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

APPLICATION OF FOUNDATION ENERGY MANAGEMENT, LLC FOR APPROVAL OF A SALT WATER DISPOSAL WELL IN LEA COUNTY, NEW MEXICO

CASE NO. 21145

FOUNDATION ENERGY MANAGEMENT'S PRE-HEARING STATEMENT

Foundation Energy Management LLC ("Foundation") submits this Pre-Hearing Statement pursuant to 19.15.4.13(B) NMAC and the Prehearing Order filed on or about December 9, 2020.

APPEARANCES

APPLICANT	APPLICANT'S ATTORNEY
Foundation Energy Management, LLC	Mani, Little & Wortmann, PLLC
OPPONENTS	OPPONENT'S ATTORNEY
Devon Energy Production Company, LP	Holland & Hart, LLP
New Mexico Oil Conservation Division	Eric Ames

APPLICANT'S STATEMENT OF THE CASE

Foundation seeks authorization to inject produced water for purposes of disposal through the existing Blue Qual Federal No. 001 Well (API No. 30-025-33222). A Form C-108 was filed with the Division in July of 2019 and notice of the administrative application was provided to all affected parties. The administrative application was protested by Devon Energy Production Company, LP ("Devon") in August of 2019, and the New Mexico Oil Conservation Division entered an Entry of Appearance in this case in March of 2020. Accordingly, Foundation filed an application for a hearing before a Division examiner.

The proposed disposal well is located 660 feet from the south line and 1,980 feet from the east line (Unit O), Section 7, Township 23 South, Range 32 East, NMPM, Lea County, New

Mexico. The proposed injection interval will be the Bell Canyon Formation between 4,640 feet and 4,850 feet through a perforated completion. The estimated volume is an average of 750 BWPD with a maximum surface pressure of 928 psi.

POTENTIAL EVIDENCE

WITNESSES Name and Expertise	ESTIMATED TIME IF NECESSARY	EXHIBITS
Lee Garvie, Landman	Approx. 10 mins.	4
Tyler Pansa, Geologist	Approx. 20 mins.	4
Adam Johnson, Engineer	Approx. 15 mins.	2

DIRECT TESTIMONY OF THOMAS LEE GARVIE

Please state your full name, your employer, your work title, your occupation and the number of years you have been in the occupation. "My name is Thomas Lee Garvie. I work for Foundation Energy Management LLC, where I am a Senior Landman. I have been working in the energy industry as a Professional Landman for about 13 years."

Please state the degree(s) you have earned, the university where you earned the degree, and your year of graduation. "I earned a Bachelor of Arts degree in International Business from the University of Denver in 2007. I am currently working towards earning my MBA from the University of Denver."

Please state your typical duties for Foundation Energy Management, LLC. "My typical duties for Foundation Energy Management LLC (Foundation) include the day-to-day operations from the land standpoint in over 2,500 wells, spread across 12 different states. I also assist in acquisitions

and divestitures, and I manage several employees. Some of my duties include acquiring land information, reviewing title, interpreting the same, preparing and reporting my findings to management and when necessary as in this instance, reporting such information on Foundation's behalf to this Commission."

Was the information and/or exhibits contained in the Application related to the surface and leasehold ownership prepared by you or under your direct supervision? "Yes; the Application includes a schedule of surface owners and operators for the land at issue and for the lands surrounding the well, and those schedules were either prepared by me or under my direct supervision."

Commissioners, we tender Mr. Thomas Lee Garvie as a witness to the Commission for your acceptance and to be recognized as an expert in the area of Land Ownership.

The Application is required to be served on the surface owners of the land on which the well is located. Did you serve the Application on the surface owner? "Yes, the surface owner is the United States and The Bureau of Land Management and the New Mexico State Land Office were served on August 1, 2019." (*see Exhibit 1*)

The Application is required to be served on each leasehold operator within a 1/2 mile of the Well location. Did you serve the Application on each leasehold operator? "Yes, the leases within 2 miles of the proposed injection well are identified on the lease schedule and the leasehold operators are identified in the operator schedule. (*see Exhibit 2*) The operators were each served by Certified Mail - Return Receipt Requested." (*see Exhibit 3*)

The Application is required to be published in the newspaper in the County in which the Well is located. Did Foundation have notice of the Application published in Lea County?

