

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

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**DE NOVO APPLICATION OF CAZA
PETROLEUM, INC. FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

**Case No. 15437 (*de novo*)
Order No. R-14191**

**LEGACY RESERVES LP'S
PRE-HEARING STATEMENT**

Legacy Reserves LP ("Legacy") submits its Pre-Hearing Statement pursuant to the rules of the Oil Conservation Commission.

APPEARANCES

APPLICANT

Caza Petroleum, Inc.

APPLICANT'S ATTORNEY

James Bruce
P.O. Box 1056
Santa Fe, NM 87504
(505) 982-2043
jamesbruc@aol.com

OPPONENTS/OTHER PARTIES

Legacy Reserves LP

OPPONENTS' ATTORNEYS

Gary W. Larson
Hinkle Shanor LLP
P.O. Box 2068
Santa Fe, NM 87504
(505) 982-4554
glarson@hinklelawfirm.com

COG Operating LLC

Ocean Munds-Dry
COG Operating LLC
1048 Pasco de Peralta
Santa Fe, NM 87501
(505) 780-8000
omundsdry@concho.com

STATEMENT OF THE CASE

Caza Petroleum, Inc.'s ("Caza's") application requests an order (i) approving a non-standard 160-acre oil spacing and proration unit in the Bone Spring formation comprised of the W/2 W/2 of Section 19, Township 20 South, Range 35 East, N.M.P.M., Lea County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the proposed non-standard unit. Caza proposes to dedicate the W/2 W/2 of Section 19 to its Igloo 19 State Well No. 7H, which would be horizontally drilled from a surface location in the SW/4 SW/4, to a standard bottomhole location in NW/4 NW/4, of Section 19.

Legacy owns 100% of the interest in the NW/4 of Section 19, which is included in the federal Lea Unit, and is the federally-approved operator of the unit. Legacy opposes Caza's application because Caza's proposed horizontal well would impede Legacy's comprehensive drilling program for the Lea Unit, cause waste, and impair the correlative rights of Legacy and the other owners of interests in the Lea Unit.

PROPOSED EVIDENCE

<u>WITNESS</u>	<u>ESTIMATED TIME</u>	<u>EXHIBITS</u>
Clay Roberts (Landman)	15 minutes	5
Keith McKamey (Geologist)	15 minutes	5
Patrick Darden (Engineer)	15 minutes	8


In accordance with 19.15.4.13 (B) (2), Legacy has attached hereto copies of the documentary exhibits (Exhibit Nos. 1 through 18) that it proposes to offer into evidence at the hearing.

Legacy reserves the right to call a rebuttal witness(es) and introduce rebuttal exhibits if appropriate.

PROCEDURAL MATTERS

Legacy is not aware of any procedural matters to be resolved prior to or at the hearing.

HINKLE SHANOR, LLP



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

Counsel for Legacy Reserves LP

CERTIFICATE OF SERVICE

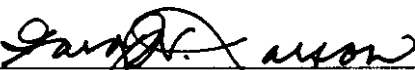
I hereby certify that on this 3rd day of November, 2016, I served a true and correct copy of the foregoing *Legacy Reserves LP's Pre-Hearing Statement* via email to:

James Bruce
Post Office Box 1056
Santa Fe, NM 87504
jamesbruc@aol.com

Counsel for Caza Petroleum, Inc.

Ocean Munds-Dry
1048 Paseo de Peralta
Santa Fe, NM 87501
omundsdry@concho.com

Counsel for COG Operating LLC

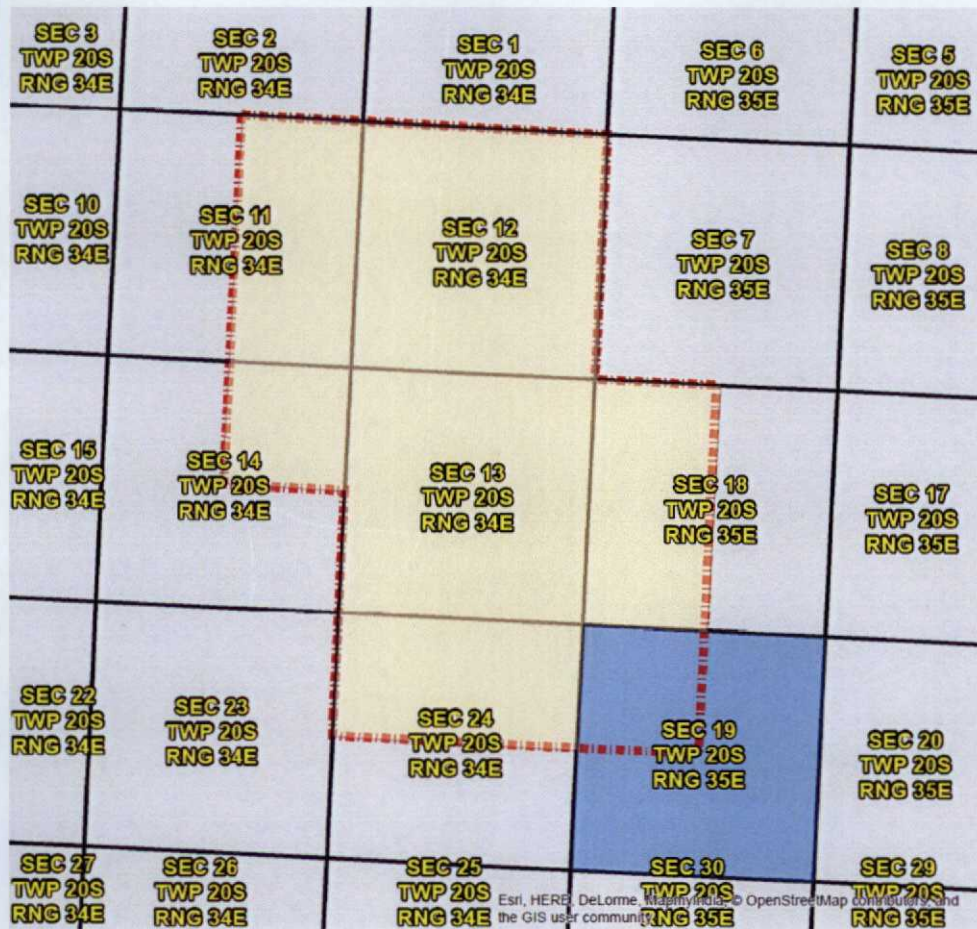


Gary W. Larson

Lea Unit Acreage Contributions

10-25-16

LEA UNIT - ACREAGE CONTRIBUTION



LEA UNIT OWNERSHIP

Legacy/Jupiter JV LLC - .9131061
Finley Resources - .05053440
HOG LP - .01953370
COG - .01682580

LEA UNIT

STATE ACREAGE
FEDERAL ACREAGE
LEA UNIT

Date: 3/1/2016

Lea Unit

Acreage Contribution:

Lea Unit Acreage - 2,559.68

- Federal Acreage - 2,399.68 Acres - 93.75%
- State Acreage - 160 Acres - 6.25%

Royalty Calculation:

- Current Royalty Payments under 5th Revision of Bone Spring Participation Area
 - Federal - .125
 - State - 0.00
 - The State of New Mexico is entitled to 50% of the Federal royalty less a 2% fee.

*There is no Bone Spring production on the state acreage to date and cannot be incorporated in a Bone Spring Participation Area until a well is drilled on the acreage.

