

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION TO CONSIDER:**

CASES NO. 15992, 15993, 15994, AND 15996

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

CASE NO. 15995

APPLICATION OF ASCENT ENERGY, LLC FOR APPROVAL OF A NON-STANDARD SPACING AND PRORATION UNIT, AN UNORTHODOX WELL LOCATION, AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15988

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

CASES NO. 16016, 16017, AND 16018

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

ORDER NO. R-14847

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on March 15, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 31st day of August 2018, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of these cases and the subject matter.

(2) Ascent Energy, LLC ("Ascent") Cases No. 15992, 15993, 15994, 15995, and 15996 were consolidated and combined for hearing with Centennial Resource Production, LLC ("Centennial") Cases No. 15988, 16016, 16017, and 16018.

(3) These cases were consolidated for hearing, and a single order is being issued in all.

(4) These nine cases involve competing proposals for development of the Bone Spring and Wolfcamp formations in the E/2 of Section 18, Township 21 South, Range 33 East, NMPM, Lea County, New Mexico. Ascent owns 100% of the working interest in the SE/4 and Centennial owns 100% of the working interest in the NE/4. Both applicants intend to drill horizontally. Ascent proposes wells from North to South, while Centennial proposes wells from South to North.

(5) Ascent proposes initially to drill three Bone Spring wells, two in the upper Bone Spring Sands [probably the second Bone Spring sand] and one in the lower third Bone Spring sand. Ascent also proposes two Wolfcamp wells, one in the "A" member and one in the "XY" member.

(6) Centennial proposes initially to drill two Bone Spring wells, both in the third Bone Spring sand, and two Wolfcamp wells, both in the "A" member according to their interpretation.

(7) Both Applicants seek approval of 160-acre non-standard oil spacing and proration units and project areas (the "Units") comprising the W/2 E/2 and E/2 E/2 of Section 18 for oil and gas production from the Bone Spring formation and the Wolfcamp formation and compulsory pooling of all uncommitted interests within the Units.

(8) All proposed wells are considered "wildcat" for production of oil from the Bone Spring or Wolfcamp formations and therefore subject to Division Rule 19.15.15.9(A) NMAC which provides for standard 40-acre units each comprising a governmental quarter-quarter section and 330-foot minimum setbacks from the unit boundaries. Each of the proposed Units will contain four standard, 40-acre tracts or governmental quarter-quarter sections.

Bone Spring cases – W/2 E/2

(9) In Ascent Case No. 15992, a "Unit" for production from the Bone Spring formation comprised of the W/2 E/2 of Section 18 will be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Trucker Federal Com Well No. 501H, API No. 30-025-Pending

SHL: 684 feet from the South line and 2252 feet from the West line,
(Unit N) of Section 7, Township 21 South, Range 33 East, NMPM.
BHL: 330 feet from the South line and 2242 feet from the East line
(Unit O) of Section 18, Township 21 South, Range 33 East, NMPM.

(10) In Centennial Case No. 15988, a “Unit” for production from the Bone Spring formation comprised of the W/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a non-standard location within the Unit, located in the 3rd Bone Spring Sand. The non-standard location has been administratively approved by order NSL-7683 on April 10, 2018.

Horseshoe Federal Com Well No. 601H, API No. 30-025-Pending

SHL: 300 feet from the North line and 1995 feet from the East line,
(Unit B) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 2310 feet from the East line
(Unit B) of Section 18, Township 21 South, Range 33 East, NMPM.

Bone Spring cases – E/2 E/2

(11) In Ascent Case No. 15993, a “Unit” for production from the Bone Spring formation comprised of the E/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a standard location within the Unit, located in the 2nd Bone Spring Sand:

Trucker Federal Com Well No. 502H, API No. 30-025-Pending

SHL: 431 feet from the South line and 378 feet from the East line,
(Unit P) of Section 7, Township 21 South, Range 33 East, NMPM.
BHL: 330 feet from the South line and 360 feet from the East line
(Unit P) of Section 18, Township 21 South, Range 33 East, NMPM.

(12) In Ascent Case No. 15994, a “Unit” for production from the Bone Spring formation comprised of the E/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a non-standard location within the Unit, located in the lower portion of the 3rd Bone Spring Sand. The well is to be located near the center of the E/2 of Section 18 and Ascent asks in this case for approval of that non-standard location.

