

**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:**

**APPLICATIONS OF ASCENT ENERGY, LLC
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

Case Nos. 15992-15996

**APPLICATIONS OF CENTENNIAL RESOURCE
PRODUCTION, LLC FOR A NON-STANDARD
SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

Case Nos. 15988 and 16016-16018

ASCENT ENERGY, LLC'S CLOSING STATEMENT

Ascent Energy, LLC ("Ascent") submits this written closing statement as requested at the end of the hearing in these matters.

As an initial matter, Centennial Resources Production, LLC ("Centennial") started the hearing claiming that Ascent filed for compulsory pooling in an untimely manner. In this consolidated matter, both parties sent well proposals to each other, most of which were followed up immediately by the filing of applications. Both parties knew that development and operation of the entire E/2 of Section 18 was at issue. More to the point, Centennial proposed that both parties agreed to move forward with a hearing, so long as both parties "agree to not assert that any well proposals were not effectively proposed due to timing of the hearing." See Ascent Exhibit A, attached. Ascent agreed. Centennial breached this agreement, and thus this argument by Centennial should simply be ignored.

Summary: As an overview of this closing statement, Ascent's primary claim for operating the E/2 of Section 18 is its large footprint in the area. Ascent controls 3200 gross operated acres, shown in yellow on Ascent Exhibit 16, attached. The BLM has approved Ascent's proposed well pads, central tank batteries, and infrastructure plans for the Trucker DSU, the Sombrero DSUs, the Big Bucks Development Area and the Gavilon Development Area. Ascent has a signed JOA with Cimarex for the Toque DSU well pads. It also has approval from Cimarex to place our Trucker well pads on their lease. It has been in constant contact with the grazing lessee, Danny Berry, throughout the planning process, and he approves all of Ascent's proposed pad and road locations. Ascent is in negotiations with 3Bear Midstream to use its gathering system, which is currently being built across this acreage, and is due to be completed in the 3rd quarter of this year. In short, Ascent has a detailed and comprehensive plan to operate and develop acreage in the Hat Mesa area. Regardless of the result of this hearing, Ascent will be building at least 13 multi-well pads, 2 central tank batteries, and an extensive infrastructure network, consisting of roads, pipelines, and power lines. It only makes sense to appoint Ascent as operator of the E/2 of Section 18 so it can include the two pads and associated infrastructure in order to minimize both economic waste and surface disturbance.

Moving on, the factors used by the Division to decide competing pooling applications and which party should be appointed operator were set forth over 20 years ago in Commission Order No. R-10731-B. This order sets forth the following matters to be considered:¹

1. Geology: In this matter, there is little or no difference in the Bone Spring and Wolfcamp geology presented by both parties. Centennial criticized Ascent for starting development with a Second Bone Spring well. However, Ascent showed that the very best well

¹ Order No. R-14518, submitted at hearing by Centennial, does not materially change these factors.

in the immediate area is a Second Bone Spring well in Section 19 to the south. Thus, this issue does not matter.

Centennial did argue that its toe-up drilling orientation provides for better EURs and longer well life, rather than Ascent's toe-down orientation. However, Centennial failed to prove that a toe up drilling orientation leads to better wells. In fact all of the best wells drilled by Centennial, and shown in their exhibits, were drilled toe-down. The two Second Bone Spring wells in their exhibits that were drilled toe-up (Merchant Gap 25 SC 1H and Pirate State 1H) are the worst performers of the wells they showed. In addition, the best Wolfcamp well in this area was drilled toe down (the Mas Fed 4H, only four miles from Section 18). Ascent believes that both toe-up and toe-down wells have advantages and disadvantages in drilling and completion. For example, toe-down wells reduce completion risk as gravity assists wireline and coil tubing operations, thereby increasing the likelihood of a successful completion. And, in this case the structural gradient is extremely mild.

Centennial's assertion, that bottom up drilling is how development should proceed, is incorrect in this area. Ascent has petrophysical logs that provide the formation information it needs for individual target assessment and landing horizontal laterals. Very few operators in the basin see the need to drill pilot holes due to sufficient well control.

2. Working interest ownership or control: Each party owns 50% of the working interest in each well – Centennial owns the NE/4 of Section 18 (federal land), and Ascent owns the SE/4 (state land). This issue does not matter.