- Once Legacy drills the Lea Unit #59H the unit wide royalty would be paid as follows:

Federal - .125 Royalty X (2,399.68/2,559.68) = **.11718652**

State - .125 Royalty X (160 State Acres / 2,559.68 Lea Unit Acres) = **.00781348**

Lea Unit Ownership:

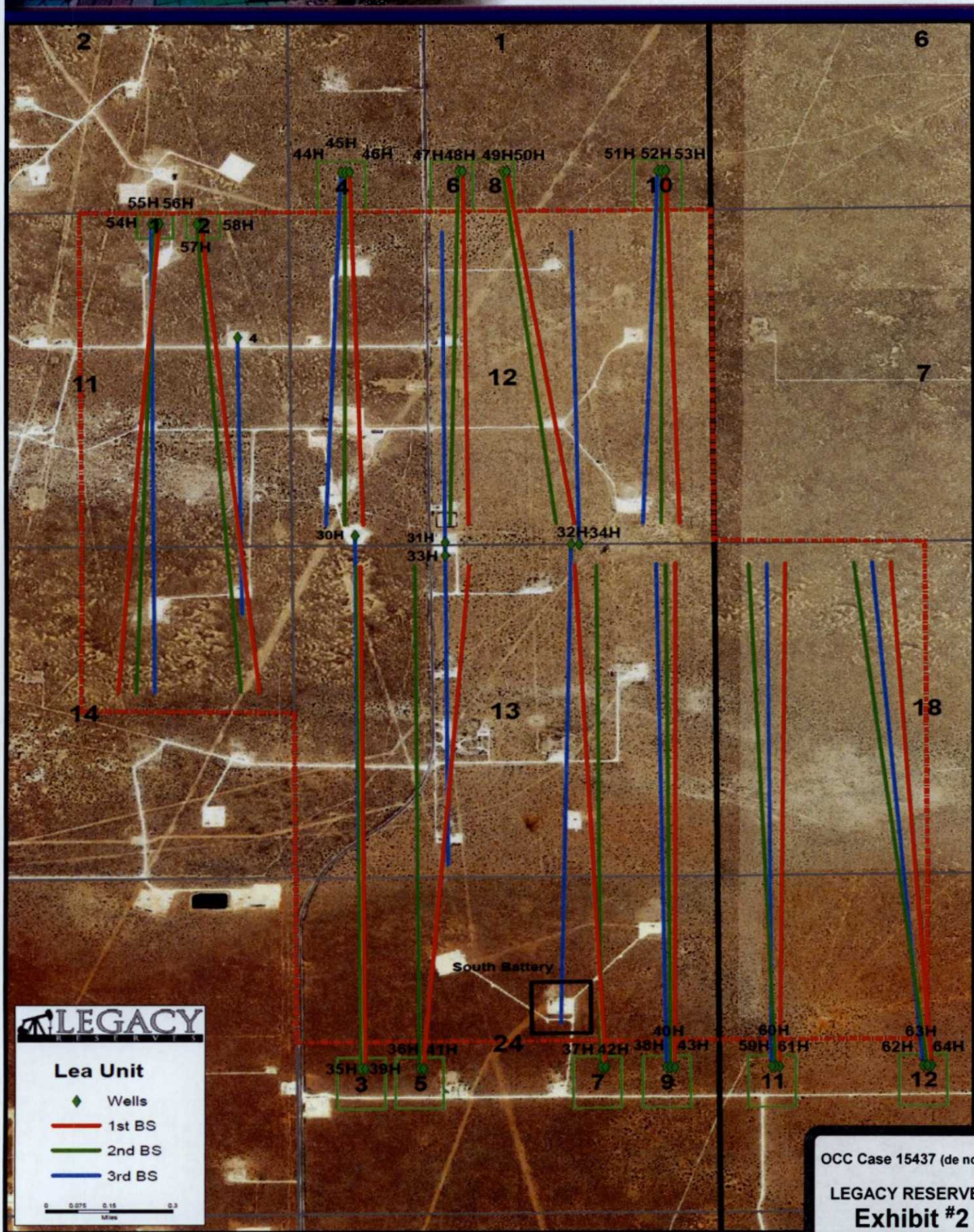
Legacy Reserves Operating LP/Jupiter JV LLC - .9131061
Finley Resources - .05053440
HOG Limited Partnership - .01953370
COG - .01682580

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**LEGACY RESERVES
Exhibit #1**

Lea Unit Pads - Aerial Base

10-25-16



Mewbourne Protest Letter

10-25-16



FedEx Tracking #7969 3262 3985
United States Department of the Interior
Bureau of Land Management
Carlsbad Field Office
620 E. Greene St.
Carlsbad, New Mexico 88220-6292
Attn: Jim Stovall – Carlsbad Field Office Manager

March 30, 2011

SUBJECT: Protest of APD's Submitted by Mewbourne Oil Company
#2H-Marathon Road 14 Fed Com
#3H-Marathon Road 14 Fed Com
E/2 Section 14, T20S, R34E
Lea County, New Mexico

Legacy Reserves Operating, LP, hereby submits its protest of the above mentioned Application and Permits to Drill submitted by Mewbourne Oil Company.

Legacy Reserves Operating, LP as unit operator of the Lea Unit, protest as follows. Mewbourne Oil Company's proposed bottom hole locations (BHL's) and a portion of the proposed laterals on both wells will enter into and land in the NE/4 of Section 14 which is within the Lea Unit (Tract No 11 (NM-053434) and Tract No 12 (NM-080262)) boundaries. Legacy Reserves Operating, LP started a study on the feasibility of drilling a horizontal lateral in the 3rd Bone Spring Sand out of the Lea Unit #4 in late 2010. The APD for this project is in the process of being prepared and will be submitted soon. The proposed BHL for the Lea Unit #4H lands at 1980' FNL and 660' FEL, section 14 with a TVD of 10,926' (+/-7,250' sub surface) and a MD of 16,150'. Legacy Reserves Operating, LP also plans to drill dual laterals out of the Lea Unit #6 well (North and South) of which the South lateral would cover and land in the W/2 of the NE/4 of section 14. Further plans are to drill multiple horizontal laterals within the Lea Unit boundaries in a North-South direction in the coming months and years.

For these reasons, Legacy Reserves Operating, LP protest the drilling of the #2H-Marathon Road 14 Fed Com and #3H Marathon Road Fed Com wells as proposed by Mewbourne Oil Company. Please do not hesitate to contact me if you have any questions or need additional information regarding this protest.

Thank you in advance for your consideration in this matter.

Sincerely,

D. Patrick Darden, P.E.
Senior Engineer
432-689-5237

dpd

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LEGACY RESERVES
Exhibit #3



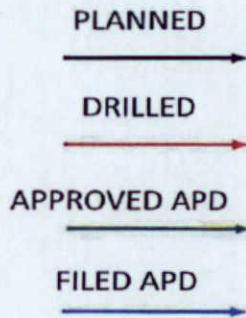
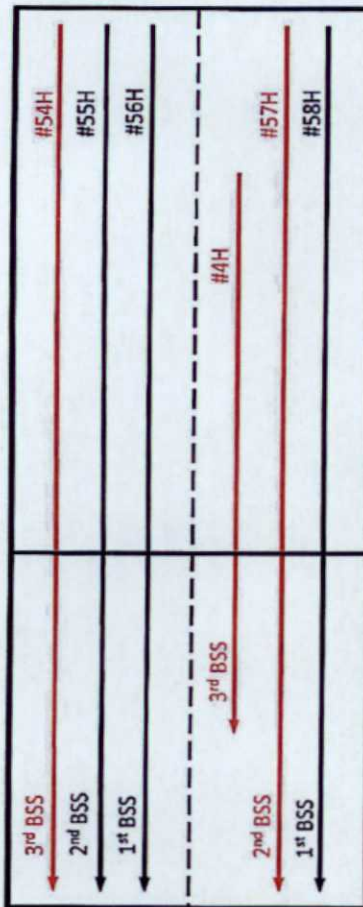
LEA UNIT

