

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

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

AMENDED APPLICATION OF STEWARD  
ENERGY II, LLC FOR A NONSTANDARD  
OIL SPACING AND PRORATION UNIT,  
COMPULSORY POOLING, AND UNORTHODOX  
WELL LOCATION, LEA COUNTY, NEW MEXICO. CASE NO. 15670

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 13, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, April 13, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
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1 APPEARANCES

2 FOR APPLICANT STEWARD ENERGY II, LLC:

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 6

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1 (8:18 a.m.)

2 EXAMINER McMILLAN: Case Number 15670,  
3 amended application of Steward Energy II, LLC for a  
4 nonstandard oil spacing and proration unit, compulsory  
5 pooling, and an unorthodox well location, Lea County,  
6 New Mexico.

7 Call for appearances.

8 MR. LARSON: Good morning, Mr. Examiner.  
9 Gary Larson, from the Santa Fe office of Hinkle Shanor,  
10 on behalf of Steward Energy II. I have three witnesses.

11 EXAMINER McMILLAN: Are there any other  
12 appearances?

13 If the witnesses would please stand up and  
14 be sworn in at this time.

15 Thank you.

16 (Mr. Warren, Mr. Taylor and Mr. Seals  
17 sworn.)

18 MARK TAYLOR WARREN II,  
19 after having been first duly sworn under oath, was  
20 questioned and testified as follows:

21 MR. LARSON: May I proceed, Mr. Examiner?

22 EXAMINER McMILLAN: Please do.

23 DIRECT EXAMINATION

24 BY MR. LARSON:

25 Q. Good morning, Mr. Warren.

1           A.     Morning.

2           **Q.     State your full name for the record.**

3           A.     Mark Taylor Warren II.

4           **Q.     And where do you reside?**

5           A.     Plano, Texas.

6           **Q.     And by whom are you employed and in what**  
7 **capacity?**

8           A.     Steward Energy, and I'm the land manager.

9           **Q.     And do your responsibilities as the land**  
10 **manager include Steward's acreage in southeast**  
11 **New Mexico?**

12          A.     Yes.

13          **Q.     And are you familiar with the land matters**  
14 **pertaining to Steward's application in this case?**

15          A.     Yes.

16          **Q.     Have you previously testified at a Division**  
17 **hearing?**

18          A.     No.

19          **Q.     And given that, would you summarize for the**  
20 **Examiner your educational background and experience in**  
21 **the oil and gas industry?**

22          A.     I studied at Louisiana State University of  
23 Shreveport. I started my professional career as a  
24 landman in 2004, worked for a few different operators in  
25 North Louisiana, East and West Texas. Prior to Steward,

1 I was president of Ashler [phonetic], a land company.  
2 We provided a full spectrum of services to different  
3 operators across several states.

4 Q. When did you start with Steward?

5 A. November of '16, 2016.

6 Q. Are you a member of any professional  
7 organizations?

8 A. Yes, the American Association of Professional  
9 Landmen.

10 MR. LARSON: Mr. Examiner, I tender  
11 Mr. Warren as an expert in petroleum land matters.

12 EXAMINER McMILLAN: So qualified.

13 Q. (BY MR. LARSON) Would you identify the document  
14 marked as Exhibit Number 1?

15 A. This is the C-102 for the Pollos Hermanos State  
16 Com 5H.

17 Q. And is Pollos Hermanos a "Breaking Bad"  
18 reference?

19 A. All of the wells we're drilling in New Mexico  
20 have the "Breaking Bad" theme.

21 Q. And is Exhibit 1 a true and correct copy of the  
22 C-102 for the Pollos Hermanos State Com #5H?

23 A. Yes, it is.

24 Q. And Steward has filed an amended application in  
25 this case; is that correct?

1           A.     That's correct.

2           Q.     And does the amended application request  
3 approval of an unorthodox location for the 5H well?

4           A.     Yes.

5           Q.     And does the request for an unorthodox location  
6 involve the bottom-hole location for the well?

7           A.     Yes.

8           Q.     And since filing the application, has Steward  
9 changed the bottom-hole location?

10          A.     Yes.

11          Q.     And does the new bottom-hole location comply  
12 with the Division setback requirements?

13          A.     Yes, it does.

14          Q.     And does Exhibit 1 identify that new location?

15          A.     Yes.

16          Q.     And in light of the change location, is Steward  
17 now withdrawing request for approval of an unorthodox  
18 well location?

