

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
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. 23594-2323601

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

Case Nos. 23508-23523

**PRE-HEARING STATEMENT
OF SANDSTONE PROPERTIES, LLC**

Respondent Sandstone Properties, LLC (“Sandstone”), by and through its undersigned attorneys, submits this pre-hearing statement as required by the rules of the Oil Conservation Division (“OCD”).

STATEMENT OF THE CASE

Bane Wells

In Case Nos. 23508 through 23511 Read & Stevens, Inc. (“Read”) seeks an order: (1) pooling all uncommitted interests in the Bone Spring formation underlying various standard 320-acre, more or less, horizontal well spacing units comprised of lands in Section 4 and Section 9, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico as reflected in Read’s applications; and (2) dedicating the spacing units to the following proposed initial wells: (i) the Bane 4-9 Federal Com. 111H, 121H, 122H, 171H, and 131H (Case No. 23508); (ii) the Bane 4-9 Federal Com 112H, 123H, 124H, 172H, 132H (Case No. 23509); (iii) the Bane 4-9 Federal Com

113H and 173H (Case No. 23510); and (iv) the Bane 4-9 Federal Com 114H, 1127H, 128H, 174H, 134H (Case No. 23511).

In Case Nos. 23512 through 23515 Read & Stevens, Inc. (“Read”) seeks an order: (1) pooling all uncommitted interests in the Wolfcamp formation underlying various standard 320-acre, more or less, horizontal well spacing units comprised of lands in Section 4 and Section 9, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico as reflected in Read’s applications; and (2) dedicating the spacing units to the following proposed initial wells: (i) the Bane 4-9 Federal Com 201H well (Case No. 23512); (ii) the Bane 4-9 Federal Com 202H well (Case No. 23513); (iii) the Bane 4-9 Federal Com 203H well (Case No. 23514); and (iv) the Bane 4-9 Federal Com 204H well (Case No. 23515).

Joker Wells

In Case Nos. 23516 through 23519 Read & Stevens, Inc. (“Read”) seeks an order: (1) pooling all uncommitted interests in the Bone Spring formation underlying various standard 320-acre, more or less, horizontal well spacing units comprised of lands in Section 5 and Section 8, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico as reflected in Read’s applications; and (2) dedicating the spacing units to the following proposed initial wells: (i) the Joker 5-8 Federal Com 111H, 121H, 122H, 171H, and 131H (Case No. 23516); (ii) the Joker 5-8 Federal Com 112H, 123H, 124H, 172H, 132H (Case No. 23517); (iii) the Joker 5-8 Federal Com 113H, 125H, 126H, 173H, 133H (Case No. 23518); and (iv) the Joker 5-8 Federal Com 114H, 127H, 128H, 174H, 134H (Case No. 23519).

In Case Nos. 23520 through 23523 Read & Stevens, Inc. (“Read”) seeks an order: (1) pooling all uncommitted interests in the Wolfcamp formation underlying various standard 320-acre, more or less, horizontal well spacing units comprised of lands in Section 5 and Section 8,

Township 20 South, Range 34 East, NMPM, Lea County, New Mexico as reflected in Read's applications; and (2) dedicating the spacing units to the following proposed initial wells: (i) the Joker 5-8 Federal Com 201H well (Case No. 23520); (ii) the Joker 5-8 Federal Com 202H well (Case No. 23521); (iii) the Joker 5-8 Federal Com 203H well (Case No. 23522); and (iv) the Joker 5-8 Federal Com 204H well (Case No. 23523).

Cimarex Applications

Cimarex Energy Co. ("Cimarex") has filed competing applications covering these same lands and formations, which have been assigned Case Nos. 23448 through 23455 and 23594 through 23601.

In each of the above-referenced cases, Sandstone has been noticed as an affected interest owner of working interests in each proposed spacing unit. However, Read and Cimarex have been unable to provide Sandstone with any information confirming what interest Sandstone owns in any of the proposed spacing units. As a result, Sandstone does not oppose these cases but instead is entering these cases in order to preserve its rights and to request that the pooling orders entered by the OCD in these cases include the following:

(1) a provision limiting each Pooled Working Interest owners' responsibility to elect to pay its share of the Estimated Well Costs to no later than thirty (30) days after Operator submits the Estimated Well Costs **and** confirms the title owned by the Pooled Working Interest owner in the well;

(2) a provision providing that, if any Pooled Working Interest owner elects not to sign the JOA but elects to participate under the terms of an NMOCD order, that either said Pooled Working Interest owner cannot be cash called under the terms of the pooling order or that no

Pooled Working Interest owner can be cashed called unless the call occurs no earlier than 90 days prior to the spud date of the well.

NMSA 1978 Section 70-2-17(C) provides that compulsory pooling orders:

Shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the **owner or owners** of each tract or interest in the unit the opportunity to recover or receive **without unnecessary expense** his just and fair share of the oil or gas, or both.

(emphasis added). Inherent in this provision is the notion that compulsory pooling orders only apply to those with actual interests in the lands covered by the order. As a result, a pre-requisite to obtaining a pooling order is establishing who, in fact, are the owners in the relevant tract.

As the Applicants in these cases, Read and Cimarex have the burden of proving that they have fulfilled each of the statutory and regulatory requirements necessary to allow compulsory pooling, including identifying each owner and each owner's actual interest. Additionally, the provisions outlined above requiring that each owner's interest be identified prior to election as well as limiting cash calls to within a reasonable period of time of spud ensures that the "without unnecessary expense" element of Section 70-2-17(C) is satisfied.

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MATERIAL FACTS AND ISSUES

Sandstone does not dispute any material facts put forth by the applicants or oppose the applications. Sandstone simply believes that the OCD should require the Applicants to finalize title with regards to Sandstone's interest before it seeks to pool Sandstone or require Sandstone to participate in any of the proposed wells.

WITNESSES AND EXHIBITS

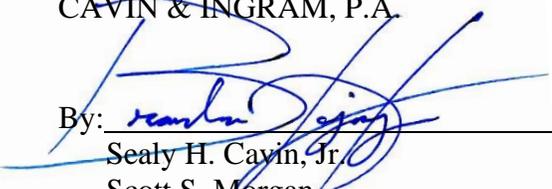
Sandstone does not anticipate calling any witnesses to testify or introducing any exhibits. However, Sandstone reserves the right to call witnesses and introduce exhibits for rebuttal purposes. Additionally, Sandstones reserves the right to cross-examine any witnesses called by any other party in these matters and to object to testimony offered by other parties in these matters.

RESPONDENT’S POSITION ON RELIEF SOUGHT

Respondent Sandstone Properties, LLC does not oppose the issuance of the compulsory pooling relief sought by Read or Cimarex. However, Sandstone believes that the two provisions outlined above to be included in the order are necessary to protect Sandstone’s correlative rights. These provisions will protect Sandstone’s correlative rights; first by saving Sandstone from having to pay money to participate in a well in which it may not own an interest; and second, by preventing Read or Cimarex from cash calling pooled working interest owners, only then to hold that money for a long period of time without using it for its intended purpose – i.e., to drill a well. Money committed by Sandstone to these wells is, necessarily, money that cannot be committed elsewhere. In each instance these provisions work to ensure Sandstone is afforded it’s just and fair share of the oil or gas in the proposed pool without unnecessary expense.

RESPECTFULLY SUBMITTED,

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Certificate of Service

I hereby certify that a true and correct copy of the foregoing was served via e-mail on July 13, 2023 to the following:

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