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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATIONS OF CIMAREX ENERGY CO. FOR A HORIZONTAL SPACING UNIT AND COMPULSORY POOLING LEA COUNTY, NEW MEXICO **Case Nos. 23448-23455**

APPLICATIONS OF CIMAREX ENERGY CO. FOR COMPULSORY POOLING , LEA COUNTY, NEW MEXICO **Case Nos. 23594-23601**

APPLICATIONS OF READ & STEVENS, INC. FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO **Case Nos. 23508-23523**

APPLICATION OF READ & STEVENS, INC. FOR THE CREATION OF A SPECIAL WOLFBONE POOL IN SECTIONS 4, 5, 8 AND 9, TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM, LEA COUNTY, NEW MEXICO **Case No. 24528**

APPLICATION OF CIMAREX ENERGY CO. FOR THE CREATION OF A SPECIAL POOL, A WOLFBONE POOL, PURSUANT TO ORDER NO. R-23089 AND TO REOPEN CASE NOS. 23448 – 23455, 23594 – 23601, AND 23508 – 23523, LEA COUNTY, NEW MEXICO

Case No. 24541
Order No. R-23089
Order No. R-23089-A
OCC Case No. 25371

MOTION TO STAY DIVISION ORDER NO. R-23089-A

Coterra Energy Operating Co. ("Coterra"), formerly named Cimarex Energy Co. ("Cimarex"), by and through its undersigned attorneys, submits to the Oil Conservation Commission ("Commission" or "OCC") this Motion to Stay Division Order No. R-23089-A ("Motion") pursuant to 19.15.4.23(B) NMAC. The Commission has granted Coterra a hearing *de*

novo for Order No. R-23089-A ("Final Order") issued by the Oil Conservation Division ("Division" or "OCD") in OCC Case No. 25371. (A copy of the Final Order is attached hereto as Exhibit 1). Accordingly, the Commission now has the opportunity to review and evaluate the competing development plans in the above-referenced cases. Given the substantive implications and binding effect of the Final Order's terms, Coterra respectfully requests a stay to preserve the status quo and thereby prevent immediate and irreparable harm to affected parties and to the State of New Mexico.

Coterra further submits that implementation of the Final Order by Read & Stevens Inc. and its operator, Permian Resources Operating, LLC (collectively "Read"), would result in serious and irreparable harm. Specifically, Read's plan would: (1) cause significant and substantial waste by drilling eighteen (18) unnecessary wells; (2) directly violate correlative rights by extracting hydrocarbons from the Third Bone Spring formation and misallocating them to owners in the Wolfcamp formation; (3) impose severe and unnecessary economic burdens on owners; and (4) undermine the directives and environmental goals set forth in New Mexico's Executive Order 2019-003. Given the gravity of these adverse consequences—and the complex legal and technical issues at stake—Coterra respectfully urges the Commission to stay the Final Order pending a full and fair review under the New Mexico Oil and Gas Act ("OGA"), NMSA 1978 § 70-2-1, *et seq.,* and the proper implementation of the OGA's regulatory framework. *See, e.g.,* Executive Order 2019-003, ¶ 6.

In support of its Motion, Coterra states the following:

I. Relevant Background and Procedural History

1. These cases involve a long and procedurally complex history, originating on March 7, 2023, and April 13, 2023, when Cimarex and Read, respectively, filed competing pooling applications covering Sections 4, 5, 8, and 9, Township 20 South, Range 34 East, NMPM ("Subject

Lands"). Historically, operators in this region of Lea County have targeted the Third Bone Spring formation as the primary zone for hydrocarbon production. *See, e.g.*, Ex. C-3, Cimarex's Hearing Packet, Case No. 23448. Furthermore, operators in this area that completed wells in the Third Bone Spring typically did not pursue development of the Upper Wolfcamp formation because it was generally acknowledged that Third Bone Spring production effectively drained hydrocarbons from the Wolfcamp formation. *See, e.g.,* Cimarex's Energy Co.'s Brief Providing the Basis for Evaluating a Single Reservoir Situated in the Third Sand of the Bone Spring Formation in an Area that Lacks a Baffle Separating it from the Underlying Wolfcamp Formation ("Cimarex's Brief"), filed July 23, 2023.

2. In the present cases, the Division initially designated two separate pools and corresponding pool codes—one for the Bone Spring formation, which included the Third Bone Spring (Quail Ridge Bone Spring [Pool Code 50460]), and one for the Wolfcamp formation, which included the Upper Wolfcamp (Tonto; Wolfcamp Pool [Pool Code 59500]). Read failed to critically examine the actual geologic relationship between the Third Bone Spring and the Upper Wolfcamp formations or used the two classifications as a pretext to propose wells in both the Third Bone Spring and the Upper Wolfcamp. Thus, by ignoring the clear interconnectivity and open communication between them, Read advanced a development plan premised on the erroneous assumption that the formations were geologically distinct and constituted two separate pools—each representing a separate source of supply. As a result, Read filed pooling applications proposing to drill eight (8) wells in the Upper Wolfcamp and an additional eight (8) wells in the Third Bone Spring, totaling sixteen (16) wells—half of which are unnecessary and, therefore, wasteful.

3. Coterra, by contrast, paused to carefully evaluate the geologic relationship between the Third Bone Spring and Upper Wolfcamp formations in the area. Based on its technical analysis,

Coterra determined that no natural barriers or baffling existed between the formations—meaning that the Third Bone Spring and Upper Wolfcamp do not constitute two separate sources of supply, but rather form a single, hydraulically connected reservoir. Accordingly, Coterra concluded that a single set of eight (8) strategically positioned wells would be sufficient to effectively and efficiently develop both formations. *See, e.g.,* Ex. B, ¶ 26, Ex. B-21, Cimarex's Hearing Packet, Case No. 23448. Drilling an additional eight (8) wells—as proposed by Read—would therefore constitute substantial waste and impose significant, avoidable costs on interest owners.

4. As a result of its geologic analysis, Coterra proposed to locate its eight (8) wells in the lower Third Bone Spring formation to effectively produce hydrocarbons from both the Third Bone Spring and the Upper Wolfcamp. It accordingly filed pooling applications targeting the Third Bone Spring. However, when Read submitted applications to drill wells in both the Third Bone Spring and the Upper Wolfcamp—despite the formations comprising a single reservoir—Coterra was placed in a difficult position. To prevent Read from proceeding with a duplicative and wasteful development plan, Coterra was compelled to file competing applications for the Upper Wolfcamp.

5. Consequently, in a good-faith effort to uphold its geologic analysis, prevent waste, protect corelative rights, and avoid the drilling of unnecessary wells, Coterra pursued the only viable course of action available at the time: filing competing applications for the Upper Wolfcamp. In doing so, Coterra proposed to dedicate the same eight (8) wells it had originally planned for the lower Third Bone Spring to a spacing unit for the Upper Wolfcamp—justified by the geological reality that the two formations constitute a single reservoir and common source of supply. These wells, strategically located in the lower Third Bone Spring, would effectively and efficiently produce both formations. *See, e.g.,* Cimarex's Brief.

6. Following the filing of its unconventional applications to preserve its competitive position, Coterra submitted a Motion to Continue Hearing, requesting a pre-hearing conference to

address the geologic reality that the Third Bone Spring and Upper Wolfcamp formations constituted a single reservoir. *See* Cimarex's Motion to Continue Hearing, ¶ 6, filed July 17, 2023 (requesting a pre-hearing conference to determine whether the Third Bone Spring and Upper Wolfcamp should be treated as a single reservoir to expedite proceedings). A copy of the Motion is attached hereto as Exhibit 2. Read, in its own words, "vigorously" opposed Cimarex's Motion to Continue Hearing, arguing that "it is not the Division that must assess the circumstances of the geology and pools in this acreage," and that "[i]t is not the Division's job to attempt to alter the pools….". *See* Read's Response in Opposition, Introductory ¶, at ¶ 10, and Conclusion, filed July 18, 2023. On the basis of its assertions, Read advocated that the "hearing should go forward as planned." *See id.* Relying on Read's objections, the Division denied Coterra's request for a pre-hearing conference and proceeded with the contested hearing based on the erroneous assumption that the Third Bone Spring and Upper Wolfcamp constituted separate pools and therefore separate sources of supply.

7. At the time of the subject proceedings, the Division was undergoing a transitional period. The Division's presiding hearing examiner retired shortly after Coterra and Read filed their pooling applications. In his absence, the Division retained and appointed a hearing examiner to review preliminary pleadings of the cases and conduct the contested hearing, which took place over three days—August 9 through 11, 2023—and concluded on August 11, 2023. Coterra assumes that, consistent with standard procedure under 19.15.4.21 NMAC, the appointed examiner communicated her recommendations to the Technical Examiner and the Division at the conclusion of the hearing. *See* § 70-2-13 (requiring that "*an examiner appointed to hear any particular case*…shall cause a complete record of the proceeding to be made and transcribed and shall certify the same to the director of the division for consideration *together with a report of the examiner and [her] recommendations in connection therewith.*") (emphasis added); s*ee also* 19.15.4.21

NMAC (requiring that "[u]pon conclusion of a hearing before the division examiner, the division examiner shall promptly consider the proceedings in such hearing, and based upon the hearing's record prepare a written report with recommendations for the division's disposition of the matter or proceeding.") However, it remains unknown whether a report from the appointed examiner who heard the cases provided the basis, as required by statute, for the Division's Order.

8. Around September 2023, a new division examiner was hired and began presiding over hearings and cases before the Division. The previously appointed examiner who had conducted the original contested hearing in these matters no longer appeared to be involved. Instead, the newly hired examiner—who had neither attended nor participated in the contested hearing held August 9-11, 2023—assumed full oversight of all post-hearing proceedings, including the adjudication of subsequent motions and participation in status conferences related to the subject cases.

9. Nine months after the conclusion of the contested hearing, the Division issued Order No. R-23089 ("First Order"), denying the pooling applications submitted by both Read and Coterra. The denial was based on the Division's determination that Coterra's geological analysis was correct—specifically, that the Third Bone Spring and Upper Wolfcamp formations constitute a single reservoir due to the absence of natural barriers, as Coterra had asserted from the outset of these proceedings. *See* Order No. R-23089, ¶ 7. It remains unclear whether the Division considered or incorporated the report or any recommendations from the appointed examiner who presided over the original contested hearing in issuing the First Order or the Final Order. A copy of the First Order is attached hereto as Exhibit 3.

10. The First Order, as well as the Final Order (Order No. R-23089-A) currently under *de novo* review, state that both Coterra and Read testified at the hearing that the Third Bone Spring and Upper Wolfcamp lacked baffling. *See* Order No. R-23089, at 7-8; *see also* Order No. R-23089-

A, at 13. However, this characterization does not accurately reflect the actual positions taken by the parties during the proceedings. Coterra consistently maintained from the outset that the two formations functioned as a single reservoir (even asking for a pre-hearing conference to determine this fact) and designed its development plan according to the actual geology.

11. Coterra substantiated this geological conclusion in its direct written testimony and supporting exhibits submitted during the contested hearing. *See* Ex. B, at 26-30, Ex. B-21, Cimarex's Hearing Packet, Case No. 23448. By contrast, Read's development plan was premised on the assumption that the Third Bone Spring and Upper Wolfcamp constituted separate pools. From the outset of the proceedings, Read opposed Coterra's efforts to have the formations reclassified as a single reservoir and objected to any pre-hearing clarification by the Division. *See* Read's Response in Opposition, Introductory ¶, at 10, and Conclusion, filed July 18, 2023. As a result, Read did not characterize the formations as a single reservoir in its written testimony for the contested hearing. Its admission that the formation lacked baffling occurred only after its witnesses were cross-examined under oath. *See* Transcript ("Tr."), (Case Nos. 23448-23455 et al.) (Aug. 10, 2023) at 181: 2-4; *see id.* at 206: 11-1. Although the Division denied both parties' applications, the First Order allowed for the creation of a new special pool—the Wolfbone pool—to account for the lack of frac baffles between the Bone Spring and Wolfcamp formations in this area as had been accurately identified by Coterra. *See* Order No. R-23089 ¶ 21.

12. On or about August 27, 2024, Coterra and Read submitted a joint application for the creation of the Wolfbone Pool in Case Nos. 24528 and 24541. Although both parties supported the formation of this pool, their proposed development plans differed substantially—most notably with respect to total development cost. Read's plan was projected to cost approximately a quarter of a billion dollars more than Coterra's. *See* Order No. 23089-A at ¶¶ 31-32. The parties were able to agree on the joint Wolfbone Pool application only because the Division had agreed to allow

Coterra to include its proposed allocation formula in separate pooling applications to be filed after the pool's creation. Relying on this assurance, Coterra did not include its allocation formula in the joint application for special pool creation. *See* Tr. (Case Nos. 24528 & 24541) (Aug. 13, 2024), at 41: 6-11; *see id.* at 40: 3-6 (Hearing Examiner stating the Division "expects the parties will be resubmitting competing pooling applications based on the special pool creation").[1] However, after Coterra requested leave to submit its new pooling applications, the Division reversed course and denied Coterra the opportunity to introduce its allocation formula into the record. *See* Order Denying Coterra's Motion to Reopen Evidentiary Record, Intro. ¶ and ¶ 10, (Nov. 11, 2024) (denying Coterra's request "to introduce additional evidence in support of its competing compulsory pooling application regarding its allocation formula," and stating the Division "will approve or deny the competing Applications based on the evidence submitted at the hearing and in the administrative record.")