"Yes, notice of the Application was published in the Lovington Leader on May 30, 2019." (*see Exhibit 4*)

What is Foundation's need for converting the Blue Quail Federal No. 1 (Blue Quail Fed.) Well into a saltwater disposal well? "Our need to convert the Blue Quail Fed. into a disposal well arises from our proposed operations to re-complete wells that are located around the Blue Quail Fed. We have re-completed one well, the Blue Quail No. 3 Well, as an oil well and we are currently disposing the saltwater associated with that oil production into the Bitsy No. 1 Federal Saltwater Disposal Well, which is nearing its capacity. Being able to convert the Blue Quail Fed. into a saltwater disposal well will provide Foundation with the additional disposal capacity needed to dispose of and store the produced saltwater we anticipate will be generated from our proposed re-completion operations on our off-set wells."

If the Application is granted, Foundation plans for this well to be non-commercial correct? Yes. This well will be a non-commercial disposal well for our proposed re-completion operations of our off-set wells.

Let's talk about the property where Blue Qual Fed. is located and where your proposed re-completions are located. Are these wells already interconnected or would you have to truck the water from the proposed re-completions to the Blue Quail Fed? "I believe there is an existing system of interconnected flowlines in place between each location we would be using, so we wouldn't have a need for trucks."

In the event Foundation's Application is denied, how will that affect Foundation's proposed re-completion operations? "It's likely we will not be able to continue with our proposed re-completion plans. We have re-completed one oil well and we're disposing of the saltwater produced in association with oil production from that well into the Bitsy No. 1, but as I said earlier,

the Bitsy No. 1 is almost at capacity, and without extra capacity, we may be limited from developing the other wells by re-completing them."

How many wells is Foundation planning on re-completing? "We've re-completed one well, we have two applications pending before the State, so five or six more."

Has Foundation considered disposing its produced saltwater in any commercial disposal wells currently operating? "Yes, we have considered it, and we even had some negotiations with an operator of a near-by commercial disposal well. However, those negotiations were not successful, and we ultimately couldn't reach a deal, because the economics didn't work out."

What company is the operator of the nearby commercial disposal well? "Devon."

DIRECT TESTIMONY OF TYLER PANSA

Please state your full name, your employer, your work title, your occupation and the number of years you have been in the occupation. "My name is Tyler Pansa. I work for Foundation Energy Management LLC as a Geologist. I have been working in the energy industry for about 7 years."

Please state the degree(s) you have earned, the university where you earned the degree, and your year of graduation. "I earned a Bachelor of Science degree in Geology from the University of Tulsa in 2013."

Please state your typical duties for Foundation Energy Management, LLC. "My typical duties for Foundation Energy Management LLC (Foundation) include making structure maps and pay maps, well log analysis, water saturation analyses, looking for drilling opportunities, create GeoProgs and directional drilling reports, looking for behind-pipe opportunities in wells trying to find bypassed hydrocarbon pays, looking at mud logs, geochem reports, and water chemistry reports. My duties for Foundation also include acquiring, reviewing, interpreting, preparing and

reporting my findings in regard to geology and geologic prospects to Foundation and, when needed such as in this instance, on Foundation's behalf before the Commission in this Application."

Was the information and/or exhibits contained in the Application related to the surface and leasehold ownership prepared by you or under your direct supervision? "Yes; the Application includes several exhibits, maps, slides and the like, which were prepared by me and which contain information created either by me or under my direct supervision."

Commissioners, we tender Mr. Tyler Pansa as a witness to the Commission

What is Foundation's need for converting the Blue Quail Federal No. 1 (Blue Quail Fed.) Well into a saltwater disposal well? "Foundation's plans with the Blue Quail Fed. are to permit it as a disposal well in the Bell Canyon, which is the upper member of the Delaware Mountain Group. Foundation needs the additional disposal capacity in order to exploit reserves that are behind-pipe in the Brushy Canyon and the Cherry Canyon through re-completions in several of our offset wells. Without the additional capacity the Blue Quail Fed. would provide, it's likely Foundation will not be able to re-complete the offset wells and the reserves that are behind-pipe in the Brushy Canyon and the Cherry Canyon will be stranded." *(see Exhibit 5)*

Is there any production from the Bell Canyon Formation within the AOR? "No. There is no production from the Bell Canyon Formation within the AOR. Additionally, I looked out about three or four miles in any direction from the Blue Quail Fed. for production from the Bell Canyon and there was no production within that range either. So from my review, it does not appear there is any nearby production from the Bell Canyon Formation."