Trucker Federal Com Well No. 601H, API No. 30-025-Pending

SHL: 360 feet from the South line and 2130 feet from the East line,
(Unit O) of Section 7, Township 21 South, Range 33 East, NMPM.
BHL: 330 feet from the South line and 1120 feet from the East line
(Unit P) of Section 18, Township 21 South, Range 33 East, NMPM.

(13) In Centennial Case No. 16016, a “Unit” for production from the Bone Spring formation comprised of the E/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a non-standard location within the Unit, located in the

3rd Bone Spring Sand. The non-standard location has been administratively approved by order NSL-7684 on April 10, 2018.

Horseshoe Federal Com Well No. 602H, API No. 30-025-Pending

SHL: 300 feet from the North line and 675 feet from the East line,
(Unit A) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 990 feet from the East line
(Unit A) of Section 18, Township 21 South, Range 33 East, NMPM.

Wolfcamp cases – W/2 E/2

(14) In Ascent Case No. 15995, a “Unit” for production from the Wolfcamp formation comprised of the W/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a standard location within the Unit, located in the Wolfcamp XY member.

Trucker Federal Com Well No. 701H, API No. 30-025-Pending

SHL: 360 feet from the South line and 2080 feet from the East line,
(Unit O) of Section 7, Township 21 South, Range 33 East, NMPM.
BHL: 330 feet from the South line and 1870 feet from the East line
(Unit O) of Section 18, Township 21 South, Range 33 East, NMPM.

(15) In Centennial Case No. 16017, a “Unit” for production from the Wolfcamp formation comprised of the W/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a non-standard location within the Unit, located in the Wolfcamp “A” member. The non-standard location has been administratively approved by order NSL-7685 on April 11, 2018.

Horseshoe Federal Com Well No. 701H, API No. 30-025-Pending

SHL: 300 feet from the North line and 1965 feet from the East line,
(Unit B) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 1650 feet from the East line
(Unit B) of Section 18, Township 21 South, Range 33 East, NMPM.

Wolfcamp cases – E/2 E/2

(16) In Ascent Case No. 15996, a “Unit” for production from the Wolfcamp formation comprised of the E/2 E/2 of Section 18 will be dedicated to the following “Proposed Well” to be completed at a standard location within the Unit, located in the Wolfcamp XY member.

Trucker Federal Com Well No. 703H, API No. 30-025-Pending

SHL: 431 feet from the South line and 328 feet from the East line,
(Unit P) of Section 7, Township 21 South, Range 33 East, NMPM.
BHL: 330 feet from the South line and 370 feet from the East line
(Unit P) of Section 18, Township 21 South, Range 33 East, NMPM.

(17) In Centennial Case No. 16018, a "Unit" for production from the Wolfcamp formation comprised of the E/2 E/2 of Section 18 will be dedicated to the following "Proposed Well" to be completed at a non-standard location within the Unit, located in the Wolfcamp "A" member. The non-standard location has been administratively approved by order NSL-7686 on April 11, 2018.

Horseshoe Federal Com Well No. 702H, API No. 30-025-Pending

SHL: 300 feet from the North line and 645 feet from the East line,
(Unit A) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 330 feet from the East line
(Unit A) of Section 18, Township 21 South, Range 33 East, NMPM.

(18) Cimarex Energy Company entered an appearance in each of the nine cases and was present at the hearing. Cimarex in its prehearing statement opposed Centennial placing any wells on Cimarex leased acreage in the E/2 of Section 7 which is located to the north of the subject Section 18. Centennial now proposes to locate all its wells in Section 19 to the south.

(19) No other party appeared or otherwise opposed these applications.

(20) Centennial appeared through counsel and presented the following through testimony and exhibits.

- a. Section 18 is a standard governmental section composed of both federal and State Trust lands. The N/2 is fee surface and federal minerals while the S/2 is State Trust surface and minerals. Within the E/2 of Section 18, Ascent holds the federal lease and the working interests in the N/2 and Centennial holds the State lease and the working interests in the S/2. The royalty burden of the federal lease is 1/8th base royalty with overrides, and the royalty burden of the State lease is 1/6th base royalty rate.
- b. Centennial initially proposed to swap its interest in the NE/4 of Section 18 for Ascent's interests in the SW/4 of Section 18, which would give Ascent control of the E/2 and increase Centennial's interests in the W/2. There has not been an agreement on that proposed acreage swap or a proposed acreage swap confined to the E/2 of Section 18.
- c. The W/2 of Section 18 is the subject of pending compulsory pooling orders for Cases No. 15949 and 15950, both of which were heard by the Division on February 8, 2018.
- d. The Bone Spring formation in this area is suitable for development by horizontal drilling. Horizontal wells in this area of Lea County within the Bone Spring formation are normally drilled from south to north or north to south, and this orientation is considered as optimum.