13. Coterra's proposed allocation formula represents a fundamental distinction between its development plan and the plan that Read proposed. Coterra submitted its formula to protect correlative rights by ensuring equitable distribution of hydrocarbons between formation owners. In contrast, Read's plan includes no allocation formula and therefore directly violates correlative rights. Read proposes to drill eight (8) wells in the Third Bone Spring and an additional eight (8) wells in the Upper Wolfcamp. However, because there is a depth severance between the two formations, ownership across the formations is non-uniform. Additionally, since the

[1] *See also* Tr. (Case Nos. 24528 & 24541) (Aug. 13, 2024), at 40: 6-11:
"Mr. Rankin: But I just want to make sure I understand the record's clear whether or not Cimarex is requesting incorporation of an allocation formula as part of the creation of the special pool.
The Hearing Examiner: Mr. Savage?
Mr. Savage: Cimarex would do the allocation formula separately in the compulsory pooling, and I think the – we can proceed at the OCD's discretion with the special pool.
The Hearing Examiner: Okay. So, Mr. Rankin, Mr. Savage has clarified that."

formations constitute a single reservoir, Read's Wolfcamp wells will produce hydrocarbons from both the Wolfcamp and Third Bone Spring formations. *See* Order No. R-23089, ¶ 10 (finding that "wells completed in the Bone Spring and Wolfcamp formation will share production from both the Bone Spring and Wolfcamp formations"). Coterra's geologic analysis estimates that approximately 72.8% of the reservoir lies within the Third Bone Spring, while only 27.2% lies within the Upper Wolfcamp. *See* Ex. B, ¶ 15, Cimarex's Hearing Packet, Case No. 23448; *see also* Order No. R-23089-A, ¶ 14. As such, a substantial majority of production from Read's Wolfcamp wells would be taken from the Third Bone Spring. Yet, Read plans to distribute 100% of the production from those wells to Wolfcamp owners, entirely excluding Third Bone Spring owners from their rightful share. Thus, under the Final Order, Read would extract hydrocarbons from the Third Bone Spring owners without providing any compensation—an outcome that directly violates their correlative rights.

14. By contrast, Coterra's single set of eight (8) wells is sufficient to effectively develop the Wolfbone pool, while avoiding the additional costs and surface disturbance associated with drilling unnecessary wells. Moreover, Coterra's development plan includes a carefully designed allocation formula that equitably distributes production between owners in the Third Bone Spring and the Upper Wolfcamp formations. This approach protects the correlative rights by ensuring that each owner receives their "just and equitable" share of production based on their interest in the reservoir. *See, e.g.,* NMSA 1978 § 70-2-33(H).

15. The Final Order fails to mention Coterra's allocation formula or its central role in protecting correlative rights. Nor does it address the significant economic waste that Coterra's plan avoids by eliminating the need for unnecessary and duplicative wells— which constitutes "waste" as defined under NMSA 1978 § 70-2-3. Instead, the Final Order offers only one justification for granting operatorship to Read, found in Paragraph 44: the conclusory and unsupported assertion

that Read's "proposal will result in a higher recovery of hydrocarbons and will produce the Wolfcamp portion of the Wolfbone which will prevent waste and protect correlative rights of the interest owners who own interest in the Wolfcamp portion." Order No. 23089-A, ¶ 44. This conclusion not only disregards the harm to the correlative rights of the owners in the Bone Spring, it also ignores the very basis for creating the Wolfbone pool in the first instance, *i.e.*, the lack of a frac baffle between the Third Bone Spring and Upper Wolfcamp formations.

16. Consequently, on April 17, 2025, Coterra submitted its Application for Hearing *De Novo* to the Commission.

II. Legal Arguments for Granting a Motion to Stay

A. The Final Order Sanctions Substantial Waste by Authorizing Read's Development Plan.

17. In the Final Order, the Division found that all deciding factors for evaluating the competing applications of Coterra and Read were essentially equal—except for one. In its conclusion, the Division identified a single basis for awarding operatorship to Read: the assertion that Read's proposal would result in a higher recovery of hydrocarbons, specifically from the Wolfcamp portion of the Wolfbone Pool. *See id.* at ¶ 44. However, the Division failed to reconcile this conclusion with its prior finding in the First Order, which explicitly stated that "wells completed in the Bone Spring and Wolfcamp formations will share production **from both** the Bone Spring and Wolfcamp formations." Order No. R-23089, ¶ 10 (emphasis added). In other words, the Division had already established as a factual matter that wells drilled in the Wolfcamp would not produce solely from the Wolfcamp but would also extract hydrocarbons from the Bone Spring.

18. Because Read failed to provide an allocation formula, it cannot distinguish or properly attribute production from the single reservoir to the rightful owners in both the Bone Spring and the Wolfcamp formations. As a result, Read's development plan directly violates the

correlative rights of Bone Spring owners by extracting their hydrocarbons and allocating 100% of the resulting production exclusively to Wolfcamp owners—completely excluding Bone Spring interest holders. Under Read's plan, all production from the wells drilled in the Wolfcamp formation would be distributed solely to Wolfcamp owners, despite the Division's prior finding that those wells would also produce from the Bone Spring. This approach deprives Bone Spring owners of their just and equitable share of production, in direct contravention of New Mexico's statutory definition of correlative rights. *See* § 70-2-33(H) (defining correlative rights as each owner's right to receive a just and equitable share of production).

19. In fact, Coterra's geologist determined that because the Third Bone Spring provides 72.8% of the hydrocarbons within from the Wolfbone Pool, Read's proposed Wolfcamp wells would extract hydrocarbons primarily from the Bone Spring formation—not the Wolfcamp. *See* Ex. B, ¶ 26, Cimarex's Hearing Packet, Case No. 23448. Coterra's allocation formula was specifically designed to protect the correlative rights of all interest owners in the shared reservoir by ensuring that both Third Bone Spring and Wolfcamp owners would receive their just and equitable percentages of production. This formula was not merely a feature of Coterra's plan—it was its cornerstone. Yet, despite its significance, the Division failed to address or even acknowledge Coterra's allocation formula in the Final Order.

B. The Final Order Authorizing Substantial Waste is Rooted in a Misapplication of New Mexico Case Law and Commission Policy.

20. The Division's decision in the Final Order is rooted in a misapplication of NMSA 1978, § 70-2-17(C). The Division interpreted the statute as allowing it to pool a unit and assign operatorship based on any one statutory factor taken in isolation—whether to avoid the drilling of unnecessary wells, to protect correlative rights, or to prevent waste. *See* Order No. R-23089-A ¶ 11 (quoting § 70-2-17(C): pooling may be ordered "to avoid the drilling of unnecessary wells **or**

to protect correlative rights **or** to prevent waste") (emphasis added). However, this interpretation ignores the statute's integrated purpose and undermines the balancing function required by the OGA. This explains why the Division failed to meaningfully compare the full range of relevant factors between Coterra's and Read's development plans—and instead based its decision solely on a single, misapplied factor: Read's projected production from the Wolfcamp. *See* Order No. 23089, ¶ 44.

21. The Division's interpretation of the pooling statute fails to account for well-established New Mexico case law that defines and constrains its proper application. Specifically, the Division is not permitted to consider a single factor in isolation under the OGA without evaluating its relationship to the Act's broader statutory framework. As the New Mexico Supreme Court has held: "[This Court] read[s] the [OGA] in its entirety and construe[s] each part in connection with every other part in order to produce a harmonious whole." *See Marbob Energy Corp.,* 2009-NMSC-013, ¶ 17, 206 P.3d 135, 141, quoting *Gen. Motors Acceptance Corp. v. Anaya, 103 N.M. 72, 76, 703 P.2d 169, 173 (1985)*). Thus, the Division cannot base a ruling on correlative rights without also considering the issue of waste. Doing so would exceed the Division's jurisdiction and veer into the judicial function of determining property rights—a power reserved to the courts. *See Continental Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, ¶ 28, 70 N.M. 310, 325, 373 P.2d 809, 818-19 (warning that separating correlative rights from waste could create "grave constitutional problems").

22. Likewise, a decision to pool a unit based on avoiding unnecessary drilling must also account for how such drilling affects both waste and correlative rights. These factors are not isolated—they are interdependent. Coterra has shown that the Wolfbone Pool—which encompasses both the Third Bone Spring and Upper Wolfcamp formations—can be both efficiently and sufficiently produced with a single set of eight (8) wells. This is 50% fewer wells

than proposed in Read's plan, which calls for two sets of eight (8) wells (sixteen (16) wells in total for the Wolfbone). Accordingly, Coterra argued that Read's eight (8) additional wells are unnecessary to sufficiently produce the reservoir and therefore run afoul of the pooling statutes. *See, e.g.,* Cimarex's Closing Statement with Findings of Fact and Conclusions of Law, at p. 15 (filed Sept. 21, 2023).

23. To support its position, Coterra demonstrated that drilling the eight (8) additional wells proposed by Read would result in waste and violate correlative rights. *See id.* at pp. 15 and 26. Under the OGA, "waste" is broadly defined to include its "ordinary meaning." *See* NMSA 1978 § 70-2-3 ("As used in this act, the term 'waste,' *in addition to its ordinary meaning*, shall include:…") (emphasis added). Accordingly, "[s]tatutory language should be interpreted literally." *See Anadarko Petroleum Corp. v. Baca, 1994-NMSC-019, ,*¶ 9, 117 N.M. 167, 169, 870 P.2d 129, 131 (citation omitted) (emphasis added). "When statutory language is clear and unambiguous, [this Court] *must give effect to that language and refrain from further statutory interpretation." Id.* (emphasis added). The plain language of § 70-2-3 expressly incorporates the ordinary meaning of waste. *See, e.g., Continental Oil Co., 1962-NMSC-062,*¶ 7 (noting that "'waste,' *in addition to its ordinary meaning,* shall include…[e] the production in this state of natural gas from any gas wells or wells, or from any gas pool, in excess of the reasonable market demand") (emphasis added) (citing § 70-2-3)

24. Despite clear statutory language and supporting case law, the Final Order fails to recognize or address economic waste as part of the definition of "waste" under the OGA. Accordingly, it ignores a critical factor in evaluating the propriety of Read's plan to drill eight (8) additional wells in the Wolfbone Pool. The Division acknowledged that Read's development plan would cost approximately $539 million—nearly double the cost of Coterra's $283 million plan.

See Order No. R-23089-A, ¶¶ 31-32. Yet, it made no effort to assess whether this $256 million difference constituted economic waste under the statutory definition of "waste" in § 70-2-3.

25. Rather than treating the $256 million cost difference as economic waste under the plain language of NMSA § 70-2-3, the Division dismissed the disparity as irrelevant when comparing development plans. *See* Order No. R-23089-A, ¶ 33. In support of its conclusion, the Division cited Commission Order No. R-10731-B—a 28-year-old decision concerning the comparison of the AFEs submitted for competing single vertical wells in the Morrow formation involving 40-acre spacing and a per-well cost difference of approximately $168,075, not a comparison of competing development plans encompassing 2,580 acres for the drilling and completing of horizontal wells with two mile laterals where the total cost difference between the two plans is a staggering $256 million. *See id.; see also* Order No. R-10731-B, along with AFEs addressed by the order, attached hereto as Exhibit 4.

26. The Division misapplied that order, misconstruing its original meaning and purpose. The statement in Order No. R-10731-B was made in the context of evaluating individual well AFEs—not total development costs—and has no bearing on the quarter-billion-dollar disparity presented in the present cases. The Commission's actual statement in Order No. R-10731-B, is as follows:

> "(23) An evaluation of the evidence, testimony and information obtained from Division records indicates that:…(j) differences in AFE's (well cost estimates) and other operational criteria are not significant factors in awarding operations and have only minor significance in evaluating an operator's ability to prudently operate the property." (emphasis added). Order No. R-10731-B, ¶ 23(j).

This statement reflects a specific finding by the OCC based on the review of individual wells' AFEs and operational criteria in a particular case. The Commission concluded that per-well AFE differences were not significant in evaluating an operator's prudence—but only when comparing costs on a per-well basis. The Division's Final Order notes that Coterra's well costs range from

$9.7 million to $10.6 million, while Read's range from $10.7 million to $11.9 million. *See* Order No. R-23089-A, ¶¶ 31-32. This roughly $1 million difference per well is the kind of variance the Commission deemed insignificant in Order No. R-10731-B. Thus, the Commission's statement applies to comparisons of individual AFEs—not to the total cost of an entire development plan. The Division's reliance on this precedent to be dismissive of a $256 million total cost disparity cannot withstand scrutiny.

27. Moreover, the Division did not use the Commission's statement for its original purpose—comparing individual AFEs on a per-well basis. Instead, the Division altered both the meaning and intended application of the statement and misapplied it to a comparison of total development costs. Specifically, the Division stated:

> "OCD finds Cimarex's total development costs is lower than Read's total development costs. However, under Order No. R-10731-B differences in costs estimates 'are not significant factors in awarding operations and have only minor significance in evaluating an operator's ability to prudently operate the property." Order No. R-23089-A, ¶ 33, attached hereto as Exhibit 1.

By substituting the phrase "differences in AFEs" with "differences in costs estimates," the Division changed the referent -- "are not significant" -- from individual well costs to total project costs—an entirely different metric. This revision misconstrued the Commission's original statement and improperly extends its application to a context it was never meant to address. Worse still, this misinterpretation is the Division's sole justification for concluding that a $256 million cost disparity is irrelevant in determining operatorship. That reliance distorts the Commission's original intent and meaning. Moreover, the Division's finding in Paragraph 33 effectively establishes new OCD policy—one that rewards operators willing to spend irrational sums to prevail in a contested hearing, even if doing so involves over-drilling and overcapitalization. At the same time, it penalizes operators like Coterra, who carefully design cost-efficient development plans tailored to the reality of the unit's geology and production needs.

