

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

APPLICATION OF BC OPERATING, INC. AND CROWN OIL PARTNERS V, LP TO REMOVE KEY ENERGY SERVICES, INC. AS OPERATOR OF RECORD FOR THE GRACE CARLSBAD WELL NO. 1 LOCATED ON STATE LANDS, EDDY COUNTY, NEW MEXICO.

CASE NO. 15527

APPLICANTS' PRE-HEARING STATEMENT

This pre-hearing statement is submitted by applicants BC Operating, Inc. and Crown Oil Partners V, LP.

APPEARANCES

APPLICANT

BC Operating, Inc.
Crown Oil Partners V, LP.
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ATTORNEY

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APPLICANTS STATEMENT OF THE CASE

Applicants seek an order from the Division removing Key Energy Services, Inc. as the operator of record for the Grace Carlsbad Well No. 1 (API No. 30-015-20573) and approving a change of operator to BC Operating, Inc. The Grace Carlsbad Well is located on state lands subject to a state lease issued to applicant Crown Oil Partners V, LP. BC Operating, Inc. is the operating entity of the current state mineral lessee and is a registered operator in good standing with the Division.

The Grace Carlsbad Well was drilled in 1972 by state lessee Corinne Grace to a depth of 11,875 feet for production from the Morrow formation. Division records reflect that the Grace Carlsbad Well No. 1 has not reported production since November of 2007. As a result, the original state mineral lease expired in January of 2008 due to a lack of production.

In June of 2008, six months after the original state lease expired, Bold Energy executed a Change of Operator form naming Oxy USA Inc. the Division designated operator of the Grace Carlsbad Well. In October of 2010, Oxy USA, Inc. executed a Change of Operator form naming Key Energy Services, LLC as the operator of the well. At the time that the 2008 and 2010 Change of Operator forms were executed and filed with the Division, none of the parties named therein held a state mineral lease nor did they subsequently seek to acquire a state mineral lease.

Key Energy does not own any of the oil and gas rights underlying Section 36, holds no easement or license with the state land office to utilize this wellbore or the underlying strata, and has no easement or license with the surface owners to access the wellbore. Division Order R-14052, issued in Case No. 15322 on September 23, 2015, denied Key Energy's application to utilize the Grace Carlsbad Well for disposal purposes. The Division found that "the probability exists for oil and gas reserves to be present" in the proposed disposal formation underlying these state lands.

Since issuance of Division Order R-14052, BC Operating Inc. has expressed to Key Energy a desire to utilize the Grace Carlsbad Well to explore for and produce the state minerals. Key Energy has refused to execute a Change of Operator form naming BC Operating Inc. as the operator of record and has threatened to junk the well by pouring cement down the wellbore. The Grace Carlsbad wellsite has not been maintained and is in a state of disrepair.

Removing Key Energy as the Division designated operator of the Grace Carlsbad Well and approving a change of operator to BC Operating, Inc. will allow the current state mineral lessee to access the wellsite, conduct cleanup and repair operations, and utilize the Grace Carlsbad Well for development of the underling state oil and gas reserves.

APPLICANT'S PROPOSED EVIDENCE

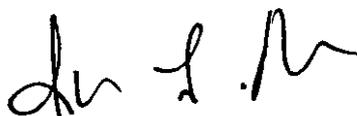
WITNESS Name and Expertise	ESTIMATED TIME	EXHIBITS
Caleb Hopson Landman	Approx. 10 minutes	Approx. 5

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

HOLLAND & HART, LLP



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