19          A.     Yes, we are.

20          Q.     And what formation is Steward seeking to pool?

21          A.     San Andreas [sic].

22          Q.     San Andres?

23          A.     San Andres.

24          Q.     And are the pool name and pool code identified  
25 on Exhibit 1?

1 A. Yes.

2 Q. You see there at the top of the C-102?

3 A. Yes. It's 7500, Bronco; San Andres South.

4 Q. And are there any depth exceptions in the San  
5 Andres?

6 A. No.

7 Q. Would you identify the exhibit marked as number  
8 2?

9 A. This is a map of the project area for the  
10 Pollos Hermanos State Com 5H.

11 Q. And did you prepare this exhibit?

12 A. Yes, I did.

13 Q. And does it depict the proposed 400-acre  
14 project area?

15 A. Yes, it does.

16 Q. And is the acreage in the southwest of  
17 Section 3 a state lease?

18 A. Yes, it is.

19 Q. And is Steward the lessee?

20 A. Yes, we are.

21 Q. And does Steward hold 100 percent of that  
22 leasehold interest?

23 A. Yes, we do.

24 Q. And will Steward be submitting a  
25 communitization agreement to the State Land Office?

1           A.    Yes.  We're in the process of having that  
2   prepared.

3           Q.    Is it your understanding that if the amended  
4   application is approved, Steward can't produce the 5H  
5   well until the Commissioner of Public Lands has approved  
6   the communitization agreement?

7           A.    Yes.

8           Q.    And does the state lease have an impending  
9   primary term termination date?

10          A.    Yes, we do.

11          Q.    And what is that date?

12          A.    June 1st of this year, 2017.

13          Q.    And are the other 320 acres of the proposed  
14   project area in the west half of Section 10 all fee  
15   acreage?

16          A.    Yes, they are.

17          Q.    And how many fee leases are there in the west  
18   half of Section 10?

19          A.    34.

20          Q.    And is Steward the lessee of all those leases?

21          A.    Yes, we are.

22          Q.    And are all of the mineral interests in the  
23   west half of 10 undivided interests?

24          A.    Yes.  They are all undivided and uniform  
25   throughout.



1           Q.    Would you next identify the document marked as  
2   Exhibit 3?

3           A.    This is a list of the uncommitted mineral  
4   interests in the west half of Section 10.

5           Q.    And those were uncommitted interests at the  
6   time you proposed the well?

7           A.    That is correct.

8           Q.    And did you create this document that's been  
9   marked as Exhibit 3?

10          A.    I did.

11          Q.    Would you next identify the document marked as  
12   Exhibit 4?

13          A.    This is a sample of an election letter to  
14   participate in the Pollos Hermanos State 5H that was  
15   sent to the uncommitted mineral interests.

16          Q.    All the interests identified on Exhibit 3?

17          A.    That's correct.  Yes.

18          Q.    And it also includes returned green cards?

19          A.    Yes, it does.

20          Q.    And is Exhibit 4 a true and correct copy of the  
21   proposal letters you sent to the uncommitted interests?

22          A.    Yes, it is.

23          Q.    And did you prepare the letter?

24          A.    Yes, I did.

25          Q.    And did you receive returned green cards on all

1     **of your well-proposal letters?**

2           A.    No, we did not.  We received returned green  
3    cards from everyone except for Matthew and Wesley  
4    Schnaubert.

5           Q.    And did you make a good-faith effort to  
6    **locate -- is it Schnaubert or --**

7           A.    Schnaubert.

8           Q.    Did you make a good-faith effort to locate  
9    **them?**

10          A.    We did.  We used a few different people finder  
11    services such as Intelius and PublicData.com, things of  
12    that nature.

13          Q.    And after you sent the well-proposal letters,  
14    **did you communicate with the interest owners who did**  
15    **receive the letters?**

16          A.    Yes, we did.

17          Q.    What was the result of those communications?

18          A.    Everybody elected to participate except for  
19    Owen McWhorter, Jr.

20          Q.    And he affirmatively elected not to  
21    **participate?**

22          A.    That is correct, via his election letter.  It  
23    was returned to us.

24          Q.    And what percentage of the fee acreage in the  
25    **west half of Section 10 does Mr. McWhorter and the**

1     **Schnauberts collectively own?**

2           A.     It's less than 1 percent.

3           **Q.     Would you next identify the document marked as**  
4     **Exhibit 5?**

5           A.     This is a sample letter of notification of  
6     hearing for the Pollos Hermanos State 5H.

7           **Q.     And were the hearing notice letters sent at**  
8     **your direction to all the parties identified on Exhibit**  
9     **2?**