LEA COUNTY, NM

BONE SPRING HORIZONTAL
DEVELOPMENT

SEC. 11

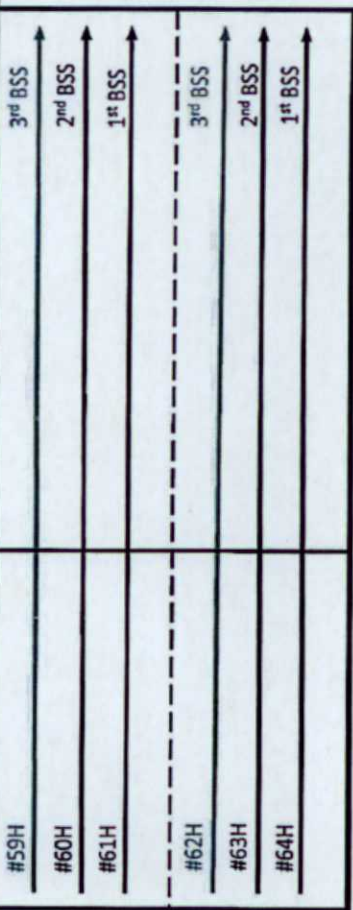
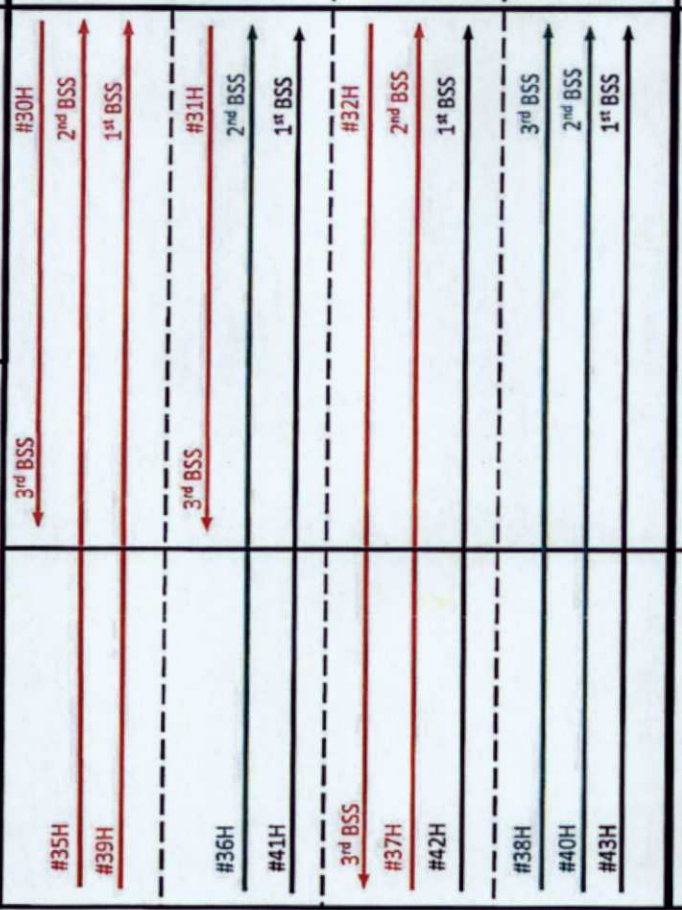
SEC. 12



