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 TAP ROCK RESOURCES, LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 16160**

APPLICATION OF CHEVRON U.S.A. INC.FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 16132**

APPLICATION OF TAP ROCK RESOURCES, LLC FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 16134**

APPLICATION OF CHEVRON U.S.A. INC.FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 16133**

CLOSING STATEMENT
OF
TAP ROCK RESOURCES, LLC

APPLICATIONS

In Case No. 16160, Tap Rock Resources, LLC ("Tap Rock") seeks approval of a 160-acre non-standard oil spacing and proration unit in the Bone Spring formation comprised of the E/2E/2 of Section 14, Township 24 South, Range 31 East, NMPM. Tap Rock further seeks the pooling of all mineral interests in the Bone Spring formation underlying the well unit. Tap Rock's proposed well is in the Third Bone Spring carbonate in the Cotton Draw-Bone Spring Pool.

In Case No. 16132, Chevron U.S.A. Inc. ("Chevron") seeks approval of a 480 acre non-standard well unit in the Bone Spring formation comprised of the SE/4 of Section 11 and the E/2 of Section 14, and the pooling of all mineral interests in the Bone Spring formation underlying the well unit. Chevron's proposed wells are in the Avalon Bone Spring in the Sand Dunes-Bone Spring Pool.

In Case No. 16134, Tap Rock seeks approval of a 320-acre standard gas spacing and proration unit in the Wolfcamp formation comprised of the E/2 of Section 14, Township 24 South, Range 31 East, NMPM. Tap Rock further seeks the pooling of all mineral interests in the Wolfcamp formation underlying the well unit.

In Case No. 16133, Chevron seeks approval of a 480 acre non-standard well unit in the Wolfcamp formation comprised of the SE/4 of Section 11 and the E/2 of Section 14, and the pooling of all mineral interests in the Wolfcamp formation underlying the well unit.

EOG Resources, Inc. ("EOG"), the operator of Section 23, has apparently filed applications for 1-1/2 mile horizontal wells which would include the S/2 of Section 14 and all of Section 23.

FACTS

Less than a year ago, in June 2017, Tap Rock acquired a farmout agreement from Douglas McLeod on the S/2 of Section 14 below 10,000 feet subsurface. Tap Rock must commence a well by June 1, 2018 or the agreement will terminate. As the evidence showed, Chevron was informed of both the existence and term of the agreement. Mr. McLeod has refused to approve an extension of the farmout agreement, and has signed AFEs for multiple operators. However, he has executed an operating agreement designating Tap Rock as operator. Tap Rock's

correlative rights are dependent on the Division granting Tap Rock an order to drill a well in Section 14.

Tap Rock began its preparations to drill before either Chevron or EOG and has, by far, made the most progress towards development. Shortly after the farmout was signed, Tap Rock began preparations to develop the Section 14 acreage. This included following the procedures necessary to obtain an APD from the BLM, and commencing negotiations with Chevron. Tap Rock mailed its first well proposal to Chevron (the only party it seeks to pool) in September 2017, for a two-mile lateral in the Wolfcamp. Chevron did not like the proposal, so to accommodate Chevron, Tap Rock amended its proposal to a one mile lateral, and mailed that to Chevron in October 2017. Because EOG is not entitled to a well proposal (it does not own an interest in the depths being pooled by Tap Rock), Tap Rock never sent well proposals to EOG. Tap Rock continued negotiations with Chevron for months, and believed it had reached verbal agreement with Chevron in March 2018 on a JOA covering certain depths in the E/2 of Section 14. Chevron then informed Tap Rock that there would be no voluntary agreement to split operations and accommodate the development plans of both parties. To date, Chevron and Tap Rock have plans to develop separate and distinct reservoirs and Tap Rock continues to believe that the development plans are complementary instead of conflicting. Tap Rock has now been negotiating with Chevron for almost eight months to develop Section 14, to no avail.

BONE SPRING PROPOSALS: TAP ROCK CASE NO. 16160/ CHEVRON CASE NO. 16132

Both Tap Rock and Chevron have proposals for Bone Spring wells. Tap Rock proposes the drilling of a Third Bone Spring carbonate well, while Chevron has proposed an Avalon Bone Spring test. Tap Rock has no interest in the Avalon, which is above 10,000 feet in depth. Thus,

there are issues as to whether Chevron's application is valid as to any depths below 10,000 feet. The pertinent portion of the pooling statutes provides:

> Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

NMSA 1978 §70-2-17.C. Chevron's geologist, Mr. O'Toole, stated that the Avalon and Third Bone Spring are different reservoirs. Moreover, pursuant to the OCD's own geologic designations, the wells are proposed in different pools and therefore different reservoirs. There remains an issue, due to depth severances of the working interest in the Bone Spring, as to what depths Chevron's pooling application can cover.

Accordingly, Tap Rock is amending its application to cover only depths below 10,000 feet, so the Bone Spring cases should be continued to a future docket so all of these matters can be adequately addressed.

