

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

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

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

Case No. 15758

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

Case No. 15759

CLOSING STATEMENT

This closing statement is submitted by V-F Petroleum Inc., 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 (collectively, "V-F") as requested by the Oil Conservation Division.

I. FACTS.

A. Applications.

In Case No. 15758, OneEnergy Partners Operating, LLC ("OneEnergy") seeks an order approving a 322.42-acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the W/2W/2 of Section 1 and the W/2W/2 of Section 12, Township 22 South, Range 34 East, NMPM.

In Case No. 15759, OneEnergy seeks an order approving a 322.49-acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the E/2W/2 of Section 1 and the E/2W/2 of Section 12, Township 22 South, Range 34 East, NMPM.

OneEnergy further seeks the pooling of all mineral interests in the Bone Spring formation underlying each proposed well unit.

B. Land Ownership.

OneEnergy owns or controls 100% of the working interest in the W/2 of Section 12. V-F owns 100% of the working interest in the W/2 of Section 1 (as well as the SE/4 of Section 12), which is subject to an operating agreement ("JOA"). In addition, V-F is pursuing an agreement with Apache, who owns 100% of the NE/4 of Section 1. V-F has plans to develop Section 1, as to both the Bone Spring and Wolfcamp formations, with one mile laterals.

II. ARGUMENT.

A. Two Mile Laterals Should Not Be Pooled Under The Facts Of These Cases.

While pooling of horizontal well units over one mile in length is common where there are uncommitted interests in quarter-quarter sections in the proposed well unit, or where a quarter-quarter section may be stranded without pooling, that is not the case here. In this case OneEnergy owns 100% of the W/2 of Section 12, while V-F owns 100% of the W/2 of Section 1. Normally, in a lateral longer than one mile there are interest owners in the extended portion of the lateral who have voluntarily committed their interests to the well. That is not the situation here: OneEnergy has no interest owners in Section 1 committed to its wells. If OneEnergy's applications are granted, V-F will be totally precluded from developing its acreage as it sees fit, even though it is covered by a JOA. V-F is ready, willing, and able to develop its acreage with one mile laterals to protect the correlative rights of the interest owners in the W/2 of Section 1.

This situation has been presented to the Division before. In Case No. 10823 Nearburg Producing Company ("Nearburg") controlled 100% of the S/2 of a section, and Yates Petroleum Corporation ("Yates") controlled 100% of the N/2 of the same section. Nearburg sought to force

pool a 320 acre well unit comprised of the W/2 of the section, with the well located on Yates' acreage. The Division ruled in Yates favor, denying Nearburg's pooling application. See Order No. R-9992, attached hereto as Exhibit A.

Yates contended that approval of the application would violate its correlative rights by allowing Nearburg to participate in a well drilled on Yates acreage, which contained the best part of the reservoir. Likewise, the geologic evidence in the present cases shows that the reservoir is better in Section 1 (V-F's acreage) than in Section 12 (OneEnergy's acreage). See testimony of Scott Germann. Thus, V-F's correlative rights will be impaired by the granting of OneEnergy's applications.

Under this situation Order No. R-9992 made the following conclusions:

Finding Paragraph (21): Both parties are able to form voluntary standard proration units (on their acreage).

Finding Paragraph (22): Yates' proposal to allow each operator to drill its own acreage ... represents the best method of developing the oil and gas reserves underlying the subject acreage, assures that no operator gains an unfair advantage, and assures that the correlative rights of both operators are protected.

Based on this order, and the facts of this case, V-F must be left alone to develop its acreage. In that regard, OneEnergy's engineer (David Ramsden-Wood) admitted at hearing that one mile laterals would be economic. OneEnergy will not be prevented from profitably developing its acreage if its applications are denied.

To grant OneEnergy's applications would set a dangerous precedent which will adversely affect operators from proceeding with development plans where they have a 100% drilling commitment for their wells.

B. The Alleged Benefits Of A Two Mile Lateral Are Not Proven.

No one objects to drilling laterals longer than one mile in length under the right circumstances. However, those circumstances are not present here.

