

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Meeting Minutes
Regular Meeting
August 25, 2016
Porter Hall
Wendell Chino Building
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505

MEMBERS PRESENT:

David R. Catanach Chair, Oil Conservation Division
Robert Balch Designee, Energy, Minerals and Natural Resources Department
Patrick Padilla Designee, New Mexico State Land Commissioner

OTHERS PRESENT:

Bill Brancard, Counsel for the Commission
Cheryl Bada, Counsel for the Commission

The meeting was called to order by Chair Catanach at 9:00 a.m.

Item 1. Roll Call.

Roll was taken; a quorum was present.

Item 2. Approval of Agenda.

Action: Commissioner Padilla moved adoption of the agenda. Commissioner Balch seconded the motion. The motion passed unanimously.

Item 3. Approval of minutes of August 8, 2016 meeting.

Action: Commissioner Balch moved to approve the minutes. Commissioner Padilla seconded the motion. The motion passed unanimously.

Item 4. Case No. 15379: De Novo Application of the New Mexico Oil Conservation Division ("OCD") Compliance and Enforcement Manager for a compliance order against Dominion Production Operating, LLC, finding that the operator is in violation of Agreed Compliance Order 285, and the Oil and Gas Act, NMSA 1978, Sections 70-2-1 *et seq.* and OCD rules, NMAC 19.15.2 *et seq.*

Action: Appearances were made by Keith Herrmann for the Oil Conservation Division and Scott Hall for Dominion Production Operating, LLC (Dominion). Mr. Hall stated that his client has agreed to sign a settlement agreement to bring the field back into compliance and will dismiss its De Novo appeal after the agreement is signed. Mr. Herrmann will prepare a draft order to vacate the original order, and the case will go back to the Division.

Item 5. Case No. 15363: De Novo Application of Matador Production Company for a non-standard oil spacing and proration unit and compulsory pooling, Lea County, New Mexico.

Action: This case was called to hear arguments on the Motion to Dismiss and Declare the Rights and Obligations of Parties in a Pooling Application under NMSA 1978 § 70-2-17 filed by Jalapeno Corporation (Jalapeno), the Response to the Motion filed by Matador Production Company (Matador), and Jalapeno's Reply in Support of the Motion. Appearances were made by Gene Gallegos for Jalapeno Corporation, Jim Bruce for Matador Production Company, and David Brooks for the Oil Conservation Division (OCD). Mr. Brooks explained that he had made a late intervention on behalf of OCD, and he asked that he be allowed to make a statement after the arguments. Mr. Gallegos objected because he had not seen the intervention and did not know the reason for it; Mr. Bruce had no objection. Chair Catanach ruled that Mr. Brooks could make a statement after the arguments were heard.

Mr. Gallegos argued several issues including: Oil and Gas Statute does not allow non-standard project areas; the 200% risk penalty in compulsory pooling orders should not be automatically applied to any working interest that does not join in the drilling of a well; and the costs of equipping a well should not be included in the well costs. He recommended that the OCD go to the Legislature to get the rules changed. He asked that Jalapeno's Motion be granted.

Mr. Bruce stated that the Commission does not need to decide the risk penalty and evidentiary issues because both parties are preparing evidence to present to the Commission at the hearing of the main case. He argued the issue of including the equipping of a well in the well costs.

Mr. Brooks made a statement explaining that the reason for the intervention of the OCD in this matter is to ask the Commission to apply its expertise concerning the establishment of larger non-standard units. He stated that the OCD believes the motion to dismiss should be denied because there are specific provisions in the Oil and Gas Act which give the Commission power to establish non-standard proration units. He asked the Commission to overrule the motion until the evidence is heard.

Mr. Gallegos presented a rebuttal regarding overlapping standard spacing units with larger non-standard units and the 200% risk penalty. Mr. Bruce presented a rebuttal regarding the Commission's authority to include equipping the well as part of the well costs. Counsel Brancard asked Mr. Gallegos if it is his opinion that the rule limits oil wells to 40-acre spacing units and pointed out that a standard spacing unit is not defined in the statute.