10          A.     Yes, they were.

11          **Q.     And did all of the parties receive the notice**  
12     **letter?**

13          A.     Yes.

14          **Q.     Did Wesley --**

15          A.     Except for the -- except for the Schnauberts.

16          **Q.     Did Wesley Schnaubert --**

17          A.     Correct. We didn't receive the green cards  
18     back.

19          **Q.     But we did get a green card from**  
20     **Matthew Schnaubert?**

21          A.     That is correct.

22          **Q.     And was the hearing notice letter also sent to**  
23     **the State Land Office?**

24          A.     Yes.

25          **Q.     Did Steward receive a returned green card for**

1 the letter to the State Land Office?

2 A. Yes, we did.

3 Q. Would you next identify the document marked as  
4 Exhibit 6?

5 A. This is a list of all of the offset mineral  
6 interests for the Pollos Hermanos State 5H.

7 Q. And did you prepare this list?

8 A. Yes, I did.

9 Q. And would you next identify the document marked  
10 as Exhibit 7?

11 A. This is a sample letter of the offset  
12 notification.

13 Q. And it also includes the green cards; is that  
14 correct?

15 A. Yes, it does.

16 Q. And is Exhibit 7 a true and correct copy of one  
17 of the notice letters sent to the offsets?

18 A. Yes, it is.

19 Q. And were those letters prepared and sent under  
20 your direction?

21 A. Yes, they were.

22 Q. And were they sent to all of the offset  
23 interests identified on Exhibit 6?

24 A. Yes, they were.

25 Q. And did you have good addresses for all of the

1     **offset interests?**

2           A.     No.

3           Q.     Did you make an attempt to locate good  
4     **addresses for all those individuals?**

5           A.     Yes, we did.

6           Q.     And did Steward publish notice in the "Hobbs  
7     **News-Sun" that specifically lists each of the**  
8     **individuals and entities identified in Exhibits 2 and 6?**

9           A.     Yes.

10          Q.     And what date was the notice published?

11          A.     March 28th, 2017.

12          Q.     Would you identify the document marked as  
13     **Exhibit 8?**

14          A.     This is an Affidavit of Publication of the  
15     notice that was in the "Hobbs News-Sun."

16          Q.     And is Exhibit 8 a true and correct copy of  
17     **that affidavit?**

18          A.     Yes, it is.

19          Q.     Would you next identify the exhibit marked as  
20     **Steward Exhibit Number 9?**

21          A.     This is an AFE for the -- for Steward Energy's  
22     Pollos Hermanos State 5H.

23          Q.     And is Exhibit 9 a true and correct copy of the  
24     **AFE?**

25          A.     Yes, it is.

1           Q.    And what are the estimated well costs indicated  
2   on the AFE?

3           A.    Dry-hole cost is \$875,125, and total drilling  
4   and completion is \$3,993,895.

5           Q.    And are those costs similar to costs incurred  
6   by Steward for other San Andres horizontal wells?

7           A.    Yes, they are.

8           Q.    And do you have a recommendation for the  
9   amounts Steward should be paid for supervision and  
10   administrative expenses?

11          A.    Yes.   6,500 and \$650.

12          Q.    And are those amounts consistent and similar to  
13   those charged by Steward for other San Andres wells?

14          A.    Yes, they are.

15          Q.    And do you also recommend that the rates for  
16   supervision and administrative expenses be adjusted  
17   periodically pursuant to the COPAS accounting procedure?

18          A.    Yes, I do.

19          Q.    And is Steward requesting a 200 percent charge  
20   for the risk of drilling and completing the 5H well?

21          A.    Yes, we are.

22          Q.    In your opinion, will the granting of Steward's  
23   application avoid the drilling of unnecessary wells,  
24   protect correlative rights and serve the interest of  
25   conservation and prevention of waste?

1           A.     Yes.

2           **Q.     And given the impending termination date of the**  
3           **state lease, do you request the Division expedite the**  
4           **issuance of its order?**

5           A.     Yes, we do.

6                     MR. LARSON:   Mr. Examiner, I move the  
7           admission of Exhibits 1 through 9.

8                     EXAMINER McMILLAN:   Exhibits 1 through 9  
9           may now be accepted as part of the record.

10                    (Steward Energy II Exhibit Numbers 1  
11                    through 9 are offered and admitted into  
12                    evidence.)

13                    MR. LARSON:   I'll pass the witness.

14                             CROSS-EXAMINATION

15   BY EXAMINER McMILLAN:

16           **Q.     What's the status of the well?**

17           A.     We have just started building the location.

18           **Q.     So it's proposed?**

19                    MR. LARSON:   I'm sorry?

20                    EXAMINER WADE:   It's a proposed well?

21                    MR. LARSON:   Yes.

22                    EXAMINER WADE:   It's not spud or anything?

23                    THE WITNESS:   No.

24                    EXAMINER McMILLAN:   Do you have a geologist  
25           that will talk about the project area, because remember,

1 the surface and the bottom hole are irrelevant. It's  
2 the project area that's of concern.

3 MR. LARSON: That's why I have an engineer  
4 and a geologist.

5 EXAMINER McMILLAN: Okay.

6 Q. (BY EXAMINER McMILLAN) And there are  
7 unlocatable interests, whoever? I can't say their name.

8 A. The Schnauberts?

9 Q. Yeah.

10 Okay. No depth severances.

11 At this time I don't have any questions.

12 EXAMINER WADE: I don't have any questions.

13 EXAMINER McMILLAN: I may have questions  
14 after the geologist and engineer come up, but I don't  
15 have any questions.

16 THE WITNESS: Thank you.

17 EXAMINER McMILLAN: Thank you.

18 LANCE LUCAS TAYLOR,  
19 after having been previously sworn under oath, was  
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. LARSON:

23 Q. Good morning, Mr. Taylor.

24 A. Good morning.

25 Q. State your full name for the record.



1           A.     Lance Lucas Taylor.

2           **Q.     And where do you reside?**

3           A.     Frisco, Texas.

4           **Q.     And what is your position with Steward Energy?**

5           A.     I founded the company in 2012.  I currently  
6     serve as its chief executive officer and president.

7           **Q.     And do you have responsibility for Steward's**  
8     **long-term development plans in southeast New Mexico?**

9           A.     I do.

10          **Q.     And are you familiar with the matters addressed**  
11     **in Steward's amended application?**

12          A.     I am.

13          **Q.     Have you previously testified in a Division**  
14     **hearing?**

15          A.     No, sir.

16          **Q.     And given that, would you summarize your**  
17     **educational background and professional experience in**  
18     **the oil and gas industry?**

19          A.     Certainly.  In 1999, I received a bachelor of  
20     science in petroleum engineering from Texas Tech  
21     University in Lubbock, Texas.  Since that time, I've  
22     worked exclusively in the oil and gas industry as a  
23     petroleum engineer for various companies both large and  
24     small until starting Steward Energy in 2012, at which  
25     time I would say I now serve as an executive engineer,

1     working day to day as an engineer but also serving in  
2     executive roles.

3                     MR. LARSON:   Mr. Examiner, I tender  
4     Mr. Taylor as an expert in petroleum engineering.

5                     EXAMINER McMILLAN:   So qualified.

6             **Q.     (BY MR. LARSON) And what is Steward's**  
7     **development plan for the proposed project area?**

8             A.     Based on our knowledge and expertise in the  
9     greater area, we believe this project area to be  
10    prospective for San Andres production by the drilling of  
11    horizontal wells.

12            **Q.     And does Steward have other acreage in the**  
13    **vicinity of the proposed project?**

14            A.     Yes, sir.   In the immediate vicinity in Lea  
15    County, we currently own approximately 6,000 leasehold  
16    acres.   On those, there are currently four producing  
17    horizontal San Andres wells.

18            **Q.     And you purchased that acreage from Manzano; is**  
19    **that correct?**

20            A.     We did.   In November of 2016, we purchased  
21    those acres as part of a larger transaction with  
22    Manzano, LLC.

23            **Q.     And does Steward have experience in operating**  
24    **San Andres horizontal wells across the state line in**  
25    **Texas?**

1           A.     We do.   We currently own just under 50  
2     horizontal San Andres wells, the four in Lea County that  
3     I mentioned.   The vast majority are in Yoakum County,  
4     and then we also have one just south of Yoakum County,  
5     in Gaines County.

6           **Q.     And in Steward's experience, what's been the**  
7     **optimal drilling pattern for San Andres horizontals?**

8           A.     Based on our experience and the experience of  
9     other operators, we find that drilling six wells per  
10    one-mile section is the most effective way to drain the  
11    reserves that are -- that are under the one-mile  
12    section.

