediate development plans.

3R plans to initiate development immediately, in part due to imminent expiration of 3R's federal lease. Tr. 143:21-144:8 (Apr. 29, 2025). 3R has contracts in place to provide for SWD and for completions fluids. Tr. 149:6-150:18, 167:3-169:7 (Apr. 29, 2025). 3R has a rig ready to commence development. 144:1-8 (Apr. 29, 2025). Finally, the region around the Application Lands is 3R's top priority. Tr. 38:12-19 (Apr. 29, 2025).

3. 3R's development plan will prevent waste.

3R's initial two-bench plan is anticipated to produce 11,200 MBOE, compared to only 4,900 MBOE for WPX's single-bench plan. 3R Exhibit 58, WPX Exhibit R-2. Even by WPX's own overly conservative estimate, 3R's two-bench plan will produce at least 3,500 MBOE more than WPX's single-bench plan. WPX Exhibit R-2. The estimate provided by 3R, which has far more proximate Wolfcamp B bench experience, estimates its plan will produce 6,300 MBOE more than WPX's plan. 3R Exhibit 58. Without 3R's B bench wells, approximately 3,500 to 6,300 MBOE will be stranded, causing waste. 3R's development plan will prevent waste by ensuring the immediate, concurrent development of the XY and B benches of the Wolfcamp Formation.

4. 3R's development plan will protect correlative rights.

3R's proposed well locations are specifically designed to protect the correlative rights of

owners adjacent to the Application Lands. The wells are spaced four per section, with approximately 1,320 feet between wells, showing an expected drainage radius of no more than 660 feet. 3R Exhibit 45. 3R's wells are 660 feet from the north and south boundaries of the Application Lands, despite mandatory setbacks of only 330 feet. 3R Exhibits 77, 81, 89. This will protect the correlative rights of adjacent mineral owners.

Additionally, 3R testified that it only plans to develop an eighth well in the southernmost XY bench slot, the Crystal Fed Com 704H Well, after consultation and coordination with WPX to protect WPX's existing Frontier 431H Well. 3R Exhibit 45, Tr. at 67:1-12, 126:11-127:19 (April 29, 2025). This will further protect correlative rights by safeguarding existing production.

C. Adverse aspects of WPX's development plan

1. WPX's development plan will cause waste.

WPX asserts that B bench wells are marginally economic, so it purportedly plans to wait for a better price environment to drill B bench wells. WPX Exhibit C, at ¶10. However, this claim fails under even minimal scrutiny. First, WPX has had a chance to develop the B bench since at least 2019, when it drilled the Frontier 431H Well. 3R Exhibit 55. However, since WPX took no steps to develop the area even during the past six years of historically high oil prices, any future development is doubtful at best. WPX also contradicts itself. In WPX Exhibit R-5, it emphasizes the economic efficiencies of multi-depth development, yet now proposes to defer the very bench it identifies as economically marginal—ensuring that future single-bench development will be even less viable. WPX's own evidence proves that WPX's plan will strand the B bench reserves, causing waste. As discussed above, 3R has relied on its significant proximate development experience to calculate that approximately 6,300 MBOE will be wasted.

WPX also admitted that concurrent development of the XY and B benches allows an operator “to use the pressure from one well to preferentially direct the fractures from the next well,

and the next well, and the next well -- a/k/a zipper fracking [sic]." Tr. at 62:19-63:3 (April 30, 2025). WPX admitted that "most operators are utilizing zipper for operations." Tr. at 63:23-24 (April 30, 2025). This is only possible with simultaneous multi-bench development, but WPX plans to develop the B bench potentially years after the XY bench, if ever. WPX Exhibit C, at ¶10. Since WPX's development plan precludes zipper fracing the XY and B benches, completions in the B bench will be less effective, lowering the recovery factor and causing waste.

WPX agreed that its development plan will cause a pressure sink to develop over time in the XY formation. Tr. at 56:3-8 (April 30, 2025). WPX admitted that a pressure sink can cause hydraulic fractures to migrate toward the pressure sink on a bench-to-bench level. Tr. at 56:9-16 (April 30, 2025). Although WPX speculated that the distance between the XY and B benches would limit this effect (Tr. at 56:16-18 (April 30, 2025)), 3R presented empirical evidence that such effects have actually occurred, and in one case, caused catastrophic damage to an XY bench well. 3R Exhibits 125, 126; Tr. at 98:25-101:23 (April 29, 2025). This effect not only reduces completions effectiveness within the B bench, it increases well interference risk and causes waste. *Id.* WPX admitted that this is a possibility in benches with vertical separation of 600-700 feet. Tr. at 298:9-20 (April 29, 2025). Thus, WPX's development plan risks significant damage to XY bench wells and production if WPX ever returns to complete B bench wells.