28. The proper standard for evaluating the difference in total costs between competing development plans is whether a plan creates excessive economic waste—a standard inherent in the "ordinary meaning" of waste under § 70-2-3. Moreover, the Division should have found that excessive economic waste not only violates the statutory duty to prevent waste but also undermines and harms the correlative rights of other owners. In *Earthworks' Oil & Gas Accountability Project v. N.M. Oil Conservation Comm'n,* 2016-NMCA-055, ¶ 26, 374 P.3d 710, 720, the New Mexico Court of Appeals recognized that the Commission "asserts that economic considerations exist as the very core of its statutory obligations." In *Earthworks*, the Commission revised a rule governing water pits to prevent economic waste—an action the court affirmed as consistent with its obligations under the OGA. Additionally, the *Earthworks* court further emphasized that, in fulfilling its statutory responsibilities, "the division shall give due consideration to the economic factors involved," and must "consider the economic loss caused by the drilling of unnecessary wells." *Id.* at ¶ 27. In support of that conclusion, the *Earthworks* court *held* that "[f]indings as to correlative rights and economic waste are sufficient to satisfy our requirement that administrative agencies state their reasoning for issuing an order." *Id. at* ¶ 32, citing *Rutter v. N.M. Oil Conservation Comm'n*, 1975-NMSC-006, ¶ 18, 88 N.M. 286, 540 P.2d 1119.

29. The definition of "correlative rights" under the OGA is expressly qualified and circumscribed by key terms such as "just," "equitable", "practicable" and "practicably." Under § 70-2-33(H), correlative rights refer to "the opportunity afforded" to an owner—but only "so far as it is *practicable* to do so"—to produce, *without waste,* the owner's *just and equitable share* of the oil or gas in the pool. That share is defined as "an amount so far as can be *practicably* determined and so far as can be *practicably* obtained *without waste*, substantially in the proportion that the quantity of recoverable oil or gas under the property bears to the total recoverable oil or

gas in the pool, and for such purpose, to use the owner's just and equitable share of the reservoir energy." *See* § 70-2-33(H) (emphasis added).

30. Applying the statutory definition of "waste" in conjunction with the concept of correlative rights under § 70-2-33(H), interest owners are entitled not to their unqualified share of production, but to their "just" and "equitable" share—obtained without waste and only to the extent it is "practicable." Under Coterra's development plan, owners would receive their proportionate share of production through a drilling program that avoids overcapitalization and costs approximately a quarter of a billion dollars less than Read's proposal. By contrast, Read's plan would impose an excessive financial burden on the unit, generating substantial economic waste and thereby diminishing the economic return available to owners. The $256 million in unnecessary cost under Read's plan would materially reduce the value of the owners' share of production—meaning they would not receive a "just" or "equitable" share, as defined by statute. In contrast, Coterra's cost-efficient plan maximizes net return to owners and ensures that they receive a share that is both "just" and "equitable" and free from unnecessary waste. *See, e.g.,* Ex. C, ¶ 7, and Ex.C-2, Cimarex's Hearing Packet, Case No. 23448. Accordingly, Coterra's proposal is clearly the more "practicable," "just" and "equitable" plan for protecting correlative rights under § 70-2-33(H).

C. The Division's Final Order, and the Precedent and Policy it Establishes, Undermines the State's Initiative to Reduce Emissions.

31. New Mexico's Energy Mineral and Natural Resources Department ("EMNRD") and the Commission have committed to working with the New Mexico Environment Department ("NMED") to develop a coordinated strategy to reduce emissions and prevent waste in the oil and gas sector. This commitment is formalized in Executive Order 2019-003, which directs EMNRD

and NMED to jointly develop a statewide, enforceable regulatory framework to secure reductions in oil and gas sector emissions and to prevent waste. *See, e.g.,* Executive Order 2019-003, ¶ 6.

32. The Division had the authority to construe and apply existing pooling statutes, regulations, and OCC policy in a manner consistent with Executive Order 2019-003. Had it done so—as outlined herein—it could have issued a pooling order aligned with the state's policy goals of reducing waste and limiting emissions. Instead, the Division awarded operations to Read, who proposes to drill sixteen (16) wells in the Wolfbone Pool—eight (8) more than Coterra's plan. In total, Read's development plan includes forty-eight (48) wells—eighteen (18) more than Coterra's proposal—thereby increasing surface disturbance, capital expenditure, and emissions beyond what is necessary to efficiently develop the resource.

33. The Division attempted to justify Read's overdevelopment on unsupported grounds—namely, that Read's Wolfcamp wells would recover more hydrocarbons from the Wolfcamp formation; however, there is an unresolved question whether such recovery would only consist of negligible amounts that are non-additive to the estimated ultimate recovery ("EUR"). *See* Order No. R-23089-A, ¶ 22 ("Cimarex's Reservoir Engineer testified that Read's development plan would raise operator expense due to drilling additional wells and produce *negligible additional reserves*") (emphasis added). By awarding operatorship to Read based on speculative hydrocarbon recovery, the Division not only enabled significant emissions but also disregarded its own prior finding: that Read's Wolfcamp wells would not exclusively produce from the Wolfcamp but would also extract hydrocarbons from the Third Bone Spring—thereby violating the correlative rights of Bone Spring owners.

34. The Division's approval of Read's development plan effectively establishes a new precedent and policy within the OCD—one that rewards operators who propose to drill as many wells as possible, regardless of efficiency or cost. Under this approach, economic waste is treated

as irrelevant so long as any incremental amount of hydrocarbons can be recovered, even if the additional recovery is negligible, non-additive to the EUR, and comes at extraordinary cost. This policy simultaneously penalizes prudent operators—like Coterra—who carefully analyze cost-benefit ratios, adhere to the statutory limits on what can and should be "practicably" recovered, and design plans that avoid unnecessary wells in order to protect correlative rights and prevent waste. *See* § 70-2-33(H).

35. The OCD's new precedent and policy appears to conflict with the State of New Mexico's mandate to reduce emissions, as set forth in Executive Order 2019-003. Paragraph 6 of the Executive Order directs EMNRD to enact rules to prevent both waste and emissions. Applying the existing rules and statutes under the OGA to minimize waste and reduce emissions is not only consistent with this mandate—it is a necessary corollary. The principles of the Executive Order require harmonization with the OGA to achieve the state's environmental and economic policy goals.

D. Recognizing Economic Waste under § 70-2-3 is Essential to Enforcing the State's Waste Prevention and Emission Reduction Mandates.

36. At some point, the cost of drilling becomes patently unreasonable—particularly when those wells are drilled in pursuit of negligible and speculative amounts of oil that do not contribute any practicable increase to the reservoir's EUR. By misapplying the rules and statutes under the OGA, the Division's Final Order incentivizes a race to drill unnecessary wells solely to secure operatorship. In doing so, the Division has established a policy framework that rewards operators who are willing to spend irrational sums—not for the purpose of maximizing efficiency, but for gaining a competitive advantage in contested proceedings. This approach promotes a wasteful and unsustainable model of development, where the pursuit of 'every last drop' is prioritized over sound resource management and economic prudence.

37. In Paragraph 44 of the Final Order, the Division appears to base its conclusion on the mistaken premise that "waste," as defined in the OGA, refers only to underground waste. However, the statutory definition of "waste" is far broader and explicitly includes "its ordinary meaning"—which encompasses economic waste. *See* § 70-2-3. Accordingly, the Division was required to apply the full scope of the statutory definition – its "ordinary meaning" of waste that includes the obligation to prevent economic waste. The Division's failure to do so has effectively stripped "economic waste" from the meaning of "waste," thereby establishing a dangerous precedent that such waste is not a relevant factor in evaluating competing development plans. The narrowing of the statute's plain meaning undermines the legislature's intent and erodes the only meaningful mechanism of accountability for aligning administrative decision-making with the state's policy to reduce emissions and prevent waste.

38. Incorporating "economic waste" into the statutory definition of waste remains the only effective mechanism for deterring the unrestrained drilling of unnecessary wells—a practice the Final Order now openly endorses. While the Commission may enact new rules to reduce emissions, such regulatory efforts will be rendered ineffective if the existing framework continues to permit the drilling of unnecessary wells. By stripping "economic waste" from meaning of "waste" under the OGA, the Division's Final Order introduces a structural flaw into the regulatory framework—one that incentivizes the drilling of unnecessary wells and the resulting emissions. Enforcing the statutory prohibition on economic waste is essential to fulfilling EMNRD's and the Commission's obligation under Executive Order 2019-003 to reduce oil and gas sector emissions.

E. The Final Order Failed to Acknowledge that Read Proposed its Development Plan on False and Mistaken Premises that Disqualified it from Operatorship.

39. In the present cases, the Division initially designated two separate pool codes—one for the Bone Spring formation, including the Third Bone Spring (Quail Ridge Bone Spring [Pool Code 50460]), and one for the Wolfcamp formation, including the Upper Wolfcamp (Tonto; Wolfcamp Pool [Pool Code 59500]). Based on these two classifications, Read proposed a development plan that drills two sets of eight (8) wells, one set in the Third Bone Spring formation and one set in the Upper Wolfcamp formation. In doing so, Read either (1) failed to critically examine the actual geologic relationship and open communication between the Third Bone Spring and the Upper Wolfcamp formations, or more likely, (2) used the separate classifications as a pretext to justify duplicative drilling in the single reservoir and to gain a tactical advantage in the contested hearing.

40. Coterra suspects the latter. As described herein, testimony and evidence suggest that Read presented a "co-development plan"—eight (8) wells in each pool—as a pretext, while in reality lacking any conviction of what wells it actually intended to drill. *See* Tr. (Case Nos. 23448-23455) (Aug. 10, 2023), at 170:5- 172:16. At the time, Read believed it could propose as many initial wells as it pleased and, once the Division approved the plan, simply drill one (or whatever minimal number of wells it wanted) to maintain the unit under a pooling order.[2] As Coterra's counsel observed during the hearing: "If this language, as written, is enforced as written, then it looks like an order may be terminated automatically… I'm raising a question about if Permian

[2] Read's counsel stating: "Madam Hearing Officer, I just want to interject here for a moment. Mr. Savage, as I understand, is asserting that division pooling orders require all initial wells to be drilled within the time frames. The Division, as I understand, does not take that position. It's only to perfect an order [that] one well is needed to be drilled." Tr. (Case Nos. 23448-23455 et al.) (Aug. 11, 2023) 29: 13-21.

Resources [Read] has created a risk about their being able to not only complete all forty-eight (48) wells within their timeline but, you know, also within the plain language of the order that's issued." *See* Tr. (Case Nos. 23448-23455) (Aug. 11, 2023), at 29:24-30:8. This comment highlights the gravity of its mistaken premise: Read built its plan on the false and mistaken belief that Division order directives could be selectively delayed or ignored.

41. Clearly, the plain language of the pooling order does not support this reading. Under standard Division pooling orders, the plain language states that initial wells must be drilled within one year of the order's issuance to avoid termination of the order and unit.[3] Thus, pursuant to an order's standard and clearly-stated language, an operator must drill all the initial wells proposed in the pooling application within one year after the date of the order to prevent the termination of the order, subject to reapplication for a time extension conditioned on good cause. *See* FN 2, herein; *see also* Tr. (Case Nos. 23448-23455) (Aug. 11, 2023) at 56: 18-22 (Technical Examiner confirming that all initial wells and defining wells proposed in pooling applications are to be drilled within the first year after an order is issued). Read proposed forty-eight (48) initial wells in its applications that the Division has ordered Read to drill in one year after it issued its Final Order contrary to Read's time expectations of its own plan. *See* Order No. 23089-A, ¶ 63.

42. Read's witnesses made clear that it never intended to drill all forty-eight (48) wells within that year. *See* Tr. (Cases 23448-23455 et al.) (Aug. 10, 2023), at 215: 21-23 (Read's geologist testifying "that is not our intent. And I do not believe that is what we were required to

[3] The standard language in an OCD pooling order states in Paragraph 20 or thereabouts: "The Operator shall commence drilling the Well(s) within one year after the date of this Order, and complete each Well no later than one (1) year after the commencement of drilling the Well," and further in Paragraph 21 or thereabouts: "This Order shall terminate automatically if Operator fails to comply with the Paragraph 20, unless Operator obtains an extension by amending this Order for good cause shown." *See* any standard pooling order issued by the OCD.

do by the pooling order either."); *see also* Tr. (Cases 23448-23455 et al.) (Aug. 11, 2023), at 26: 6-13 (Read's landman stating that it would take several years to drill all forty-eight (48) wells proposed in Read's development plan). Read also confirmed that it did not intend to cash-call working interest owners upfront for the full cost of all forty-eight (48) wells. Instead, it planned to call for payment only within sixty (60) days of spudding a particular well. *See* Tr. (Cases 23448-23455 et al.) (Aug. 11, 2023) 32: 21-33: 1-7 (Read's landman explaining that the language Read asked to be included in Paragraph 68 of the Final Order was designed to ensure no owner is cash-called until Read intends to spud the well within sixty (60) days.) [4]

43. In short, Read's development plan—as presented in its applications and exhibits—did not withstand the crucible of cross-examination. It was revealed to be a fluid, uncertain proposal, subject to multiple contingencies and lacking the specificity required to meaningfully evaluate its merits. At the hearing, Read admitted it might not drill the eight (8) Upper Wolfcamp wells, depending on results from its nearby Batman wells. *See* Tr. (Cases 23448-23455 et al.) (Aug. 10, 2023). 170: 5-172: 16. This admission highlights that Read lacked data sufficient to determine whether the Upper Wolfcamp wells were even necessary to develop the reservoir—nevertheless the Division found that these wells -- the ones that might not be drilled -- would produce the Wolfcamp portion of the Wolfbone and prevent waste. *See* Order No. 23089-A, ¶¶ 23 and 44.