After a motion by Commissioner Padilla and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1-H to deliberate on the motion. After a motion by Commissioner Padilla and a second to the motion by Commissioner Balch, the Commission voted unanimously to go back into open session. Chair Catanach announced that Jalapeno's Motion to Dismiss was the only matter discussed during the closed session. Counsel

Brancard announced that the Commission considered the Motion to Dismiss the application of Matador for a non-standard spacing and proration unit and compulsory pooling and to invalidate Rule 19.15.13.8(A), (C) and (D), and it was the Commission's decision that it has the authority to approve a spacing and proration unit and Rule 19.15.13.8 is a reasonable rule. Commissioner Balch made a motion to deny the Motion to Dismiss, Commissioner Padilla seconded the motion, and the motion passed unanimously. Chair Catanach informed Mr. Gallegos that the OCD will have internal discussions on the risk penalty issue and including the equipping of a well in the well costs. De Novo Case No. 15363 will be heard at the Commission meeting scheduled for September 6, 2016.

Item 6. Case No. 15528: Application of DCP Midstream, LP for Authorization to Inject Acid Gas into the Zia AGI #2D Well, Section 19, Township 19 South, Range 32 East. NMPM, Lea County, New Mexico.

Action: Appearances were made by Adam Rankin for DCP Midstream, LP (DCP) and Keith Herrmann for the Oil Conservation Division (OCD or Division), who submitted a statement from OCD's representative, Phillip Goetze, regarding the Division's review of DCP's application in this case. Mr. Rankin made an opening statement in which he presented the background of the case. He asked that, if the Commission grants the application, he be permitted to submit a draft order early the following week, so it can be considered by the Commission and signed at the September 6, 2016 Commission meeting.

DCP's first witness was Carlton Canfield, Project Engineering Manager with DCP in Midland, Texas. He explained DCP's business in New Mexico as being a gatherer and processor of natural gas. He gave an overview of the Zia Gas Plant which started in August of 2015. He explained that the AGI A2 well was permitted but never drilled. He explained his belief that the Devonian is the proper zone for injection in the proposed well because it is below any producing zones in the area. He said the plant and Well #2D will service current and future production of sour gas in the area. He said a second well will reduce down time for producers and, without redundancy, wells would have to be shut in or flared. He said the deep zone will be the primary injection zone. He explained that DCP is requesting an expedited order because the zone has been evaluated and a rig from Concho will be available on October 13. Commissioner Balch, Commissioner Padilla, and Chair Catanach cross-examined the witness, and he was excused.

DCP's next witness was Alberto Gutierrez, President and Geologist with Geolex Inc. in Albuquerque, New Mexico. He explained that Concho had approached DCP and requested that they use the Devonian formation for injection. He stated that DCP is not asking for additional capacity. He said there is no Siluro-Devonian production within three miles. He said that operators, particularly Concho, the BLM and the OCD approve of the additional well. He discussed the location and background of the plant, and he gave information on injection fluid volume, composition and pressure calculations. He discussed reservoir conditions and the plume expansion. He said notice of the proposed well had been provided to adjacent operators and surface owners. He presented calculations of the reservoir area that will be affected after 30 years of injection. He described the general design of the AGI system. He provided casing and cement details and groundwater

conditions in the AOR. He said that DCP is requesting the Commission to approve the proposed well with the same conditions as approved for the No. 1 well. He discussed and agreed to the Division's recommended conditions. He asked that the Commission provide the flexibility for the Division Director to approve small modifications administratively. He said that the H₂S Contingency Plan is already in place and approved and asked that the Commission take administrative notice of the approval letter. Commissioner Balch and Chair Catanach cross-examined the witness, and he was excused.

After a motion by Commissioner Balch and a second to the motion by Commissioner Padilla, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1-H to deliberate on the case. After a motion by Commissioner Balch and a second to the motion by Commissioner Padilla, the Commission voted unanimously to go back into open session. Chair Catanach announced that Case 15528 was the only matter discussed during the closed session. Chair Catanach announced that the application will be approved, and there are no special conditions being put on this well other than the ones placed on all AGI wells. He said the Commission requests a finding in the order authorizing the Division Director to approve minor changes administratively. The draft order should be given to the Commissioners for review on Friday, August 26, or Monday, August 29. The case will be placed on the final docket for the September 6, 2016 meeting for final action.

Item 7. Next meeting: September 6, 2016

Item 8. Adjournment

The Chair adjourned the meeting at 3:35 p.m.



DAVID R. CATANACH, Chair