2. *WPX's development plan will harm correlative rights.*

WPX testified that it plans to locate its northernmost XY bench well approximately 330 feet off the northern boundary line of the northern unit. Tr. at 294:9-12, WPX Pooling Checklist, WPX Exhibit A, at ¶7, WPX Exhibit B-4. Similar to 3R, WPX's wells are spaced four to a section, with approximately 1,320 feet between wells, showing a drainage radius of approximately 660 feet. WPX Exhibit B-4. Therefore, WPX plans to locate its wells such that its northernmost well will directly drain the reservoir north of the Application Lands, outside WPX's proposed spacing

unit. WPX admitted that it did not evaluate the drainage radius of its well, does not know what the well's drainage radius, and does not know if its planned 330-foot offset is sufficient to protect the correlative rights of the owners north of the Application Lands. Tr. at 295:23-296:3, 296:8-23 (April 29, 2025). WPX's development plan will harm the correlative rights of the owners in the lands adjacent to the northern boundary of the Application Lands. WPX admitted that it did not do the analysis necessary to consider this impact. *Id.*

D. 3R Prevails on the 7 Evaluation Factors

As discussed in detail in Section II.C. above, the Division shall consider the 7 Evaluation Factors, including: (1) geologic evidence; (2) risk; (3) negotiations; (4) prudent operatorship; (5) AFEs and costs; (6) ownership; and (7) the surface factor.

1. Geologic Evidence.

The comprehensive discussion about waste and correlative rights in Sections III.B.3, III.B.4, and III.C above proves that 3R clearly prevails on this factor.

2. Risk.

3R clearly prevails in minimizing risk. It has significantly more proximate development experience, especially for the B bench. 3R Exhibit 54. As discussed in Section III.C.1 above, WPX's plan carries significant risk of well interference and parent-child well problems, which is minimized by 3R's two-bench development plan. Finally, 3R will significantly reduce risks of adverse surface and environmental impacts by moving produced water, fresh water, and all hydrocarbons by pipeline, as opposed to WPX's plan, which will involve significant truck hauling.

3. Pre-application negotiations.

In Order No. R-10731, the OCC stated "In the absence of other compelling factors, the operatorship...should be awarded to the operator who originally developed the prospect, developed the geologic data necessary to determine the optimum well location, and initially sought

to obtain farmout or voluntary agreement to drill its well.” 3R drilled the only B bench wells proximate to the Application Lands. See 3R Exhibit 47 (showing proximate B bench wells) and 3R Exhibit 55 (showing 3R’s B bench well in Sections 15 and 22, T23S, R26E). WPX landed its one-mile Frontier 431H Well in the Wolfcamp A bench, a suboptimal clay-rich interval. 3R Exhibit 44. 3R focuses on development very near the Application Lands, while WPX focuses on development 20 to 40 miles away. 3R Exhibit 54. 3R initiated discussions with WPX about developing the Application Lands, in November of 2023. Tr. 177:2-19 (Apr. 29, 2025). 3R filed pooling applications on January 8, 2025, over a month before WPX filed its Applications. 3R Exhibits 11 and 16; WPX Applications (unlabeled exhibit). 3R clearly prevails on this factor.

4. *Prudent operations.*

Highly relevant to this factor is each party’s *proximate* development experience and infrastructure plans. 3R has far more experience in the vicinity of the Application Lands, and is knowledgeable about the local reservoir. 3R Exhibit 54. Unlike WPX, 3R’s proximate development experience enables it to tailor its drilling and completions design to the local reservoir, maximizing production. Tr. At 131:7-132:25 (April 29, 2025). 3R has greater knowledge and experience about the reservoir details, such as water-oil ratio, water saturation, faulting, and the specific structure in the area, which allow it to avoid risk and maximize production. *Id.*

Additionally, 3R will transport all produced water by pipeline to a recycling facility, where it will be treated and sent back to the well pads for use in completions. 3R Exhibit 69, Tr. at 149:2-151:2 (April 29, 2025). This eliminates the need for freshwater use, reduces the risks associated with geological SWD, and drastically reduces the chances of truck accidents, spills and leaks. *Id.* 3R also has a zero-flare policy, and infrastructure in place already because of its proximate operations that will transport all hydrocarbons by pipelines. 3R Exhibit 70, Tr. at 146:3-151:2 (April 29, 2025). 3R uses an innovative liner system to mitigate any adverse effects from spills on

the pad, although it has had zero spills in 2024 and Q1 of 2025. 3R Exhibits 67, 68; Tr. at 145:21-148:20 (April 29, 2025).

WPX provided no evidence that it will transport water or hydrocarbons by pipeline, and very little evidence about its plans to mitigate surface impacts. Its argument rests solely on a general claim of less surface disturbance on a per-acre basis, unsupported by any measures that will minimize impacts. 3R provided ample evidence about its prudent operations, whereas WPX provided little to none. Clearly, 3R prevails on this factor.