[4] *See* Tr. (Case Nos. 23448-23455 et al.) (Aug. 11, 2023) at 32: 21 to 33: 1-7 for actual quotation: "So its not just a little more time. Under the standard compulsory pooling order, an operator, if they pooled, let's say 48 wells, an operator would have the liberty to cash-call for all 48 wells immediately upon receiving that order. The intent of this is to, in good faith, say we will not cash-call anyone unless [the well] is going to be spud within 60 says." *See also* Tr. (Case Nos. 23448-23455 et al.) (Aug. 9, 2023) 74: 14 to 75: 1 (Read's counsel confirming that Read is proposing in its plan that each owner will only have to pay for each individual well "sequentially" at the time Read drills each well, thereby preventing the owners from getting "burned" by paying upfront for all 48 wells that Read has proposed in its applications.)

44. In its Closing Argument, Read further shifted its position—proposing to eliminate its upper Bone Spring wells and retain only the Third Bone Spring and Upper Wolfcamp wells. *See* Read's Closing Argument, Case Nos. 23508-23523, et al., pp. 9-10. This post-hearing revision is a tacit admission that many of Read's original wells are unnecessary. As Coterra argued, the constant flux in Read's plan rendered it impossible for the Division to apply consistent comparative criteria or to meaningfully assess whether Read's proposal was superior. *See* Cimarex's Closing Statement, at p. 12.

45. Despite Read expressing its uncertainty about drilling all the wells, the Division ordered Read to drill all forty-eight (48) within one year—including wells Read admitted might not be necessary and including all upper Bone Spring wells that Read had explicitly asked to be removed. *See* Read's Closing Argument, pp. 9-10 (Read stating it will dismiss its initial proposed Bone Spring wells except for its Third Bone Spring and Upper Wolfcamp wells); *see also* Order No. R-23089-A, ¶ 10 ("OCD will not be dismissing these wells and will be evaluating the Applications as they were presented at the hearing."). Coterra assumes the OCD's evaluation of the applications as they were presented at the hearing included a review of the report and recommendations from the hearing examiner who actually presided over the August 9-11, 2023, hearing, as required by statute, and who was present to have heard the presentation of the competing applications and related testimony. *See* § 70-2-13; *see also* 19.15.4.21 NMAC.

46. The Final Order is thus flawed on multiple levels and therefore should be stayed:

a. It misconstrues and misapplies the Commission's policy in Order No. R-10731-B, ¶ 23(j), using its misconstruction to justify exclusion of economic waste from its operatorship decision—even though Read's plan costs a quarter of a billion dollars more than Coterra's.

b. It allows Read to produce hydrocarbons from the Third Bone Spring using Upper Wolfcamp wells, without allocating or compensating Bone Spring owners—thus violating correlative rights.[5]

c. There are concerns that the OCD, in issuing the Final Order, did not review and consider the report and recommendations of the examiner who actually adjudicated the hearing held on August 9-11, 2023, as required by § 70-2-13 and 19.15.4.21 NMAC.

d. It promotes a race among applicants to propose and drill additional and unnecessary wells in order to secure competitive advantage in contested hearings, thereby undermining the state's directives in Executive Order 2013-003.

e. It imposes on owners the excessive costs of Read's plan, a financial burden so severe that they will be deprived of their "just and equitable" share of production, again violating correlative rights.

f. It gives Read undue deference to its self-admitted speculative and subjective development plan while punishing Coterra for proffering a reasonable, feasible, and prudent development plan.[6]

III. Coterra Has Met the Test for Justifying a Stay of the Final Order Until Such Time as the Commission Issues its Decision on the Cases.

47. Under the four-part test adopted by the Commission in *Tenneco Oil Co. v. N.M. Water Quality Control Comm'n*, 1986-NMCA-033, ¶ 10 and applied in Commission Order No. R-14300-A, ¶ 5, Coterra satisfies requirements for a stay of the Division's Final Order.

48. After a review that accounts for the directives of the state's initiative to prevent waste and reduce emissions, the requirement to protect correlative rights by allocating to owners their just and equitable share of production, the proper consideration of the total costs of a development plan to prevent economic waste, and the statutory requirement to avoid the drilling

[5] *Manning v. Energy, Minerals,* 2006-NMSC-027, ¶ 45-47, 144 P.3d 87 (showing that an administrative agency using its police powers to authorize a taking without compensation is unconstitutional and subject to the Takings Clause).

[6] *See* Tr. (Case Nos. 23448-23455 et al.) (Aug. 11, 2023), 76: 10-14 (Counsel explaining to the Technical Examiner that "Cimarex did applications for ten wells," that Cimarex's overall plan "includes 30 wells, but the actual number of applications as initial wells was ten, which we believe is doable within the time frame [provided by an OCD order]."

of unnecessary wells, Coterra's development plan would likely succeed on the merits, thus meeting the first prong of the *Tenneco* standard. Furthermore, Read drilling wells under the Final Order would cause irreparable harm, *Tenneco's* second prong, by causing waste, including excessive economic waste, and violating the correlative rights of owners by taking hydrocarbons from shared production without compensation and imposing severe economic burdens on net returns.

49. A stay, pursuant to *Tenneco's* third prong, would not result in any substantial harm to other parties, as all owners subject to the order would receive a reprieve from the excessive economic burden of Read's plan and benefit from the Commission's thorough evaluation of a plan that uses Wolfcamp wells to violate correlative rights by producing from both the Third Bone Spring and Upper Wolfcamp and distributing the production only to the Wolfcamp owners at the exclusion of the Bone Spring owners. Furthermore, Read, itself, would not be harmed by a stay because it would avoid the Final Order's mandate to drill all forty-eight (48) wells in a year that unreasonably accelerates a plan Read intended to implement over the course of three years subject to Read's admission that it is likely all 48 wells may not need to be drilled. Finally, in satisfaction of *Tenneco's* last prong, there is no harm to the public. In fact, if the order is not stayed, the public will be harmed by a plan that increases waste and emissions in contravention of the state's initiative to prevent waste and reduce emissions and by new OCD policy that encourages operators to drill and produce unnecessary wells. Counsel for Read has been informed of this motion, and Read opposes the request for a stay.

IV. Conclusion.

For the reasons set forth herein, Coterra requests that the Commission grant this Motion and stay Order No. R-23089-A in its entirety. A stay of all actions under the Order is necessary to preserve the status quo and thereby avoid the drilling of unnecessary wells; to prevent economic

waste; to prevent the economic harm of a cash-call on the total cost of all forty-eight (48) wells; and to protect the environment and the correlative rights of all interest owners. Coterra respectfully requests that the stay remain in effect until the Commission has had the opportunity to conduct a full review and adjudication of the issues presented herein, which remain unresolved, and to select the development plan that best upholds the provisions, purpose, and statutory framework of the Oil and Gas Act. A proposed order is attached hereto as Exhibit 5 pursuant to 19.15.4.23(B) NMAC.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed with the New Mexico New Mexico Oil Conservation Commission and was served on counsel of record via electronic mail on May 6, 2025:

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

APPLICATIONS OF CIMAREX ENERGY CO.
FOR A HORIZONTAL SPACING UNIT
AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO **CASE NOS. 23448-23455**

APPLICATIONS OF CIMAREX ENERGY CO.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO **CASE NOS. 23594-23601**

APPLICATIONS OF READ & STEVENS, INC.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO. **CASE NOS. 23508-23523**
ORDER NO. R-23089-A

ORDER

The Director of the New Mexico Oil Conservation Division ("OCD"), having heard this matter through a Hearing Examiner from August 9, 2024, through August 11, 2024, and after considering the testimony, evidence, and recommendation of the Hearing and Technical Examiners, issues the following Order.

FINDINGS OF FACT

1. These cases involve competing compulsorily pooling applications with overlapping horizontal spacing units filed by Cimarex Energy Co. ("Cimarex") and Read & Stevens, Inc ("Read"). These cases were consolidated for hearing and a single order is being issued for the consolidated cases.

2. Both Cimarex and Read have the right to drill within the proposed spacing units, and each seeks to be named operator of its proposed wells and spacing units.

3. Read submitted sixteen (16) applications under case numbers 23508 to 23523, each of which is to compulsorily pool the uncommitted oil and gas interests in either the Bone Spring or Wolfcamp formation. Together these cases are comprised of approximatly 2,562.40 acres, described as ("Subject Lands"):

   Township 20 South, Range 34 East, N.M.PM.
   Section 4: Lots 1, 2, 3, 4, S/2N/2, S/2 (a/k/a All)
   Section 5: Lots 1, 2, 3, 4, S/2N/2, S/2 (a/k/a All)
   Section 8: All
   Section 9: All

4. Cimarex submitted sixteen (16) applications under case numbers 23448 to 23455 and 23594 to 23601 to compulsorily pool the uncommitted oil and gas interests in

EXHIBIT 1

the Bone Spring and Wolfcamp formations, underlying the Subject Lands as previously described.

5. Read proposes to dedicate to the Subject Lands, two well families known as the Bane and Joker wells..

6. Cimarex proposes to dedicate to the Subject Lands two well families known as the Might Pheasant and Loosey Goosey wells.

7. Read's and Cimarex's proposed wells are all two-mile horizontal wells.

8. Read presented four witnesses in support of its applications:
   a. Travis Macha, Landman
   b. Ira Bradford, Geologist
   c. John Fechtel, Reservoir Engineer
   d. Davro Clements, Facilities Engineer

9. Cimarex presented four witnesses in support of its applications:
   a. John Coffman, Landman
   b. Staci Meuller, Geologist
   c. Eddie Behm, Reservoir Engineer
   d. Calvin Boyle, Facilities Engineer

10. Read stated in its closing argument that it would elect to dismiss some wells in order to alleviate Cimarex's claim that Read was not comparing "apples-to-apples" with Cimarex (see Read's closing statement page 9). However, OCD will not be dismissing these wells and will be evaluating the Applications as they were presented at the hearing.

11. The Oil and Gas Act authorizes OCD to compulsory pool the lands or interests in a spacing unit. When the owners of the interests in a spacing unit have not agreed to voluntarily pool their interests, and when one owner, who has the right to drill, applies to OCD, OCD can pool the lands or interests in the unit "to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste". Section 70-2-17.C.

12. The Oil Conservation Commission ("Commission") and OCD have developed several factors they "may consider" in evaluating competing compulsory pooling applications which are listed as follows:
   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 (AFEs) and other operational costs presented by each party for their respective proposals.
f. An evaluation of the mineral interest ownership held by each party at the time the application was heard
g. A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").

Geological Evidence:

13. Cimarex and Read both acknowledged that wells completed in the Third Bone Spring Sand and Upper Wolfcamp will share production from both the Bone Spring and Wolfcamp formations.

14. Cimarex's Geologist testified (when discussing the lack of frac barrier between the third Bone Spring Sand and the Wolfcamp) that the Third Bone Spring Sand is at least 72.8% of the total reservoir, while the Wolfcamp Sands are 27.2% of the total reservoir.

15. On April 8, 2024, OCD issued Order R-23089 denying both applications except insofar as either applicant or both applicants choose to propose a special pool, a Wolf bone pool, that would account for the lack of frac baffles between the Bone Spring and Wolfcamp formations in this area. The record was left open for such a proposal and will prompt a reopening of the hearing record on both applications.

16. OCD issued Order R-23751 establishing the Quail Ridge, Wolfbone Pool, (Pool Code 98396), therefore prompting a reopening of these applications.

17. Read's Geologist testified that Read has drilled a pilot hole on the Batman No. 132H (southwest of the Subject Lands) through the Penn Shale and collected a full log suite and sidewall cores to characterize the existing and future targets. Testimony also included that Read has purchased thirty-six square miles of 3D seismic which includes the Subject Lands to aid in a fulsome subsurface understanding.

18. Read's Landman testified that Read plans to develop the Subject Lands as part of a comprehensive development plan that includes Read's Riddler Bone Spring and Wolfcamp spacing units in Sections 3 and 10, which are approved under Order Nos. R-22748 and R-22754 and Read's Batman and Robin Bone Spring and Wolfcamp spacing units, which are approved under Order Nos. R-22277, R-22284, R-22319, and R-22326, respectively. (Read exhibit C-14).

19. Cimarex's Landman testified that Cimarex is attempting to establish a Federal Bone Spring Unit consisting of 14 sections just to the North of the Subject Lands (Cimarex Exhibit A-7) which will allow all Bone Spring wells to have a central facility, and the Wolfcamp wells will require commingling permits or a separate facility.

20. OCD finds that both the Applicants are attempting to develop the Subject Lands as part of a larger development plan and neither party found any faulting, pinch outs, or other geologic impediments that would impede production. OCD further finds that Read has taken additional steps in securing knowledge of the geology of the Subject Lands.

Risk and Development:

21. Read's Reservoir Engineer testified that co-development of the Wolfbone (Third Bone Spring Sand and the Wolfcamp A) is necessary to recover incremental reserves (see Read's exhibit K) that would otherwise risk being left unproduced if the acreage was only developed with wells in the Third Bone Spring Sand portion of the Wolfbone. Testimony further included that undeveloped reserves would harm correlative rights of owners who own a greater share of interest in the Wolfcamp or own only interest in the Wolfcamp.