What have you researched, reviewed and examined regarding the Bell Canyon Formation, its geologic setting, stratigraphy and structure, porosity and permeability, and what are your conclusions in that regard? "I have reviewed various electric logs, drilling reports and other

documents associated with the wells in the area. Based on my review, I created a structure map and an isopach map for the Bell Canyon Formation. The Bell Canyon Isopach indicates the Formation is fairly uniform across the injection zone, with minimal changes in thickness, and no sudden changes in structure that would suggest a fault exists. The Bell Canyon Formation includes 140 feet of sand that is from 10 to 100 millidarcies of permeability, averaging 20% porosity, so it should take the water very readily at a low pressure. The formation located above the injection interval is the Lamar Formation and then above the Lamar there is some tight shale, for about 40 feet, and then salt above that. Below the injection interval there are 14 stratigraphic intervals of low permeability, between the base of the injection interval and Devon's rights in Bone Spring, and those 14 stratigraphic intervals contain a total 122 feet of impermeable rock with permeabilities below 0.2 millidarcies. So we have isolation above and below the injection interval with impermeable strata." (*see Exhibit 8 and Exhibit 10*)

What are your findings regarding the rock characteristics and geology of the Bell Canyon injection zone laterally from the proposed injection well? "There's minimal change in stratigraphy over the nine-mile area around where we're proposing to inject, there are minimal changes in thickness, and no sudden changes in structure that would suggest a fault exists. The porosity and permeability across the Formation are fairly uniform, and our proposed injection pressures will be well below the frac gradient for these rocks as well. Therefore, this data taken together means the Bell Canyon here is a continuous sand that will readily take millions of barrels of water.

You brought up the subject of water injection pressurization. Can you address concerns about over-pressurization due to Foundation's proposed injection? "I can comment on some of it. Our engineer, Adam Johnson, will also address it in detail. I can comment on our current

disposal well and the amount of water that had been disposed into the Delaware Mountain Group. The Bitsy saltwater disposal well has been in operation for some time now and several wells have been drilled within a couple thousand feet of the Bitsy since it was used for injection, including the Sharbro 10 Well. I reviewed the drilling reports for the Sharbro 10 Well, and it did not indicate that any meaningful increase in pressure was encountered when drilling through the Delaware Mountain Group, including the Bitsy's injection zone. The Sharbro 10 Well was drilled after 750,000 barrels of water had been disposed of into the Bitsy's injection zone. When Devon drilled its Boundary Raider 7 Fed 214 H in 2017, there had been 3 million barrels injected into the Delaware Mountain Group from the Bitsy, and Devon was able to drill the well, apparently without any increased pressures encountered, and Devon's well was about 1,915 feet east of the Bitsy injection well. (*see Exhibit 5 and Exhibit 9*)

The produced water that's proposed to be disposed by Foundation will be water produced from the Brushy Canyon and/or the Cherry Canyon, correct? "Correct."

Regarding the composition of the produced water, its salinity, viscosity, etc., are you aware of anything or any conditions of the produced water proposed to be disposed of into the Bell Canyon which would affect the integrity of the Bell Canyon Formation? "I don't expect that there would be any reaction. The produced water out here is very salty, upwards of 180,000 TDS, the RW is .025. I see that throughout the logs in all three members of the Delaware Mountain Group, so I wouldn't expect there to be a change of any significance between the in-place water in the Bell Canyon and the water we're proposing to inject into it. We've produced from a dozen different zones through the Brushy Canyon and Cherry Canyon out here and we've been disposing into the Cherry Canyon in the Bitsy for years and have not had any issues there. There is nothing on the logs to suggest that the Bell Canyon would have different water content.