3. Initiation of development and good faith negotiations: As shown on Ascent's Exhibit 6, attached, Ascent began looking at this area in November 2016, when it first contacted GMT Exploration (Centennial's predecessor). Its actions continued throughout 2017 and 2018.

In addition to contacts with Centennial, Ascent has been working with the BLM by filing Notices of Staking and securing On-Site approvals. Ascent also consulted with the New Mexico State Land Office, the grazing lessee, and potential midstream providers to obtain the required approvals on the best surface locations to prudently develop the minerals. See Ascent Exhibit 7, attached.

Centennial asserted that Ascent did not act in good faith by rejecting Centennial's lease acreage swaps. That is incorrect. Neither lease swap proposed by Centennial was in the best interest of Ascent. In particular, Ascent is trying to aggregate acreage and well locations in this area so that all wells and interest owners can benefit from consolidated operations and common use of centralized facilities.

Ascent was in the midst of negotiations with the leaseholders in the northwest quarter of 18 when Centennial proposed their first acreage swap; and Ascent has since acquired this interest. Ascent has acted in good faith by documenting all correspondences regarding this acreage back to 2016, more than 6 months prior to Centennial acquiring this acreage. Exhibit 6. In fact, Ascent did propose a lease swap on 2/2/18, to trade Centennial's 160 acres in Section 18 in exchange for Ascent's operated unit consisting of 290 acres in Section 1 of 19S-34E. Centennial rejected this trade. *Id.*

Ascent has made numerous offers to purchase and diligently followed up with a well proposed in the fall of 2017. Ascent has acted in good faith with Centennial by offering to purchase or trade for their lease, proposing the first well, initiating technical meetings, and sharing its drilling and completion designs.

4. Ability to prudently operate the property:

Ascent agrees that Centennial is a prudent operator. So is Ascent. As shown above, Ascent demonstrated a thorough review of its full development on this acreage, including its other operated units in the area.

Ascent has plans to build 13 multi-well pads, 2 centralized tank batteries, and a comprehensive midstream solution in this area. If Ascent is appointed operator in this matter, it will add 2 additional multi-well pads to these plans.

Ascent provided a full field development plan for its acreage and offsetting units, including a midstream option to handle oil takeaway, gas takeaway, produced water takeaway, and recycled water supply for completion operations. This greatly reduces its AFE costs, facilities costs, transportation costs, and surface impact. This also reduces road damage and accidents by removing haul trucks from local roads.

Also, Ascent will be using 50-100% recycled water in its completions, greatly reducing the impact on New Mexico's fresh water supply. Centennial did not submit a plan for recycled water. Also, it never discussed additional targets/zones, surface impacts, road and pipeline access, any midstream options including water disposal, which demonstrates lack of a development plan.

Finally, claims made by Centennial that Ascent is a private company and does not drill and develop, are without merit. Ascent is a private company which has built its leasehold position organically through dozens of acquisitions. Ascent has proven that it has diligently prosecuted operations prior to picking up a drilling rig to secure and build each pooling unit and development area.

Ascent plans to commence drilling operations once it has secured enough APDs to sustain a 1 rig program. Ascent is a prudent operator with an area-wide development plan. These factors favor Ascent.

5. Differences in AFE's: Usually AFE's are not a big factor in these cases, but in this matter Centennial's AFEs are unaccountably much higher than other operators' AFE's in this area.

First, Centennial asserted, again incorrectly, that Ascent's AFE's do not include a 4 string design, which is required in the Potash area. In fact:

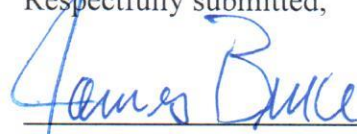
- (i) All of Ascent's AFEs that were attached to its well proposals included the language "Assumes 4 string design."
- (ii) All of Ascent's AFEs included costs (taken directly from casing supplier bids) for 4 strings of casing.

Ascent's AFEs are in line with surrounding operators (accounting for \$400,000 extra for the 4th string of casing) as seen in Exhibits 26 and 27. Centennial's AFEs are much higher and out of line with surrounding operators, even when accounting for the 4th string of casing.

Finally, Centennial has proposed a 5 string casing design for their Wolfcamp wells, featuring an intermediate string set deep in the 3rd Bone Spring. Neither of the two best Wolfcamp wells in the area used a deep intermediate string. (EOG's Della 701H and Concho's Mas Fed 4H). Centennial's proposal will lead to unnecessary economic waste.