22. Cimarex's Reservoir Engineer testified that Read's development plan would raise operator expense due to drilling additional wells and produce negligible additional reserves.

23. OCD finds Read's proposal will result in a higher recovery of hydrocarbons and will produce the Wolfcamp portion of the Wolfbone which will prevent waste and protect the correlative rights of the interest owners who own interest in the Wolfcamp portion.

Negotiations:

24. Cimarex and Read each presented testimony and exhibits on their efforts to negotiate with the interest owners and included a chronology of contact with the interest owners (see Read exhibit C-11, and Cimarex exhibit A-4).

25. OCD finds each Applicant made effort to negotiate with each party in the Subject Lands as each party gained support from various interest owners.

Prudent of Operator:

26. Cimarex's Facilities Engineer testified that Cimarex is taking steps to minimize its environmental impact. Testimony also included that Cimarex would utilize the "best-in-class" capture technology and operations, and has secured proposals for oil, water, and gas takeaway using such technology.

27. Read's Facilities Engineer testified that Read is taking steps to minimize its environmental impact. Testimony also included that Read would utilize "innovative" technology and operations. At the time of the Hearing, Read had secured water takeaway and was in discussions with multiple companies for oil and gas takeaway.

28. OCD finds that both Applicants are active operators in the Permian Basin and both Applicants are taking prudent steps to minimize surface and environmental impact.

Comparison of Cost:

29. Cimarex and Read, both, propose a 200% risk charge.

30. Cimarex and Read, both, propose a supervision cost of $8,000 per month while drilling and $800 per month while producing.

31. Cimarex's applications have an associated total cost of just over $283 million, with each individual well's cost ranging from $9.7 million to $10.6 million.

32. Read's applications have an associated total cost of just over $539 million, with each individual well's cost ranging from $10.7 million to $11.9 million.

33. OCD finds Cimarex's total development cost is lower than Read's total development cost. However, under Order R-10731-B, differences in cost estimates "are not significant factors in awarding operations and have only minor significance in evaluating an operator's ability to prudently operate the property". ¶23(j).

Working Interest:

34. The ownership interest in the Bone Spring and Wolfcamp formations underlying the Subject Lands are not uniform. There is a difference in the percentage of ownership between the formations and in some circumstances the owners are different between the formations.

35. In the Bone Spring formation underlying the Subject Lands Read owns 29.31% interest and Cimarex owns 29.12% interest. In the Wolfcamp formation underlying the Subject Lands Read owns 33.29% interest and Cimarex owns 21.63% interest.

36. At the time of the hearing, when including working interest support Read owns 34.18% in the Bone Spring formation and 39.48% in the Wolfcamp underlying the Subject Lands, while Cimarex owns 50.23% in the Bone Spring and 41.8% in the Wolfcamp underlying the Subject Lands.

37. OCD finds the differences between Cimarex's and Read's working interest control are not very significant and that makes it difficult to use working interest control as the deciding factor in this case. The gap between the parties is either around 2% or 16% in the various formations. In cases where working interest control has been the deciding factor, the differences were quite clear. In two OCD orders, one case had one party with a 96% interest in its proposed unit and a 50% interest in the competing unit, while in the other case, one party had at least a 62.5% interest (and therefore a 25% greater interest) in each of 4 proposed units. *COG Operating LLC*, R-21826, Aug. 31, 2021; *Matador Production Company*, R-21800, Aug. 26, 2021.

Surface Factor:

38. For competing horizontal well proposals, OCD added consideration of the "surface factor": a comparison of the ability of the applicants to timely locate well sites and to operate on the surface. *Ascent Energy, LLC,* Order R-14847 ¶26 (Aug. 31, 2018). The Commission has now included the surface factor in its list of factors. See, e.g., Order R-21420-A.

39. Cimarex's Facilities Engineer testified that Cimarex's development plan of the Subject Lands will consist of 33.9 acres of surface disturbance.

40. Read's Facilities Engineer testified that Read's development plan of the Subject Lands will consist of 30.9 acres of surface disturbance

41. Cimarex's Facility Engineer testified that Cimarex has obtained drilling permits for the Subject Lands, and conducted an onsite inspection with the BLM to confirm its locations.

42. Read's Facility Engineer testified that Read has coordinated with and received on-site approved from the BLM for its locations. Testimony further discussed that Read met with the BLM and the Center of Excellence ("CEHMM") on locations to coordinate use of existing roads and right-of-way corridors to produce the area and to avoid disturbance of critical sand dune wildlife habitats like the Dunes Sagebrush Lizard.

43. OCD finds both Cimarex and Read have taken steps with the BLM to obtain approval to operate the Subject Lands. In addition, Read had met with the CEHMM and Read's plan will result in three (3) acres less surface impact.

Conclusion:

44. OCD finds Read's proposal will result in a higher recovery of hydrocarbons and will produce the Wolfcamp portion of the Wolfbone which will prevent waste and protect the correlative rights of the interest owners who own interest in the Wolfcamp portion.

45. Read will dedicate the well(s) described in Exhibit A ("Well(s)") to the Subject Lands.

46. Read proposes the supervision and risk charges for the Well(s) described in Exhibit A.

47. Read identified the owners of uncommitted interests in oil and gas minerals in the Subject Lands and provided evidence that notice was given.

CONCLUSIONS OF LAW

48. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.

49. Read is the owner of an oil and gas working interest within the Subject Lands.

50. Read satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.

51. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.

52. Read has the right to drill the Well(s) to a common source of supply at the depth(s) and location(s) in the Unit described in Exhibit A.

53. The Subject Lands contains separately owned uncommitted interests in oil and gas minerals.

54. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Subject Lands.

55. The pooling of uncommitted interests in the Subject Lands will prevent waste and protect correlative rights.

56. This Order affords to the owner of an uncommitted interest the opportunity to produce his just and equitable share of the oil or gas in the pool.

ORDER

57. The uncommitted interests in each Unit within the Subject Lands are pooled as set forth in Exhibit A.

58. The Units within the Subject Lands shall be dedicated to the Well(s) set forth in Exhibit A.

59. Read is designated as operator of each Unit within the Subject Lands and the Well(s).

60. Cimarex's Applications are hereby denied.

61. If the location of a well will be unorthodox under the spacing rules in effect at the time of completion, Read shall obtain the OCD's approval for a non-standard location in accordance with 19.15.16.15(C) NMAC.

62. If an Unit is a non-standard horizontal spacing unit which has not been approved under this Order, Read shall obtain the OCD's approval for a non-standard horizontal spacing unit in accordance with 19.15.16.15(B)(5) NMAC.

63. Read shall commence drilling the Well(s) within one year after the date of this Order, and complete each Well no later than one (1) year after the commencement of drilling the Well.

64. This Order shall terminate automatically if Read fails to comply with the preceding paragraph unless Read requests an extension by notifying the OCD and all parties that required notice of the original compulsory pooling application in accordance with 19.15.4.12.B and 19.15.4.12.C NMAC. Upon no objection after twenty (20) days the extension is automatically granted up to one year. If a protest is received the extension is not granted and Read must set the case for a hearing.

65. Read may propose reasonable deviations from the development plan via notice to OCD and all parties that required notice of the original compulsory pooling application in accordance with 19.15.4.12.B and 19.15.4.12.C NMAC. Upon no objection after twenty (20) days the deviation is automatically granted. If a protest is received the deviation is not granted and Read must set the case for a hearing.

66. The infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC shall be applicable.

67. Read shall submit each owner of an uncommitted working interest in the pool ("Pooled Working Interest") an itemized schedule of estimated costs to drill, complete, and equip the well ("Estimated Well Costs").

68. Read shall submit the Estimated Well Costs no sooner than 60 days before the commencement of the drilling of each initial well, and the owner of a Pooled Working Interest shall have 30 days upon receipt of the Estimated Well Costs to elect whether to pay its share of the Estimated Well Costs or its share of the actual costs to drill, complete and equip the well ("Actual Well Costs") out of production from the well. An owner of a Pooled Working Interest who elects to pay its share of the Estimated Well Costs shall render payment to Read no later than thirty (30) days after the expiration of the election period, and shall be liable for operating costs, but not risk charges, for the well. An owner of a Pooled Working Interest who fails to pay its share of the Estimated Well Costs or who elects to pay its share of the Actual Well Costs out of production from the well shall be considered to be a "Non-Consenting Pooled Working Interest."

69. No later than one hundred eighty (180) days after Read submits a Form C-105 for a well, Read shall submit to each owner of a Pooled Working Interest an itemized schedule of the Actual Well Costs. The Actual Well Costs shall be considered to be the Reasonable Well Costs unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Reasonable Well Costs after public notice and hearing.

70. No later than sixty (60) days after the expiration of the period to file a written objection to the Actual Well Costs or OCD's order determining the Reasonable Well Costs, whichever is later, each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs shall pay to Read its share of the Reasonable Well Costs that exceed the Estimated Well Costs, or Read shall pay to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs its share of the Estimated Well Costs that exceed the Reasonable Well Costs.

71. The reasonable charges for supervision to drill and produce a well ("Supervision Charges") shall not exceed the rates specified in Exhibit A, provided however that the rates shall be adjusted annually pursuant to the COPAS form entitled "Accounting Procedure-Joint Operations."

72. No later than within ninety (90) days after Read submits a Form C-105 for a well, Read shall submit to each owner of a Pooled Working Interest an itemized schedule of the reasonable charges for operating and maintaining the well ("Operating Charges"), provided however that Operating Charges shall not include the Reasonable Well Costs or Supervision Charges. The Operating Charges shall be considered final unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Operating Charges after public notice and hearing.

73. Read may withhold the following costs and charges from the share of production due to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs: (a) the proportionate share of the Supervision Charges; and (b) the proportionate share of the Operating Charges.

74. Read may withhold the following costs and charges from the share of production due to each owner of a Non-Consenting Pooled Working Interest: (a) the proportionate share of the Reasonable Well Costs; (b) the proportionate share of the Supervision and Operating Charges; and (c) the percentage of the Reasonable Well Costs specified as the charge for risk described in Exhibit A.

75. Read shall distribute a proportionate share of the costs and charges withheld pursuant to the preceding paragraph to each Pooled Working Interest that paid its share of the Estimated Well Costs.

76. Each year on the anniversary of this Order, and no later than ninety (90) days after each payout, Read shall provide to each owner of a Non-Consenting Pooled Working Interest a schedule of the revenue attributable to a well and the Supervision and Operating Costs charged against that revenue.

77. Any cost or charge that is paid out of production shall be withheld only from the share due to an owner of a Pooled Working Interest. No cost or charge shall be withheld from the share due to an owner of a royalty interests. For the purpose of this Order, an unleased mineral interest shall consist of a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest.

78. Except as provided above, Read shall hold the revenue attributable to a well that is not disbursed for any reason for the account of the person(s) entitled to the revenue as provided in the Oil and Gas Proceeds Payment Act, NMSA 1978, Sections 70-10-1 *et seq.*, and relinquish such revenue as provided in the Uniform Unclaimed Property Act, NMSA 1978, Sections 7-8A-1 *et seq.*

79. A Unit in the Subject Land shall terminate if (a) the owners of all Pooled Working Interests in that Unit reach a voluntary agreement; or (b) the well(s) drilled on the Unit are plugged and abandoned in accordance with the applicable rules. Read shall inform OCD no later than thirty (30) days after such occurrence.

80. OCD retains jurisdiction of this matter for the entry of such orders as may be deemed necessary.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Date: 4/1/2025

GERASIMOS RAZATOS
DIRECTOR (Acting)
GR/jag

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

APPLICATIONS OF CIMAREX ENERGY CO.
FOR A HORIZONAL SPACING UNIT
AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

Case Nos. 23448 – 23455

APPLICATIONS OF CIMAREX ENERGY CO.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

Case Nos. 23594 – 23601

APPLICATIONS OF READ & STEVENS, INC.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

Case Nos. 23508 – 23523

MOTION TO CONTINUE HEARING

Cimarex Energy Co., ("Cimarex"), through its undersigned attorneys, files this Motion to continue the hearing scheduled for Thursday, July 20, 2023, and instead hold a status conference to consider a number of unresolved procedural and substantive issues and to set appropriate dates for a pre-hearing conference and final hearing on the merits. In support of its Motion, Cimarex submits the following:

1. There are three reasons why the Oil Conservation Division (the "Division") should continue the hearing, each of which standing alone provide sufficient basis for a continuance.

2. First, the Division will have to wade through 32 cases that involve significant novel technical and legal issues as illustrated by the fact that the Read & Stevens, Inc.'s ("Reed & Stevens") hearing packet consists of 484 pages while Cimarex's three hearing packets organized by related cases and formations consists of 683 pages. In addition, Cimarex is filing objections

EXHIBIT 2

to approximately 7 Exhibits, including both testimony and slides, as well as submitting approximately 5 rebuttal exhibits.

3. Thus, additional time would allow the parties adequate preparation to present their respective cases in a more streamlined manner and to conduct efficient cross-examination of the opposing party's witnesses.

4. Second, among the technical and legal issues the Division must address is whether it should consider the unique geological feature found in the subject lands – the lack of a baffle between the 3rd Bone Spring and the Upper Wolfcamp that will inevitably lead to drainage regardless of whether the Division approves Cimarex's development plan or the co-development plan proposed by Read & Stevens. Thus, the Division should be fully informed of all the major issues and details prior to the hearing that will form the prerequisites for determining how to best protect correlative rights and prevent drainage and damage to the reservoir.