Let's talk about Foundation's proposed operations in the area. Foundation has re-completed one well out here and it is producing some saltwater in connection with the enhanced oil production. But what are Foundation's further development plans? "Correct. We have re-completed the Blue Quail No. 3, and we plan to re-complete other offset wells. We currently have two more re-completions already permitted or in progress with permitting with the State. We expect that the Bitsy disposal well currently has room to hand produced water from one more re-completion, maybe, depending on how much water it would produce. We expect that our further re-completions would generate produced water in volumes that would be in excess of what the Bitsy disposal well could handle. Without a second disposal well, we would be limited on the number of re-completions we could do, and assuming we do re-complete, if there were any problems with the Bitsy, all production would be stranded while the problems were addressed. Additionally, without a second disposal well, we believe we would have to shut-in some wells in order to produce the better ones, and eventually we believe we would have to cease all production on the re-completions because the Bitsy reached its disposal capacity."

A total of how many re-completion wells? "That would be six more re-completions. Seven total re-completions."

How would the produced saltwater be collected, transported and disposed – by truck, by pipeline? "The produced saltwater would be collected, transported and disposed of by pipeline. The majority of the wells that we propose to re-complete have made water in the past so, there is already a pipeline system in place for most of these wells. With the first re-completion, we laid a pipeline to the Bitsy for disposal purposes."

Approximately how much oil would be recoverable if all of your proposed operations are approved, including your ability to covert the Blue Quail Fed. into a saltwater disposal well?

"I would estimate 250,000 barrels of oil would be recovered between all seven wells, ultimately. I think at a minimum, we could probably still recover 180,000 barrels of oil, possibly more, from the best four wells. However, in order to be able to re-complete these wells, we need the additional disposal capacity the Blue Quail Fed. will provide. The best re-completions will produce more oil and less water. These wells aren't water-drive supported, so they do decline. So doing them in stages would also allow eventually all of those re-completions to be done. If you allowed the first four to decline in the first few years, they would decline really meaningfully and then you would have room to do the rest. But regardless of how we ultimately decide to structure the re-completion schedule, we need the additional disposal capacity."

You are aware that Devon has protested Foundation's Application. With regard to that, what do you think would be the top factual points to make which are most pertinent to concerns which Devon may express? "I would say there is strong evidence that the water will definitely not be able to make its way or migrate out of the Bell Canyon down to their Bone Spring rights. There's 4,000 vertical feet of rock between where we're proposing to inject to where their rights begin and, amongst those 4,000 feet of strata, there are the aforementioned 14 low-permeability zones, 14 perm barriers of at least 6 feet thick or more that would prevent injected water from making its way downward. Additionally, we have some vertical Avalon productive wells in this Section and those wells have declined normally and make less than a barrel of water a day. The Avalon is the very top of the Bone Spring. We have injected 3 million barrels of water into the Cherry Canyon in the Bitsy disposal well, which is actually closer to the Avalon than the Bell Canyon is. That injected water has not shown-up in our producing wells after all these years. Those Avalon wells have declined normally, so this is strong evidence that water would not make its way downward. There is nothing to suggest that there is a large fault or faulted zone for injected

water to would travel along and upward or downward through. We're talking about 4,000 feet of rock with many perm. barriers between where we are injecting and where production is being obtained." (*see Exhibit 5 and Exhibit 8*).

There is concern for protecting freshwater aquifers and formations, potable water and water near or at the surface, what are the top factual points you'd like to make regarding these concerns? "There is an impermeable shale layer which is 50 feet thick, immediately above the injection zone, and above that is the Castille evaporite which is a thick salt layer that which is also impermeable. There are also impermeable zones above the Castille such as the Salado."

Based on the information and data you have reviewed, do you find any geological evidence of any hydrologic connection between the Bell Canyon Formation disposal zone and any underground sources of drinking water? "No." (*See Exhibit 8*).

Based on the same information and data, do you find any geological evidence of any hydrologic connection between the Bell Canyon Formation disposal zone and any deeper geologic formations which are either productive/currently-producing hydrocarbons, or potentially productive for hydrocarbons? "No." (*see Exhibit 8*)

If the application is granted, what are Foundation's development plans for its wells in the vicinity of this well? "Foundation's plans are to continue re-completing six more of its wells nearby. These re-completions will result in a substantial increase oil production from the nearby offset wells we re-complete and maximizes Foundation's oil recovery from the productive subsurface formations it owns."