5. *AFEs.*

3R's AFEs are approximately \$10.3 million (3R Exhibit 101), whereas WPX's AFEs range between \$7.9 million and \$8.4 million (WPX Exhibits A-3 and A-4). However, WPX sent well proposal letters stating that its AFEs were \$7.5 million. *Id.* Moreover, WPX admitted that its completion costs in its AFEs were too low and would need to be increased by half a million dollars. WPX Exhibit R-4. WPX's AFEs are far below the industry average of approximately \$10.8 million (after review of 124 two-mile wells in Lea and Eddy Counties since January 2024). 3R Exhibit 128. This might be due to WPX's delay in adopting a modern frac design. 3R Exhibit 127. It might also simply be that WPX's AFEs are inaccurate. WPX did not, or could not, explain why its AFEs are unreasonably below industry average, except to point out its original plan for an undersized completion design. In the absence of any reasonable explanation from WPX, 3R prevails on this factor, with AFEs that are slightly below industry average, and reflect a modern completion design that will maximize recovery.

6. *Ownership.*

3R owns a 43.75% working interest in the northern proposed spacing unit, and a 50% working interest in the southern proposed spacing unit, for a combined average of 46.875% in both units. WPX owns 50% in both units. The ownership difference between 3R and WPX is 3.125%.

This is a negligible percentage and immaterial difference. In Order No. R-10731, the OCC recognized a 37.7% interest for one operator and 24.101% working interest for another operator, and despite describing it as a “fairly significant difference” concluded that “this criteria should not be the deciding factor in this case.” Order No. R-10731 at 23(d). On this factor, there is no clear prevailing party, so it should not affect the outcome of these matters.

7. *Surface factor.*

There is currently no excess capacity for produced water disposal near the Application Lands. Tr. at 167:2-24 (April 29, 2025). Therefore, 3R made a major commitment to bring a new produced water recycling system to the area. Tr. at 168:18-169:7 (April 29, 2025). 3R will anchor a newly built system that can recycle more than 2.5 million bpd of produced water, and provide 100% recycled water for 3R’s completions. Tr. at 149:2-151:2 (April 29, 2025), 3R Exhibit 69. 3R also plans to transport all hydrocarbons by pipeline, which will drastically reduce flaring, leaks, traffic, accidents, noise, dust, and other impacts of hauling. Tr. at 151:5-152:5 (April 29, 2025), 3R Exhibit 70. Finally, 3R will use microgrids to reduce emissions and increase power reliability. Tr. 146:15-25 (April 29, 2025), 3R Exhibit 67.

WPX incorrectly argued that having two operators doubles surface disturbance and traffic. Tr. at 229:11-25 (April 29, 2025), Tr. at 12:5-12 (April 30, 2025), WPX Exhibit D, at 8. However, WPX provided no evidence of its own pipeline capacity for oil, gas, freshwater, or produced water, and no produced water pipeline capacity is available. Therefore, WPX will be forced to truck its fresh and produced water, and that alone will drastically increase trucking and surface impacts and costs. Moreover, WPX’s total lack of evidence of pipeline capacity for its hydrocarbons raises significant concern about flaring and oil hauling truck traffic. WPX Exhibit R-5.

On balance, 3R’s plan will drastically reduce surface and environmental impacts, and most importantly, eliminate the need for millions of gallons of freshwater that WPX would use for

completions. 3R will transport everything by pipeline, whereas WPX's plan increases risks of truck accidents, leaks, and spills. While 3R's operation of the Wolfcamp will add one more pad, which will be reclaimed, that surface impact is negligible compared to adverse impacts of WPX's plan.

IV. CONCLUSION

The development plan proposed by 3R will drastically reduce waste and harm to correlative rights as compared to WPX's plan. 3R prevails on six of the 7 Evaluation Factors, with neither party clearly prevailing on the seventh factor. WPX's objection focuses entirely on a difference of opinion about profitability, an irrelevant factor. 3R satisfied all the statutory requirements for a pooling application. 3R presented a plan for efficient and economic development, gave proper notice, and was the first party to make good faith efforts for voluntary participation. 3R is ready to begin development immediately, whereas WPX has no reliable timeline for development.

For the reasons discussed in this Closing Statement, 3R respectfully urges the Division to approve the 3R Applications, reject WPX's objection, and deny the WPX Applications.

Respectfully submitted,

BEATTY & WOZNIAK, P.C.,

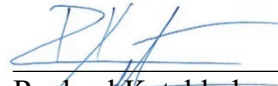
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the forgoing was served to counsel of record by electronic mail this 21st day of May, 2025, as follows:

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