

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

**APPLICATION OF WPX ENERGY
PERMIAN, LLC FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO,**

and

**APPLICATION OF WPX ENERGY
PERMIAN, LLC FOR APPROVAL OF AN
862.40-ACRE NON-STANDARD SPACING
UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

CASE Nos. 22506 & 23807

**OIL CONSERVATION
DIVISION'S PRE-HEARING
STATEMENT**

The New Mexico Oil Conservation Division (“OCD”) submits this Pre-Hearing Statement pursuant to 19.15.4.13.(B) NMAC.

I. IDENTIFICATION OF PARTY AND COUNSEL

OCD intervened in this matter and is represented by undersigned counsel.

II. STATEMENT OF THE CASE

Background

WPX Energy Permian, LLC (“WPX”) (OGRID 246289) initially applied to the Oil Conservation Division (“OCD”) pursuant to the provisions of NMSA 1978, Sections 70-2-17, to pool all uncommitted interests in the Wolfcamp formation (Purple Sage; Wolfcamp (Gas) Pool (98220)), proposing a 862.40-acre, more or less, standard horizontal spacing unit comprised of all of Section 26 and the N/2 equivalent of irregular Section 35, Township 26 South, Range 29 East, NMPM, Eddy County, New Mexico. The Director of the OCD referred this case, 22506, to

the Oil Conservation Commission (“Commission”) on September 12, 2022, for consideration on the question of whether rectangular tracts comprising a standard horizontal spacing unit must be oriented in the same direction as the well interval. WPX alternatively applied for approval of a non-standard spacing unit of the same acreage and pooling the same interests in case number 23087 on September 13, 2022, requesting that both cases be heard concurrently by the Commission. OCD concurs that in the interests of efficiency and clarity, both cases be heard concurrently.

OCD entered its appearance and notice of intervention on September 19, 2022, and asserts in the affirmative as outlined below, that rectangular tracts or ‘building blocks’ making up proposed standard spacing units must be oriented in the same direction as the well interval, in order to minimize waste and protect correlative rights. OCD presentation and argument will primarily focus on the questions raised by case number 22506 and ultimately ask the Commission to deny the Application on the grounds that the proposed building blocks are inefficiently oriented and outside the rule requirements for a standard horizontal spacing unit. Regarding case number 23087, OCD is not generally opposed to the Application for a non-standard spacing unit. However, the instant Application requires supplementation indicating how the application is necessary to prevent waste or protect correlative rights. In this case, that information may include the location or spacing of additional dedicated or infill wells and the proposed drilling schedule of such wells.

Argument

The primary question posed by WPX’s application in case number 22506 is whether the rectangular 320-acre building blocks defined for the Purple Sage-Wolfcamp gas pool (“Purple Sage”) must be oriented in the same direction as the defining interval. Both the Order and OCD

rules are vague on this question, requiring Commission review.

The Purple Sage was defined in OCD Order R-14262 (“Order”), effective January 5, 2017. The OCD designated the Purple Sage as follows:

The proposed Purple Sage-Wolfcamp Gas Pool (Pool Code 98220) should be created and exclusively used over the lands specified above for new completions in the Wolfcamp formation. No other pool within these lands should be named or used for oil or gas well-completions in that formation. Order R-14262, Findings para. 9.

Further:

Division Rule 19.15.15.10 B. NMAC provides for 320-acre spacing units for the Wolfcamp or deeper formations and will apply to this new gas pool. Division Rule 19.15.16.15 D. NMAC exempts horizontal wells from well-density limitations imposed by other statewide rules or special pool rules. Id, para. 16.

The Order further set the relevant setbacks to 330 feet, rather than typical 660-foot setbacks for gas pools. Id, para. 17. The Order also set forth Special Rules for the Purple Sage as follows:

RULE 1: Each well completed or recompleted in the Purple Sage-Wolfcamp Gas Pool (Pool Code 98220), or within one mile thereof and not nearer to or within the limits of another pool in the Wolfcamp formation, shall be drilled, spaced, operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2: The completed intervals of the horizontal wells, and the surface location of vertical wells, are to be located no closer than 330 feet to the exterior boundary of the applicable spacing unit of project area, with 10-foot setbacks for the surface location and bottomhole location from any quarter-quarter section line.

