

**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. 14584
ORDER NO. R-13354**

**APPLICATION OF EOG RESOURCES, INC.
FOR AN ORDER AUTHORIZING DRILLING
OF WELLS IN THE POTASH AREA, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on December 16, 2010 at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 26th day of January, 2011, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.

(2) EOG seeks authority from the Division to continue oil and gas development in Section 23, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico.

(3) By this application, EOG Resources, Inc. ("EOG" or "Applicant") seeks approval of three Applications for Permit to Drill (APD) for oil wells at locations within the "Potash Area" as defined by Commission Order No. R-111-P, issued in Case No. 9316 on April 21, 1988. EOG seeks approval for the following wells to be drilled to the Bone Spring formation, Turkey Track-Bone Spring Pool:

- a) the Parkway 23 State Com Well No. 2H to be drilled at a surface location 760 feet from the North line and 200 feet from the West line and a bottomhole location 660 feet from the North line and 330 feet from the East line of Section 23, Township 19 South, Range 29 East, NMPM, Eddy

County, New Mexico. The N/2 N/2 of Section 23 will be dedicated to the well;

- b) the Parkway 23 State Com Well No. 3H to be drilled at a surface location 2050 feet from the North line and 50 feet from the West line and a bottomhole location 1980 feet from the North line and 330 feet from the East line of Section 23. The S/2 N/2 of Section 23 will be dedicated to the well; and
- c) the Parkway 23 State Well No. 4H to be drilled at a surface location 660 feet from the South line and 200 feet from the West line and a bottomhole location 660 feet from the South line and 330 feet from the East line of Section 23. The S/2 S/2 of Section 23 will be dedicated to the well.

(4) EOG filed the Applications for Permits to Drill ("APD's") for its proposed Parkway 23 State Com Well Nos. 2H and 3H and the Parkway 23 State Well No. 4H with the Artesia District Office of the Division. Because the locations are within the Potash Area, EOG was required to notify all potash lessees within a mile from the proposed locations. However, there are no potash leases within a mile from the proposed locations. Out of an abundance of caution, EOG notified Mosaic Potash (IMC Potash) and Intrepid Potash of the proposed locations.

Mosaic responded that they had "no standing in this particular township."

Intrepid objected to the drilling of these wells stating the wells were within Intrepid's Life of Mine Reserve ("LMR").

(5) The Division's Artesia District Office contacted the New Mexico State Land Office and the Bureau of Land Management to determine whether the proposed well locations were within a LMR or the ½ mile buffer zone as required by Order No. R-111-P. The State Land Office responded that the Parkway 23 State Com 2H was within the buffer zone and the 3H and 4H were within a LMR. The BLM responded that none of the wells were within a LMR or a buffer zone.

(6) The District Office approved the APDs. However, because Intrepid objected to the locations, EOG did not move forward with drilling the wells at that time.

(7) At the hearing, EOG appeared through its attorney and presented land, geology and engineering testimony as follows:

- a) EOG proposes to drill the subject wells on State of New Mexico oil and gas leases in Section 23, Township 19 South, Range 29 East, to a depth sufficient to test the Bone Spring formation.
- b) There are no potash leases within a mile of the proposed locations.

- c) There is an abandoned potash mine that, according to BLM records, extends into parts of Section 23. Although it does not have a potash lease in Section 23, Intrepid has informed EOG that it intends to convert the mine for solution mining of potash.
- d) Although EOG proposes to drill two of the wells horizontally below the abandoned mine, each well will be approximately 8400 feet (TVD) in the Bone Spring formation whereas the floor of the mine is at approximately 1200 feet.
- e) The drilling of the three proposed wells will not cause any risk to the abandoned mine.
- f) EOG operates the Parkway 23 State Com Well No. 1 with a surface location in Unit K and a bottomhole location in Unit F of Section 23 which is a Morrow directional well. Intrepid gave EOG a waiver to drill this well in 2004. There is also a producing Bone Spring well in Unit J. There is a plugged and abandoned Bone Spring well in Unit L of Section 23.
- g) In the nine-section area around Section 23, there are approximately 17 active oil and gas wells. Of these wells, approximately 8 wells would have ½ mile or ¼ mile buffers as required by Order No. R-111-P that extend into Section 23.
- h) When taking into account existing wellbores in Section 23 in addition to surrounding wells in the nine-section area, virtually all of Section 23 is located within ½ mile of one or more of these existing wellbores.
- i) The proposed well locations are geologically favorable for Bone Spring wells.
- j) There are also a number of economic Bone Spring wells in the immediate area.
- k) Based on current cumulative production from Bone Spring wells in the nine-section area, EOG estimates that each of the proposed horizontal wells has an estimated ultimate recovery of 400,000 barrels per well from the second sand and another 200,000 barrels per well from the first sand in the Bone Spring formation.

(8) Although Intrepid sent a letter to EOG objecting to the APDs, Intrepid did not appear at the hearing or otherwise bring to the Division's attention any evidence showing that this Application should not be granted.

The Division concludes that:

(9) Although Ordering Paragraph G (3) of Order No. R-111-P provides that an APD for a well within the LMR or buffer zone can be approved only with the agreement of affected potash lessees, Finding Paragraph (2) of the same order states:

The Commission cannot abdicate its discretion to consider applications to drill as exceptions to its rules and orders but in the interest of preventing waste of potash should deny any application to drill in commercial potash areas... unless a clear demonstration is made that commercial potash will not be wasted unduly as a result of the drilling of the well.

(10) In this case, EOG has made a clear demonstration that the drilling of the subject wells will not cause any undue waste of potash since virtually all of the area that will be rendered unsafe for potash mining by the drilling of the subject wells at the proposed locations are already condemned for potash mining due to its proximity to other active or abandoned deep gas wells.

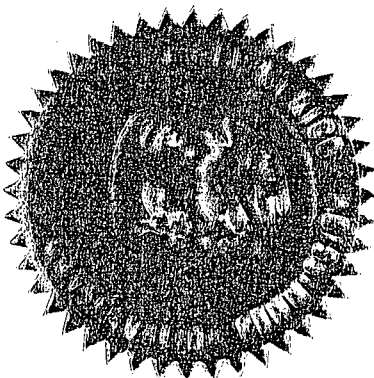
IT IS THEREFORE ORDERED THAT:

(1) EOG's Applications for Permits to Drill its Parkway 23 State Com Well Nos. 2H, 3H and Parkway 23 State Well No. 4H are hereby approved.

(2) All provisions of Order No. R-111-P save and except the provision of Ordering Paragraph G(3) thereof requiring the agreement of potash lessees to the approval of an APD shall continue in full force and effect, and shall apply to the wells described in Ordering Paragraph (1) of this order.

(3) Jurisdiction is 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Daniel Sanchez", with a long, sweeping horizontal line extending to the right.

Daniel Sanchez
Acting Director