If the application is denied, how will that affect Foundation's proposed re-completions and development plans? "Foundation may not be able to proceed with its proposed re-completions because of substantial operating expenses associated with the costs of trucking produced saltwater

to a commercial disposal well and the costs for such disposal, making less than all of the proposed re-completions economic, and stranding recoverable reserves. Alternatively, if Foundation were required to drill a Devonian or deeper, disposal well, the costs of drilling and completing such a deep well would make Foundation's operations altogether uneconomic, again, stranding the recoverable reserves."

DIRECT TESTIMONY OF ADAM JOHNSON

Please state your full name, your employer, your work title, your occupation and the number of years you have been in the occupation. "My name is Adam Johnson. I work for Foundation Energy Management LLC. I am a Senior Engineer. I have been working in the energy industry for about 6 years."

Please state the degree(s) you have earned, the university where you earned the degree, and your year of graduation. "I earned a Bachelor of Science in Petroleum Engineering from the University of Tulsa in 2015."

Please state your typical duties for Foundation Energy Management, LLC. "My typical duties for Foundation Energy Management LLC (Foundation) include handling the company's reserves analysis, production and reserve engineering work, determining and running economics for potential future projects, and project management of our ongoing projects. My duties for Foundation also include acquiring, reviewing, interpreting, preparing and reporting my findings in regard to subsurface petroleum reservoir analysis relative to Foundation's properties and wells including, when necessary as in this instance, reporting the same on behalf of Foundation before the Commission in this Application."

Was the information and/or exhibits contained in the Application related to the surface and leasehold ownership prepared by you or under your direct supervision? "Yes; the Application

before the Commission includes the exhibits and information which were prepared by me, or under my direct supervision, or which I have carefully reviewed to confirm their accuracy."

Commissioners, we tender Mr. Adam Johnson as a witness to the Commission for your acceptance and to be recognized as an expert in the area of Petroleum Engineering.

What is Foundation's need for converting the Blue Quail Federal No. 1 (Blue Quail Fed.) Well into a saltwater disposal well? "The Blue Quail Fed No. 1 Well, as a well to convert into a saltwater disposal well, was chosen due to its location and proximity to potential re-completion opportunities, as well as its low reserve value - the well doesn't have any remaining reserves which would be lost, so there is no loss of value by converting the well to a saltwater disposal well."

Can you describe what Foundation's proposed disposal operations will be with the Blue Quail Fed Well? "Foundation's proposed disposal operations are necessary for Foundation's other operations in the area. The disposal well will be a non-commercial disposal well with a closed-system. We anticipate disposing of about 750 BWPD, with a maximum of 1,500 BWPD. We anticipate the average surface injection pressure to be 600 PSI, with a maximum surface injection pressure of 928 PSI. The disposal fluids will be from Foundation's wells in the vicinity, including from six wells Foundation plans to re-complete. Chemical analysis of the disposed fluid/saltwater has been performed and is included in our exhibits (*see Exhibit 6*)."

Can you describe the proposed construction of the Blue Quail Fed Well in regard to ensuring that Foundation's disposal and storage operations will confine the injected water to the Bell Canyon Formation? "Insofar as the current construction of the well, the well's current status is temporarily abandoned. It shows the well has 13 3/8" diameter surface casing to 850 feet from KB, 8 5/8" diameter intermediate casing to 4,527 feet from KB, and 5 1/2" diameter production casing to 8,849 feet from KB. The well will be plugged back to 4,860 feet by a cast-iron bridge

plug at 4,900 feet, with cement above the bridge plug. Foundation will perforate the production casing across 28 feet of the Bell Canyon Formation, from 4,776 feet down to 4,804 feet. So, Foundation's proposed injection will be into the Bell Canyon Formation through perforations in production casing in the Blue Quail Fed Well." (*see Exhibit 7*).

Based on our injection operations and the volumes stated, how will those injection volumes and pressures affect the Bell Canyon disposal zone? "In my opinion, based upon the pressure distribution formula, I estimate that, with a 900 PSI surface injection pressure, and using the fresh water gradient at 4,800 feet, which is approximately the depth of our proposed injection interval, the bottom hole injection pressure would be about 2,987 PSI, based on the various reservoir rock properties, 50 millibars of permeability, 10% porosity, 1.2 centipoise water viscosity, a sand thickness (perforation interval) of 28 feet, and then the injection volume and resultant pressure would dissipate to <167 psi over the normal pressure within 200 feet from the proposed injection well. So that during a normal drilling operation – using 9 ppg mud – the typical overbalance at the proposed injection interval be 167 psi over the normal pressure and therefore not noticeable during drilling through the injection interval. This is comparable to when we drilled the Sharbro Well near the Bitsy No. 1 disposal well, and there were no pressure disturbances noticed while the Well was being drilled." (*see Exhibit 5*).