5. There are at least three options for addressing the effects of this geological feature:

Option/Question 1:

Whether the pooling and drilling of only the Bone Spring, in particular the 3rd Bone Spring Sand, is the best Option based on the fact that is there is no baffle between the 3rd Bone Spring Sand and the Upper Wolfcamp. The Division has previously pooled the Bone Spring in other units in the surrounding area where there is no baffle and, by doing so, implicitly defined all production from the pooled Bone Spring unit to properly account for the Bone Spring rights without addressing any consideration of the Wolfcamp rights. Does this policy still apply in the present cases, and consequently, is the pooling and development of only the Bone Spring in accordance with past and existing practice and policy sufficient to protect existing correlative rights, especially considering that the pooling and drilling of the Upper Wolfcamp does not result in any addition to the EUR and production.

Option/Question 2:

Because there is no baffle between the 3rd Bone Spring Sand and the Upper Wolfcamp, meaning that drilling and producing the 3rd Bone Spring Sand will likely result in some drainage from the Upper Wolfcamp, an Operator should propose a formula of allocation between the 3rd Bone Spring and the Upper Wolfcamp to

protect correlative right based on the best estimate of what percentage would be produced from the 3rd Bone Spring, which appears to contribute approximately 74% of the production and what percentage would be produced from the Upper Wolf Camp, which appears to contribute approximately 26%. In this situation, should the Division impose a vertical setback to protect the correlative rights of the Upper Wolfcamp?

Option/Question 3:

Whether to drill the Upper Wolfcamp wells, at extra cost and expense, based solely on the convention of designating a division between 3rd Bone Spring Sand and Upper Wolfcamp, when such designated division does not accurately reflect the actual location, dynamics, and geology of the primary reservoir, and when the additional Upper Wolfcamp wells do not add to the EUR. The complexities of the geology should be thoroughly reviewed.

6. Given the large number of cases and therefore the length of time -- likely several days if not more – to cover all the exhibits, data, and novel issues involved with these cases, including their unique geology, Cimarex respectfully submits that it would be more efficient and the best procedural path, allowing the Division to better organize and digest these cases, if the Division granted a Pre-hearing conference pursuant to NMAC 19.15.4.16(B). At the Pre-hearing Conference, the parties could present their arguments to inform the Division of the significance and consequences of each option above described. As a result of such a conference, the Division will have a better understanding of what options are available and will be able to choose the best option after considering the evidence presented at the final hearing on the merits. The Division could also make specific determinations and rulings at the Pre-hearing conference that will expedite and facilitate the final hearing, such as a review and consideration of Cimarex's "Motion for and Order to Prohibit the Drilling of Wells in the Upper Wolfcamp in Order to Protect Correlative Rights and Optimize Production of the Subject Lands," a motion previously submitted but which remains outstanding.

7. Third, in support of their four cases seeking to co-develop the Wolfcamp Formation

(Case Nos. 23520-23) with the 3rd Bone Spring Sand, Read & Stevens relies on non-public production data for its Batman wells for the first forty (40) days of production. *See* Read & Stevens Exhibit F (Self-Affirmed Statement of John Fechtel, Reservoir Engineer) and Exhibits F-4 and F-8. Notwithstanding the fact that the first forty days of production from a horizontal well is an insufficient basis on which to project long term success of these wells and the co-development plan that Reid & Stevens is proposing herein, Cimarex cannot effectively cross-examine Mr. Fechtel and test the *bona fides* and reliability of this short-term production history because this production data is non-public. For example, without knowing the tubing pressure, choke settings, and Hz setting, which Read & Stevens failed to provide, Cimarex cannot prepare a well-informed challenge to the production data set forth in Exhibits F-4 and F-8. Thus, it is necessary, and Cimarex is entitled, to undertake discovery regarding non-public production data that Read & Stevens is relying upon to support its plan to co-develop the Upper Wolfcamp with the 3rd Bone Spring.

8. The difficulty and inability of the Applicants being able to provide the parties and the Division all the necessary data for proper evaluation of the competing development plans in a timely manner prior to the date of the hearing is clearly illustrated by the Applicants' inability to meet the deadlines prescribed in the Pre-hearing Order. Cimarex, for example, in its effort to meet the 5 p.m., July 13, 2023, submission deadline for the exhibits as specified in the Pre-hearing Order was not able to submit its completed hearing packet until 6:11 p.m. on the day it was due, and Read & Stevens failed to submit a completed hearing packet on the day it was due, finally submitting its completed hearing packet the next day, July 14, 2023, at 12:17 p.m. Such lack of timeliness demonstrates just what kind of behemoth of data and information the parties and the Division are required to review, manage, and digest in these cases.

9. And today, July 17, 2023, four days after the completed hearing packets were due, and just two days before the hearing, Cimarex has been informed that Read & Stevens' hearing packet is still not complete as it includes wrong exhibits and/or data for its exhibits covering the Verna Ray wells, for which Read & Stevens will be submitting updated and revised data and/or exhibits sometime on July 18, 2023, depriving Cimarex and other parties of a complete and accurate review of the wells and exhibits until the last day or so before the hearing under rushed conditions.

10. Cimarex is tolerant of missed deadlines and incomplete exhibits and is willing to work with parties to ensure items are in order and complete in order to have a proper hearing on the merits, but Cimarex respectfully submits that the difficulties and failures the Applicants have had in these 32 cases to provide the parties and Division with a proper review, and the inability of the parties to obtain a proper and timely review due to these difficulties and failures, demonstrates clearly that this hearing has been rushed and that the large amounts of information and data, and the number of resolved issues, fully warrant and require a continuance.

11. Finally, and perhaps most importantly, the Division will likely encounter in future cases the novel issues presented in these 32 cases which concern unaccounted for communication between formations that have no baffle, unauthorized vertical drainage and capture of product owned in adjacent formations in violation of correlative rights, the need for a vertical setback, and likely damage to the reservoir and overall production. Being informed of these matters during a pre-hearing conference would benefit the Division, and what further necessitates additional consideration pursuant to a pre-hearing conference in these particular matters is the differences in costs that are at stake between the two competing development plans. Read & Stevens proposes a plan that costs $130 million more than Cimarex's plan for developing the Bone Spring formation,

and if that does not create serious sticker shock, Read & Stevens plan costs an additional $95 million for drilling the Upper Wolfcamp, which as shown by Cimarex would not add anything to the EUR and production. Such astronomical costs create a huge and unjustified amount of financial waste and enormous burden on the working interest owners, and Cimarex submits that the Division should proceed cautiously and with the benefit of being fully informed prior to making a ruling involving such financial magnitude.

12. Thus, for the reasons set forth above, Cimarex requests that the Division continue the hearing of the above-referenced cases scheduled for July 20, 2023, and instead hold a status conference during which time Cimarex requests that dates be set for a pre-hearing conference and for the final hearing on the merits.

Respectfully submitted,

ABADIE& SCHILL, PC

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed with the New Mexico Oil Conservation Division and was served on counsel of record via electronic mail on July 17, 2023:

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/s/ Darin C. Savage

Darin C. Savage

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

IN THE MATTER OF APPLICATION FOR COMPULSORY POOLING SUBMITTED BY CIMAREX ENERGY COMPANY	**CASE NOs. 23448 - 23455**
IN THE MATTER OF APPLICATION FOR COMPULSORY POOLING SUBMITTED BY CIMAREX ENERGY COMPANY	**CASE NOs. 23594 - 23601**
IN THE MATTER OF APPLICATION FOR COMPULSORY POOLING SUBMITTED BY READ & STEVENS, INC	**CASE NOs. 23508 - 23523**
	ORDER NO. R-23089

ORDER

The Director of the New Mexico Oil Conservation Division ("OCD"), having heard this matter through legal and technical Hearing Examiners on August 9, 2023, through August 11, 2023, and after considering the administrative record including the sworn testimony, evidence, and recommendations of the Hearing Examiners, issues the following Order.

FINDINGS OF FACT

1. Cimarex Energy Company ("Cimarex") submitted a total of sixteen applications ("Cimarex Applications") to compulsory pool the uncommitted oil and gas interests within the spacing unit as seen in Cimarex' exhibits.

2. Read & Stevens, Inc. ("Read & Stevens") submitted a total of sixteen applications ("Read & Stevens Applications") to compulsory pool the uncommitted oil and gas interests within the spacing unit as seen in Read & Stevens' exhibits.

3. Both parties are proposing to develop Sections 5 and 8, Township 20 South, Range 34 East. Cimarex' plan for these lands is named "Mighty Pheasant" and Read & Stevens' plan is named "Joker." Both parties are also proposing to develop Sections 4 and 9, Township 20 South, Range 34 East. Cimarex' plan for these lands is named "Loosey Goosey" and Read & Stevens' plan is named "Bane.".

4. Cimarex' applications proposed drilling twelve wells per section with all twelve wells being distributed between the Bone Spring formation intervals.

5. Read & Stevens' applications proposed drilling twenty-four wells per section with those twenty-four wells being distributed between the Bone Springs formation and the Wolfcamp formation intervals.

EXHIBIT 3

6. The lands proposed for drilling by both parties lacks natural barriers that would prevent communication between the Third Bone Spring Sand and Upper Wolfcamp, thereby creating a single reservoir or common source of supply located predominantly in the Third Bone Spring Sand.

7. Cimarex' geologist Staci Mueller affidavit testimony paragraph twelve states:

> *There are no indications of any major geomechanical changes/frac baffles in between Cimarex's 3rd Sand target and Permian Resources' Wolfcamp Sands target, indicating that these two intervals are most likely one shared reservoir tank.*

8. Read & Stevens' Reservoir Engineer John Fechtel testified that:

> *The – both wells developed in the third bone sand and the wells developed in the XY will share – have some resources from either formation."*
>
> *(See Tr. (DD 8-10-23) 181: 2-4)*

9. Read & Stevens' Geologist Ira Bradford was questioned about the substantial communication issues and testified:

> *Q: So, Mr. Bradford, you talked a little bit about that you do agree with Ms. Mueller that there is substantial communication between the third Bone Spring and the upper Wolfcamp; is that correct?*
>
> *A: Yes.*
>
> *(See* Tr. (DD 8-10-23) 206: 11-1)

10. Cimarex and Read & Stevens both acknowledged that wells completed in the Bone Spring and Wolfcamp formations will share production from both the Bone Spring and Wolfcamp formations.

11. Neither Cimarex nor Read & Stevens requested in their applications or at hearing the creation of a special pool to accommodate the communication of the Bone Springs and Wolfcamp formations such that there is a common supply.

12. Neither applicant requested a special pool order accounting for the common source of supply, or provided notice of a special pool request.

CONCLUSIONS OF LAW

13. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.

14. A "Pool" is defined as "an underground reservoir containing a common accumulation of oil or gas. Each zone of a general structure, which zone is completely separated from other zones in the structure, is covered by the word pool as used in 19.15.2 NMAC through 19.15.39 NMAC. "Pool" is synonymous with "common source of supply" and with "common reservoir." 19.15.2.7.P(5) NMAC.

15. NMSA 1978, Section 70-2-12 B of the Oil and Gas Act requires OCD:

(2) to prevent crude petroleum oil, natural gas or water from escaping from strata in which it is found into other strata;

(7) to require wells to be drilled, operated and produced in such manner as to prevent injury to neighboring leases or properties;

(12) to determine the limits of any pool producing crude petroleum oil or natural gas or both and from time to time redetermine the limits;

16. 19.15.16.9 NMAC requires that during the drilling of an oil well, injection well or other service well, the operator shall seal and separate the oil, gas and water strata above the producing or injection horizon to prevent their contents from passing into other strata.

17. 19.15.12.9 NMAC requires that an operator shall produce each pool as a single common source of supply and complete, case, maintain and operate wells in the pool so as to prevent communication within the well bore with other pools. An operator shall at all times segregate oil or gas produced from each pool. The combination commingling of production, before marketing, with production from other pools without division approval is prohibited.

18. OCD has the authority to create special pool orders when required pursuant to 19.15.2.9 NMAC, when proper notice has been satisfied.

19. The evidence currently in the record before OCD indicates that Read & Stevens' and Cimarex' proposals would lead to either impairment of correlative rights or illegal allocation. Both parties testify that their production would extend outside of their respective pools and impact other pools, as such both requests extend outside of a standard compulsory pooling request.

20. Neither application can be approved while remaining in compliance with OCD rules and regulations that require pool segregation, prevent waste and protect correlative rights.

ORDER

21. OCD hereby denies both applications except insofar as either applicant or both applicants choose to propose a special pool, a Wolfbone pool, that would account for the lack of frac baffles between the Bone Spring and Wolfcamp formations in

this area. The record is left open for such a proposal and will prompt a reopening of the hearing record on both applications.

22. It is not necessary for the parties to repeat the testimony or resubmit the exhibits regarding their original proposed plans; they may refer to existing evidence to the extent needed to justify the special pool request.

23. OCD retains jurisdiction of this matter for the entry of such orders as may be deemed necessary.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Date: 4/8/24

DYLAN M FUGE
DIRECTOR (Acting)
DMF/jag

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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION FOR THE PURPOSE OF CONSIDERING:

DE NOVO
CASE NO. 11666
CASE NO. 11677
Order No. R-10731-B

APPLICATION OF KCS MEDALLION RESOURCES, INC. (FORMERLY INTERCOAST OIL AND GAS COMPANY) FOR COMPULSORY POOLING AND UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.

APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 13, 1997, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission."

