

**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:**

**CASE NO. 15527
ORDER NO. R-14228**

**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.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 4, 2016 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 24th day of October, 2016, the Division Director, having considered the testimony, the record and the recommendations of Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) BC Operating, Inc. ("BC") and Crown Oil Partners V, LP ("Crown"), (collectively "Applicants"), seek an order removing Key Energy Services, Inc. ("Key") as operator of record of the Grace Carlsbad Well No. 1 (API No. 30-015-20573 – "the subject well"), located on a State of New Mexico mineral lease, 1980 feet from the South line and 660 feet from the East line (Unit I) of Section 36, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico.

(3) Applicants appeared at the hearing through counsel and offered evidence of the following:

(a) Key became operator of record of the subject well by virtue of a Change of Operator form signed by OXY USA, Inc. ("OXY") on October 10, 2010, and a previous Change of Operator form purportedly signed by Bold Energy, L.P. ("Bold") on September 11, 2008.

(b) The State of New Mexico oil and gas lease covering the E/2 of Section 36, Township 22 South, Range 26 East, NMPM, that was previously assigned to Bold terminated on November 30, 2007, prior to the date of the purported Change of Operator from Bold to OXY. Thus, Key acquired no right to operate the subject well by virtue of the Change of Operator from Bold to OXY or the subsequent Change of Operator from OXY to Key.

(c) In March, 2014, Crown acquired a new oil and gas lease covering the E/2 of Section 36 from the Commissioner of Public Lands of the State of New Mexico.

(d) Key filed an application with the Division to convert the subject well to a salt water disposal well. This application was denied by Order No. R-14052, issued in Case No. 15322 on September 23, 2015.

(e) In Order No. R-14052 the Division found that "[t]he bulk of the evidence indicates that the probability exists for oil and gas reserves to be present in the Brushy Canyon formation in the E/2 of Section 36." [Finding Paragraph (7)]

(f) Pursuant to its oil and gas lease acquired from the State in 2014, Crown has the right to use so much of the surface of the leased land as is reasonably necessary to explore for and produce oil and gas underlying such land.

(g) Crown has duly authorized BC, an operating affiliate of Crown, to operate this lease and well on its behalf for the purpose of producing hydrocarbons believed to underlie the E/2 of Section 36.

(h) Key has refused to execute a Change of Operator form to authorize BC to become operator of record of the subject well.

(i) Key has been duly noticed of the filing of this case and of the hearing.

(4) No other person entered an appearance in this case or otherwise opposed the granting of the Application.

(5) Although the Division does not have jurisdiction to determine the validity of, or title to, an oil and gas lease, in this case there is no evidence to call into questions Applicants' claims that they hold a valid lease from the State of New Mexico covering the E/2 of Section 36, Township 22 South, Range 26 East, NMPM, in Eddy County and are the only persons duly authorized to explore for and produce oil and gas therefrom.

(6) Accordingly this Application should be granted, removing Key as operator of record of the subject well, and designating BC as such.

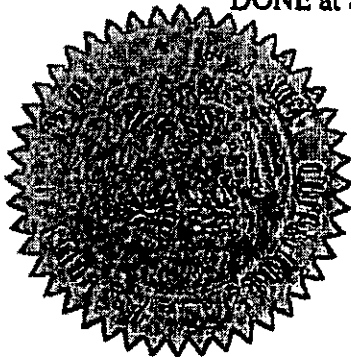
IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of BC Operating, Inc. and Crown Oil Partners V, LP, Key Energy, Inc. (OGRID 19797) is hereby removed as operator of record of the Grace Carlsbad Well No. 1 (API No. 30-015-20573 - "the subject well"), located on a State of New Mexico mineral lease, 1980 feet from the South line and 660 feet from the East line (Unit I) of Section 36, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, and BC Operating, Inc. (OGRID 160825) is designated as operator of record.

(2) The designation of BC Operating, Inc. as operator of record of the subject well shall be effective at such time as BC fulfills all of the requirements of Division Rules to qualify as operator save and except filing a Change of Operator form signed by the prior operator. Such requirements include, but are not necessarily limited to, filing any required financial assurance.

(3) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
DIRECTOR