

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

**APPLICATIONS OF ASCENT ENERGY, LLC
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO**

CASE NOS. 16481, 16482

**AMENDED APPLICATIONS OF APACHE
CORPORATION FOR COMPULSORY POOLING
AND APPROVAL OF A HORIZONTAL SPACING
UNIT AND POTASH DEVELOPMENT AREA,
EDDY COUNTY, NEW MEXICO**

CASE NOS. 20171, 20202

APACHE CORPORATION'S POST-HEARING BRIEF

Apache Corporation ("Apache") submits the following Post-Hearing Brief and proposed order for entry by the Division reflecting the resolution of the above-referenced cases, attached as Exhibit "A".

This brief addresses a question raised by the EMNRD counsel at the August 20, 2019 hearing concerning the Division's jurisdiction to approve a development area that includes federal lands located within the Potash Area. Apache's proposed Taco 28-30 Development Area and Ascent's proposed Anvil Development Area includes state lands, which the Division has primary jurisdiction for regulating oil and gas development. As noted at the hearing, the motion of EOG Resources, Inc. to dismiss these cases for lack of jurisdiction was denied at a pre-hearing conference presided over by technical examiner Terry Warnell and legal examiner David Brooks.

The Secretary of Interior's 2012 Order governing oil and gas development in the Potash Area, expressly provides that the BLM must coordinate with the Division concerning development decisions:

(5) Coordination with the State of New Mexico.

(a) If the effective operation of any Development Area requires that the New Mexico Oil Conservation Division (NMOCD) revise the State's mandatory well spacing requirements, the BLM will participate as needed in such a process. The BLM may adopt the NMOCD spacing requirements and require lessees to enter into communitization agreements based on those requirements.

(b) The BLM will cooperate with the NMOCD in the implementation of that agency's rules and regulations.

(c) In taking any action under Section 6.e. of this Order, the Authorized Officer will take into consideration the applicable rules and regulations of the NMOCD.

See December 3, 2012 Secretary of Interior's Order 3324, *Oil, Gas, and Potash Leasing and Development within the Designated Potash Area of Eddy and Lea Counties, New Mexico*.¹ As established at the hearing of these cases, the BLM has declined to approve the competing development areas, choosing instead to refer the matter to the Division for decision under its adversarial hearing process. And, if there were any doubt concerning the BLM's referral, shortly after the hearing concluded, the BLM confirmed that it would defer the Division's decision in these cases. *See* May 20, 2018 email from Jim Rutley, attached hereto as Exhibit "B."

The Division clearly has the authority to determine which of the competing development plans will prevent waste, protect correlative rights and also to establish the appropriate spacing and orientation of wells to achieve those objections and to prevent injury to adjacent leases. Apache's evidence demonstrated that its Taco 28-30 Development Area is superior to Ascent's proposal because: (1) it will result in the greatest EUR from the lands embraced in both areas; (2) it has support of 80% of the working interest owners and will afford each interest owner the opportunity to develop its proportionate share of the resources; (3) it will effectively develop the known productive formations and allow for future development; and (4) it will avoid the catastrophic risk of well collision. Apache further demonstrated that it is the superior operator with the knowledge and ability to drill its proposed wells, has made a substantial investment in preparing its proposed development area for drilling and is ready, willing and able to implement its plan. Accordingly, the Division should grant Apache's applications and deny those of Ascent.

I. THE DIVISION HAS EXPRESS AND IMPLIED AUTHORITY TO APPROVE A PROPOSED DEVELOPMENT AREA AND HORIZONTAL SPACING UNITS WITHIN THE DESIGNATED POTASH AREA THAT INVOLVE STATE, FEE AND FEDERAL LANDS.

A. The Oil and Gas Act Confers Authority Over All Matters Relating to the Conservation of Oil and Gas and the Waste of Potash and Further Requires the Division to Prevent Waste and Protect Correlative Rights.

¹ Available at: <https://www.blm.gov/sites/blm.gov/files/2012%20Potash%20Secretarial%20Order.pdf>.