OneEnergy asserted that a two mile lateral will produce more than twice the hydrocarbons of a one mile lateral. However, a county-wide study presented by V-F (Exhibit Z), shows that such results have not been achieved to date. The reasons for the less than ideal results are (i) variation in rock quality, (ii) poor frac treatment at the toe of a long lateral, (iii) difficulty staying in zone, (iv) production difficulties in lifting fluids out of a long lateral, and (v) potential mechanical problems while drilling.

In the present situation, there is a definite variation in rock quality between Sections 1 and 12: Section 1 has better rock quality. As to staying in zone, Mr. Germann testified that the casing design proposed by OneEnergy (as well as drilling updip) may lead to the wells' laterals drooping and potentially landing in the Wolfcamp formation. If that happens it would impair V-F's plans to develop the Wolfcamp formation in Section 1. Finally, OneEnergy has not addressed the increased difficulty in producing, cleaning out, and working over an extended horizontal lateral.

In addition, OneEnergy is proposing a frac job using sliding sleeves. EOG Resources Inc. and other active operators in Southeast New Mexico have abandoned such technology. Thus approving OneEnergy's applications will result in less than ideal frac treatments. OneEnergy further asserted that V-F's proposal leaves 660 feet of reservoir undrained in the north of Section 12 and the south of Section 1. The fact of the matter is that fracs are 3D, not 2D, so most of the "undrained" reservoir will actually be frac'd and produced with one mile laterals.

Finally, OneEnergy asserts benefits due to reduced surface use. Frankly, the surface is fee, and V-F doubts that the surface owner will be upset accepting surface use fees for additional wells. From a technical standpoint, V-F desires surface locations on its acreage because there are potentially productive uphole zones in this area which can be produced by the vertical portion of a wellbore, and which helps improve the economics of its proposed wells.

III. CONCLUSION.

In short, V-F simply requests that it be left alone to develop its acreage as it sees fit. The geology and engineering evidence supports this request. OneEnergy will still be able to develop its half section in an economic manner. Thus, OneEnergy's applications must be denied.

Respectfully submitted,



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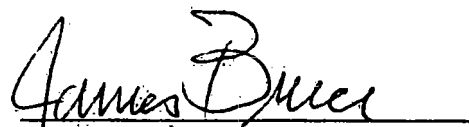
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 28th day of September, 2017 via e-mail:

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James Bruce

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 10823
Order No. R-9992**

**APPLICATION OF NEARBURG PRODUCING
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 9, 1993, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 18th day of October, 1993, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Nearburg Producing Company, seeks an order pooling all mineral interests from the surface to the base of the Cisco/Canyon formation underlying the W/2 of Section 10, Township 22 South, Range 24 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre oil and gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, including the Indian Basin-Upper Pennsylvanian Associated Pool. Said unit is to be dedicated to the applicant's proposed Red Walt "10" Federal Well No. 1 to be drilled at a standard location for the Indian Basin-Upper Pennsylvanian Associated Pool 990 feet from the North and West lines (Unit D) of Section 10.

(3) The evidence presented indicates that Section 10 is comprised of the four following described Federal leases:

EXHIBIT

A

| <u>LEASE NUMBER</u> | <u>LEASE DESCRIPTION</u> |
|---------------------|-------------------------------|
| NM-90505 | NW/4 NW/4 |
| NM-53953 | NE/4 NE/4 |
| NM-78213 | S/2 N/2, NE/4 NW/4, NW/4 NE/4 |
| NM-53219 | S/2 |

(4) Yates Petroleum Corporation is the lessee of the three Federal leases within the N/2 of Section 10. These leases are jointly owned by Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc. Nearburg Producing Company is the lessee and owner of the Federal lease comprising the S/2 of Section 10.

(5) Yates Petroleum Corporation (Yates) appeared at the hearing in opposition to the application.

(6) The primary target within the proposed well is the Cisco/Canyon formation within the Indian Basin-Upper Pennsylvanian Associated Pool.

(7) The applicant seeks authority to develop Section 10 as proposed based upon its contention that:

- a) due to the presence of an oil-water contact, the E/2 of Section 10 should be wet and non-productive in the Indian Basin-Upper Pennsylvanian Associated Pool;
- b) the most geologically favorable location in Section 10 to drill the initial well is within the NW/4; and,
- c) the W/2 of Section 10, comprising the only productive acreage in Section 10 within the subject pool, should be developed as a standard spacing and proration unit.

(8) Nearburg testified that from a geologic standpoint, it considers drilling the initial well in the SW/4 of Section 10 too risky.

(9) Yates opposes the formation of a W/2 spacing unit and proposes that two standard spacing units comprising the N/2 and S/2 of Section 10 be formed, and that Yates and Nearburg drill their own respective wells in the NW/4 and SW/4, respectively.

(10) Evidence presented by Yates indicates that it has filed an APD (Application to Drill) for its proposed Atom "ANT" Federal Com Well No. 1 to be located 990 feet from the North and West lines (Unit D) of Section 10.

(11) Yates further contends that approval of the subject application may violate its correlative rights by allowing Nearburg to participate in a well drilled on Yates' acreage which, according to both parties' evidence, contains the best portion of the reservoir in Section 10.

(12) The geologic evidence presented by Yates and Nearburg in this case is in general agreement that the oil-water contact within the reservoir occurs at a subsea depth of approximately -4,050 feet, that the oil-water contact traverses Section 10 generally in a north/northeast-south/southwest direction, and that the optimum drill site in Section 10 is within the NW/4.

(13) The parties are in general disagreement as to the exact location of the oil-water contact within Section 10. According to Yates' geologic interpretation, the N/2 and SW/4 of Section 10 are potentially productive while the majority of the SE/4 lies below the oil-water contact and should be non-productive. According to Nearburg's geologic interpretation, the NW/4 and the majority of the SW/4 are above the oil-water contact and therefore potentially productive, while the E/2 is below the oil-water contact and non-productive.

(14) Both of the geologic interpretations are based upon well control in this area.

(15) Prior to further development of the Indian Basin-Upper Pennsylvanian Associated Pool in Section 10, it is difficult to ascertain which parties' geologic interpretation of the reservoir is more accurate.

(16) The Indian Basin-Upper Pennsylvanian Associated Pool was created by Division Order No. R-9922 issued in Case No. 10748 on July 6, 1993.

(17) The Indian Basin-Upper Pennsylvanian Associated Pool is currently spaced on 320 acres; however, according to evidence and testimony presented by Yates in Case No. 10748, an oil well should be capable of draining an area of approximately 80-100 acres.

(18) In order to effectively drain the W/2, at least one well in both the NW/4 and SW/4 of Section 10 will have to be drilled.

(19) Although somewhat more risky than drilling in the NW/4, both parties' geologic evidence indicate that a well drilled in the SW/4 of Section 10 should be productive in the Indian Basin-Upper Pennsylvanian Associated Pool.

(20) The geologic evidence currently available does not conclusively demonstrate that the E/2 of Section 10 is non-productive in the Indian Basin-Upper Pennsylvanian Associated Pool or that such acreage will not contribute production to a well drilled in the NW/4 and/or SW/4 of Section 10.

(21) Both parties are fully able to form voluntary standard proration units within Section 10.

(22) Yates' proposal to allow each operator the opportunity to drill its own acreage in Section 10 represents the best method of developing the oil and gas reserves underlying the subject acreage, assures that no operator gains an unfair advantage, and assures that the correlative rights of both operators are protected.

(23) The application of Nearburg Producing Company for compulsory pooling should be denied.

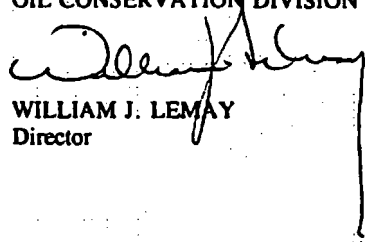
IT IS THEREFORE ORDERED THAT:

(1) The application of Nearburg Producing Company for an order pooling all mineral interests from the surface to the base of the Cisco/Canyon formation underlying the W/2 of Section 10, Township 22 South, Range 24 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre oil and gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, including the Undesignated Indian Basin-Upper Pennsylvanian Associated Pool, is hereby denied.

(2) Jurisdiction of this cause is hereby 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


WILLIAM J. LEMAY
Director

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