

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

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

CASE NOS. 15988, 16016-16018

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

CASE NOS. 15992-15996

CENTENNIAL'S CLOSING STATEMENT

At issue are competing pooling applications, first filed by Centennial and then by Ascent, for operating the Bone Spring and Wolfcamp formations in the E/2 of Section 18, Township 21 South, Range 33 East, NMPM. Page 6 of Division Order R-14518 (issued December 8, 2017, and citing Commission Order R-10731-B) identifies the “list of criteria for use in the selection of the application with the best qualifications.” While the mineral ownership held by each party is the same (50%), and both parties proposed the same risk charges and overhead rates, a review of the evidence provided at the March 15th hearing on the remaining criteria compels granting Centennial’s pooling application.

A. Evidence on “the proposed well location” and the “potential for each proposed prospect to recover” the underlying reserves favors Centennial. See Order R-14518 at p. 6, ¶(16)(a).

As indicated by the Division’s articulation of this criteria, the focus is on the actual “proposed well location(s)” before the Division, not “idealized” development plans or other potential activities. Moreover, Division Order R-14518 makes it clear that where ownership is equal, examination of this criteria “is the most important consideration in awarding operations to

competing interest owners.” Order R-14518 at p. 6, ¶(16). This criteria strongly favors Centennial and alone is dispositive.

First, Centennial actually “proposed” under its pooling applications two Third Bone Spring wells (Horseshoe 601H and 602H) and two Wolfcamp A wells (Horseshoe 701H and 702H) to be simultaneously drilled and completed. *See* Centennial Exhibit 10; Tr. 128 (Morby). These wells are platted in a “wine rack pattern” previously used by Centennial to efficiently and effectively develop these two zones simultaneously. *See* Tr. 129-134 (Morby); Tr. 75-77 (Daniele). Centennial established that its “wine rack” development pattern at the proposed spacing results in recovery of additional reserves and avoids depletion effects from developing these zones separately. *See* Centennial Exhibit 19; Tr. 135 (Morby); Tr. 144-145 (Morby, Questions from Brooks). In contrast, Ascent’s proposed development plan (two wells in the upper portion of the Bone Spring formation, one well in the lower Bone Spring formation and two wells in the upper Wolfcamp formation) are not located or spaced properly to efficiently drain the reserves and avoid pressure depletions. *See* Centennial Exhibit 11 (depicting Ascent’s proposed wells); Tr. 136-137 (Morby); Tr. 147-148 (Morby, Questions from Brooks); Tr. 78-80 (Daniele). Moreover, Ascent recognized the problems with its proposed development plan, choosing to rely instead on an “idealized” development plan that Ascent’s witnesses confirmed does not depict the wells actually proposed under Ascent’s competing pooling applications. *See* Ascent Exhibit 11; Tr. 219-220 (Metz).

Second, Centennial used its extensive drilling experience to choose a surface location for all four proposed wells that will allow the first and last take points to be 100 feet from the North and South lines. *See* Centennial Exhibit 1 (C-102s); Tr. 24-26 (Smith); Tr. 91-92 (Thompson).¹ These locations will increase the completed lateral length by 460 feet for each well (a 10%

¹ Centennial has separately filed for administrative approval of these non-standard locations.

increase) and allow recovery of additional reserves. *See* Centennial Exhibit 12; Tr. 86 (Daniele, Question from Jones); Tr. 91 (Thompson).

Third, Centennial has proposed a development plan that starts by drilling the Wolfcamp and lower Bone Spring zones first. *See* Tr. 129 (Morby) This proven method for fully developing the acreage will provide Centennial with important data to effectively locate future wells in the shallower zones. *See* Tr. 123, 129 (Morby); Tr. 74 (Daniele). In contrast, Ascent proposed to drill the shallower Second Bone Spring interval first and then at the hearing backtracked to state the company not yet decided which wells to drill first. *See* Tr. 225, 227 (Metz).

Fourth, Centennial has proven completion techniques with experienced crews from its extensive horizontal drilling activities in Texas and New Mexico that enhance the productivity of horizontal wells. *See* Centennial Exhibits 16-18; Tr. 118-124 (Morby); Tr. 150-151 (Morby, Questions from Jones). Ascent has not completed a horizontal well in New Mexico. Tr. 126 (Morby). Ascent's witnesses further confirmed that it does not have a proven method of completion and is still "working on" its completion plans. *See* Tr. 227 (Metz).

Fifth, Centennial, unlike Ascent, has oriented its wells to drill from South to North. *See* Centennial Exhibit 1 (C-102s). This will allow for "toe-up" drilling and the associated benefits, including extending the life of the well. *See* Tr. 137-139 (Morby).

B. Evidence on the negotiations between the parties prior to the applications to force pool favor Centennial. *See* Order R-14518 at p. 6, ¶(16)(c).

Centennial was the first to file a pooling application. Centennial's witnesses testified that before filing pooling applications, the company properly proposed each well, provided a joint operating agreement for consideration, initiated meetings with Ascent, and proposed acreage trades in an attempt to reach a resolution. Ascent never responded to Centennial's well proposals, never commented on the proposed joint operating agreement, and simply rejected

Centennial's proposals with no counterproposals. Tr. 38-39, 42-43 (Smith). Eventually Ascent sent competing wells proposals and filed competing pooling applications.