The Division's jurisdiction in this matter is established under several provisions of the Oil and Gas Act, NMSA 1978, §§ 70-2-1 *et seq.* First and foremost, is Section 70-2-6, which sets forth the Oil and Gas Commission and Division's general powers and duties, providing for a broad grant of "jurisdiction and authority over ***all matters relating to the conservation of oil and gas and the prevention of waste of potash*** as a result of oil or gas operations in this state." NMSA 1978, § 70-2-6 (emphasis added). The statute further provides that: "[the Division] shall have ***jurisdiction, authority and control of and over all persons, matters or things necessary or proper to enforce effectively the provisions of this act or any other law of this state relating to the conservation of oil or gas and the prevention of waste of potash*** as a result of oil or gas operations." *Id.*

Supplementing this broad grant of authority over all matters relating to the conservation of oil and gas and the prevention of waste of potash, is the general grant of authority under the Oil and Gas Act to prevent waste and protect correlative rights:

The division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the division is empowered to make and enforce rules, regulations and orders, ***and to do whatever may be reasonably necessary to carry out the purpose of this act, whether or not indicated or specified in any section hereof.***

NMSA 1978, §70-2-1 (emphasis added).

In numerous other cases, the Division and Commission acting under authority granted by these provision of the Act (and others) have entered various orders providing for the orderly development of oil and gas wells within the Potash Area, which included, *inter alia*, restrictions on drilling, special requirements for submission of APDs, well casing requirements and provisions for directional well drilling to access resources in the area. *See* Order R-111-A (July 14, 1955) through R-111-P (February 18, 1988). The Commission has also temporarily denied the drilling of wells pending recommendations of a Technical Committee created by the Commission to recommend a plan of development. *See* Order Nos. R-9650-A and R-9652-A (8/23/1993). The Division has also authorized directional drilling of wells to access oil and gas resources in the Potash Area over the objections of another oil and gas operator. *See* R-10048 (1/12/1994). It has also issued an order authorizing pooling and an unorthodox well location, R-10214 (10/4/1994). More recently, in case involving Ascent, it approved the establishment of a non-standard spacing unit. *See* R-14743 (6/15/2018).

It is well within the Division's jurisdiction to approve Apache's request for an order approving its proposed Taco 28-30 Development Area and proposed spacing units for its wells located within and doing so is perfectly consistent with prior Commission and Division precedent. Moreover, as discussed below, the Oil and Gas Act also expressly authorizes the Division to approve and modify "development plans," a grant which should be construed to include development plans proposed by operators in the Potash Area under the terms of the Secretary of Interior's 2012 Order.

B. The Oil and Gas Act Confers Authority on the Division to Limit the Operation of Wells to Prevent Injury to Neighboring Leases, to Fix the Spacing of Wells and to Create Standard and Non-standard Spacing Units.

Section 70-2-12 of the Act provides for an enumeration of specific powers of the Division "apart from any authority, express or implied, elsewhere given" which includes the power to "make rules, regulations and orders for the purposes and with respect to the subject matter stated in this subsection." This specific grant of authority includes the power:

(7) to require wells to be drilled, operated and produced in such manner as to prevent injury to neighboring leases or properties;

(10) to fix the spacing of wells;

Apache opposed the drilling of the wells by Ascent because of the substantial risk of well collision with Apache's current and future wellbores located in Section 28 and because if Ascent were allowed to drill its proposed wells, Apache adjacent leases in Sections 29 and 30 would effectively be condemned. The Division's authority to establish the location of wells and to prevent drilling and operation of wells which will injure adjacent acreage under Section 70-2-12(7) cannot reasonably be questioned. *See Santa Fe Exploration Co. v. Oil Conservation Comm'n*, 114 N.M. 103, 108, 835 P.2d 819, 828 (1992). ("The broad grant of power given to the Commission to protect correlative rights and prevent waste allows the Commission "to require wells to be drilled, operated and produced in such manner as to prevent injury to neighboring leases or properties." NMSA 1978, § 70-2-12(B)(7)")

Apache's cases also include a request to establish horizontal spacing units for wells proposed within the Designated Potash Area, which is clearly a matter "relating the conservation of oil and gas and the prevention of waste of potash." Apache's requests therefore fall within the

