

From: Brent Sawyer
Sent: Monday, March 24, 2014 1:22 PM
To: 'Ken Dixon'
Subject: RE: SRO STATE UNIT 16H - Division Order

Ken:

I've got a meeting scheduled for 9am Wed. morning and it will probably go for at least an hour so would you mind if we talk sometime after lunch?

Thanks
Brent

From: Brent Sawyer
Sent: Friday, March 21, 2014 10:44 AM
To: 'Ken Dixon'; Kathie Craft
Cc: Randy Howard
Subject: RE: SRO STATE UNIT 16H - Division Order

Ken:

That sounds great. It should give me time to get all my ducks in a row.

Thanks
Brent

From: Ken Dixon [<mailto:KDixon@nearburg.com>]
Sent: Friday, March 21, 2014 10:31 AM
To: Brent Sawyer; Kathie Craft
Cc: Randy Howard
Subject: RE: SRO STATE UNIT 16H - Division Order

Brent,

Just like you, I'm real busy right now and I won't have any time to talk to you about this until next Wednesday. I'll give you a call on Wednesday morning.
Thank you for your patience.

Ken

From: Brent Sawyer [<mailto:BSawyer@concho.com>]
Sent: Friday, March 21, 2014 9:19 AM
To: Kathie Craft
Cc: Ken Dixon; Randy Howard
Subject: RE: SRO STATE UNIT 16H - Division Order

BEFORE THE OIL CONVERSION
COMMISSION
Santa Fe, New Mexico
Exhibit No. 10
Submitted by: COG OPERATING LLC
Hearing Date: February 28, 2017

BEFORE THE OIL CONVERSION
DIVISION
Santa Fe, New Mexico
Exhibit No. 10
Submitted by: COG Operating LLC
Hearing Date: May 4, 2016

Kathie:

Certainly I will.

We do have that outstanding curative I need to work out with Mr. Dixon and I won't be approaching any of the other working interest partners until we have that all wrapped up. I'll get a comprehensive list together and get in touch with him early next week.

Most of the curative stems from the fact that I doubt anyone even considered that we would dissolve the unit after only 4 years. I believe the most pressing issue is that the term assignment from Nearburg to Marbob is effective until the SRO Unit is dissolved so technically it has expired. However, we are moving forward on the assumption that it was intended to keep the assignment and the ORR effective until all the wells in (or formerly in) the unit are plugged, so we will need to paper that up. However, if that assumption is incorrect please let me know since it will affect the work the title lawyer is doing on the updated opinions for the wells.

Thanks

Brent

From: Kathie Craft [<mailto:kcraft@nearburg.com>]
Sent: Friday, March 21, 2014 8:18 AM
To: Brent Sawyer
Cc: Ken Dixon; Randy Howard
Subject: RE: SRO STATE UNIT 16H - Division Order

Thanks Brent. Please keep us informed.

From: Brent Sawyer [<mailto:BSawyer@concho.com>]
Sent: Thursday, March 20, 2014 5:25 PM
To: Kathie Craft
Cc: Ken Dixon; Randy Howard
Subject: RE: SRO STATE UNIT 16H - Division Order

Kathie:

I'm not sure how our division order department is handling the change in ownership in the SRO wells but I will find out.

I got started investigating this issue when Lisa Winter asked me to help her with an inquiry from a sharp eyed division order analyst at Oxy. I had no idea how long the thread was when I started pulling on it and we aren't to the end. I have not spoken with any of the other working interest partners yet. I hope that since they also signed division orders and have been on pay for the last few years that they won't force anyone's hand since your ORR burdens all of the working interest partners proportionately.

Thanks

Brent

From: Kathie Craft [<mailto:kcraft@nearburg.com>]
Sent: Thursday, March 20, 2014 4:32 PM
To: Brent Sawyer

Cc: Ken Dixon; Randy Howard

Subject: SRO STATE UNIT 16H - Division Order

Thanks. Unfortunately the Dallas office was not furnished a copy of the termination of the unit. And yes, please contact Ken Dixon our Land Manager.

Prior to the new title examination and issuance of revised Division Orders, will you suspend payments to all owners? And we concur with the decision not to go back and make adjustments to payments which have heretofore been made.

Thanks

From: Brent Sawyer (<mailto:BSawyer@concho.com>)

Sent: Thursday, March 20, 2014 3:11 PM

To: Kathie Craft

Cc: Lisa Winter; Jennifer Lujano

Subject: RE: SRO STATE UNIT 16H - Division Order

Kathie:

I'm sorry this is a surprise to you but yes, the entire state unit was terminated voluntarily effective March 1 by at least 75% of the working interest owners. It appears that Randy Howard executed the attached voluntary termination in October.

Our landman who works the area, Lisa Winter, can explain it in better detail than I can but my understanding is that we terminated the unit voluntarily because if the unit terminated by its own terms (on 6/29/14) all of the state leases in all of the undrilled proration units (approx. 5,000ac) would then have been subject to a 180 day CDC and would expire if not satisfied. By terminating the unit voluntarily the undrilled proration units are all HBP by existing wells, not subject to the CDC or expiration, but can be drilled at will subject to the JOA already in place.

The overpayment originated in the original calculation of Nearburg's royalty in the unit. When the unit was formed your ORR should have been:

$$(1/4-1/6) \times (320/7360) \text{ or } 0.00362319$$

The above uses the gross acres in the unit. However, for an unknown reason the net acres in the unit was used:

$$(1/4-1/6) \times (320/6424.80592) \text{ or } 0.00415092$$

The difference between the two is 0.00052773, which I have estimated to be roughly \$40,000. However, I think we will only worry about correcting it going forward after the termination of the unit since I think we will be sending out new division orders for each well.

Speaking of which, our title lawyer is currently working on getting supplementary opinions for each individual well's proration unit, since the SRO state unit has terminated. I'm not sure where he stands on the #16H but I'll find out.

I think we will need to do some curative cleanup and Lisa mentioned that I should probably talk to Ken Dixon. Is he the right person I should be contacting about that?