

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

**APPLICATION OF ONEENERGY PARTNERS OPERATING, LLC
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

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CASE NOS. 15758 and 15759

ONEENERGY PARTNERS OPERATING, LLC'S CLOSING STATEMENT

OneEnergy Partners Operating, LLC, submits this closing statement for consideration following the hearings on August 31 and September 14, 2017, in these consolidated cases.

Background

OneEnergy Partners Operating, LLC ("OEP") seeks an order approving:

- (1) formation of two 320-acre non-standard spacing and proration units comprised of W/2 W/2 of Section 1 and the W/2 W/2 of Section 12 (Case No. 15758), and the E/2 W/2 of Section 1 and the E/2 W/2 of Section 12 (Case No. 15759), Township 22 South, Range 34 East, NMPM, Lea County, New Mexico; and
- (2) pooling all mineral interest owners in the Bone Spring formation underlying said spacing and proration unit.

V-F Petroleum, Inc., along with Fuel Products, Inc., Gahr Energy Company, Ameristate Partners LLC, Ameristate Energy LLC, HFLP E&P LLC, Thomas M. Beall, Jerry M. Gahr, Marcus Wayne Luna, Sandra K. Lawlis, Clifford N. Hair, and Mark K. Nearburg ("V-F Entities"), objected to OEP's two-mile proposed wells and instead proposes to develop the acreage using one-mile horizontal wells. The undisputed timeline is as follows:

- OEP proposed 1.5 mile wells on April 25, 2017.

- On May 22, 2017, OEP met with the V-F entities to discuss the proposals.
- Based on discussion from the meeting, OEP amended the proposals to 2-mile wells on May 30, 2017.
- OEP filed for hearing for compulsory pooling on June 20, 2017.
- OEP agreed to a one-month continuance, requested by V-F, on July 11, 2017.
- V-F filed APDs with the Oil Conservation Division for the Getty 1 State No. 2H (API No. 30-025-43896) and the Getty 1 State No. 3H (API No. 30-025-43987) on July 12, 2017, to develop Section 1 using one mile lateral wells.

Argument

I. OEP's two-mile development plan prevents waste.

The Division's paramount interest is the prevention of waste. *See Continental Oil Co. V. Oil Conservation Commission*, 1962-NMSC-062, ¶ 27, 373 P.2d 809 ("The prevention of waste is of paramount interest, and protection of correlative rights is interrelated and inseparable from it. The very definition of 'correlative rights' emphasizes the term 'without waste.'"). OEP presented detailed evidence that two-mile laterals prevent waste by 1) allowing OEP to develop an additional 660 feet of reserves covering the lease line boundary; and 2) lowering operational costs.¹ OEP analyzed a comprehensive data set of over 200 wells, selected based on length, completion technique, and location, to determine that longer laterals result in higher EUR. OEP's analysis further established that EUR degradation did not occur.

V-F unsuccessfully attempted to refute OEP's analysis by providing a flawed study purporting that oil per foot recovered diminishes for longer laterals. V-F used a data set of six cherry-picked wells to attempt to show a decrease in production for two-mile laterals. The V-F

¹ Other economic savings associated with two-mile wells include drilling only one vertical portion for each well.

report selectively excluded months' worth of production data, resulting in an inaccurate and misleading report, and reported data based on cumulative production rather than EUR over the life of the wells.

Finally, V-F did not offer a shred of evidence to support its position that the additional 660 feet of reserve along the lease line is developed by a one mile well. V-F's geologist, Scott Germann, offered the following unsubstantiated testimony regarding drainage:

Q. And there is nothing currently provided by V-F Petroleum in front of the Division that would offer any sort of explanation about that, is that correct

A. That's correct. *Record*, p. 129, 12-17.

Accordingly, OEP's development plan better develops the reserves underlying the spacing units by developing an additional 660 feet of reserves. To fulfill the statutory mandate to prevent waste, the Division should grant OEP's applications.

II. The geologic evidence and remaining relevant factors support OEP's two-mile well development plans.

In Commission Order No. R-10731-B, the Commission set forth the following factors to be considered in contested pooling cases:

- A. Geology, which is the most important factor,
- B. Good faith negotiations prior to pooling.
- C. Capabilities as operator.
- D. AFEs and other operational costs, which is a minor factor.
- E. Working interest control.

Division Order R-14443 recently affirmed that geology is the most important factor. *See* R-14443, p. 7, ¶ 13.

OEP's geologic testimony established that there was no substantive variation of the thickness or quality of the formation across the two-mile spacing unit. The variation of the gross interval across Sections 1 and 12 is approximately 10-15 feet, which is "negligible when talking over 300 feet." *Record*, p. 42, 1-10. OEP's geologist confirmed the Division Examiner's observation that the gross interval is "almost constant." *Id.* at 11-12.

The V-F Entities' geologist, Mr. Germann, presented a gross isopach map of the Third Bone Spring Sand. The gross interval isopach map was highly interpretive to the south of Section 12 because no control points exist. The control points in Sections 1 and 12 confirm only fifteen feet difference in gross thickness, a factor which everyone agrees is "negligible" in this context. *Id.*

Furthermore, Mr. Germann's testimony was that "you can't really make a net to gross [isopach] that's accurate. *Record*, p. 113, 24-25. However, Mr. Germann proceeded to testify about the existence of "330 and 352 feet of net pay" in the proposed area, contrasted to 315 feet in Section 12. Mr. Germann's mistaken and continued reference to net pay instead of gross interval was misleading and therefore unreliable.²

With respect to the remaining factors, OEP was the first to develop the project and the first to propose wells. In fact, the V-F Entities filed for permits only after OEP had proposed the wells, met with V-F regarding the wells, filed for compulsory pooling hearings, and agreed to V-F's continuance. The communications log between OEP and VF sets forth extensive and continued good faith negotiations on behalf of OEP. Finally, OEP has drilled and completed several

² Mr. Germann also presented an erroneous structure map showing the entire Bone Spring formation rather than the more detailed and accurate Third Bone Spring structure map presented by OEP.

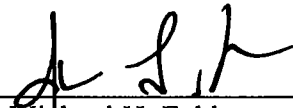
horizontal wells in New Mexico. The V-F Entities have not drilled a single horizontal well. OEP therefore has a more established reputation as a horizontal operator in New Mexico.

The record establishes that OEP's proposed two-mile well development plan will prevent waste by developing the 660 feet of setback acreage required by V-F's proposed one-mile development plan. No geologic reasons exist to deny the more efficient two-mile development plans, and all of the remaining primary factors weight in favor of OEP. This record fully supports granting OEP's pooling applications.

WHEREFORE, OEP respectfully requests that the Division grant OEP's two applications filed in the above-referenced cases.

Respectfully submitted,

HOLLAND & HART LLP

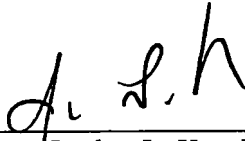


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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing closing statement was delivered electronically on this 28th day of September, 2017 to the following:

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