SEC. 18

SEC. 14

SEC. 13



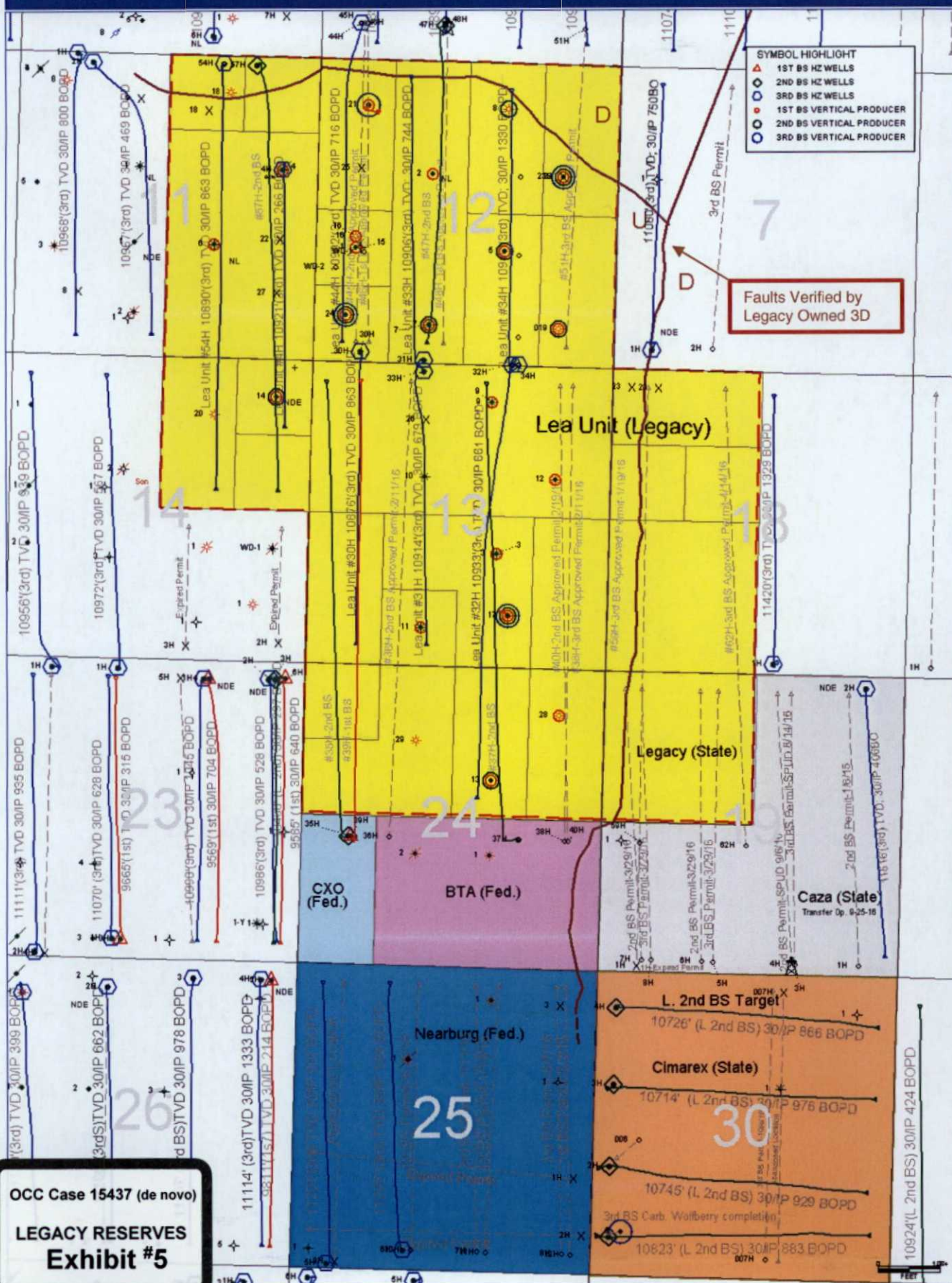
SEC. 24

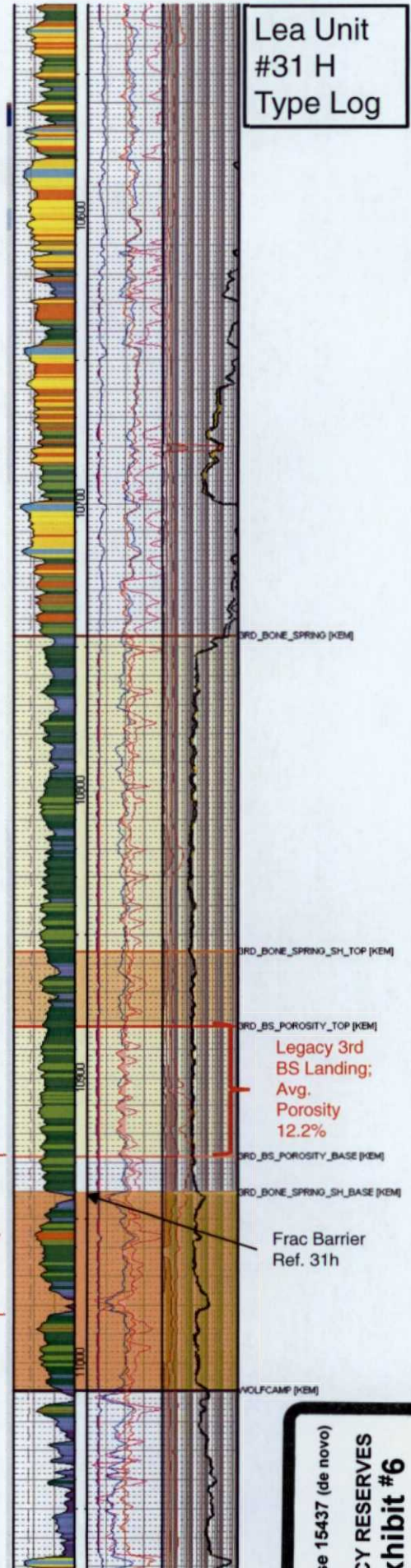
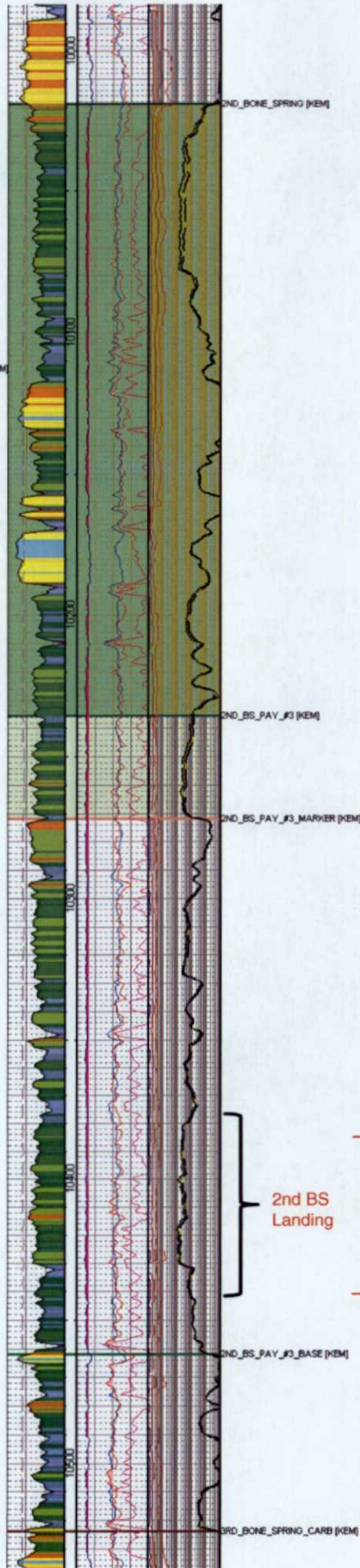
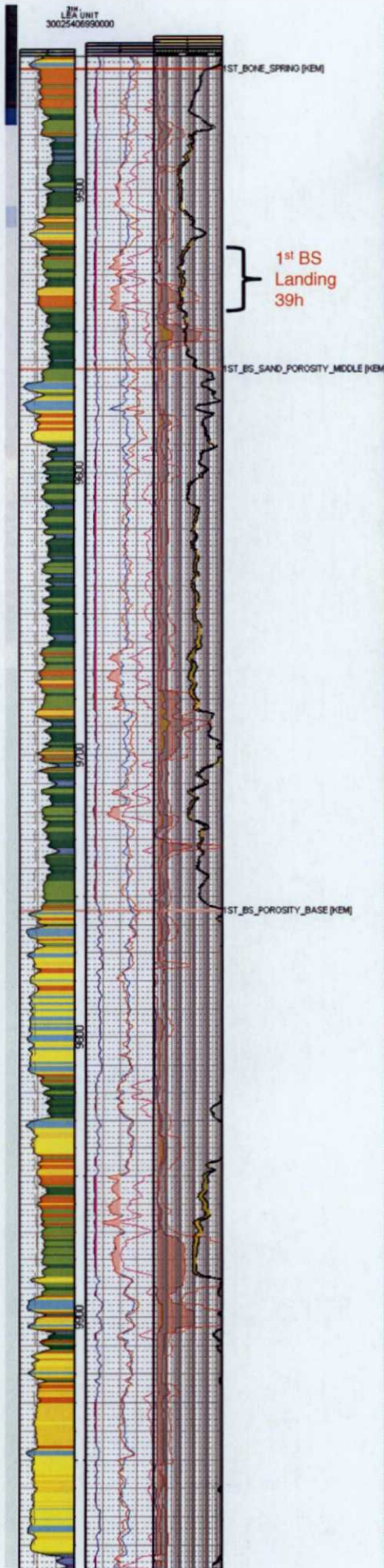
SEC. 19

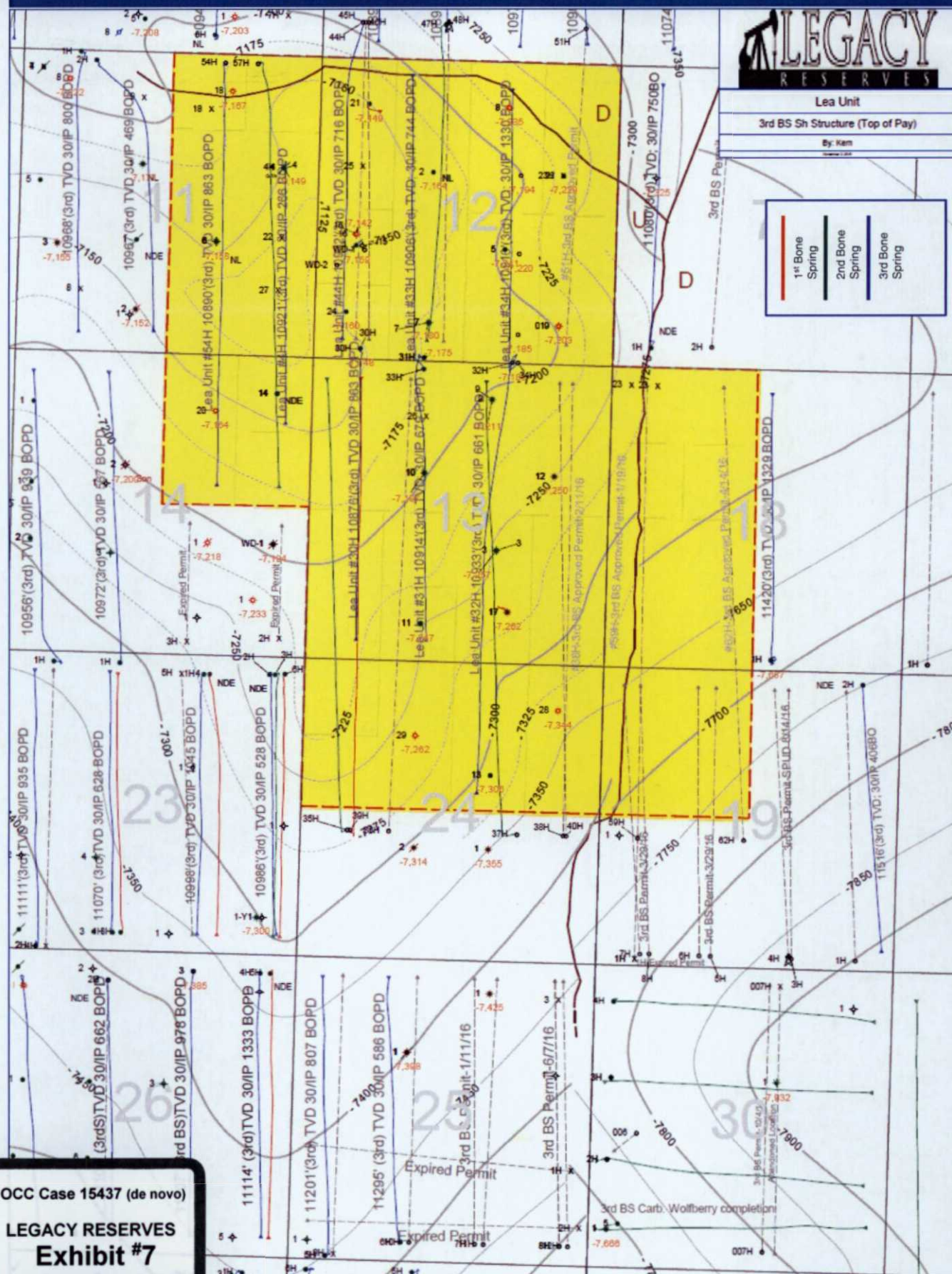
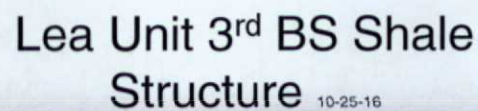
Lea Unit Production Activity