Division's authority under §70-2-12 (10) and §70-2-18 to fix the spacing of wells and establish spacing or proration units with divided mineral ownership. The New Mexico Supreme Court previously rejected a challenge to the Commission's authority under these provisions, with the court holding that the general grant of authority to prevent waste provided a sufficient standard to allow for the creation of standard or non-standard spacing units. *See Rutter & Wilbanks Corp. v. Oil Conservation Comm'n*, 1975-NMSC-006, 87 N.M. 286. And the Commission is currently vigorously defending its authority to establish horizontal spacing units under its Horizontal Well Rule, 19.15.16.15 NMAC *See Jalapeno Corporation v. New Mexico Oil Conservation Commission*, No. D-101-CV-20170059 (Santa Fe County District Court).

C. The Pooling Statute Mandates the Issuance of Orders on Reasonable and Just Terms and Further Authorizes the Approval and Modification of Development Plans.

These cases also involve Ascent's request for a compulsory pooling and competing development plans, and in such cases any order entered by the Division must not only be premised on a showing that waste is prevented but comply with the mandate of Section 70-2-17, that "[a]ll orders effecting such pooling shall be made after notice and hearing, and shall *be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both.*" NMSA 1978, 70-2-17(C). The statute also includes a provision concerning the Division's authority to approve and modify development plans, stating:

Whenever it appears that the owners in any pool have agreed upon any other plan for the development or operation of such pool, which plan, in the judgment of the division, has the effect of preventing waste as prohibited by this act and is fair to the royalty owners in such pool, *then such plan shall be adopted by the division with respect to such pool; however, the division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this act.*"

NMSA 1978, 70-2-17(E) (emphasis added); *see also, Sims v. Mechem*, ¶10, 72 N.M. 186, 188, 382 P.2d 183, 184 (1963) ("It is also clear from sub-section (e) of the same section that any agreement between owners and leaseholders may be modified by the commission.").

Of course, the Division's exercise of its authority under these provisions of the Oil and Gas Act must be predicated on the prevention waste and/or the protection of correlative rights.

As summarized in Apache's proposed order attached as Exhibit "A," the evidence adduced at the hearing amply demonstrated that Apache's proposed Taco 28-30 Development Area and proposed 2.5-mile Bone Spring and Wolfcamp horizontal spacing units located within it, is the only development plan that will prevent waste, protect correlative rights and avoid the risk of catastrophic well collision. Accordingly, it should approved by the Division.

Respectfully submitted,

MODRALL, SPERLING, ROEHL, HARRIS
& SISK, P.A.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on the following counsel of record by electronic mail on September 16, 2019:

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CASE NOS. 20171, 20202

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 9:00 a.m. on August 20, 2019, at Santa Fe, New Mexico, before Examiner William E. Jones.

NOW, on this ____ day of September, 2019, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and of the subject matter.

(2) In Case No. 16481, Ascent Energy, LLC seeks an order pooling all mineral interests in the Bone Spring formation underlying a horizontal spacing unit comprised of the W/2W/2 of Section 28 and the W/2W/2 of Section 33, Township 20 South, Range 30 East, N.M.P.M., Eddy County, New Mexico.

(3) In Case No 16482, Ascent Energy, LLC seeks an order pooling all mineral interests in the Wolfcamp formation underlying a horizontal spacing unit comprised of the W/2W/2 of Section 28 and the W/2W/2 of Section 33, Township 20 South, Range 30 East, N.M.P.M., Eddy County, New Mexico.

(4) In Case No. 20171 Apache seeks an order from the Division: (1) approving its proposed 28-30 Taco Development Area comprised of the N/2 of Sections 28 and 29 and the

NE/4 of Section 30 of Township 20 South, Range 30 East, N.M.P.M., Eddy County, New Mexico within the Designated Potash Area; and (2) the creation of a 800-acre Bone Spring spacing unit for the drilling of its proposed Taco 28-30 Federal Com 401H, Taco 28-30 Federal Com 402H, and Taco 28-30 Federal Com 403H wells, to be horizontally drilled within the Taco 28-30 Development Area.