WOLFCAMP PROPOSALS: TAP ROCK CASE NO. 16134/ CHEVRON CASE NO.16133

Chevron's and Tap Rock's Wolfcamp proposals are ripe for decision.[1] However, only Tap Rock has an approved APD, and is ready, willing, and able to drill its well. In fact, a well must be commenced within 10 days of the filing of this Closing Statement. Chevron's wells will not be commenced until 2019, at the earliest. See Tap Rock Exhibit 8, and Chevron's testimony. If Chevron's or EOG's applications are granted, Tap Rock will lose its farmout, and its correlative rights will not only be adversely affected, they will be destroyed.

[1] EOG's proposals were not mature enough to be considered in this hearing and, in any case, EOG owns no interest in the Wolfcamp formation in Section 14.

As to EOG's Wolfcamp proposals, they are too late to the game, and its Wolfcamp applications must be denied. Testimony showed that EOG's correlative rights are not affected by either Chevron's or Tap Rock's proposals, because it may still develop the acreage where it actually owns an interest (in Section 23).

It should be noted that the order fixing pool rules for the Purple Sage-Wolfcamp Gas Pool, No. R-14262, states in Finding Paragraph (19) that "The application should be approved to prevent waste and to protect correlative rights." Thus, Tap Rock's application for a standard 320-acre well unit and 330 foot setbacks, by definition, prevents waste and protects correlative rights.

Chevron and EOG will not be adversely affected by the granting of Tap Rock's application. Chevron is proposing a large unit area for development by two-mile laterals. See Testimony of Christopher Cooper. Thus, Chevron will still have the ability to develop its Section 11 by drilling two-mile laterals into Section 2 to the north. As to EOG, it is free to develop Section 23 as it sees fit.

FACTORS TO CONSIDER IN COMPETING APPLICATIONS

The facts at hand show that Tap Rock's application in Case No. 16134 must be granted. Commission Order No. R-10731-B set forth the factors to consider in competing pooling applications. They are (1) geology, (2) working interest ownership or control, (3) good faith negotiations, and (4) AFE costs.

(1) Geology: Testimony showed there is very little difference in geologic interpretations, so this factor is unimportant. If anything, the geologic testimony showed that only Tap Rock sought to explore new benches of development and therefore only its application has the opportunity to increase the overall reserve potential of the acreage.

(2) Working Interest: In this case, working interest in Section 14 is equal as to Chevron and Tap Rock, and completely disqualifies EOG. In fact, ownership only matters if Chevron or EOG is allowed to add their additional acreage from outside Section 14 to dilute Tap Rock's ownership. Specific to the Wolfcamp formation, the Purple Sage-Wolfcamp Gas Pool is set on 320-acre spacing, and that is therefore the designated unit size.

(3) Good Faith: Evidence showed that Tap Rock is the only party that negotiated in good faith. For nearly a year, Tap Rock has been diligently working toward the drilling of a well and is the only party that proposed options to protect all parties' correlative rights. By contrast, both Chevron and EOG seek only to thwart Tap Rock's ability to develop the acreage at all. In fact, they testified incorrectly that they either (i) had not received documents or information that evidence proved that they indeed had received, or (ii) they were entitled to proposals when they clearly were not.

(4) Well Costs: Tap Rock's (and EOG's) AFEs are lower than Chevron's AFEs. EOG's engineering witness stated that Chevron's costs are far higher than necessary. In addition, Tap Rock's drilling and operations team has vast experience in drilling horizontal wells in the Permian Basin, helping to ensure good drilling results particularly when it comes to testing new areas and horizons.

The overarching considerations for compulsory pooling further favor Tap Rock's applications. The Division is charged with preventing waste and protecting correlative rights. N.M.S.A. 70-2-11. Testimony showed it would be wasteful to test new horizons (*i.e.* the Third Bone Spring carbonate and Wolfcamp "B") with extended length laterals, and by drilling multiple wells without evaluating the results of the first couple wells. As to the Wolfcamp "A", both Tap Rock and EOG testified that proper spacing is 8 wells per section, and Chevron's

planned development (of only six wells) would, in fact, cause waste. Further, Tap Rock is the only operator that provided a plan that would eliminate offset waste via a mutual agreement between the parties for reciprocal offset waivers of unorthodox locations.

Both Chevron and EOG seek to stifle Tap Rock's exploration and development without providing a method for preserving Tap Rock's correlative rights. EOG entities do not own working interest in the depths at issue in Tap Rock's applications, and presented no issue with regard to any of the applications actually before the Division. Chevron's applications are mere complementary proposals to Tap Rock's applications. Tap Rock's correlative rights are at stake and it is the Division's duty to ensure that all owners are afforded the opportunity to produce their fair share of the recoverable oil or gas beneath their land.

CONCLUSION

The factors set forth in Order No. R-10731-B favor Tap Rock. Its application, independent of other factors, should therefore be approved.

More importantly, it is the Division's responsibility to prevent waste and protect correlative rights. NMSA 1978 §70-2-11. Denial of Tap Rock's Wolfcamp application (Case No. 16134), or failure to timely approve the application, will cause Tap Rock financial loss and its correlative rights will not only be violated, they will be voided. Tap Rock's application in Case No. 16134 must be timely approved.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 23rd day of May, 2018 by e-mail:

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