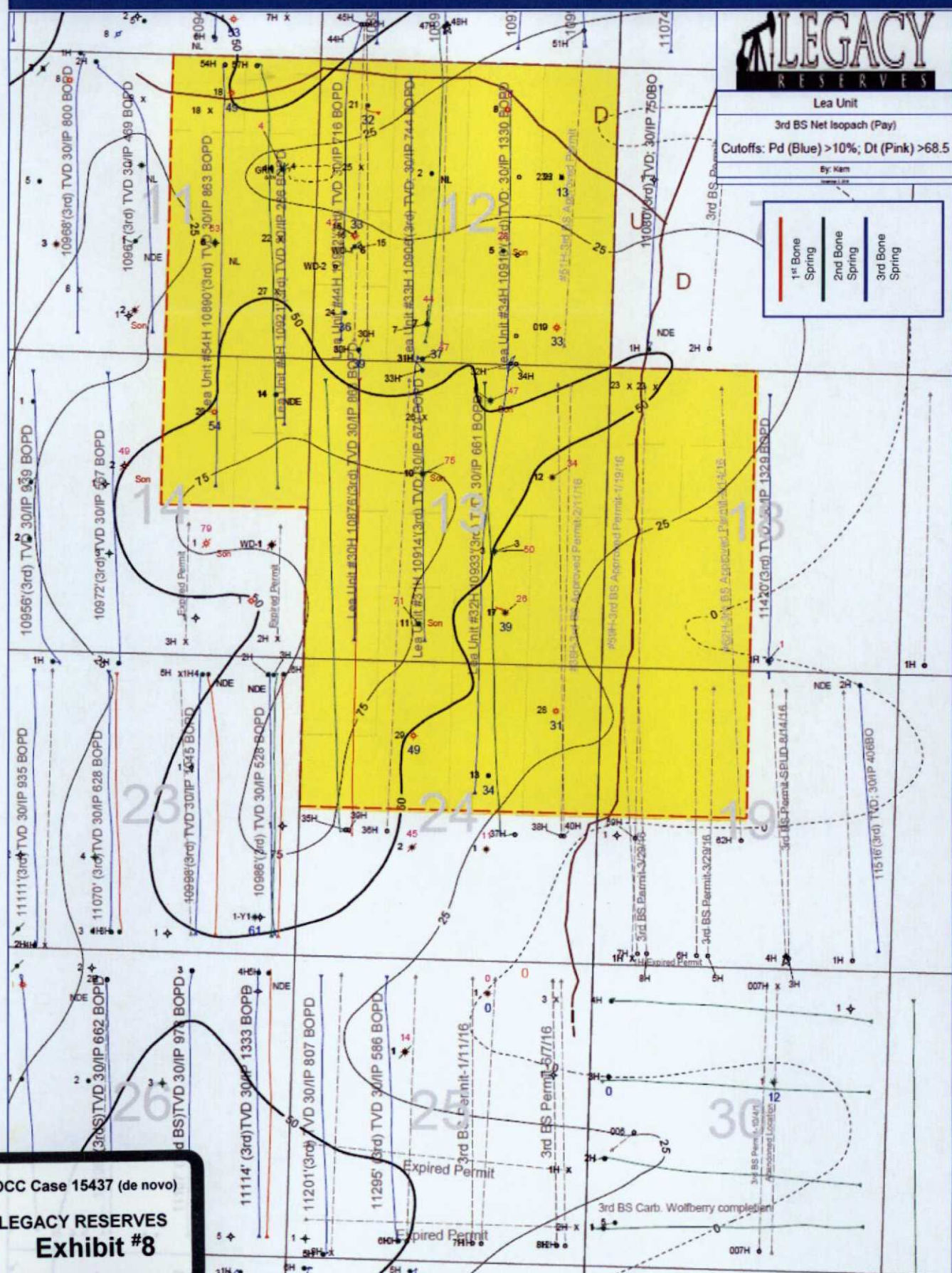
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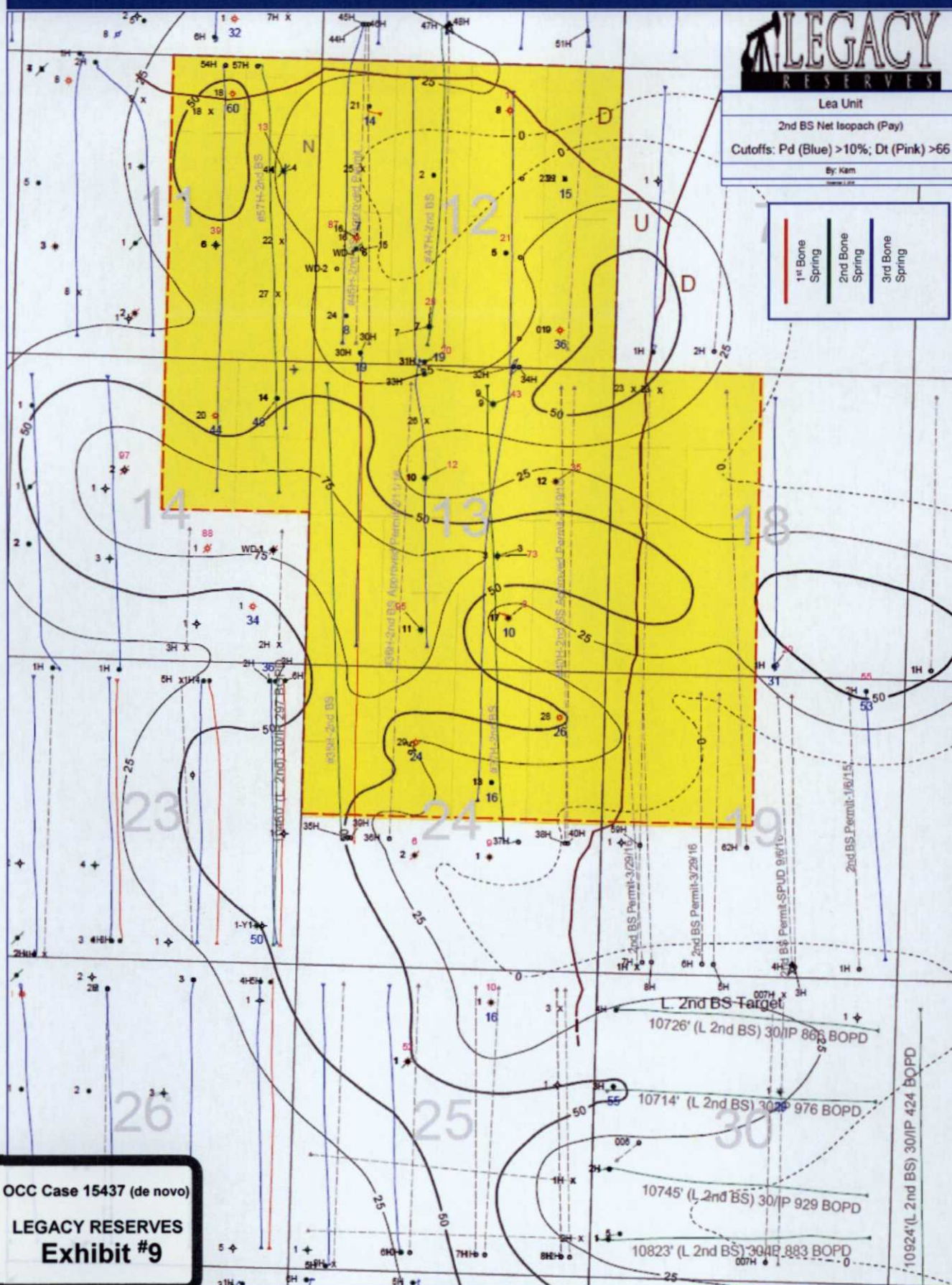
10-25-16