13          **Q.     And also in Steward's experience, what has been**  
14    **the preferred orientation for those horizontal wells?**

15          A.     Due to the natural regional stress profile in  
16    the area and the need to hydraulically fracture  
17    stimulate these wells, we find that drilling wells in a  
18    north-south orientation is the preferred orientation.

19          **Q.     And specifically with a Pollos Hermanos wells,**  
20    **are those south to north?**

21          A.     These wells that we are proposing will be  
22    drilled from the south to the north.   Yes, sir.

23          **Q.     And has Steward drilled any San Andres**  
24    **horizontals in New Mexico?**

25          A.     We currently operate the four producing wells

1     that are just a couple miles to the east of here. And  
2     we're drilling our first of a five-well pilot program  
3     across our 6,000 acres, and it is located 2-and-a-half  
4     miles southeast of this project area.

5           **Q.     I'll direct your attention to Exhibit 2. And**  
6     **where does Steward intend to locate the lateral for the**  
7     **Pollos Hermanos 5H well?**

8           A.     Exhibit 2 shows that we will drill from a  
9     surface location at the south end of the project area.  
10    We drill in a north -- northerly azimuth approximately  
11    30 feet east of the centerline of that project area.

12          **Q.     Would you identify the document marked as**  
13    **Exhibit 10?**

14          A.     Yes, sir. Exhibit 10 is a plat showing the  
15    proposed project area for the Pollos Hermanos State.  
16    It's got three wells located on it. It's a #4H, #5H and  
17    #6H wells located in the project area.

18          **Q.     So you're staying consistent with the "Breaking**  
19    **Bad" theme?**

20          A.     Yes, we are. More to come.

21          **Q.     And did you prepare Exhibit 10?**

22          A.     I did not prepare this directly. My staff  
23    prepared it at my direction. I have reviewed and  
24    approved it.

25          **Q.     And does the well pattern shown on Exhibit 10**

1 follow Steward's approach of drilling three horizontal  
2 wells across the half section as the optimal approach to  
3 producing from the San Andres?

4 A. It does, similar to drilling six wells in one  
5 mile. Three wells in a half mile is what we see as  
6 optimal.

7 Q. And would the drilling of the Pollos Hermanos  
8 4H and 6H, which are identified in Exhibit 10, follow  
9 the completion of the 5H?

10 A. Once we have established that the #5H well is  
11 commercially productive, we would follow with the 4H and  
12 the 6H in the future.

13 Q. And once the three San Andres horizontals  
14 identified in Exhibit 10 are completed, will there be  
15 any possibility of stranded acreage in the proposed  
16 project area?

17 A. No, sir.

18 Q. And is development of the state lease acreage  
19 in the southeast quarter of Section 3 on Steward's  
20 long-term planning horizon?

21 A. It is. Similar to this project area, we would  
22 propose a mirrored project area that encompasses the  
23 southeast quarter of Section 3, as well as the east half  
24 of Section 10.

25 Q. Is it your opinion that drilling three wells in

1 the proposed project area is the most efficient and  
2 economical way to develop the San Andres on this  
3 acreage?

4 A. It is.

5 Q. And in order to proceed with its drilling  
6 pattern, is it necessary for Steward to drill the 5H  
7 well very near to the centerline of the proposed project  
8 area?

9 A. Yes, sir. In order to properly space three  
10 wells in this half-mile project area, we would need to  
11 drill the 5H near the centerline.

12 Q. In your opinion, will the 5H well, in fact,  
13 develop and drain portions of the lands in the  
14 quarter-quarter sections to the east and west of the 5H  
15 well?

16 A. Yes, sir. It's all but assured to when it's  
17 drilled down the center.

18 Q. And in your opinion, will production from the  
19 #5 well be reasonably uniform across the entire length  
20 of the lateral?

21 A. That's our expectation.

22 Q. And would that expectation also hold true for  
23 the 4H and the 6H?

24 A. Yes, sir.

25 Q. And in your opinion, will the granting of

1     **Steward's application avoid the drilling of unnecessary**  
2     **wells, protect correlative rights and serve the interest**  
3     **of conservation and the prevention of waste?**

4           A.     That's why we've proposed it this way.  Yes,  
5     sir.

6                     MR. LARSON:  Mr. Examiner, I move the  
7     admission of Exhibit 10.

8                     EXAMINER McMILLAN:  Okay.  Exhibit 10 may  
9     now be accepted as part of the record.

10                    (Steward Energy II Exhibit Number 10 is  
11                    offered and admitted into evidence.)

12                    MR. LARSON:  And I pass the witness.

13                                 CROSS-EXAMINATION

14     BY EXAMINER McMILLAN:

15           Q.     **What's your penetration point going to be?**

16           A.     As far as depth or areally?

17           Q.     **The footage calls.**

18           A.     Oh, footage calls.  We will be within the  
19     330-foot offset.

20           Q.     **You didn't answer my question.**

21           A.     Approximately 600 feet.

22           Q.     **Okay.  Okay.  So how far will it be from the**  
23     **south line?**

24           A.     From the south line, approximately 600 feet is  
25     what I'm suggesting.

1           **Q.    And from the west?**

2           A.    From the west would be --

3                   MR. LARSON:   Excuse me, Mr. Examiner.

4   We're talking about the 5H?

5                   EXAMINER McMILLAN:   Yeah.   We're talking  
6   about the 5H.

7                   THE WITNESS:   It would be -- let me refer  
8   to Exhibit 1.   Exhibit 1 shows the footage from the west  
9   would be 1,350 feet.   And let me correct my previous  
10   statement.   The first take point would be at 795 feet  
11   from the south line.

12           **Q.    (BY EXAMINER McMILLAN) And 1,350 from the west?**

13           A.    Yes, sir.

14           **Q.    And the final take point?**

15           A.    Would be 330 feet from the north line.

16           **Q.    So it would be 2,310 from the south?**

17           A.    I think it's -- 2,339 is what is shown  
18   on Exhibit --

19           **Q.    Okay.   But I'm interested in the final**  
20   **penetration point -- or the final take point.**

21           A.    Let's see.   So from the south would be 26 --  
22   no, that's not right.   I apologize.   Let me study this  
23   plat just a little bit closer.

24                   Yeah.   The bottom-hole location shown on  
25   Exhibit Number 1 shows 2,339 feet from the south line.



1           Q.    Okay.  And that's also going to be your final  
2   perforation?

3           A.    Yes, sir.  No further than that.

4           Q.    Okay.  So let me make sure I'm clear on this.  
5   So then -- okay.  So you're withdrawing your NSL  
6   application?

7                       MR. LARSON:  That's correct.

8           Q.    (BY EXAMINER McMILLAN) So then aren't you --  
9   okay.  Let me think about this.  Aren't you going to  
10   be -- correct me if I'm wrong.  Isn't that going to be  
11   an NSL, because you're going to be encroaching too close  
12   to the northern boundary?

13                   MR. LARSON:  It'll be 330 from the north  
14   boundary.

15                   EXAMINER McMILLAN:  But he just said it's  
16   2,339.

17                   THE WITNESS:  From the south boundary.  
18   This is a mile-and-a-half stand-up unit.

19                   MR. LARSON:  If it helps, Mr. Examiner, the  
20   original plan was to be unorthodox in relation to the  
21   north line of the proposed project area, and so Steward  
22   backed it up to 330 to make it -- the bottom-hole  
23   location an orthodox location.  It's 330 from the north  
24   line of the project area.

25                   EXAMINER McMILLAN:  But that's a smidgen

1 less than 330, right?

2 MR. LARSON: I'll defer to Mr. Taylor on  
3 that.

4 Q. (BY EXAMINER McMILLAN) Because that's going to  
5 be -- that's going to be a smidgen less. It's going to  
6 be a smidgen less than 330, right?

7 A. No, sir. The intent was never to be inside of  
8 330 feet. If our footage call is wrong on here, then --

9 Q. Okay. You told me the final penetration point  
10 is going to be the bottom hole, right?

11 A. That's correct.

12 Q. So that's going to be a smidgen less?

13 A. No further than.

14 Q. That would technically be an unorthodox  
15 location, because 2,640 minus 2,339 is a smidgen -- it's  
16 like 30 feet off.

17 A. I'm not certain based on this plat, sir, if  
18 this is exactly a one-mile section. It may not be.  
19 That may be the difference.

20 Q. Well, then, the landman will tell us, because  
21 technically -- I mean, your final penetration is a  
22 smidgen unorthodox, 20 or 30 feet off.

23 A. What I can assure you is without the NSL, we  
24 will not produce from outside -- we will not produce  
25 from within 330 feet of that line.

1           Q.    So it would be safe to say your -- your final  
2 presentation is going to be 2,310 and 1,350 then?

3           A.    Correct.

4           Q.    Okay. That's what I wanted to know.

5           A.    Okay. I apologize for the confusion.

6           Q.    You were not clear on that point.

7                        So all quarter-quarter sections are  
8 expected to contribute equally to production, right?

9           A.    Yes, sir.

10          Q.    Okay. Okay. So -- okay. You said the  
11 five-eighths is going to be properly drilled -- drilled  
12 to drain, and also I assume your completion techniques  
13 will drain the west half-the west half and the west half  
14 of the southwest quarter and the west half of  
15 the -- I'm sorry -- east half of the west half and east  
16 half of the southwest quarter of Section 3; is that  
17 correct?

18          A.    Yes, sir.

19          Q.    Okay. Well, you weren't clear on that point.

20                       EXAMINER McMILLAN: Go ahead.

21                       EXAMINER WADE: I don't have any questions.  
22 Thank you.

23                       MR. LARSON: I just have one follow-up,  
24 Mr. Examiner.

25

1 REDIRECT EXAMINATION

2 BY MR. LARSON:

3 Q. When Steward submits its APD for the 5H well,  
4 will it assure that the C-102 will be clear that it will  
5 be orthodox at the bottom-hole location?

6 A. Absolutely.

7 Q. Thank you.

8 EXAMINER WADE: Did you want to enter 10?

9 EXAMINER McMILLAN: 10 is accepted as part  
10 of the record.

11 (Steward Energy II Exhibit Number 10 is  
12 offered and admitted into evidence.)

13 SHANE CORY SEALS,  
14 after having been previously sworn under oath, was  
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. LARSON:

18 Q. Good morning, Mr. Seals.

19 A. Good morning.

20 Q. State your full name for the record?

21 A. Shane Cory Seals.

22 Q. And where do you reside?

23 A. Dallas, Texas.

24 Q. And by whom are you employed and in what  
25 capacity?

1           A.     Steward Energy, and I'm the senior vice  
2     president of geoscience.

3           Q.     And do your responsibilities as a vice  
4     president of geoscience include southeast New Mexico?

5           A.     Yes.

6           Q.     And are you familiar with the geological  
7     aspects of the Pollos Hermanos State #5H well and the  
8     matters addressed in Steward's amended application?

9           A.     Yes.

10          Q.     Have you previously testified at a Division  
11     hearing?

12          A.     No.

13          Q.     Have you testified before an administrative  
14     agency that regulates the oil and gas industry?

15          A.     Yes, the Texas Railroad Commission.

16          Q.     And were you qualified as an expert in  
17     petroleum geology?

18          A.     Yes.

19          Q.     Would you briefly summarize for the Examiner  
20     your educational background and professional experience  
21     in the oil and gas business?

22          A.     Sure. I have a bachelor's and a master's  
23     degree in geology from the University of Oklahoma. I  
24     have an MBA from Southern Methodist University in 2014.

25                     In 2003, I went to work with Pioneer

1 Natural Resources working a variety of onshore U.S.  
2 plays. In the summer of 2015, I joined Steward and  
3 basically have, since that time, concentrated on the San  
4 Andres Formation and the North Orchard shale [sic] of  
5 New Mexico and Texas.

6 MR. LARSON: Mr. Examiner, I'd tender  
7 Mr. Seals as an expert in petroleum geology.

8 EXAMINER McMILLAN: He is so qualified.

9 MR. LARSON: Thank you.

10 Q. (BY MR. LARSON) Mr. Seals, I direct your  
11 attention to the map labeled as Exhibit 2.

12 A. Okay.

13 Q. And this somewhat follows up on the Examiner's  
14 questioning of Mr. Taylor.

15 Is it Steward's intent that the completed  
16 interval of the well comply with the Division setback  
17 requirements at the north and south lines of the  
18 proposed project area?

19 A. Yes.

20 Q. And have you had experience with the Yoakum  
21 County, San Andres wells that Mr. Taylor discussed?

22 A. Yes.

23 Q. And have those wells been economic?

24 A. Yes, they have.

25 Q. And were you involved with Steward's evaluation

1 of the prospects for the Pollos Hermanos State #5H?

2 A. Yes.

3 Q. Would you identify the document marked as  
4 Exhibit 11?

5 A. Yes. This is a structure map based on a marker  
6 bed that is approximately at the top of the pay zone in  
7 the lower part of the San Andres.

8 Q. And did you prepare this document?

9 A. Yes, I did.

10 Q. And what role did your structure map have in  
11 the analysis of the prospect on the 5H?

12 A. It's two-fold. The structure map, one, shows  
13 us that the area is not structurally complicated, and  
14 then, two, it gives us an idea of how much we have to  
15 drill in order to contact the pay zone.

16 Q. What other wells in the area did you look at  
17 for purposes of your analysis?

18 A. Many offsetting wells in a several-mile radius.  
19 The map zoomed in such that you can't see some of the  
20 other control points to the south and southwest.

21 Q. Did you look at wells in Sections 2 and 11?

22 A. Yes.

23 Q. Are those also San Andres horizontals?

24 A. Yes, they are.

25 Q. And does Steward operate any of those wells?

1           A.    Yes.  We operate all the wells.

2           **Q.    Have those wells been economic?**

3           A.    Yes, they have.

4           **Q.    And would you identify the last exhibit, which**  
5 **is Number 12?**

6           A.    The last exhibit is a stratigraphic cross  
7 section through the Lower San Andres pay interval.

8           **Q.    And did you prepare this document?**

9           A.    Yes, I did.

10          **Q.    And what is your cross section intended to**  
11 **depict?**

12          A.    Both these wells, the State #1 and the Broken  
13 Spoke 2 State 1H, are to the northwest and to the east  
14 of the Pollos Hermanos.  While the petrophysical  
15 property varies subtly from well to well, the overall  
16 character remains relatively consistent.  And so we are  
17 pretty confident that the general properties of the pay  
18 zone are relatively consistent across Pollos Hermanos.

19          **Q.    And is the cross section representative of**  
20 **geology in the proposed project area?**

21          A.    Yes.

22          **Q.    Are there any geologic impediments in the**  
23 **target interval?**

24          A.    No.

25          **Q.    And in your opinion, will the proposed 5H well**



1 be productive along the entire length of the completed  
2 lateral?

3 A. Yes.

4 Q. Does that also hold true for the 4H and 6H  
5 wells?

6 A. Yes.

7 Q. And in your opinion, will the Pollos Hermanos  
8 State #5H, in fact, develop and drain each of the  
9 40-acre spacing units in the proposed project area?

10 A. Yes.

11 Q. And in your opinion, will the granting of  
12 Steward's application avoid the drilling of unnecessary  
13 wells, protect correlative rights and serve the interest  
14 of conservation and the prevention of waste?

15 A. Yes.

16 MR. LARSON: Mr. Examiner, I move the  
17 admission of the Exhibits 11 and 12.

18 EXAMINER McMILLAN: Exhibits 11 and 12 may  
19 now be accepted as part of the record.

20 (Steward Energy II Exhibit Numbers 11 and  
21 12 are offered and admitted into evidence.)

22 MR. LARSON: And I pass the witness.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. I'm just curious.

1           A.    Uh-huh.

2           **Q.    Is there -- are there going to be multiple pays**  
3           **in the San Andres here?**

4           A.    Well, that has yet to be established yet.  The  
5           pay zone as it is right now over in the area of the  
6           Pollos Hermanos is what's represented here.  There needs  
7           to be some additional work as to whether or not we can  
8           complete the well, how much of that we're effectively  
9           draining on the vertical side.

10          **Q.    So essentially a P1?**

11          A.    Think of -- the nomenclature here is more the  
12          Chameless [phonetic] Brahney nomenclature commonly used  
13          in the offsetting oil -- field to the east of the  
14          Brahney Field.  You could almost approximate this being  
15          kind of a P1, P2, P3, if you are more familiar with  
16          that.

17          **Q.    Yeah.  I'm more familiar with that.**

18          A.    Okay.  The P1, P2, P3 is sort of the same thing  
19          as what we see here in what's called the Chameless,  
20          Brahney B, Brahney C, and they basically approximate  
21          each other.  There are some differences.  Yes.

22          **Q.    Yes.  I'm familiar with it in the Slaughter**  
23          **Field.**

24          A.    Oh, okay.

25          **Q.    Yeah.  This is fine.  The only thing I'd**

1     recommend next time when you come here is to show where  
2     the cross section is on your map.

3             A.     Okay.

4             Q.     We really need that. But the geology is  
5     relatively simple, and it makes sense. Thank you.

6                     MR. LARSON: I have nothing further,  
7     Mr. Examiner.

8                     EXAMINER McMILLAN: Okay. Case Number  
9     15670 shall be taken under advisement.

10                    Thank you.

11                    MR. LARSON: Thank you, Mr. Examiner.

12                    (Case Number 15670 concludes, 8:55 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

20

21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2017  
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