(5) In Case No. 20202, Apache seeks an order from the Division: (1) approving its proposed 28-30 Taco Development Area comprised of the N/2 of Sections 28 and 29 and the NE/4 of Section 30 of Township 20 South, Range 30 East, N.M.P.M., Eddy County, New Mexico within the Designated Potash Area; and (2) the creation of a 800-acre Wolfcamp spacing unit for the drilling of its proposed Taco 28-30 Federal Com 401H, Taco 28-30 Federal Com 402H, and Taco 28-30 Federal Com 403H wells, to be horizontally drilled within the Taco 28-30 Development Area.

(6) Apache seeks approval of its proposed 28-30 Taco Development Area under the terms of Secretary of the Interior's Order No. 3324 establishing procedures and guidelines for the co-development of potash and oil and gas resources in Designated Potash Area. Apache opposes Ascent's applications because if granted they will result in waste and impair Apache's correlative rights.

(7) Because these cases ultimately involve a dispute over the approval of competing development plans in the Designated Potash Area and spacing units for Bone Spring and Wolfcamp wells in the proposed development area and the orientation of such units, they were consolidated for purposes of hearing. The granting of one party's application will require the denial of the other.

(8) Mewbourne Oil Company and EOG Resources, Inc. appeared through counsel but did not take any position on the applications or present any testimony or exhibits.

(9) Occidental Permian Limited Partnership appeared through counsel in support Apache's applications but did not present any testimony or exhibits.

(10) In support of its applications in Case Nos. 16481 and 16482 Ascent presented testimony from its Vice President of land and Vice President of engineering as follows:

- a. Ascent currently owns an approximately 34% interest in the lands comprising its Anvil Development Area in the W/2 W/2 of Sections 28, 32 and 33. It was currently negotiating a deal with the Hudson Group to try to increase its ownership percentage but had not signed any binding purchase agreement to acquire additional acreage. Although it stated that it was seeking to acquire additional acreage, it acknowledged that it has marketed its acreage in the Anvil

Development Area since 2018 and has had discussions since June of 2019 to sell its interest in the Anvil Development Area.

- b. Ascent has never drilled any horizontal wells in New Mexico or Texas but was currently drilling its first wells in Lea County.
- c. The reasoning behind its proposed north-south well orientation for the Anvil Development Area was Ascent had existing drill islands to do that and its belief that this orientation conformed with existing wells and units in the area.
- d. Although Ascent's Vice President of engineering had never drilled a horizontal well in the Permian Basin and Ascent as a company has never drilled any horizontal wells, its employees had done so when employed by other companies.
- e. Ascent looked at the production history of 72 2nd Bone Spring wells in the area and found almost no difference in the production in wells with a north-south and east-west orientation after the first months of production.
- f. XTO was currently in the process of completing its Buttercup wells with a north-south orientation located 5 miles north of the Anvil Development Area and has also proposed its 8 Bubble wells with a north-south orientation.

(11) In support of its applications in Case Nos. 20171 and 20202 and opposition of the applications of Ascent, Apache presented testimony from its Senior Landman, geologist, petroleum engineer and Manager Drilling Operations, all of whom had significant experience in drilling horizontal wells in the New Mexico Permian basin as follows:

- a. Apache is the approximately 96% working interest owner of State of New Mexico lease VD-7125-002 located in N/2 of Section 29 which is held by production by the Golden Lane 29 State 1Y well, a Morrow producer drilled directionally from a surface location in Unit E, of Section 28 of T. 20S, R. 30E to a bottomhole location in Unit B of Section 29 of Township 20S, R. 30E.
- b. Apache had been evaluating this prospect for the development of formations since March of 2018 and accelerated its development plans after receiving notice of Ascent's proposed Anvil Development Area.
- c. Apache's proposed Taco 28-30 Development Area is located within the Potash Area of Eddy County, where there are special procedures established by the BLM for development under a 2012 Order of the Secretary of Interior. The order and BLM's instruction memorandum establishes a collaborative process for proposing development plans and drilling wells within the Potash Area.
- d. Apache's development plans were already underway when it received notice concerning Ascent's Anvil Development Plan in March of 2018. Apache had scheduled on-site meetings to discuss the staking of wells and was in conversations with the BLM on how to develop its acreage.
- e. Apache had several concerns regarding Ascent's proposal to drill two mile laterals from Section 33 north into Section 28 where Apache's Golden Lane well

was located, including Ascent's lack of experience in drilling horizontal wells in New Mexico and the potential for one of its wells colliding with the wellbore.

- f. Through the BLM collaboration process, Apache tried to work with the BLM and Ascent to resolve the development conflict. It met with the BLM and Ascent to discuss proposals for development and exchanged several offers to sell or trade acreage. Ascent rejected all of Apache's offers and offered to sell its interest in Section 28 for 2.5 times what it offered Apache for its interest in Section 29. Unable to reach agreement, Apache filed a formal protest with the BLM of Ascent's proposed Anvil Development Area on 5/23/18.
- g. As a result of continued evaluation by Apache's technical exploration group Apache formulated its Taco 28-30 Development Plan, which the BLM originally suggested to Apache. Apache determined that its optimal plan was to develop the area with 2.5 mile laterals oriented east-west from Section 28 to Section 30 would avoid collision issues completely and allow for additional development in other formations.
- h. Apache's engineering study determined that it would not be able to develop additional prospective formations from its existing drilling island in Section 28 established for the Golden lane 29 1Y well, which could not be expanded due to the proximity of a playa, raptor nest and transmission line to the pad and was also informed by the BLM that if other operators needed to use the drilling island, it would have to move its battery to accommodate them.
- i. Before filing its applications, Apache sought approval of the BLM and working interest owners for its Taco 28-30 Development Area by formally proposing the area in accordance with the 2012 Order, staking the wells, sending out well proposals, and preparing its APDs for submission to the BLM. Apache provided notice to all interest owners concerning its applications in these cases in accordance with Division rules.
- j. Apache has the support of approximately 80% of the working interest owners for its proposed development area, including a letter of support from the Hudson Group, whom Ascent claimed it was negotiating with to increase its ownership percentage. Three interest owners have offered to sell its acreage to Apache, but negotiations are on hold until the working interest owners know whether the Taco 28-30 or the Anvil Development Area will be approved by the Division.
- k. The BLM's reaction to the plan was positive because Apache would be twinning its drilling islands in Section 28 with XTO's adjacent acreage in Section 27 enabling the two operators to share a frac pond and because it allowed for development of the NE/4 of Sec. 28 and other parts of Sec. 29 and 30 that might otherwise be stranded. It was also a compromise that still allowed Ascent to develop its acreage by drilling 1.5 mile laterals from Section 33 into Section 28.

- l. Apache has invested a substantial amount of time and resources in preparing its plan, including a \$120,000 investment to determine ownership of all of the lands in its proposed development area, 242 field hours on location review with the BLM, 94 hours on land issues and 154 technical hours studying geology, reservoir, drilling and production issues.
- m. Apache has proposed drilling 10 wells, developing the 2d Bone Spring first, then the 3rd Bone Spring and Wolfcamp A. As part of its drilling plan, Apache intends to perform simultaneous operations so it can continue to produce its wells while it drills into another landing zone to avoid depletion that can occur if you come back later and drill a second well and have to temporarily abandon the first wells during drilling.
- n. Apache designed the central tank battery to be expandable so that it doesn't have to build a huge battery up front to accommodate all ten wells. It has conducted three dimensional studies for drilling its wells to make sure it can jog around the Golden Lane wellbore. It has worked with the surface lessee and with the adjacent operator, XTO to minimize its surface impacts. It plans to share a frac pond and access road with XTO and move a rancher's fence to accommodate the surface lessee and work with the BLM to move a recreational trail.
- o. Ascent's map purporting to show that acreage would be stranded is based on incorrect assumptions that no future drilling islands would be approved. The development process is not static, and the BLM is regularly approving additional drilling islands. For example, the BLM approved Apache's new drilling islands for the Taco 28-30 wells in a few months.
- p. Apache conducted a detailed geological and engineering study to determine the optimal well orientation which showed that there have been 135 horizontal wells drilled in the area; 130 of which were Bone Spring wells. Of the 135 wells, 95 have an east-west orientation, or approximately 70%, and since January of 2015, when operators began using more modern completion techniques, 24 horizontal wells have been drilled, 21 of which have an east-west orientation.
- q. Apache's study normalized the production from all the horizontal wells through a one-mile lateral, to allow for an apples to apples comparison of results. Apache's study demonstrated the average east-west well outperforms the average north-south well, even though the north-south wells had larger completions. For wells similar in completion size, the wells orientated east-west performed approximately 30 percent better than those orientated north-south. During the first year, production of wells oriented east-west were two-and-a-half times higher than the north-south wells and when you get out to a year, EUR is two-times higher.
- r. The increase in production under Apache's plan from the disputed 160 acres in Section 28 that is included in each development area is approximately 116,000

barrels for a single 2d Bone Spring well, which at \$50 oil represents \$870,000 per well in lost royalty. Ascent would also realize approximately \$5 million in additional revenue from participating in Apache's Taco 28-30 development plan for Section 28 than if it developed its acreage under the Anvil development plan.

- s. If Ascent's application were granted, the risk of well collision is high enough so that Apache would not drill its proposed Bone Spring and Wolfcamp wells due to the substantial risk of well collision.
- t. Apache would not drill 1 mile north-south wells from drilling islands in Section 32 because the economics do not support drilling wells with a north-south orientation. Matador's HEYCO wells which are located just to the west of Ascent's acreage in Section 32 are oriented north-south and are extremely poor producers despite having a very large completion package. Matador believes the preferred orientation of wells in this area is east-west and sold its acreage in Section 33 to Ascent.
- u. Apache is currently running two rigs in New Mexico and has plans to operate two to three rigs for the next five years and will have a rig available to drill the Taco 28-30 wells as soon as APDs are approved. Apache has drilled over 2,700 horizontal wells in the Permian Basin, and 870 wells in New Mexico during the last 10 years, including 11 extended-reach laterals the past two years. None of the wells had a sidetrack, and they were all in zone.

(12) The negotiations between these two working interest owners have broken down, resulting in competing compulsory pooling applications. To protect correlative rights and prevent waste, the lands in Sections 28 that are located within each of the proposed development areas of Apache and Ascent should be operated by one party, and the same arguments and conclusions as to which party should operate apply to each of these competing development plans.

(13) The Division's task is to determine which development plan, Ascent's or Apache's, will most efficiently develop the subject acreage, prevent waste and protect correlative rights.

(14) The Division in previous orders has established the following factors that should be considered in evaluating competing development plans in a compulsory pooling case:

- (a) *A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property.*
- (b) *A comparison of the risk associated with the parties' respective proposal for the exploration and development of the property.*
- (c) *A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort.*

the property and, thereby, prevent waste.

(e) A comparison of the differences in well cost estimates (AFEs) and other operational costs presented by each party for their respective proposals.

(f) An evaluation of the mineral interest ownership held by each party at the time the application was heard

(g) A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").

(15) The Division finds that Apache's Taco 28-30 development plan presents the greatest potential for the development of reservoir resources, will prevent waste, protect correlative rights and avoid the risk of well collision, for reasons that include the following:

- a. Ascent and Apache engaged in a good faith effort to reach voluntary agreement for their development plans. At the time of the hearing, Apache had received the support of 80% of the working interest owners in proposed plan, including that of Occidental Permian Limited Partnership who appeared in support of its plan. Ascent held a 34% interest and the party it was negotiating with to increase its ownership, the Hudson Group, provided a letter supporting Apache's proposal.
- b. Apache's evaluation of production history of wells in the area, based upon their well orientation and the size and date of completion, is superior to Ascent's evaluation, and Apache clearly demonstrated that 2d Bone Spring wells drilled in the surrounding area with an east-west orientation using modern completion techniques have resulted in greater production than wells oriented north-south.
- c. Apache has performed a detailed drilling plan that evaluated well collision issues and development plans to prevent well collision, but Ascent has no experience drilling extended reach horizontal wells and has not analyzed well collision issues.
- d. Apache's east-west development plan for drilling 2.5 mile Bone Spring and Wolfcamp wells in N/2 of Section 29 and 30 and NE/4 of Section 28 will result in greater EUR and will prevent the waste of resources that will result from Ascent's plan.
- e. Apache's experience in drilling horizontal wells is far superior to Ascent's, which was drilling its first horizontal wells in Lea County at the time of the hearing, and its VP of drilling had never drilled any horizontal wells. Because of the risk of well collision and Ascent's inexperience in drilling, there is a much lower risk associated with Apache's development plan.
- f. Apache is prepared to implement its plan, having the support of 80% of the working interest owners in the development area, ready to drill with 2 rigs currently operating in New Mexico and plans to add a 3d next year, having conducted a detailed, 3D directional drilling plan to assess and prevent the risk of well collision, met with BLM and staked its wells, secured BLM approval of its

drilling islands and has committed to perform surface improvements and share surface facilities if its plan is approved.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in lands comprising the two development areas in these combined cases the opportunity to recover or receive without unnecessary expense it's just and fair share of hydrocarbons in the reservoir in Section 28, Apache's applications in Case Nos. 20121 and 20202, as modified at the outset of the hearing to remove the request for compulsory pooling should be approved.

(17) Ascent's applications in Cases No. 16481 and 16482 should be denied.

(18) Apache's application, as modified at the outset of the hearing to drop the request for compulsory pooling and to seek approval of its Taco 28-30 Development Area and the establishment of the configurations of proposed Bone Spring and Wolfcamp spacing units within the development area should be approved.

(19) Apache should be designated the operator of the proposed Taco 28-30 Development Area.

IT IS THEREFORE ORDERED THAT:

(1) The applications of Ascent Energy, LLC in Cases No. 16481 and 16482 are denied.

(2) The applications of Apache Corporation in Cases No. 20171 and 20172, as modified at hearing to remove the request for compulsory pooling are approved as detailed below.

(3) The Taco 28-30 Development Area as proposed by Apache in the Designated Potash Area in Eddy County is hereby approved as follows:

Township 20 South, Range 30 East NMPM

Section 28-29: N/2

Section 30: NE/4

(4) Subject to either voluntary agreement or pooling, the Division approves the formation of an 800-acre, more or less, horizontal spacing unit for Bone Spring wells to be drilled within the Taco 28-30 Development Area comprised of the following lands:

Township 20 South, Range 30 East NMPM

Section 28-29: N/2

Section 30: NE/4

Eddy County, New Mexico

(5) Subject to either voluntary agreement or pooling, the Division approves the formation of an 800-acre, more or less, horizontal spacing unit for Wolfcamp wells to be drilled within the Taco 28-30 Development Area comprised of the following lands:

TOWNSHIP 20 SOUTH, RANGE 30 EAST NMPM

Section 28-29: N/2

Section 30: NE/4

Eddy County, New Mexico

(6) Approval of Apache's Taco 28-30 Development Area is subject to like approval by the BLM.

(7) Jurisdiction of this case is retained for the entry of such further orders, as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

ADRIANNE SANDOVAL

Director

S E A L

EXHIBIT "B"

From: "Rutley, James" <jrutley@blm.gov>
Date: August 20, 2019 at 5:27:46 PM MDT
To: "Stretcher, Laci" <Laci.Stretcher@apachecorp.com>
Cc: James Stovall <jstovall@blm.gov>
Subject: [EXTERNAL] Coordination with the State of New Mexico

Good Evening Laci,

The BLM encourages operators to work out their differences with regards to development areas and drill islands. If differences are not settled, and parties resort to compulsory pooling with the Division, then BLM will coordinate and support the Division's recommendation.

Under the Secretary's Order, the Authorized Officer will coordinate with the State of New Mexico as listed in Section 6.e.(5)(a-c).

Regards,

Jim

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