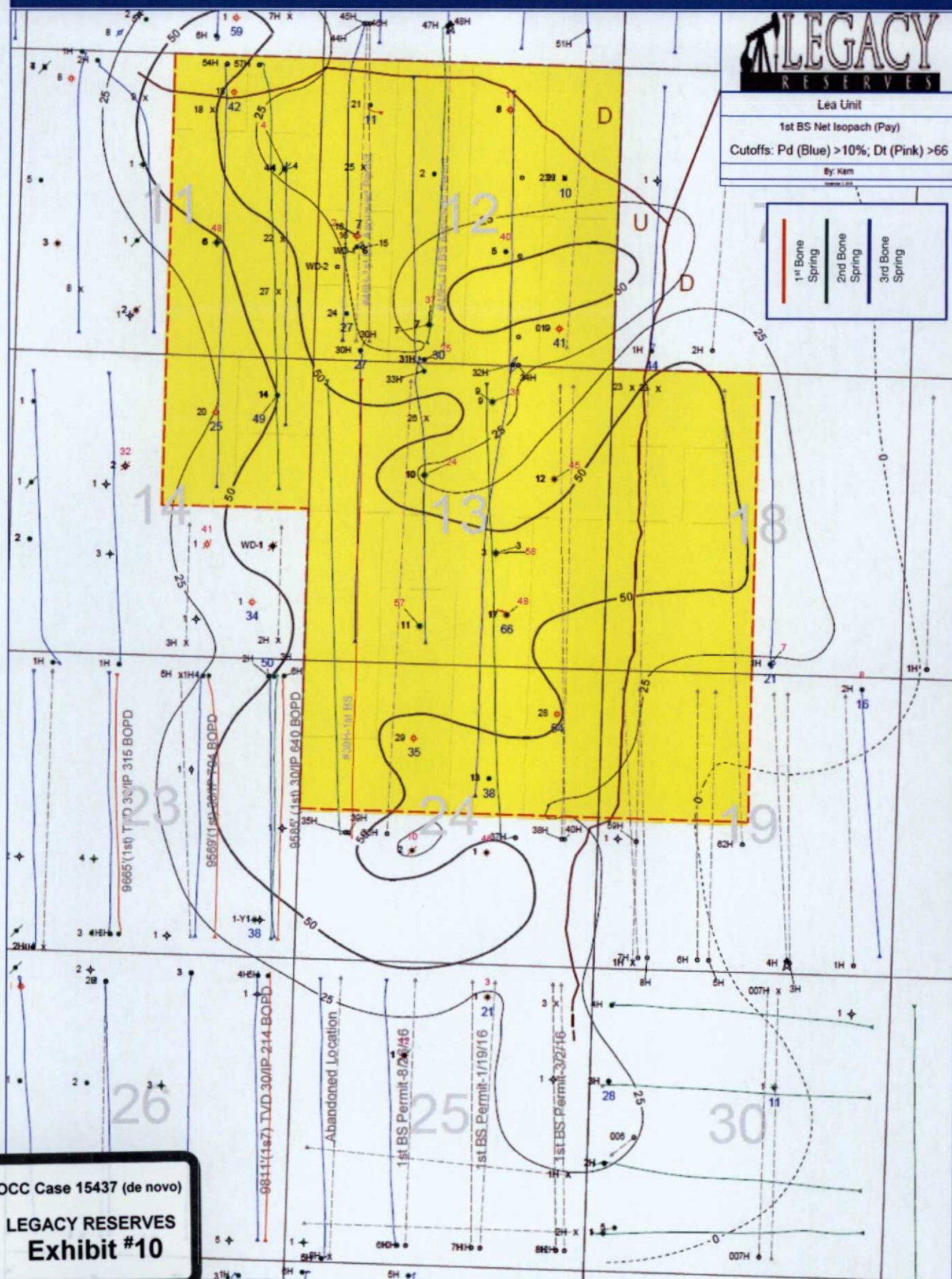






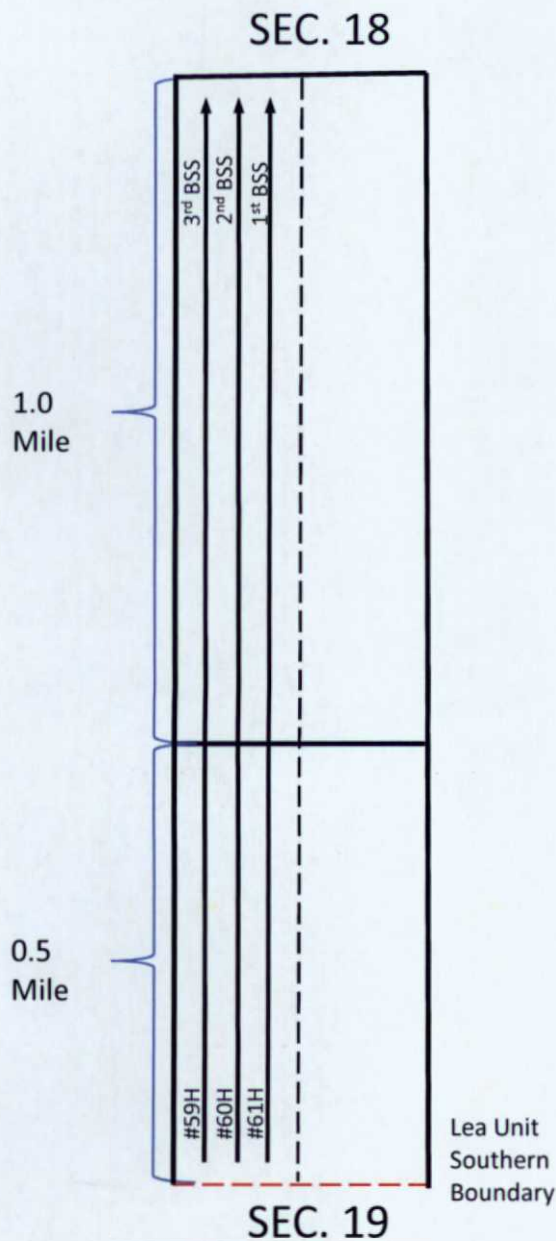




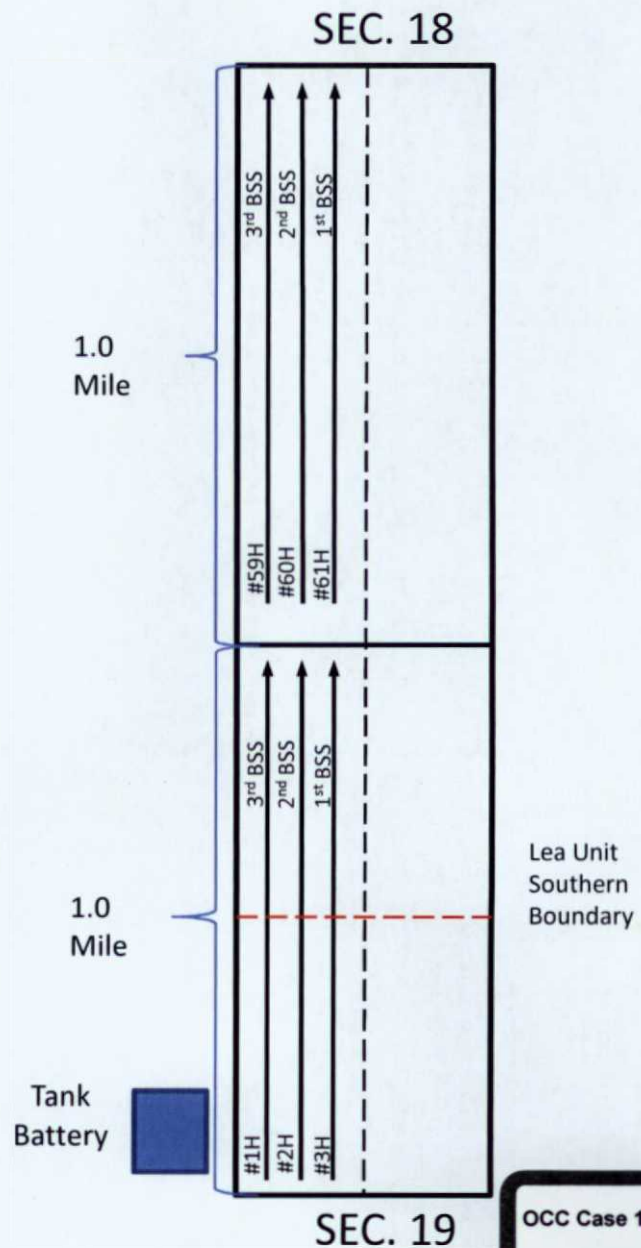


LEGACY CURRENT DEVELOPMENT VS. CAZA PROPOSAL STICK DIAGRAMS

**LEGACY'S CURRENT
DEVELOPMENT PLAN FOR
W/2W/2 SEC. 19 & 18**



**CAZA'S PROPOSED
APPLICATION FOR W/2W/2
SEC. 19 & 18**



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**LEGACY RESERVES
Exhibit #11**