Ascent's witness further confirmed that between Ascent's first well proposal and the filing of its pooling applications, Ascent never made a single offer to Centennial and simply rejected Centennial trade offers with no counterproposals. *See* Tr. 180 (Zink). Ascent's witness further confirmed that neither Ascent's well proposal letter nor its pooling application identified the proposed depth or Bone Spring target interval for its proposed Trucker 501H well. *See* Tr. 185 (Zink). He further confirmed that prior to filing its competing pooling applications for the Trucker 601H, 701H and 702H wells, was no discussions with Centennial about these proposed wells or the targeted depth. *See* Tr. 185-186 (Zink). Ascent clearly failed in its obligation to properly propose wells and thereafter engage in good faith efforts to reach agreement prior to filing its competing pooling applications.

C. Evidence on the ability to “prudently operate” the property favors Centennial. *See* Order R-14518 at p. 6, ¶(16)(d).

A review of Division records reflects that Ascent has accumulated over 30 drilling permits dating back to January of 2017, but has yet to drill a single well in New Mexico. *See* Tr. 35 (Smith). Ascent has no drilling rigs under contract and no agreements in place to handle gas or water. *See* Tr. 176, line 25 – Tr. 177 (Zink). Ascent's witnesses further confirmed the company is still determining which wells to drill first, does not have a proven method of completion and is still “working on” its completion plans. *See* Tr. 225, 227 (Metz).

In stark contrast, Centennial has the agreements and approvals in place to utilize off lease locations to drill its proposed wells. *See* Centennial Ex. 2; Tr. 26-27 (Smith). Centennial currently has seven rigs running between Texas and New Mexico and long-term contracts in place with regular vendors. Tr. 98 (Thompson). Centennial has drilled and completed over 100 wells in the Bone Spring and Wolfcamp formations in Texas and New Mexico. *See* Tr. 97-98

(Thompson). The subject acreage is in the potash area and Capitan Reef area. *See* Centennial Exhibit 13. Centennial has experience drilling in this area and the BLM casing requirements necessary to navigate through the salt sections. *See* Tr. 93-94 (Thompson). The company has extensive experience dealing with the pressure differences that can exist between the Wolfcamp and the Bone Spring formations. *See* Centennial Ex. 15; Tr. 84-85 (Daniele, Questions from Examiner Jones); Tr. 95-96 (Thompson). When it comes to completion operations, Centennial has proven completion techniques and experienced crews that move between drilling activities in Texas and New Mexico. *See* Tr. 103 (Thompson); Tr. 118-124 (Morby); Tr. 150-151 (Morby, Questions from Jones).

In sum Centennial, like Mewbourne in Division Case 15600, demonstrated at hearing "a greater capacity to prudently operate the property based on successful drilling operations for the targeted interval in this area, along with active production in its existing horizontal well....". Order R-14518 at p. 7, ¶ (20). This alone is dispositive and requires that Centennial's applications for pooling be granted and Ascent's competing applications denied.

D. Differences in AFE's are a minor factor and do not dictate operations. *See* Order R-14518 at p. 6, ¶(16)(e).

The overhead rates presented by each party are identical. Tr. 45 (Smith); Tr. 170 (Zink). With respect to AFE costs, Ascent's initial estimated costs are lower. However, because of its lack of drilling experience in New Mexico, they do not account for the additional casing string ("fifth string") needed to safely deal with pressure differences that can exist between the Wolfcamp and Bone Spring formations. *See* Centennial Ex. 15; Tr. 84-85 (Daniele, Question from Examiner Jones); Tr. 95-96 (Thompson). Centennial's AFEs account for this fifth casing string and the adjustments required uphole to accommodate this fifth casing string. *See* Tr. 95-96, 101 (Thompson). Centennial's AFEs also reflect its actual drilling and completion experience in Texas and New Mexico, and its current vendor costs. *See* Tr. 97-98, 103-104

(Thompson). Centennial's AFEs also include the costs for handling water and gas, and further account for the air emissions equipment required for Federal permits. *See* Tr. 100, 102

(Thompson). Ascent has no drilling experience from which to develop its AFEs.

In short, there are valid safety and operational reasons why Centennial's AFEs are higher. Further, the Commission and the Division have recognized that this factor alone is not sufficient to award operations to a company like Ascent, which has yet to drill and complete a single horizontal or vertical well in New Mexico. The Commission has instructed that differences in AFE costs "are not significant factors in awarding operations and have only minor significance in evaluating an operator's ability to prudently operate the property." Order R-10731-B at p. 9, ¶(23)(j). Indeed, a comparison of estimated costs reflected in AFEs does not provide a solid basis for awarding operations "especially since the costs recoverable from a non-operator under a compulsory pooling order are limited to 'reasonable costs,' as determined by the Division, if necessary, after notice and hearing." Order R-11870 at p. 7-8, ¶(27).

WHEREFORE, Centennial requests that its prior-filed pooling applications be approved and that Ascent's subsequently filed competing pooling applications be denied.

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By: 

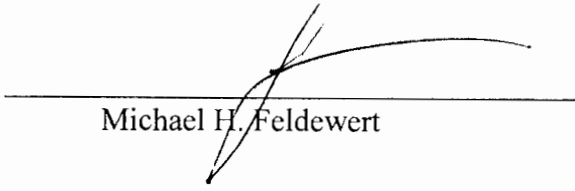
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CERTIFICATE OF SERVICE

I hereby certify that on May 11, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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