RULE 3: Exceptions to these Special Rules shall be granted as allowed by Division rules.

RULE 4: All other provisions not specifically addressed herein shall conform to Division rules.

Id, Orders pp. 7-8. The Order is silent as to the specific orientation of the 320-acre (necessarily rectangular) building blocks. Of particular importance in the Order is the effect of Special Rules 3 and 4, which effectively permit the inclusion of proximity tracts and defer to the OCD rules as to any possible building block orientation requirement, respectively. For purposes of this matter, the Order effectively establishes rectangular 320-acre building blocks and 330-foot setbacks within the Purple Sage, deferring other questions to OCD rule.

The referenced OCD rules state the following:

320-acre spacing applies to a deep gas well in Lea, Chaves, Eddy or Roosevelt county that is projected to be drilled to a gas producing formation, or is within a defined gas pool, that is in the Wolfcamp or an older formation. The well shall be located on a spacing unit consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section [...]. 19.15.15.10 B. NMAC.

Exception for pools with larger spacing. If the horizontal gas well is located entirely or partially in an area or pool for which 19.15.15.10 NMAC or existing or subsequently adopted special pool orders prescribe gas spacing units larger than 160 acres, then the horizontal spacing unit may, as an alternative to quarter sections, comprise one or more tracts of the size and configuration so prescribed, provided that the standard horizontal spacing unit shall include only such tracts that are *oriented in the same direction*. [...]. 19.15.16.15 B.(4) NMAC (*emphasis added*).

OCD interprets the language in 19.15.16.15 B.(4) NMAC as requiring building blocks to be oriented in the same direction as the defining interval. For instance, defining wells with a North/South or “standup” orientation must utilize building blocks configured in a corresponding North/South orientation. WPX’s standard horizontal spacing application interprets this rule as requiring all of the building blocks within dedicated acreage to be oriented in the same manner, regardless of the orientation of the defining interval. This interpretation would allow for the dedication of approximately twice the acreage of OCD’s interpretation. For instance, WPX’s interpretation would allow a defining well with a North/South orientation to pool acreage using building blocks with an East/West or “laydown” orientation. Stated another way, OCD’s interpretation allows for the dedication of a half-section (W/2) to the well proposed by WPX, whereas WPX’s interpretation results in the dedication of the entire section. OCD asserts that it’s interpretation of 19.15.16.15 B.(4) NMAC is the appropriate reading of the rule, and that this interpretation will most effectively prevent waste and protect correlative rights.

Regarding case number 23087, OCD agrees that in order to dedicate the proposed acreage, WPX must apply for a non-standard horizontal spacing unit. “The division may approve non-standard horizontal spacing units for horizontal oil or gas wells after notice and

opportunity for hearing, *if necessary to prevent waste or protect correlative rights* [...].”

19.15.16.15 B.(5) NMAC (*emphasis added*). While the OCD does not object, generally, to the non-standard spacing unit application, the application requires supplementation to establish that the proposal prevents waste or protects correlative rights and complies with notice requirements specific to non-standard spacing unit applications. *See* 19.15.16.15 B.(5)(b) NMAC.

Specifically, OCD would request information as to additional dedicated or planned infill wells which would produce the E/2 of the pooled section.

III. TESTIMONY AND EXHIBITS

OCD intends to call one witness, Brandon Powell. Mr. Powell is the chief of OCD’s Engineering Bureau. He has served with OCD in various positions for more than 16 years, including district supervisor, staff manager, inspection/enforcement supervisor, and environmental specialist. Prior to joining OCD, he was a facility manager and environmental technician for an environmental services company. His qualifications are described in Exhibit 1. Mr. Powell will testify regarding OCD’s interpretation of the relevant rules and the practical implications of WPX’s proposed standard spacing unit. He will offer Exhibits 1 and 2. OCD estimates that Mr. Powell will testify for 60 minutes.

Exhibit 1 – Curriculum Vitae of Brandon Powell

Exhibit 2 – OCD Power Point Presentation

IV. PROCEDURAL MATTERS

OCD 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 a copy of this pleading was mailed electronically on October 6, 2022, to:

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