WHEREFORE, based on the foregoing, Ascent's applications must be approved, and Centennial's denied.

Respectfully submitted,



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Attorney for Ascent Energy, LLC

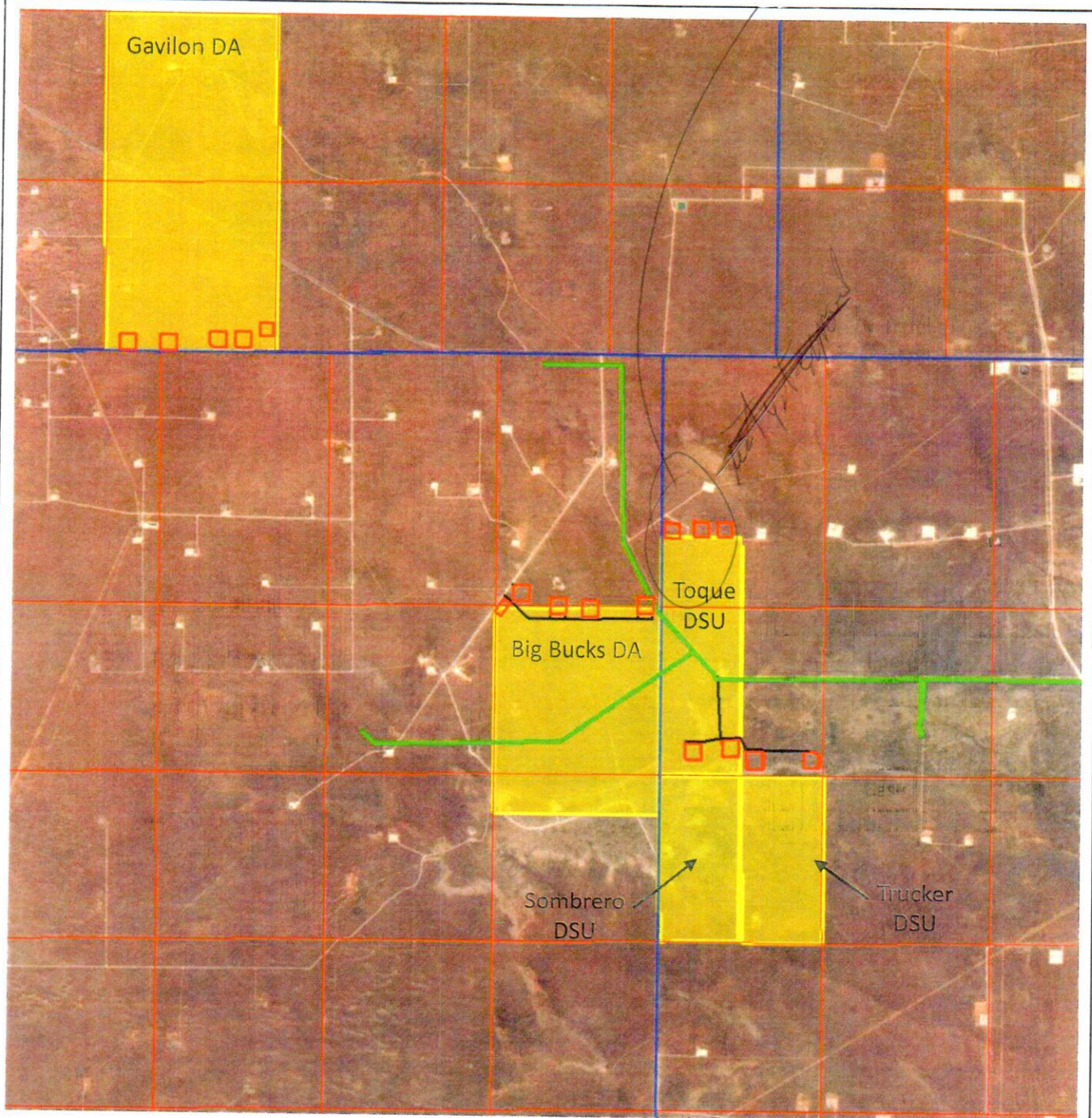
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 9th day of May, 2018 via e-mail:

Michael Feldewert
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James Bruce




- Multi-Well Pad
- Road & Infrastructure Path
- Permitted 4-Stream Gathering System
(Construction to be completed 3Q 2018)

Ascent Energy, LLC
Exhibit 16
Ascent Energy DSU Map Hat Mesa Area
Case No. 15992-15996

Summary of Communications
Trucker Fed Com Wells
Centennial Resources Production LLC
Case No. 15992-15996

- 11/16/2016 – Emailed Offer to Purchase to GMT Exploration for its interest in Sec. 18, T21S-R33E. GMT's response was that they were selling all their assets in Lea County and wouldn't exclude this lease from that sale.
- 6/30/2017 – Had Lunch with Aaron Tenenholz, Centennial's Land Manager to discuss this federal lease in 21S-33E Sec. 18: NE. He asked us to send an offer.
- 7/10/2017 – Sent Offer to Purchase to Centennial. Mr. Tenenholz indicated that the price was competitive but couldn't get any support from management regarding selling.
- 9/27/2017 – Sent well proposal to Centennial for the Trucker Fed Com #501H
- 10/21/2017 – Met with Centennial's VP of land, Land Manager and Landman in their offer to discuss our well proposal and their participation.
- 10/24/2017 – At their request, emailed a copy of our 2015 AAPL Form Operating Agreement.
- 11/1/2017 – Received a phone call from Mr. Tenenholz regarding Ascent's Trucker Fed Com #501H well proposal.
- 11/1/2017 – Received a letter from Centennial for the Horseshoe Fed Com #601H well.
- 11/24/2017 – Ascent arranged a group technical meeting at Centennial's office regarding Ascent's proposed landing targets and also to review unit development, completion techniques etc.
- 1/22/2018 – Received phone call from Mr. Tenenholz saying they were proceeding with compulsory pooling on their Horseshoe Fed Com 601H.
- 1/22/2018 – Received letters from Centennial for Horseshoe Fed Com 701H, Horseshoe Fed Com 702H, Horseshoe Fed Com 602H.
- 1/23/2018 – Emailed and hand delivered to Centennial well proposals for Ascent's Trucker Fed Com 502H, Trucker Fed Com 601H, Trucker Fed Com 701H and Trucker Fed Com 703H.
- 1/23/2018 – Filed for compulsory pooling on Ascent's Trucker wells.
- 2/2/2018 – Met with Mr. Tenenholz and Gavin Smith, Landman regarding a Centennial proposed acreage swap.
- 2/2/2018 – Spoke with Mr. Tenenholz and offered a trade proposal for Ascent's 290 acres in 19S-34E Sec. 1: S2.
- 2/12/2018 – Followed-up with Mr. Tenenholz and he said they have not reviewed our proposal.
- 2/13/2018 – Followed-up by email to Mr. Tenenholz with a written trade proposal as mentioned above.
- 3/6/2018 – Received an email that Centennial has declined our trade proposal.

Ascent Energy, LLC	
Exhibit 6	
Summary of Communications	
Case No. 15992-15996	

Summary of Progress
Trucker Fed Com Wells
Centennial Resources Production LLC
Case No. 15992-15996

- 8/31/2017 – Jim Rutley of the BLM informed us that the south half of Section 18 was within the Potash LMR and any well pads were unlikely to be approved.
- 11/10/2017 – Submitted Trucker Notice of Stakings to the BLM.
- 1/24/2018 – Met with manager of Berry Ranch, who is the grazing lessee on Section 7: SE to map out potential wells location and access roads for Ascent's development in Sections 7 and 18, 21S-33E and Section 12 and 13, 21S-32E.
- 2/5/2018 – Phone call with the NMSLO is discuss a Business Lease for a surface location off unit.
- 3/5/2018 – Met with BLM for on-site for the Trucker (and Sombrero) surface locations. BLM approved the surface locations for the Trucker and Sombrero pads, in addition to our planned road and midstream plan.
- 3/7/2018 – Conference call with Cimarex's Landman and Asset Manager to discuss the unique topography concerns and our request to use 21S-33E Sec. 7: SE/4 for our well pad surface locations. Cimarex agreed to our proposed well pad locations. Working towards securing agreements.

Ascent Energy, LLC
Exhibit 7
Summary of Progress
Case No. 15992-15996