- e. Section 18 is in the “Secretary’s Potash Area”, designated by the United States Secretary of the Interior, and no surface well locations are available within Section 18. The Centennial proposed surface locations in Section 19 will enable completion of the Proposed Wells in Section 18 beginning 100 feet from within the Unit boundary. The grazing lessee has been notified, and the mineral lessee of the surface location in Section 19 has approved the well location. Centennial has a letter agreement from the Potash lessee, and the Bureau of Land Management (“BLM”) has been scheduled for an on-site inspection of the surface location. That proposed surface location is not expected to be moved.
- f. The formation is dipping approximately 2 degrees to the south or southeast, so drilling the well from south to north will enable the horizontal leg of the well to be drilled from a lower depth to a higher depth at the toe of the well (drilling “toe-up”). Drilling toe-up [per Centennial] is an advantage for liquids removal from the wellbore during production.
- g. Centennial is proposing to develop the E/2 of Section 18 with two Wolfcamp “A” formation wells and two 3rd Bone Spring Sand formation wells. One of the Wolfcamp formation wells would be drilled first to obtain additional data and determine depth to target. There is no competent fracture barrier between the planned Wolfcamp formation horizontal wells and 3rd Bone Spring Sand formation horizontal wells; therefore, Centennial’s plans call for wells at differing vertical depths to be located at staggered lateral distances – in a “wine rack” pattern.
- h. Centennial believes its plan for locating the wells in a “wine rack” manner and its plan for specific drilling targets within the Bone Spring and Wolfcamp formations are superior to the plan it believes is being proposed by Ascent. In addition, the complete development plan presented by Ascent and the well locations within the E/2 of Section 18 may be subject to change.
- i. The Bureau of Land Management has mandated this area (where both Potash and the Capitan Reef are located) as requiring four casing strings for oil or gas wells. These would consist of the shallow surface casing, the Potash/Salado casing, the Capitan Reef casing, and the smallest diameter production pipe. In addition, Centennial has experience showing that Wolfcamp wells should have casing set at the base of the Bone Spring due to the dramatic increase in reservoir pressure in the Wolfcamp, resulting in a total of five casing strings for wells being drilled to the Wolfcamp.
- j. All quarter-quarter sections to be included in the Unit are expected to be substantially productive in the Bone Spring and Wolfcamp formations; so the requested Units will not impair correlative rights.

- k. Centennial is proposing to drill and complete each of its wells at non-standard locations with both the heels and the toes of the wells located up to 100 feet of the Unit boundary. The Division has approved these locations.
- l. Centennial believes it should be named as operator of these wells due to (i) its superior selection of landing zones within the target formations, (ii) its superior completion design, and (iii) its superior expertise in drilling, completion and production of horizontal wells. Centennial has one rig running in New Mexico and several rigs running in the Permian Basin to the south in Texas.
- m. Notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Applications were filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.
- n. All affected parties both inside the Unit and surrounding the Unit were successfully contacted and provided with notice.

(21) Ascent appeared through counsel and presented the following through testimony and exhibits.

- a. Ascent confirmed the land ownership details presented earlier by Centennial. Ascent has a large acreage position in this area, owning lands to the north and northwest as well as the acreage in the SW/4 of Section 18 which is subject to Ascent Cases No. 15949 and 15950, both of which were heard by the Division on February 8, 2018.
- b. There has not been an agreement on the proposed acreage swap in part because the W/2 of Section 18 is the subject of pending compulsory pooling orders.
- c. Ascent was the first to contact Centennial about drilling wells in the E/2 of Section 18. Ascent became aware of the Centennial pooling applications, formally proposed its wells to Centennial, and soon after filed its competing pooling applications to protect its correlative rights.
- d. Wells drilled from north to south or “toe-down” are sometimes better wells than the wells drilled from south to north or “toe-up” [per Ascent]. The formation in this area is not dipping significantly and therefore there is no clear advantage to drilling toe-up.
- e. Section 18 is in the Secretary’s Potash Area, and no surface well locations are available within Section 18. Ascent has talked with the grazing lessee and the BLM. The proposed surface hole locations (excepting Well No. 501H, which would spud in Unit N) will be in the SE/4 of Section 7, just to the north

of the proposed Unit. Applicant is working with Cimarex to secure its approval for the proposed surface locations. This will allow Ascent to drill wells from those locations both to the north and to the south and enable consolidation of surface facilities. Electricity is available at the proposed locations. Ascent has contractors in mind who may handle the water production and gather the oil and gas. Ascent has not yet proposed non-standard well locations but has styled the well proposals in such a way to allow wells to be moved or completed at differing locations.