LEGACY CURRENT DEVELOPMENT VS. CAZA PROPOSAL PARAMETERS

LEGACY'S CURRENT DEVELOPMENT PLAN FOR W/2W/2 SEC. 19 & 18

- 3 – 1.5 MILE LATERALS (1ST, 2ND, & 3RD BONE SPRING SAND).
- INITIAL D&C CAPITAL INVESTMENT FOR A 1.5 MILE LATERAL = \$5.5MM
- NO ADDITIONAL FACILITY COST.
- TOTAL INVESTMENT = \$16.5MM

CAZA'S PROPOSED APPLICATION FOR W/2W/2 SEC. 19 & 18

- 1 – 1.0 MILE LATERAL (3RD BONE SPRING SAND).
- AT FULL DEVELOPMENT = 6 – 1.0 MILE LATERALS
- INITIAL D&C CAPITAL INVESTMENT FOR A 1.0 MILE LATERAL = \$5.2MM (CAZA AFE)
- RE-ALLOCATION OF LEGACY TANK BATTERY = \$157k.
- LOCATION ROAD = \$125k
- SUNK LOCATION COST ON #59H = \$200k.
- TOTAL INVESTMENT = **\$31.7MM**

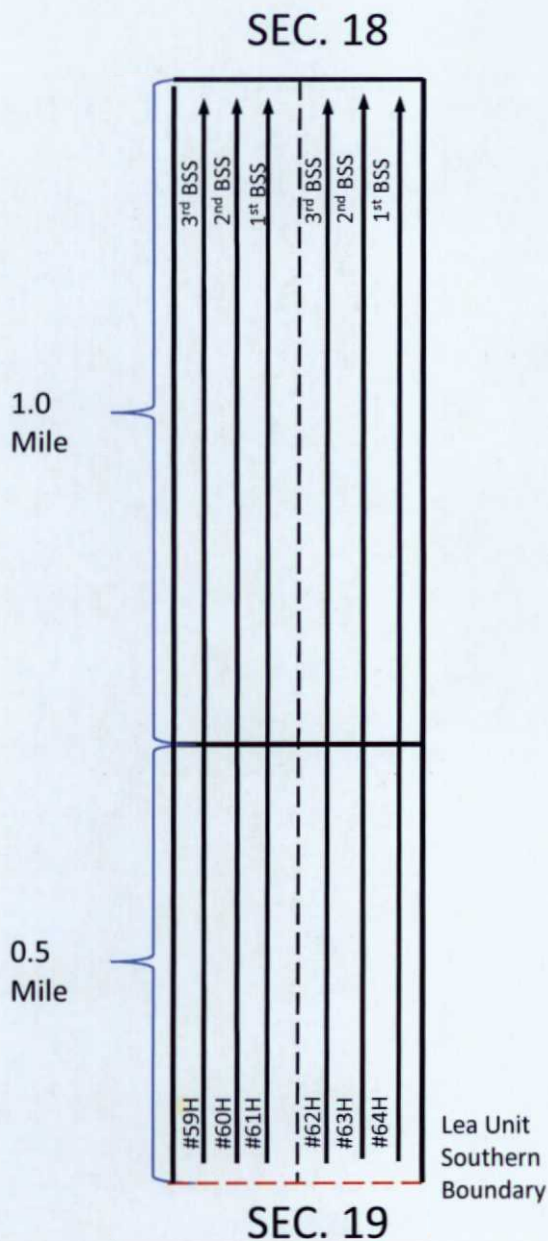
INCREASES LEGACY'S (& PARTNER'S)
D&C COST BY **\$15.2MM**

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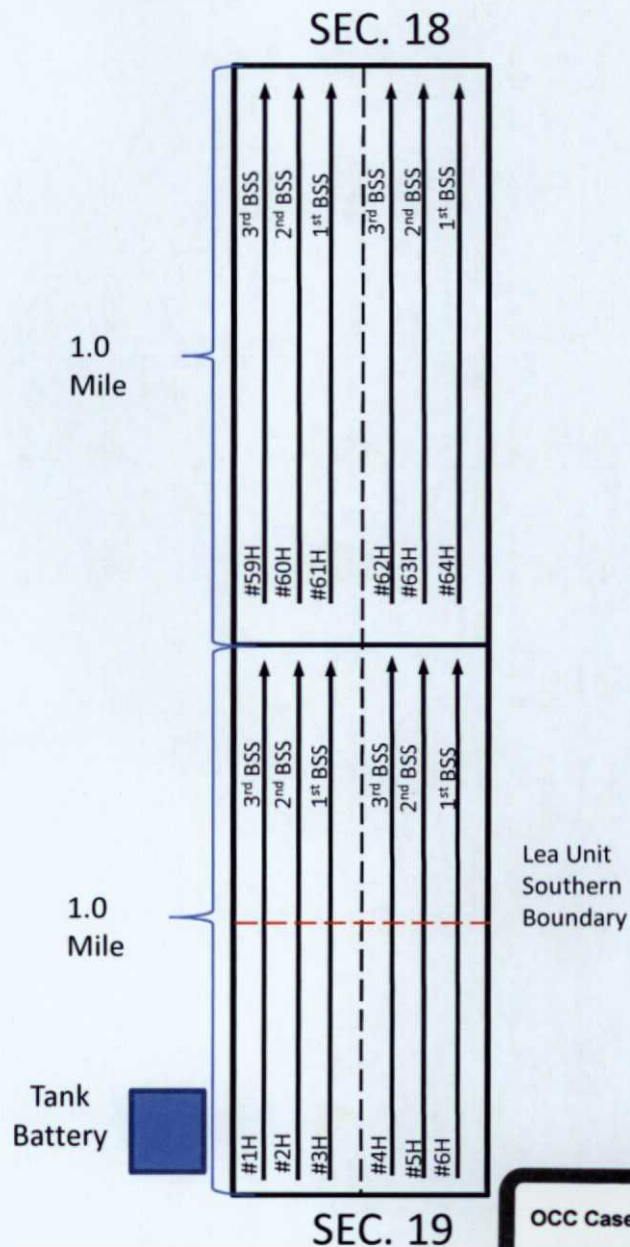
LEGACY RESERVES
Exhibit #12

LEGACY CURRENT DEVELOPMENT VS. CAZA FULL DEVELOPMENT STICK DIAGRAM

LEGACY'S CURRENT
DEVELOPMENT PLAN FOR
W/2 SEC. 19 & 18



CAZA'S PROPOSED
APPLICATION FOR W/2 SEC.
19 & 18



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LEGACY RESERVES
Exhibit #13

LEGACY CURRENT DEVELOPMENT VS. CAZA FULL DEVELOPMENT PARAMETERS

LEGACY'S CURRENT DEVELOPMENT PLAN FOR W/2 SEC. 19 & 18

- 6 – 1.5 MILE LATERALS (1ST, 2ND, & 3RD BONE SPRING SAND).
- INITIAL D&C CAPITAL INVESTMENT FOR A 1.5 MILE LATERAL = \$5.5 MM
- NO ADDITIONAL FACILITY COST.
- TOTAL INVESTMENT = \$33.0MM

