

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

**APPLICATION OF STEWARD ENERGY II, LLC
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

CASE NO. 21368

SUGARBERRY OIL & GAS CORPORATION'S PRE-HEARING STATEMENT

Sugarberry Oil & Gas Corporation ("Sugarberry") submits this Pre-Hearing Statement for the above-referenced case pursuant to the rules of the Oil Conservation Division.

APPEARANCES

APPLICANTS

Steward Energy II, LLC

APPLICANT'S ATTORNEY

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OPPONENT

Sugarberry Oil & Gas Corporation

OPPONENT'S ATTORNEY

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STATEMENT OF THE CASE

In this case, Steward Energy II, LLC ("Steward") seeks an order pooling all mineral interests in the San Andres formation in a 320-acre, more or less, proximity tract standard horizontal spacing unit comprised of the E2 of Section 22, Township 13 South, Range 38 East in Lea County, New Mexico (the "Pooled Tract"). According to Steward's Application filed in

this case the Pooled Tract will be dedicated to the Combo Fee #1H well, to be horizontally drilled from a surface location in Unit P in Section 15, Township 13 South, Range 38 East.

Sugarberry is a mineral owner in the E2 of Section 22. Sugarberry’s mineral interest in currently unleased. Steward’s Application recites that Steward “has undertaken diligent, good-faith efforts to obtain voluntary agreements from all mineral interest owners with in the horizontal spacing unit”. NMSA 1978 Section 70-7-6(A)(5) requires that operators applying for compulsory unitization make a “good faith” effort to secure voluntary unitization. Additionally, under NMSA 1978 Section 70-2-18(A), a well operator has an “obligation” to negotiate voluntary agreements with other interest owners to pool their lands. During compulsory pooling proceedings, the Oil Conservation Division (the “Division”) has long permitted inquiries into whether the offers made by operators were “reasonable”. Morris, Richard, *Compulsory Pooling of Oil and Gas Interests in New Mexico*, 3 Nat. Resources J. 316, 318 (1963).

In this case, Steward made an offer (the “Offer”) to lease Sugarberry’s unleased mineral interest in the Pooled Tract. Sugarberry viewed the terms of the Offer made by Steward favorably and was engaged in good-faith negotiations to finalize the leasing of Sugarberry’s interest when Steward withdrew the offer. Steward now refuses to make any additional offers with substantively similar terms as the Offer to Sugarberry. It is Sugarberry’s position that Steward’s withdrawal of its offer during negotiations and refusal to provide additional offers on substantively similar terms does not satisfy the statutory requirement of negotiation in good faith. As a result, approval of Steward’s Application would violate Sugarberry’s correlative rights.

PROPOSED EVIDENCE

<u>OPPONENT’S WITNESSES</u>	<u>EST.TIME</u>	<u>EXHIBITS</u>
Rick Rowe, Land Manager	20 min.	6

PROCEDURAL MATTERS

NONE

CONCLUSION

It is Sugarberry's position that Steward has not undertaken good faith efforts to secure its voluntary agreement to the approval of the Pooled Unit. Sugarberry, therefore, opposes Steward's application and requests that the same be denied or the matter continued pending a resolution between Sugarberry and Steward for the leasing of Sugarberry's mineral interest.

Respectfully submitted,

BURNS, FIGA & WILL, P.C.

By: _____


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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on the following counsel of record by electronic mail on July 30, 2020:

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