NOW, on this 28th day of February, 1997, the Commission, a quorum being present, having considered the testimony, the record, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

EXHIBIT 4

(2) Case Nos. 11666 and 11677 were consolidated at the time of the hearing for the purpose of testimony, and, inasmuch as approval of one application would necessarily require denial of the other, one order should be entered for both cases.

(3) The applicant in Case No. 11666, KCS Medallion Resources, Inc. ("Medallion") formerly known as InterCoast Oil and Gas Company, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool. Said unit is to be dedicated to the applicant's proposed State of New Mexico "20" Well No. 1 to be drilled at an unorthodox gas well location 990 feet from the North and East lines (Unit A) of Section 20.

(4) The applicant in Case No. 11677, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool. Said unit is to be dedicated to the applicant's proposed Stonewall "AQK" State Com Well No. 1 to be drilled at an unorthodox gas well location 990 feet from the North and East lines (Unit A) of Section 20.

(5) The subject wells and proration unit are located within the Burton Flat-Morrow Gas Pool and within one mile of the West Burton Flat-Atoka Gas Pool, both of which are currently governed by Rule No. 104.C. of the Division Rules and Regulations which require standard 320-acre gas spacing and proration units with wells to be located no closer than 1650 feet from the end boundary nor closer than 660 feet from the side boundary of the proration unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary.

(6) Both Yates and Medallion have the right to drill within the proposed spacing unit and both seek to be named operator of their respective wells and the subject proration unit.

(7) Yates and Medallion have conducted negotiations prior to the hearing but have been unable to reach a voluntary agreement as to which company will drill and operate the well within the spacing unit.

(8) According to evidence and testimony presented by both parties, the primary objective within the wellbore is the Morrow formation with other formations comprising secondary objectives.

(9) Both Yates and Medallion are in agreement that the well which will ultimately develop the subject proration unit should be located at the unorthodox gas well location requested by both parties. In support of this request, both parties presented geologic evidence and testimony at the Examiner hearing which indicates that a well at the proposed unorthodox location should penetrate the Upper and Lower Morrow sand intervals in an area of greater net sand thickness than a well drilled at a standard gas well location thereon, thereby increasing the likelihood of obtaining commercial gas production. Since both parties agreed on the proposed location, prospect geology, as it relates to the proposed well location, should not be a factor in deciding this case.

(10) Oxy U.S.A. Inc., the affected offset operator to the north of the proposed location, did not appear at the hearing in opposition or otherwise object to the proposed unorthodox gas well location. No other offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox gas well location.

(11) Approval of the proposed unorthodox gas well location will afford the operator within the E/2 of Section 20 the opportunity to produce its just and equitable share of the gas in the Burton Flat-Morrow Gas Pool, prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and otherwise prevent waste and protect correlative rights.

(12) Both Yates and Medallion submitted AFE's for the drilling of their respective wells within the subject spacing unit. The AFE's are not substantially different and should not be a factor in deciding these cases.

(13) The overhead rates proposed by Yates and Medallion are not substantially different and also should not be a factor in deciding these cases.

(14) Both parties proposed that a risk penalty of 200 percent be assessed against those interest owners who do not participate in the drilling of a well within the subject spacing unit.

(15) A brief description of the chronology of events leading up to the hearing in these cases is summarized as follows:

By letter dated August 30, 1996, Medallion sought a farmout from Yates in Section 20 in order to drill an 11,250 foot Morrow test at a location 990 feet from the North and East lines (Unit A). The proposal did not specify which spacing unit will be utilized;

September 17, 1996--By phone conversation Yates informed Medallion of its desire not to farmout the subject acreage;

September 26, 1996--Medallion filed compulsory pooling application seeking a N/2 spacing unit in Section 20 for a well to be drilled in Unit A. Yates received notice of Medallion's compulsory pooling application on September 30, 1996. A hearing was set for October 17, 1996;

By letter dated October 1, 1996, complete with operating agreement and AFE, Medallion formally proposed the drilling of its well in Unit A of Section 20. Yates received Medallion's letter October 9, 1996. Medallion's hearing was postponed until November 7, 1996, to allow Yates the opportunity to review the proposal;

October 24, 1996--Yates informed Medallion that it preferred a different well location in the N/2 of Section 20;

By letter dated October 29, 1996, complete with operating agreement and AFE, Yates proposed the drilling of the Stonewall "DD" State Com Well No. 3 at a location 990 feet from the North and West lines (Unit D) of Section 20 to the interest owners in the Stonewall Unit. The proposed spacing unit was the N/2. By letter dated October 31, 1996, Yates made the same proposal to Medallion;

November 7, 1996--Yates and Medallion met in Artesia to discuss development of Section 20. Each company insisted on drilling its respective well location. Both companies agreed that developing Section 20 with stand-up E/2 and W/2 spacing units would allow both wells to be drilled and agreed to pursue management approval of this option;

By letter dated November 11, 1996, Medallion formally proposed to drill a well within Unit A (990 feet from the North and East lines) within a stand-up proration unit comprising the E/2 of Section 20;

November 12, 1996--Medallion filed a compulsory pooling application for proposed E/2 spacing unit;

November 13, 1996--By phone conversation, Yates informed Medallion that it agrees to develop Section 20 with stand up proration units but proposed that it be allowed to drill both wells. Medallion responded that it desires to drill and operate the well in the E/2;

By letter dated November 14, 1996, Yates formally proposed the drilling of the Stonewall "DD" State Com Well No. 3 on a W/2 spacing unit to the "Stonewall Unit" interest owners;

By letter dated November 22, 1996, Yates formally proposed to Medallion the drilling of the Stonewall "AQK" State Com Well No. 1 at a location 990 feet from the North and East lines (Unit A) of Section 20. The proposed spacing unit is the E/2;

November 26, 1996--Yates filed an application for the compulsory pooling of the E/2 of Section 20;

December 2-13, 1996--Ongoing discussions between the parties.

December 19, 1996--Competing pooling applications of Yates in Case 11677 and Medallion in Case 11666 came up for hearing before Division Examiner David R. Catanach.

January 13, 1997--The Division entered Order No. R-10731 granting the application of Medallion and denying the companion application of Yates. Order No. R-10731 pooled the E/2 of Section 20, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, designated Medallion operator of the well, and provided that the well shall be commenced on or before April 15, 1997.

January 21, 1997--Yates filed an Application for Hearing De Novo. At that time the next Commission hearing was scheduled for February 13, 1997.

January 21, 1997--Medallion had obtained an extension of their farmout.

January 24, 1997--Yates requested a Stay of Division Order No. R-10709 to enable it to have the Commission review these competing pooling applications in a de novo hearing prior to Medallion commencing to drill the well. Medallion objected to the stay.

January 31, 1997--The Division Director denied the Stay because, among other things, granting the "Stay" would delay the drilling of the well which would risk the loss of valuable farmout rights. See Order No. R-10731-A.

February 8, 1997--Medallion moved a drilling rig on location and commenced drilling State of New Mexico "20" Well No. 1.

(16) Land testimony presented by both parties in this case, which is generally in agreement, indicates that:

a) 100 percent of the SE/4 and 5 percent of the NE/4 of Section 20 are subject to an existing unit agreement, the Stonewall Unit Agreement, in which Yates is the operator;

b) Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., (the "Yates Group") collectively own 37.7 percent of the proposed spacing unit. In addition, Yates testified that by virtue of the Stonewall Unit Agreement, it controls an additional 14.765 percent of the proposed spacing unit;

c) the 95 percent working interest in the NE/4 of Section 20 which is not subject to the Stonewall Unit Agreement is owned approximately as follows:

Kerr-McGee Corporation----------48 percent
Diamond Head Properties, L.P.-------47 percent

d) by virtue of a farmout agreement with Kerr-McGee Corporation, Medallion will "earn" approximately 24.101 percent of the proposed spacing unit. Under the terms of the farmout agreement, a well must be commenced by February 17, 1997, or the farmout agreement will expire. Land testimony by Medallion further indicates that the subject farmout agreement will remain in effect even if Yates is named operator of the well and unit, provided however, such well must be commenced by the drilling deadline described above.

(17) Diamond Head Properties, L.P. submitted correspondence to the Division in these cases on December 12, 1996, in which it stated that it will remain neutral as to its preference of operator and that it will most likely join in the drilling of the well in the E/2 of Section 20 regardless of who operates.

(18) Interest ownership within the spacing unit is summarized as follows:

Yates Petroleum Corporation	19.635%
Yates Drilling Company	7.742%
Abo Petroleum Corporation	2.581%
Myco Industries, Inc.	7.742%
Stonewall Unit Owners (Other than the Yates Group)	14.765%
Medallion	24.101%
Diamond Head Properties, L.P.	23.416%

(19) Yates and the Yates Group own approximately 19.635 percent and 37.7 percent, respectively, within the spacing unit. Medallion, by virtue of the farmout agreement with Kerr McGee, will earn 24.101 percent of the spacing unit upon the drilling of a well in the E/2 of Section 20.

(20) Yates testified that if named operator of the subject spacing unit, it will take over the position and contract obligations of Medallion as operator and continue drilling the State of New Mexico "20" Well No. 1 without interruption.

(21) Yates contends it should be allowed to operate the State of New Mexico "20" Well No. 1 and operate the E/2 of Section 20 for the following reasons:

a) collectively, the Yates Group owns a larger percentage of the spacing unit than Medallion--37.7 percent to 24.101 percent;

b) Yates has the support of several of the interest owners in the Stonewall Unit, while Medallion has been unable to secure the support of any of these interest owners;

c) Yates has drilled and operated twenty-one wells in the Stonewall Unit since 1973;

d) the Stonewall Unit area is very complex and as operator, Yates is the most familiar with it and best able to deal with the land, accounting and distribution of production proceeds.

(22) Medallion contends that it is an experienced operator and due to the fact that it took the initiative in developing the prospect and was the moving force in getting the well drilled, it should be allowed to operate its State of New Mexico "20" Well No. 1 and operate the E/2 of Section 20.

(23) An evaluation of the evidence, testimony and information obtained from Division records indicates that:

a) within the Stonewall Unit area, which encompasses all or portions of Sections 19, 20, 29 and 30, Yates has drilled five wells to a depth sufficient to produce the Morrow formation. Most of the drilling and production from the Burton Flat-Morrow Gas Pool within the Stonewall Unit area occurred during the period from approximately 1973 to 1987, and, with the exception of the Stonewall "EP" State Well No. 1, located in Unit N of Section 19, which is currently an active producing well in the Morrow formation, all of the other wells have been plugged and abandoned;

b) even though Yates has had the opportunity to develop the N/2 or E/2 of Section 20 in the Burton Flat-Morrow Gas Pool since 1973, it apparently chose not to do so until such time as Medallion, on September 3, 1996, sought a farmout of its acreage in Section 20;

c) as a result of the agreement reached with Medallion to develop Section 20 with stand-up proration units, Yates will have the opportunity to develop the W/2 of this section by drilling its Stonewall "DD" State Com Well No. 3 in Unit D;

d) there is a fairly significant difference in interest ownership in the E/2 of Section 20 between the "Yates Group" and Medallion with Medallion controlling 24.1% by virtue of its Kerr-McGee farmout and Yates controlling 37.7% by virtue of its relationship with the "Yates Group." The uncommitted acreage as to operational preference is owned by Diamond Head Properties, L.P. which comprises 23.4% of the proration unit and should be credited to the account of Medallion for purposes of deciding the party controlling majority interest. It was because of the efforts of Medallion that this acreage will be participating in the well that is being drilled. Yates on the other hand should be credited with the Stonewall Unit's 14.8% of the spacing unit because they are operators of that unit and have the support of the majority of interest owners in the unit. Incorporating these two credits the breakdown of proration unit control is as follows: Medallion 47.5% and Yates 52.5%;

e) the controlling percentage under a 160 or 40 acre proration unit would be different from the controlling percentage under the subject 320 acre unit. If the State of New Mexico "20" Well No. 1 was completed from the Delaware, Bone Spring or Strawn formation the resultant proration unit would probably be 40 or 160 acres depending upon whether it is an oil or Permian gas completion. Paying interest for these completions would be different than paying interest under the 320 acre proration unit and would reflect acreage ownership under the assigned 40 or 160 acres. In analyzing which parties have the most at stake in drilling the well, additional weight must be given to secondary objectives and the resultant ownership under those prospective proration units. The breakdown of interest under 40 or 160 acre proration units under the currently drilling State of New Mexico "20" Well No. 1 is as follows: Yates (Stonewall Unit) 5% and Medallion 95%;

f) the most important consideration in awarding operations to competing interest owners is geologic evidence as it relates to well location and recovery of oil and gas and associated risk. Since Yates and Medallion agree on geology and location, this is not a factor;

g) good faith negotiation prior to force pooling is a factor. If the force pooling party does not negotiate in good faith, the application is denied and the applicant is instructed to try to negotiate an agreement prior to refiling the force pooling application. Both Yates and Medallion conducted adequate discussions prior to filing competing force pooling applications, so this is not a factor in awarding operations;

h) both parties stipulated that 200% was the appropriate risk factor for non-consulting working interest owners pooled under this order so this is not a factor in awarding operations;

i) both parties are capable of operating the property prudently so this is not a factor in awarding operations;

j) differences in AFE's (well cost estimates) and other operational criteria are not significant factors in awarding operations and have only minor significance in evaluating an operator's ability to prudently operate the property.

(24) In the absence of compelling factors such as geologic and prospect differences, ability to operate prudently, or any reason why one operator would economically recover more oil or gas by virtue of being awarded operations than the other, "working interest control," as defined and modified by findings 23 (d), and (e) should be the controlling factor in awarding operations.

