

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

APPLICATION OF BC OPERATING, INC. FOR A NON-STANDARD SPACING AND PRORATION UNIT, APPROVAL OF AN UNORTHODOX WELL LOCATION, AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

Case No.:

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APPLICATION

BC Operating, Inc., ("BC") (OGRID No. 160825), through its undersigned attorneys, hereby files this application with the Oil Conservation Division pursuant to the provisions of N.M. Stat. Ann. § 70-2-17, for an order (1) creating a 480-acre, more or less, spacing and proration unit comprised of the W/2 of Section 27 and the NW/4 of Section 34, Township 23 South, Range 26 East, Eddy County, New Mexico; (2) approving an unorthodox well location; and (3) pooling all uncommitted interests in the Wolfcamp formation underlying the proposed non-standard spacing unit. In support of its application, BC states:

1. BC Operating, Inc. is a working interest owner in the W/2 of Section 27 and the NW/4 of Section 34, and has the right to drill thereon.
2. BC proposed to dedicate the above-referenced spacing and proration unit as the project area for its proposed **Red Light 27-34 State Com No. 2H Well**, which will be drilled horizontally from the NW/4 NW/4 (Unit D) of Section 27 to a non-standard bottomhole location in the SW/4 NW/4 (Unit E) of Section 34.
3. This project area is located within the WC-015-S232627B; Wolfcamp (Gas) Pool (98204). This pool is subject to the statewide rules for defined gas pools in Eddy County which require 320-acre spacing and wells to be located no closer than 660 feet to the outer boundary of

the quarter section. See NMAC 19.15.15.10(B). Rules 19.15.15.10(B) and 19.15.4.12(A)(2) NMAC allow the Director to grant an exception to the well location requirements.

4. The proposed **Red Light 27-34 State Com No. 2H Well** will be unorthodox because the completed interval for this well will be closer than 660 feet to the outer boundary. The completed interval for this well will commence 330 feet from the North line and 990 feet from the West line (Unit D) of Section 27 to a location 2,310 feet from the North line, 990 feet from the West line (Unit E) of Section 34. The completed interval therefore encroaches on the spacing and proration units to the North and South.

5. BC has sought and been unable to obtain voluntary agreement for the development of these lands from all of the working interest owners in the proposed non-standard spacing unit.

6. The pooling of interests will avoid the drilling of unnecessary wells, will prevent waste, and will protect correlative rights.

7. In order to permit BC to obtain its just and fair share of the oil and gas underlying the subject lands, all uncommitted interests in this spacing unit should be pooled and BC Operating, Inc., should be designated operator of this proposed horizontal well and non-standard spacing unit.

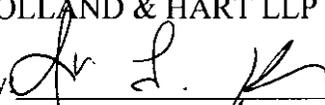
WHEREFORE, BC Operating, Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on August 18, 2016, and, after notice and hearing as required by law, the Division enter an order:

- A. Creating a 480-acre, more or less, non-standard spacing and proration unit in the Wolfcamp formation, comprised of the W/2 of Section 27 and the NW/4 of Section 34, Township 23 South, Range 26 East, Eddy County, New Mexico;

- B. Approving an unorthodox location for the initial well;
- C. Pooling all uncommitted interests in the non-standard spacing and proration unit;
- D. Designating BC Operating, Inc. operator of this non-standard spacing and proration unit and the horizontal well to be drilled thereon;
- E. Authorizing BC Operating, Inc. to recover its cost of drilling, completing, and equipping the well;
- F. Approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and
- G. Imposing a 200% risk penalty for the risk assumed by BC in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

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ATTORNEYS FOR BC OPERATING, INC.

Case No. 1553.0 Application of BC Operating, Inc. for a non-standard spacing and proration unit, unorthodox well location, and compulsory pooling, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order (1) creating a non-standard, 480-acre, more or less, spacing and proration unit comprised of the W/2 of Section 27 and the NW/4 of Section 34, Township 23 South, Range 26 East, Eddy County, New Mexico; (2) approving an unorthodox well location; and (3) pooling all uncommitted interests in the Wolfcamp formation underlying this acreage. Said non-standard unit is to be dedicated to applicant's proposed **Red Light 27-34 State Com No. 2H Well**, which will be drilled horizontally from the NW/4 NW/4 (Unit D) of Section 27 to a non-standard bottomhole location in the SW/4 NW/4 (Unit E) of Section 34. The completed interval is unorthodox because it will be closer than 660 feet to the outer boundary. The completed interval for this well will commence 330 feet from the North line and 990 feet from the West line (Unit D) of Section 27 to a location 2,310 feet from the North line, 990 feet from the West line (Unit E) of Section 34. The completed interval therefore encroaches on the spacing and proration units to the North and South. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of BC Operating, Inc., as operator of the well, and a 200% charge for risk involved in drilling said well. Said area is located approximately 10 miles southwest of Carlsbad, New Mexico.

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