- f. Ascent is watching offsetting and nearby drilling closely for results that would prompt some modification to the well locations vertically or laterally in the proposed Units.
- g. Ascent is currently proposing to develop the E/2 of Section 18 with two Wolfcamp "XY" formation wells, one 3rd Bone Spring Sand well, and two 2nd Bone Spring wells. The Wolfcamp XY formation is located very close to the vertical top of the Wolfcamp formation. Ascent agrees that there is no competent fracture barrier between the planned Wolfcamp formation horizontal wells and Bone Spring formation horizontal wells; therefore, Ascent's plans also call for wells at differing vertical depths to be located at staggered lateral distances – in a "wine rack" pattern.
- h. Ascent does not agree with the planned Centennial drilling plans as far as the vertical target formations and the method of development. However, Ascent is watching for results from area wells and reserves the right to modify its "wine-rack" configuration.
- i. Ascent does not believe the Wolfcamp formation in this area has pore pressures sufficient to necessitate an additional casing string for wells drilled horizontally within the Wolfcamp formation. The cost estimates for the Ascent wells are significantly lower than those for Centennial and yet the Ascent cost estimates are comparable to those costs experienced by other operators in this basin.
- j. All quarter-quarter sections to be included in the Unit are expected to be substantially productive in the Bone Spring and Wolfcamp formations; so that the Units as requested will not impair correlative rights.
- k. Ascent believes it has a competitive advantage over Centennial due to its large acreage position in this area, its adjacent wells to be in the W/2 of Section 18 and to the north in Section 7, its planning for water handling and oil and gas gathering, its relationship with the BLM and Cimarex, and its much lower AFE costs. Drilling rigs are available and can be obtained at the appropriate time at a negotiated rate.

- l. Notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.
- m. All affected parties both inside the Unit and surrounding the Unit were successfully contacted and provided with notice.

The Division concludes as follows:

(22) The negotiations between these two working interest owners have broken down, resulting in competing compulsory pooling applications. To protect correlative rights and prevent waste, the E/2 of Section 18 should be operated by one party and the same arguments and conclusions as to which party should operate apply to each of these competing well proposals.

(23) The competing applications in these cases do not fully show the intentions of the Applicants. Both Applicants indicated that they expect to propose additional infill wells within the Units.

(24) The Division's task is to determine which development plan, Ascent's or Centennial's, will most efficiently develop the subject acreage, prevent waste and protect correlative rights.

(25) The Division, in Order No. R-14518, issued on April 27, 2017, relying on Oil Conservation Commission Order No. R-10731-B, identified the following factors that should be considered in evaluating competing development plans in a compulsory pooling case:

- a. *A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property.*
- b. *A comparison of the risk associated with the parties' respective proposal for the exploration and development of the property.*
- c. *A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort.*
- d. *A comparison of the ability of each party to prudently operate the property and, thereby, prevent waste.*
- e. *A comparison of the differences in well cost estimates (AFE's) and other operational costs presented by each party for their respective proposal [Findings Paragraph (23)(j)].*

- f. An evaluation of the mineral interest ownership held by each party at the time the application was heard.*

(26) *In addition to these evaluation factors which were identified in the referenced cases, a comparison of the ability of the applicants to timely locate well sites and to operate on the surface should be considered in competing horizontal well proposals (the “surface factor”).*

(27) The surface of Section 18 is not readily available for surface locations and facilities, and the proposed wells in these cases have not yet been permitted for drilling by the Bureau of Land Management. Centennial proposes surface locations and facilities in the N/2 NE/4 of offsetting Section 19. Ascent proposes surface locations and facilities primarily in the S/2 SE/4 of offsetting Section 7, and Cimarex, as an owner in Section 7, does not oppose these locations.

(28) Ascent has a larger acreage position in the surrounding area, and arguably would be able to achieve certain operational efficiencies, including efficiency of surface facility utilization. Ascent thus argues that factors *d. and e.* and the surface factor militate in its favor.

(29) The weight of the evidence, however, favors Centennial’s application, including the following:

- a. Centennial has presented a clearer development plan, more consistent with the available geologic evidence. They plan to drill an initial well to test the Wolfcamp and obtain additional geological information, and then develop the Wolfcamp “A” and 3rd Bone Spring zones at adequate vertical and lateral separation. Thus, Centennial has presented more convincing evidence that its plan will satisfy factor *a.* above, the factor the Commission characterized as “the most important consideration in awarding operations to interest owners” Order R-10731-B [at Finding ¶(23)(f)], Page 9].
- b. Factors *b. and c.* [risk and good faith negotiations] do not play in this analysis since the evidence on these issues was insufficient to indicate a reason for favoring either party.
- c. Evidence indicates that while both parties are prudent operators, Centennial has greater experience in drilling and completing horizontal wells in this area, especially in New Mexico, and has already developed a completion plan for the wells it now proposes. Thus, factor *d.* [operator experience] slightly favors Centennial.
- d. Centennial’s drilling cost estimate is substantially higher than Ascent’s. However, these are estimates and may not reflect actual costs. In any event, drilling efficiency should increase and costs per well should decline as wells are drilled and knowledge gathered within this E/2 of Section 18.

- e. A major factor raising Centennial's cost estimate is its allowance for the fifth casing string to be set at the top of the Wolfcamp formation. This plan is prudent and should be followed at least for the first well in the Wolfcamp formation. Pressures in the Wolfcamp in the first well should be observed and the need for five strings in subsequent wells evaluated at that time. If this plan were followed the discrepancy in estimated costs would be reduced.
- f. Centennial proposes to drill the wells an additional lateral distance for the heel and toe by obtaining non-standard location permits. Centennial has submitted and obtained four non-standard location permits. The approximately 460 extra feet of completed interval for each well will enable the wells to produce more oil, preventing waste. The increased cost to drill longer wells should increase profitability.
- g. Finally, if any party so requests, the Division will review actual costs for reasonableness after the wells are drilled. Thus factor *e*. [AFE estimates], though favoring Ascent, is not sufficiently significant to affect the overall analysis.
- h. Centennial and Ascent own equal working interests in the E/2 of Section 18, and both will benefit from more efficient and complete reservoir development. Factor *f*. [ownership] does not favor either party.
- i. Both Applicants presented testimony, albeit from land experts, as to its respective ability to timely obtain drilling locations, install facilities, and attract or install transportation for oil and gas and waste water. This additional surface factor does not clearly favor either party.

The Division finds that

(30) Ascent's applications in Cases No. 15992, 15993, 15994, 15995, and 15996 should be denied.

(31) Centennial's proposed non-standard units should be approved to enable it to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(32) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(33) Applicant is owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill the Proposed Wells to a common source of supply within the Units at the described locations.

(34) There are interest owners in the Units that have not agreed to pool their interests.

(35) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, these applications should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Units.

(36) Centennial's applications in Cases No. 15988, 16016, 16017, and 16018 should be approved.

(37) Centennial Resource Production, LLC (OGRID 372165) should be designated the operator of the Proposed Wells and the Units.

(38) Infill wells within the Units should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and to the terms and conditions of this order.

(39) Any pooled working interest owner who does not pay its share of estimated well costs of any well should have withheld from production from such well its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the Proposed Wells.

(40) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the overhead adjustment provision of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT

(1) The applications of Ascent Energy, LLC in Cases No. 15992, 15993, 15994, 15995, and 15996 are denied.

(2) The applications of Centennial Resource Production, LLC in Cases No. 15988, 16016, 16017, and 16018 are approved as detailed below.

(3) The following four separately described 160-acre non-standard oil spacing units and project areas for oil and gas production from the Bone Spring and Wolfcamp formations [for all present or future Bone Spring or Wolfcamp oil pools] within the E/2 of Section 18, Township 21 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby approved.

(4) In Case No. 15988, a "Unit" for oil and gas production from the Bone Spring formation comprised of the W/2 E/2 of Section 18 is approved and shall be dedicated to the following "Proposed Well" to be completed at an approved non-standard location within the Unit.

Horseshoe Federal Com Well No. 601H, API No. 30-025-Pending

SHL: 300 feet from the North line and 1995 feet from the East line,
(Unit B) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 2310 feet from the East line
(Unit B) of Section 18, Township 21 South, Range 33 East, NMPM.

(5) In Case No. 16016, a “Unit” for oil and gas production from the Bone Spring formation comprised of the E/2 E/2 of Section 18 is approved and shall be dedicated to the following “Proposed Well” to be completed at an approved non-standard location within the Unit.

Horseshoe Federal Com Well No. 602H, API No. 30-025-Pending

SHL: 300 feet from the North line and 675 feet from the East line,
(Unit A) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 990 feet from the East line
(Unit A) of Section 18, Township 21 South, Range 33 East, NMPM.

(6) In Case No. 16017, a “Unit” for oil and gas production from the Wolfcamp formation comprised of the W/2 E/2 of Section 18 is approved and shall be dedicated to the following “Proposed Well” to be completed at an approved non-standard location within the Unit.

Horseshoe Federal Com Well No. 701H, API No. 30-025-Pending

SHL: 300 feet from the North line and 1965 feet from the East line,
(Unit B) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 1650 feet from the East line
(Unit B) of Section 18, Township 21 South, Range 33 East, NMPM.

(7) In Case No. 16018, a “Unit” for oil and gas production from the Wolfcamp formation comprised of the E/2 E/2 of Section 18 is approved and shall be dedicated to the following “Proposed Well” to be completed at an approved non-standard location within the Unit.

Horseshoe Federal Com Well No. 702H, API No. 30-025-Pending

SHL: 300 feet from the North line and 645 feet from the East line,
(Unit A) of Section 19, Township 21 South, Range 33 East, NMPM.
BHL: 100 feet from the North line and 330 feet from the East line
(Unit A) of Section 18, Township 21 South, Range 33 East, NMPM.

The following shall apply respectively to each of the four approved Units

(8) All uncommitted interests, whatever they may be, in the oil and gas in the Unit, are hereby pooled.

(9) The operator of the Unit shall commence drilling the Proposed Well on or before August 31, 2019 and shall thereafter continue drilling that Proposed Well with due diligence to test the target formation.

(10) In the event the operator does not commence drilling the Proposed Well on or before August 31, 2019, then the Unit and pooling approval granted herein shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(11) Unless the Proposed Well is drilled and completed within 120 days after commencement of such well, then the approved Unit and Pooling shall be of no further effect, and that Unit and project area created by this order shall terminate, unless operator requests in writing an extension of the time for completion of the Proposed Well for good cause shown by satisfactory evidence and the Division issues written approval. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(12) Upon final plugging and abandonment of the Proposed Well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(13) Infill wells within the Unit shall be subject to the terms and conditions of this order.

(14) Centennial Resource Production, LLC (OGRID 372165) is hereby designated the operator of the Proposed Well and the Unit.

(15) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit a separate itemized schedule of estimated costs of drilling, completing and equipping the Proposed Well ("well costs").

(16) Within 30 days from its receipt of the schedule of estimated well costs for any well, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above for any well shall remain liable for operating costs but shall not be liable for risk charges for such well. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(17) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs of each well within 90 days following completion of the Proposed Well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(18) Within 60 days following determination of reasonable well costs for any well, any pooled working interest owner who has paid its share of estimated costs of such well or wells in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(19) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

- a. The proportionate share of reasonable well costs attributable to such interest;
- b. As a charge for the risk involved in drilling the well, 200% of the above costs.

(20) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(21) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates may, at the election of the operator, be adjusted annually pursuant to the overhead adjustment provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working interest owner's share of production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable.

(22) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each Proposed Well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to requirements herein, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not

objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

(23) Except as provided above, all proceeds of production from the Proposed Well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

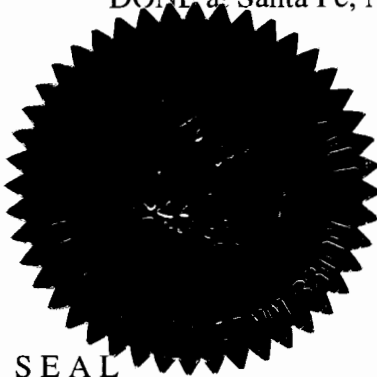
(24) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs shall be withheld from production attributable to royalty interests.

(25) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this order, this order shall thereafter be of no further effect.

(26) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(27) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


HEATHER RILEY
Director