(25) Since the adjusted "working interest control" under the proration unit was relatively even, Medallion 47.5% to Yates 52.5%, the fact that Medallion would have 95% of the "working interest control" over completions in all formations spaced on 40 or 160 acres should be the critical factor in deciding who operates the State of New Mexico "20" Well No. 1 and the proposed spacing unit.

(26) Medallion should be designated operator of the State of New Mexico "20" Well No. 1 and the proposed spacing unit.

(27) The application of Yates Petroleum Corporation in this case should be denied.

(28) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the application of Medallion Resources, Inc. should be approved by pooling all mineral interests, whatever they may be, within the E/2 of Section 20.

(29) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(30) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(31) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(32) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(33) $5819.00 per month while drilling and $564.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(34) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(35) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before April 15, 1997, the order pooling said unit should become null and void and of no effect whatsoever.

(36) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, the portion of the order concerning the compulsory pooling of the subject proration unit shall thereafter be of no further effect.

(37) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation in Case No. 11677 for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool, said unit to be dedicated to the applicant's proposed Stonewall "AQK" State Com Well No. 1 to be drilled at an unorthodox gas well location 990 feet from the North and East lines (Unit A) of Section 20, is hereby denied.

(2) The application of Medallion in Case No. 11666 for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool, said unit to be dedicated to the applicant's proposed Medallion State of New Mexico "20" Well No. 1 to be drilled at an unorthodox gas well location 990 feet from the North and East lines (Unit A) of Section 20, is hereby approved.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of April, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of April, 1997, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) KCS Medallion Resources, Inc. is hereby designated the operator of the State of New Mexico "20" Well No. 1 and subject proration unit.

(3) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Since the State of New Mexico "20" Well No. 1 is currently drilling the election time to participate is extended to March 7, 1997

(4) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(5) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(6) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs by March 7, 1997.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs by March 7, 1997.

(7) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(8) $5819.00 per month while drilling and $564.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(9) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(10) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(11) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(12) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, the portion of the order concerning the compulsory pooling of the subject proration unit shall thereafter be of no further effect.

(13) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(14) Jurisdiction is hereby retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JAMI BAILEY, Member

WILLIAM W. WEISS, Member

WILLIAM J. LEMAY, Chairman

S E A L

YATES PETROLEUM CORPORATION
105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE NO: 96-287-0
AFE DATE: 11/14/96

AFE Type:		Well Objective:		Well Type:		AFE STATUS:	
X	New Drilling		Oil		Development	X	Original
	Recompletion	X	Gas	X	Exploratory		Revised
			Injector				Final

LEASE NAME	Stonewall AQK St. Com. #1	PROJ'D DEPTH	11,500'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	990' FNL & 990' FEL	LOCATION	Section 20-20S-28E
FIELD		HORIZON	Morrow

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS:

			DRY HOLE	COMP'D WELL
INTANGIBLE DRILLING COSTS:				
920-100	Staking, Permit & Legal Fees		500	500
920-110	Location, Right-of-Way		15,000	15,000
920-120	Drilling, Footage	11,500' @ $18.75/ft.	228,600	228,600
920-130	Drilling, Daywork	6 days @ $5200/day	33,000	33,000
920-140	Drilling Water, Fasline Rental		16,000	16,000
920-150	Drilling Mud & Additives		35,200	35,200
920-160	Mud Logging Unit, Sample Bags		13,000	13,000
920-170	Cementing - Surface Casing		32,100	32,100
920-180	Drill Stem Testing, OHT	3 DST'S	15,000	15,000
920-190	Electric Logs & Tape Copies		31,500	31,500
920-200	Tools & Equip. Rntl., Trkg. & Welding		15,200	15,200
920-210	Supervision & Overhead		16,200	16,200
920-220	Contingency			
920-230	Coring, Tools & Service			
920-240	Bits, Tool & Supplies Purchase			2,500
920-350	Cementing - Production Casing			36,500
920-410	Completion Unit - Swabbing			11,700
920-420	Water for Completion			4,600
920-430	Mud & Additives for Completion			
920-440	Cementing - Completion			
920-450	Elec. Logs, Testing, Etc. - Completion			12,000
920-460	Tools & Equip. Rental, Etc. - Completion			16,700
920-470	Stimulation for Completion			50,000
920-480	Supervision & O/H - Completion			6,000
920-490	Additional LOC Charges - Completion			1,200
920-510	Bits, Tools & Supplies - Completion			1,800
920-500	Contingency for Completion			
	TOTAL INTANGIBLE DRILLING COSTS		451,300	594,300
TANGIBLE EQUIPMENT COSTS:				
930-010	Christmas Tree & Wellhead		2,000	26,000
930-020	Casing	13-3/8" @ 600'	10,800	10,800
		8-5/8" @ 3000'	38,200	38,200
		5-1/2" @ 11,500'		98,600
930-030	Tubing	2-7/8" @ 11,300'		36,000
930-040	Packer & Special Equipment			
940-010	Pumping Equipment			
940-020	Storage Facilities			15,000
940-030	Separation Equip., Flowlines, Misc.			28,000
940-040	Trucking & Construction Costs			14,600
	TOTAL TANGIBLE EQUIPMENT COSTS		51,000	267,200
TOTAL COSTS			502,300	861,500

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	Al Springer	Operations Approval	

YATES PETROLEUM CORPORATION	17.433008%
YATES DRILLING COMPANY	7.741985
BY _____ DATE	
ABO PETROLEUM CORPORATION	2.580662
BY	
MYCO INDUSTRIES, INC.	7.741985
BY	
UNIT PETROLEUM COMPANY	8.828676

BEFORE THE
OIL CONSERVATION COMMISSION
Case No.11677 Exhibit No. 4
Submitted By:
Yates Petroleum Company
Hearing Date: February 13, 1997

INTERCOAST OIL AND GAS COMPANY

AUTHORIZATION FOR EXPENDITURES

Description of Work: Footage Drill, Log,DST, complete and equip a single zone Morrow Sand gas well

Date 12/17/96

Prospect	Angell Ranch			AFE No.	
Lease	To Be Determined	Well No.	1	Twp 20S	Range 28E
Location	990' FNL-990' FEL	Section	20	State	New Mexico
Field	Atoka Morrow	County	Eddy	Sec. Obj.	
Well TD	11250'	Prim. Obj.	Morrow		

INTANGIBLE COSTS	Before Csg Point BCP-820	After Csg Point ACP-840	Total
.01 Location/Damage Payment	4,500		4,500
.02 Location Construction	17,500	1,500	19,000
.03 Contracted Equipment	0	0	0
.04 Rotary Rig. MI, RU, RD, MO	0	0	0
.05 Rotary Rig: Daywork	11,000	11,000	22,000
.06 Rotary Rig: Footage	210,950	0	210,950
.07 Fuel	2,000	0	2,000
.08 Drilling Bits	0	0	0
.09 Drilling Fluid	37,500	1,000	38,500
.10 Mud Disposal	3,000	X	3,000
.11 Drill Stem Tests	4,000	X	4,000
.12 Cement and Cementing Service	18,000	12,000	30,000
.13 Casing Crew, Equipment	3,500	3,500	7,000
.14 Logging: Open Hole	9,500	X	9,500
.15 Completion Rig	X	15,000	15,000
.16 Stimulation	X	75,000	75,000
.17 Misc. Pumping Services	0	3,500	3,500
.18 Log & Perf Cased Hole	X	8,000	8,000
.19 Reming	5,000	5,000	10,000
.20 Water/Water Hauling	10,500	6,000	16,500
.21 Hauling/Freight	0	1,000	1,000
.22 Tubular Inspection	1,500	2,500	4,000
.23 Well Testing	1,500	1,000	2,500
.24 Labor: Contract	2,500	2,500	5,000
.25 Company Geologist/Engineer	2,500	0	2,500
.26 Overhead	3,700	1,000	4,700
.27 Professional Services	17,500	6,000	23,500
.28 Insurance	1,700	0	1,700
.29 Miscellaneous tax	14,000	7,550	21,550
.30 Contingency	500	0	500
.31 Coiled Tubing Work	0	3,500	3,500
.32 Packer Redress	X		0
Subtotal	$382,350	$166,550	$548,900

Pipeline		PL-880
.01 Tapping Fee	X	
.02 Purchased Right of Way	X	
.03 Damage Payments	X	
.04 Right of Way Acquisition	X	
.05 Permits	X	
.06 Freight	X	
.07 PL & Meter Sta. Construction	X	
.08 Surveying and Drafting	X	
.09 Field Construction Sup.	X	
.10 Misc. and Contingency	X	
Subtotal		
TOTAL INTANGIBLE COSTS	$382,350	$166,550	$548,900

TANGIBLE COSTS	Before Csg Point BCP-830	After Csg Point ACP-850	Total
.01 Cattle Guards & Fencing	0	0	0
.02 Csg: Cond.	0	X	0
.03 Csg: Surface 500' 13-3/8" 48# H-40	8,125	X	8,125
.04 Csg: Intermediate 3000' 8-5/8" 32#	30,500	X	30,500
.05 Csg: Production 4-1/2" @ 11250'	X	56,900	56,900
.06 Float Equip, Centrlzrs, etc.		2,000	2,000
.07 Well Head	8,800	11,500	20,300
.08 Tubing 2-3/8", 4.7#, N-80	X	26,700	26,700
.09 Pump Unit	X	0	0
.10 Motor/Engine	X		0
.11 Rods & Pump	X	0	0
.12 Pkr & Sub-surface Equip.	X	10,000	10,000
.13 Tanks	X	6,000	6,000
.14 Separator/Production Unit	X	8,000	8,000
.15 Heater Treater/Dehydrator	X	8,000	8,000
.16 Fittings & Small Pipe	X	12,500	12,500
.17 Other Equipment	0	0	0
.18 Installation Costs	X	12,500	12,500
.19 Miscellaneous			
.20 Contingency			
Subtotal	$47,425	$154,100	$201,525

Pipeline		PL-880	
.01 Line Pipe	X	25,000	25,000
.02 Metering Equipment	X	0	
.03 Meter Sta. Valves, Fittings	X	0	
Subtotal		$25,000	$25,000
TOTAL TANGIBLE COSTS	$47,425	$179,100	$226,525

TOTAL WELL COSTS	$429,775	$345,650	$775,425

Total Well Cost to Casing Point		$429,775
Plugging Cost		$15,000
Total Dry & Abandonment Cost		$444,775
Total Cost Through Evaluation of Zone of Interest		$693,425
Prepared By:	LCF/TLR	
Estimated Spud Date		
InterCoast WIO %		
InterCoast Net Expenditure		$0
Supplement No.		
Original AFE Amount		
Amount This Supplement		
Revised Total		

INTERCOAST OIL AND GAS COMPANY APPROVED

By: Date:

By: Date:

By: Date:

NEW MEXICO OIL CONSERVATION DIVISION

EXHIBIT 2

CASE NO. 11666

[illegible] APPROVED

Company Name: InterCoast

By: Date:

Name:

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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATIONS OF CIMAREX ENERGY CO. FOR A HORIZONTAL SPACING UNIT AND COMPULSORY POOLING LEA COUNTY, NEW MEXICO **Case Nos. 23448-23455**

APPLICATIONS OF CIMAREX ENERGY CO. FOR COMPULSORY POOLING , LEA COUNTY, NEW MEXICO **Case Nos. 23594-23601**

APPLICATIONS OF READ & STEVENS, INC. FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO **Case Nos. 23508-23523**

APPLICATION OF READ & STEVENS, INC. FOR THE CREATION OF A SPECIAL WOLFBONE POOL IN SECTIONS 4, 5, 8 AND 9, TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM, LEA COUNTY, NEW MEXICO **Case No. 24528**

APPLICATION OF CIMAREX ENERGY CO. FOR THE CREATION OF A SPECIAL POOL, A WOLFBONE POOL, PURSUANT TO ORDER NO. R-23089 AND TO REOPEN CASE NOS. 23448 – 23455, 23594 – 23601, AND 23508 – 23523, LEA COUNTY, NEW MEXICO

Case No. 24541
Order No. R-23089
Order No. R-23089-A
OCC Case No. 25371

ORDER OF THE COMMISSION GRANTING A STAY OF DIVISION ORDER NO. R-23089-A

THIS MATTER came before the New Mexico Oil Conservation Commission ("Commission") concerning Coterra Energy Operating Co.'s Motion to Stay Division Order No. R-23089-A filed on May 2, 2025.

EXHIBIT 5

After review of the Motion, the Commission finds that there is good cause to stay Division Order No. R-23089-A pursuant to 19.15.4.23(B) NMAC. The Commission also finds that in order to prevent waste and protect correlative rights and the environment, it is in the best interest of the public and the parties that Division Order No. R-23089-A, and all its provisions, be stayed and that Read & Stevens Inc. and its operator Permian Resources Operating, LLC (collectively "Read") cease any and all action on Division Order R-23089-A. Additionally, the Commission finds that staying Division Order No. R-23089-A will prevent gross negative consequences to Coterra and the public. For the foregoing reasons, the Commission finds that Coterra's Motion to Stay Division Order No. R-23089-A is well taken and is hereby GRANTED.

Division Order No. R-23089-A is now STAYED until this matter is resolved, either by the Commission or *via* settlement agreements between the Parties. The Commission further orders Read to cease any and all action it may have taken to date pursuant to Division Order R-23089-A.

IT IS SO ORDERED.

DONE at Santa Fe, New Mexico, on this ___ day of _____ 2025.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION