

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

APPLICATION OF OXY USA, INC. TO RESCIND THE HORIZONTAL SPACING UNITS AND API NUMBERS ASSIGNED TO FOUR APPLICATIONS FOR PERMITS TO DRILL ISSUED TO MURCHISON OIL & GAS INC, EDDY COUNTY, NEW MEXICO

Case No. 20410

MURCHISON OIL AND GAS, LLC'S RESPONSE IN OPPOSITION TO OXY USA, INC.'S MOTION FOR AN EXPEDITED ORDER STAYING ADMINISTRATIVE APPROVAL OF HORIZONTAL SPACING UNITS AND API NUMBERS

Murchison Oil and Gas, LLC ("Murchison") submits this response in opposition to the Motion for an Expedited Order Staying Administrative Approval of Horizontal Spacing Units and API Numbers ("Motion") filed by OXY USA, Inc. ("OXY"). In support of its response, Murchison states:

1. OXY's Motion requests the extraordinary relief of an expedited order staying Murchison's development plan for the N/2 of Section 30, Township 24 South, Range 29 East in Eddy County, which includes the imminent drilling of the first of four laydown horizontal wells with one-mile laterals. The Bureau of Land Management ("BLM") has approved Murchison's APDs for the four wells, each of which is located on federal surface and will produce minerals subject to one federal oil and gas lease.

2. Along with its Motion, OXY submitted an Application that asks the Division to rescind (i) its administrative approval of the horizontal spacing units for the four Murchison wells, and (ii) the API numbers assigned to the wells. OXY's Application and Motion attempt to create the impression that OXY and Murchison are in the initial stages of competing plans for the development of the N/2 of Section 30. But, as demonstrated below, the picture OXY attempts to portray is far from complete.

3. In effect, OXY would have the Division exercise its regulatory authority to nullify Murchison's BLM-approved APDs, terminate the development plan that Murchison commenced in July 2017, and pave the way for OXY to move forward with a development plan that it commenced this month. Because OXY's self-serving request for relief is factually and legally deficient, its Motion should be summarily denied.

4. One federal lease covers the N/2 of Section 30. *Self-Affirmed Statement of Peta Maree Pogue ("Pogue Affidavit")*, attached hereto as Exhibit ("Ex.") A, at 2, ¶6. 100% of the working interest in the N/2 of Section 30 is committed to a Joint Operating Agreement (JOA") dated October 1, 2010, pursuant to which Murchison is the unit operator. *Id.* at 1, ¶2.

5. Murchison commenced its development plan for the N/2 of Section 30 with a BLM on-site inspection in July 2017. *Pogue Affidavit, Ex. A, at 2, ¶7.* Murchison submitted APDs to the BLM for three of its wells in June 2018. Two months after the BLM approved the APDs in January 2019, Murchison built the first two well pads. *Id.*, ¶8.

6. To date, Murchison has expended a total of \$521,833 for obtaining BLM approvals, building a location, surveying, titles, and location damages for building the well pads. *Id.* That total does not include the attorney's fees Murchison is incurring to resist OXY's attempt to thwart Murchison's development plans.

7. Earlier this month, OXY proposed eighteen wells that would be drilled from Section 19 into Section 30, but has not proposed any form of an operating agreement. *Id.* at 3, ¶11. Neither the Application nor the Motion states that OXY has applied for, much less obtained, BLM approvals for its proposed wells.

8. Contrary to the assertion in the Motion that a stay would not result in any undue hardship or gross negative consequences to Murchison, the issuance of a stay would have a

significant – and unwarranted – adverse impact on Murchison. As noted above, Murchison has spent \$521,833 on its drilling program in the N/2 of Section 30. Additionally, Murchison has entered into a contract with a drilling contractor who will have a rig on location this week and is scheduled to spud on the wells this weekend. As of this date, Murchison is incurring \$350,000 in costs to move the rig onto the well pad located in the NE/4 NE/4 of Section 30, and in the event that it were to be prevented from commencing drilling this weekend, Murchison will owe its drilling contractor \$760,000 in fees while another location is staked, permitted and built (estimated to take at least 40 days) and another \$350,000 in fees to move the rig, and will incur as additional \$200,000 in costs to reclaim the two well pads it has built. *Id.*, ¶10. In sum, Murchison will have to spend almost \$2.2 million if a stay is entered. *Id.*, ¶11.

9. As justification for asking the Division to derail Murchison’s development plan, OXY offers the generalization that the length and orientation of Murchison’s wells is not optimal and that standup wells with two-mile laterals would be better. *See Motion at 2-3*. But these generalizations do not reflect the reality of to the actual horizontal well development in Section 30 and the surrounding sections.

10. 248 horizontal wells have been drilled in Section 30 and the surrounding area. *Self-Affirmed Statement of Charles A. Ward III (“Ward Affidavit”)*, attached hereto as *Ex. B*, at 2, ¶7. of that total, 142 are laydown wells, including more than 70 that OXY itself has drilled. In Murchison’s experience in the area, laydown and standup wells produce similar results. *Id.*, at ¶6.

11. OXY’s Motion also fails to acknowledge the fact that Murchison’s options are constrained by existing laydown wells drilled in N/2 of Section 25 and the N/2 of Section 29. *See Ward Affidavit, Ex. B*, at ¶9.

12. Finally, OXY's Motion asserts that Murchison has rejected OXY's good faith efforts to reach an agreement on the development of the N/2 of Section 30 and has short-circuited any further negotiations by stating its intention to spud its first well later this month. Once again, the picture presented by OXY is incomplete.

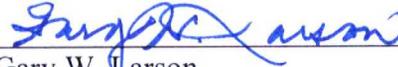
13. OXY has been aware of Murchison's development plans for the N/2 of Section 30 since last summer. On June 26, 2018, Murchison received an email from OXY expressing an interest in acquiring Murchison's interest in that acreage. *Self-Affirmed Statement of Eric Buddenbohn, attached hereto as Ex. C, at 1, ¶4.* Murchison responded by advising OXY that Murchison had submitted APDs to the BLM and planned to develop the N/2 of Section 30 under the existing JOA. *Id.*

14. Murchison heard nothing further from OXY until February 28, 2019, when it contacted Murchison about selling its interest in the N/2 of Section 30. *Id.*, ¶5. Over the next several days OXY made two offers, both of which Murchison deemed to be inadequate. *Id.* Instead of continuing to negotiate with Murchison, OXY opted to file its Application and Motion and attempt to put Murchison's longstanding development plan in jeopardy.

15. Because the Motion lacks any colorable legal or factual basis, the Division should reject OXY's invitation to terminate Murchison's longstanding development plan so that OXY can move forward with its newly-proposed drilling plan, and deny the Motion.

Respectfully submitted,

HINKLE SHANOR LLP



Gary W. Larson
P.O. Box 2068
Santa Fe, NM 87504-2068
Phone: (505) 982-4554
Facsimile: (505) 982-8623
glarson@hinklelawfirm.com

and

Andrew J. Cloutier
P.O. Box 1010
Roswell, NM 88202
Phone: (575) 622-6510
Facsimile: (575) 623-9332
acloutier@hinklelawfirm.com

Counsel for Murchison Oil and Gas, LLC

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of March 2019 I served a true and correct copy of the foregoing Murchison Oil and Gas, LLC's Response in Opposition to OXY, USA, Inc.'s Motion for an Expedited Order Staying Administrative Approval of Horizontal Spacing Units and API Numbers via email to:

Michael H. Feldewert
Adam G. Rankin
Julia Broggi
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
Phone: (505) 988-4421
Facsimile: (505) 983-6043
mfeldewert@hollandhart.com
agrarkin@hollandhart.com
jbroggi@hollandhart.com

Counsel for Oxy USA Inc.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
Phone: (505) 982-2043
jamesbruc@aol.com

Counsel for Tap Rock Resources, LLC



Gary W. Larson