Based on the information and data you have reviewed, do you find any engineering evidence of any hydrologic connection between the Bell Canyon Formation disposal zone and any underground sources of drinking water? "No."

Based on the same information and data, do you find any engineering evidence of any hydrologic connection between the Bell Canyon Formation disposal zone and any deeper

geologic formations which are either productive/currently-producing hydrocarbons, or potentially productive for hydrocarbons? "No."

If the application is granted, what are Foundation's development plans for its wells in the vicinity of this well? "Foundation plans to continue re-completing five or six more of its wells nearby. These re-completions will result in increased oil production from the nearby offset wells which will maximize Foundation's oil recovery from the productive subsurface formations it owns."

If the application is denied, how will that affect Foundation's proposed re-completions and development plans? "Foundation may not be able to proceed with its proposed re-completions because its operating expenses, especially the costs of trucking produced saltwater to a commercial disposal well and paying for such disposal, would increase substantially so that less than all of the proposed re-completions would be economic. Alternatively, if Foundation were required to drill a deep, Devonian Formation, disposal well, the costs of drilling and completing such a deep well would make Foundation's operations uneconomic altogether. So in either event, not having its Application granted would strand recoverable reserved based on current market conditions."

FOUNDATIONS EXHIBITS

Mr. Garvie intends to present the following exhibits in support of his testimony:

Exhibit 1	Affidavit of Service
Exhibit 2	Schedule of Wells and Leasehold Operators
Exhibit 3	Proof of mailing of the Application
Exhibit 4	Proof of publication of the Application

Mr. Pansa intends to present the following exhibits in support of his testimony:

Exhibit 5 PowerPoint presentation Mr. Pansa and Mr. Johnson relating to the Bell Canyon Formation, surrounding production and disposal wells, and injection pressure distribution

Exhibit 8 Log for the Blue Quail Federal No. 1 Well

Exhibit 9 Drilling report for the Sharbro No. 10 Well and the Blue Quail Federal No. 3 Well

Exhibit 10 Sharbro 10 Well Geoframe Processed Interpretation

Mr. Johnson intends to present the following exhibits in support of his testimony:

Exhibit 5 PowerPoint presentation Mr. Pansa and Mr. Johnson relating to the Bell Canyon Formation, surrounding production and disposal wells, and injection pressure distribution

Exhibit 6 Water analysis reports

Exhibit 7 Current and proposed wellbore diagram for the Blue Quail Federal No. 1

FACTS NOT IN DISPUTE

It is Foundation's belief the following facts are not in dispute:

1) All statutory requirements for a completed saltwater disposal well application have been met by Foundation Energy Management, LLC.

2) The Blue Quail Federal No. 1 wellbore is structurally and mechanically sound.

3) The proposed disposal well will be a non-commercial disposal well.

4) There is no production of hydrocarbons in the Bell Canyon Formation within the AOR.

FACTS IN DISPUTE

It is Foundation's belief the following facts are in dispute:

1) Whether the Bell Canyon Formation disposal zone contains stratigraphic seals above and below the formation which are sufficient to confine disposal fluids within the formation.

2) Whether the Bell Canyon Formation disposal zone contains sufficient thickness, porosity, and permeability to accept the proposed volumes of disposal fluids.

3) Whether the proposed volumes of disposal fluids into the Bell Canyon Formation will cause an over-pressurization of the Bell Canyon Formation, thereby rendering the formation incapable of being drilled through, in order to reach deeper formations.

PROCEDURAL MATTERS

Foundation has not identified any procedural matters to be resolved prior to the hearing.

Respectfully Submitted

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CERTIFICATE OF SERVICE

I hereby certify that on this 11 day of February, 2021, a copy of the foregoing Pre-Hearing Statement was served via email upon the following:

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