CAZA'S PROPOSED APPLICATION FOR W/2 SEC. 19 & 18

- 1 – 1.0 MILE LATERAL (3RD BONE SPRING SAND).
- AT FULL DEVELOPMENT = 12 – 1.0 MILE LATERALS
- INITIAL D&C CAPITAL INVESTMENT FOR 1.0 MILE LATERAL = \$5.2MM (CAZA AFE)
- RE-ALLOCATION OF LEGACY TANK BATTERY = \$314k.
- LOCATION ROAD = \$250k.
- SUNK LOCATION COST ON #59H & #62H = \$400k.
- TOTAL INVESTMENT = \$63.4MM

INCREASES LEGACY'S (& PARTNER'S)
D&C COST BY \$30.4MM

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LEGACY RESERVES
Exhibit #14

3RD BSS 1.5 MILE PROJECT TYPE CURVE

Rate/Time Graph

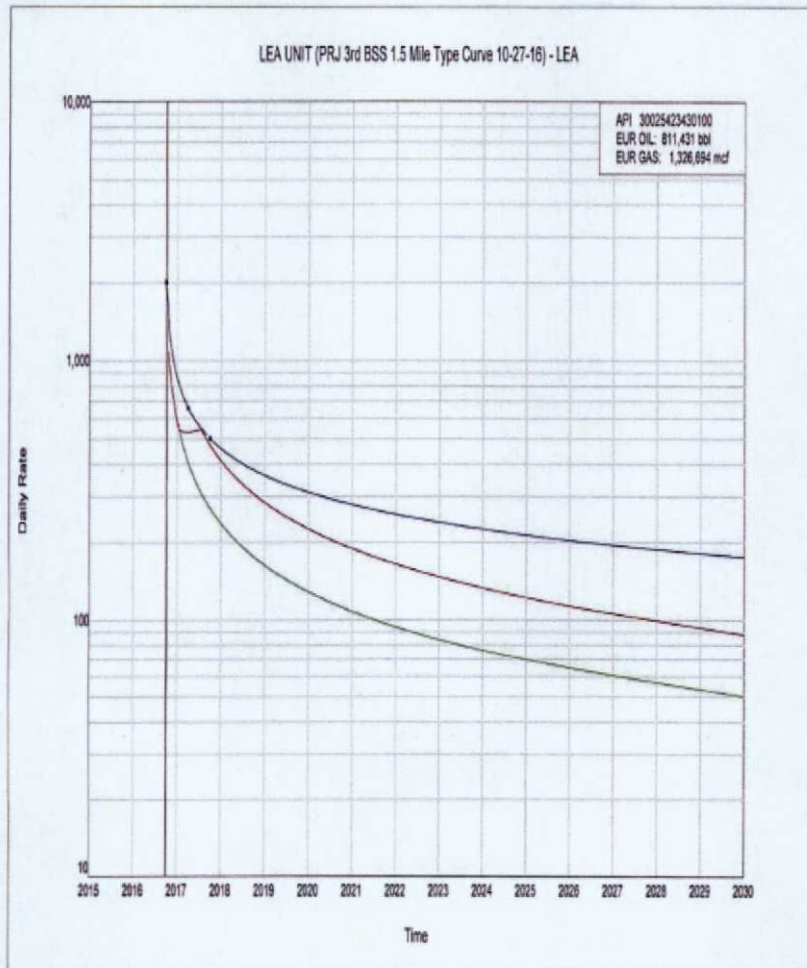
Project: H:\Legacy_Lea Unit Area_Lea CO_9.3.mdb

Date: 11/2/2016

Time: 2:56 PM

Lease Name: LEA UNIT (PRJ 3rd BSS 1.5 Mile Type Curve 10-27-16) (LEA UNIT)
County: ST: LEA, NM
Location: S20 E34 12

Operator: LEGACY RESERVES OPERATING LP
Field Name: LEA



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**LEGACY RESERVES
Exhibit #15**

3RD BSS 1.0 MILE PROJECT TYPE CURVE

Rate/Time Graph

Project: H:\Legacy_Lea Unit Area_Lea CO_9.3.mdb

Date: 11/2/2016

Time: 2:54 PM

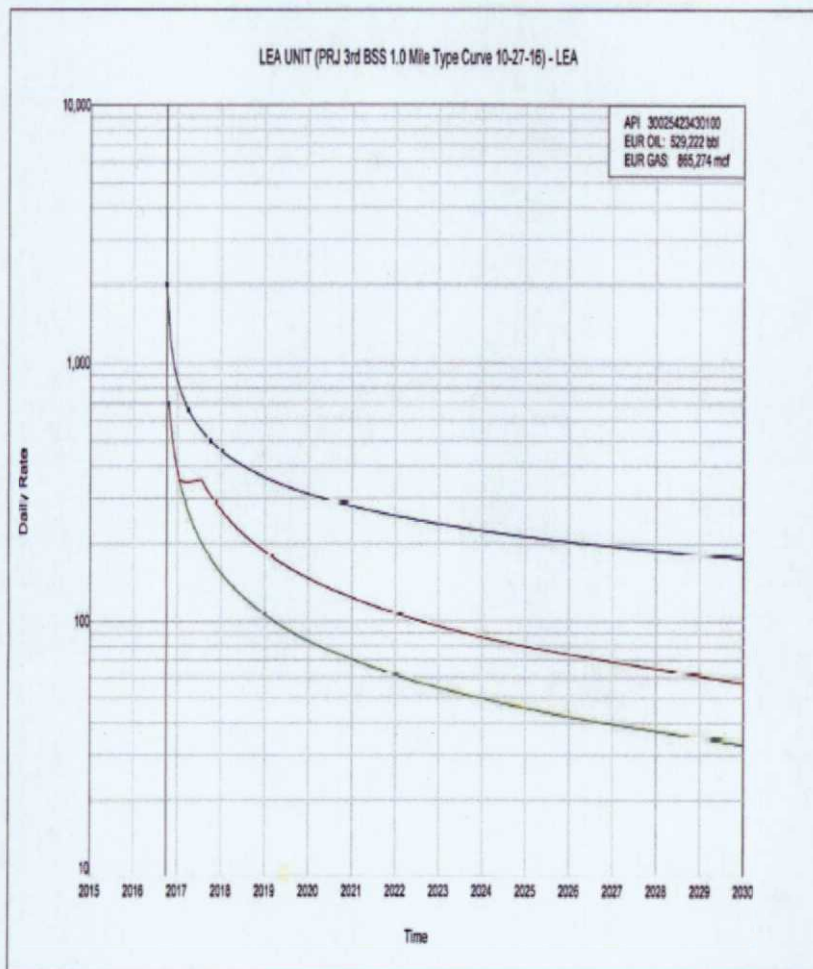
Lease Name: LEA UNIT (PRJ 3rd BSS 1.0 Mile Type Curve 10-27-16) (LEA UNIT)

Operator: LEGACY RESERVES OPERATING LP

County: ST: LEA, NM

Field Name: LEA

Location: S20 E34 12



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LEGACY RESERVES
Exhibit #16

ECONOMIC PARAMETERS

7,500' LATERAL

- PROJECT TYPE CURVE PRODUCTION RATES
- NYMEX STRIP (10-27-16)
- OPERATING EXPENSE OF \$18K FOR THE 1ST 2 YRS, & THEN \$5K FOR REMAINING LIFE OF THE PROJECT
- OIL DIFF = -\$3.84
- SWD = \$0.30 PER BW
- 100% WI VS 75% NRI
- \$5.5 MM INVESTMENT (D&C)

5,000' LATERAL

- PROJECT TYPE CURVE PRODUCTION RATES
- NYMEX STRIP (10-27-16)
- OPERATING EXPENSE OF \$18K FOR THE 1ST 2 YRS, & THEN \$5K FOR REMAINING LIFE OF THE PROJECT
- OIL DIFF = -\$3.84
- SWD = \$0.30 PER BW
- 100% WI VS 75% NRI
- \$5.2 MM INVESTMENT (D&C – CAZA AFE)

ECONOMIC RESULTS

7,500' LATERAL

- OIL EUR = 811 MBO
- GAS EUR = 1.327 MMCF
- EUR = 1.033 MBOE
- BOE/FT = 138
- ROR = >100%

5,000' LATERAL

- OIL EUR = 529 MBO
- GAS EUR = 865 MMCF
- EUR = 673 MBOE
- BOE/FT = 135
- ROR = 52%