

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:

APPLICATION OF STEWARD ENERGY II,                      CASE NO. 15877  
LLC FOR A NONSTANDARD OIL SPACING  
AND PRORATION UNIT AND COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 30, 2017

Santa Fe, New Mexico

BEFORE:    WILLIAM V. JONES, CHIEF EXAMINER  
             DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, and David K. Brooks, Legal Examiner, on  
Thursday, November 30, 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  
                     New Mexico CCR #20  
                     Paul Baca Professional Court Reporters  
                     500 4th Street, Northwest, Suite 105  
                     Albuquerque, New Mexico 87102  
                     (505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT STEWARD ENERGY II, LLC:

3 GARY W. LARSON, ESQ.  
 4 HINKLE SHANOR, LLP  
 218 Montezuma Avenue  
 Santa Fe, New Mexico 87501  
 5 (505) 982-4554  
 glarson@hinklelawfirm.com  
 6

7

## 8 INDEX

9 PAGE

10 Case Number 15877 Called 3

11 Steward Energy II, LLC's Case-in-Chief:

12 Witnesses:

13 Taylor Warren:

14 Direct Examination by Mr. Larson 3

Cross-Examination by Examiner Brooks 12

15 Cross-Examination by Examiner Jones 16

16 William F. McMann:

17 Direct Examination by Mr. Larson 18

Cross-Examination by Examiner Jones 24

18 Redirect Examination by Mr. Larson 30

19 Proceedings Conclude 31

20 Certificate of Court Reporter 32

21

## 22 EXHIBITS OFFERED AND ADMITTED

23 Steward Energy II, LLC Exhibit Numbers 1 through 9 12

24 Steward Energy II, LLC Exhibit Number 10 23

25

1 (8:50 a.m.)

2 EXAMINER JONES: Call Case 15877,  
3 application of Steward Energy II, LLC for a nonstandard  
4 oil spacing and proration unit and compulsory pooling,  
5 Lea County, New Mexico.

6 Call for appearances.

7 MR. LARSON: Morning, Mr. Examiner. Gary  
8 Larson, of the Santa Fe office of Hinkle Shanor, for the  
9 Applicant, Steward Energy II. I have two witnesses.

10 EXAMINER JONES: Any other appearances in  
11 this case?

12 Will the witnesses please stand and the  
13 court reporter swear the witnesses?

14 (Mr. Warren and Mr. McMann sworn.)

15 MR. LARSON: May I proceed?

16 TAYLOR WARREN,  
17 after having been first duly sworn under oath, was  
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. LARSON:

21 Q. Good morning, Mr. Warren.

22 A. Good morning.

23 Q. Would you state your full name for the record?

24 A. Taylor Warren.

25 Q. And where do you reside?

1           A.     Frisco, Texas.

2           Q.     And by whom are you employed and in what  
3     capacity?

4           A.     Steward Energy II, LLC, and I'm the land  
5     manager.

6           Q.     And do your responsibilities as land manager  
7     include Steward's acreage in southeast New Mexico?

8           A.     Yes, they do.

9           Q.     And are you familiar with the land matters that  
10    pertain to Steward's application in this case?

11          A.     Yes, I am.

12          Q.     Have you previously testified at a Division  
13    hearing?

14          A.     I have.

15          Q.     And were you qualified as an expert in  
16    petroleum land matters?

17          A.     I was.

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

20                   EXAMINER JONES:   He is so qualified.

21          Q.     (BY MR. LARSON) Would you identify the document  
22    that's been marked as Exhibit 1?

23          A.     This is the C-102 for our Pollos Hermanos 2H.

24          Q.     And is this a "Breaking Bad" theme with the  
25    Pollos Hermanos?

1           A.     They are. All of our New Mexico wells are.

2           Q.     Is Exhibit 1 a true and correct copy of the  
3     C-102 for the #2H well?

4           A.     It is.

5           Q.     And do you know the pool name for this well?

6           A.     This is the Bronco; San Andres, South.

7           Q.     And do you have an API number for the well?

8           A.     I do. It's 30-025-44038.

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

10          A.     The San Andres.

11          Q.     Are there any depth exceptions in the San  
12     Andres?

13          A.     No, there are not.

14          Q.     Would you identify the document marked as  
15     Exhibit 2?

16          A.     This is a map depicting the proposed 480-acre  
17     project area.

18          Q.     And did you prepare this exhibit?

19          A.     I did.

20          Q.     And is the proposed Pollos Hermanos 2H well  
21     indicated in blue?

22          A.     It is.

23          Q.     And is the acreage in the south half of Section  
24     3 a state lease?

25          A.     Yes, it is.

1 Q. And is Steward the record title lessee?

2 A. We are.

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

5 A. Yes, we will.

6 Q. And is it your understanding that if the  
7 Commissioner approves Steward's communitization  
8 agreement, until that time, Steward can't produce the  
9 well?

10 A. Yes, we are.

11 Q. Okay. And is all the remaining acreage in the  
12 proposed project area fee?

13 A. That is correct.

14 Q. And how many fee leases are there in the east  
15 half of Section 10?

16 A. There are 34 leases.

17 Q. Is Steward the lessee of all those fee leases?

18 A. We are.

19 Q. Would you identify the document marked as  
20 Exhibit 3?

21 A. This is a list of the unleased mineral owners  
22 in the fee lands.

23 Q. And these were the unleased interests at the  
24 time the application was filed?

25 A. That's correct.

1           Q.    And did you create this document marked as  
2   Exhibit 3?

3           A.    I did.

4           Q.    And I notice some are indicated here as leased.  
5   Were those leased by Steward following the filing of the  
6   application?

7           A.    Yes, they were. Rhonda Davis, Todd David  
8   Spears and Michael Britton Spears leased.

9           Q.    And there are also three interests that have  
10   committed to join the well?

11          A.    That's correct, Steven E. Cone, Jr., Katherine  
12   Cone Keck and KR & M, LLC, both of which committed their  
13   mineral interests through a JOA.

14          Q.    When you say both --

15          A.    I mean -- I'm sorry -- all three.

16          Q.    All three. Thank you.

17                    Would you identify the document marked as  
18   Exhibit 4?

19          A.    This is a sample well-proposal letter to the  
20   leased mineral owners for the Pollos Hermanos 2H.

21          Q.    Did you prepare this letter?

22          A.    Yes, I did.

23          Q.    After you sent out the well proposals, you did  
24   communicate with a number of the unleased mineral  
25   interest owners?

1           A.    I did, all for the exception of Wesley  
2   Schnaubert, Matthew Schnaubert and Owen W. McWhorter,  
3   Jr.

4                   MR. LARSON:  Madam Court Reporter,  
5   S-C-H-N-A-U-B-E-R-T.

6                   We had a discussion on how to pronounce  
7   that.  Lance being Cajun pronounces it the French way.

8                   EXAMINER JONES:  Should we redact those  
9   Social Security numbers off of this or -- probably?

10                  EXAMINER BROOKS:  Yeah.  If they have that  
11   information on there, that should be redacted.  We  
12   should not have that in our files.

13                  MR. LARSON:  Are you looking at Exhibit 3,  
14   Mr. Examiner?

15                  THE WITNESS:  It is.  It's for Wesley  
16   Schnaubert and Matthew Schnaubert.

17                  EXAMINER JONES:  Is there any way you can  
18   submit a new Exhibit 3?

19                  MR. LARSON:  I will do that.  I'll redact  
20   it and email it to you.  That was an oversight on my  
21   part.

22           **Q.    (BY MR. LARSON) So, as we sit here today, how**  
23   **many of the originally unleased mineral interest owners**  
24   **identified in Exhibit 3 is Steward now seeking to pool?**

25           A.    Three.



1           Q.   And, collectively, what is their percentage  
2 interest in the project area?

3           A.   It's less than 1 percent.

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

6           A.   Yes. This is a sample of the hearing notice  
7 for the Pollos Hermanos 2H.

8           Q.   And it includes green cards and certified mail  
9 receipts?

10          A.   Yes, it does.

11          Q.   And were the hearing notice letters sent at  
12 your direction to all the parties identified in Exhibit  
13 2?

14          A.   Yes, they were.

15          Q.   And did you receive a return green card from  
16 Wesley Schnaubert?

17          A.   We received it undeliverable.

18          Q.   Did you make a good-faith effort to find an  
19 address for him?

20          A.   We did.

21          Q.   Would you identify the document marked as  
22 Exhibit 6?

23          A.   This is a list of the offsets of the mineral  
24 owners, the mineral offsets.

25          Q.   And did you prepare this document?

1           A.    Yes, I did.

2           Q.    And since you prepared this lease, did Rhonda  
3   O'Briant Davis lease her interest to Steward Energy?

4           A.    Yes, she did.

5           Q.    Would you identify the document marked as  
6   Exhibit 7?

7           A.    This is a copy of the hearing notice -- or the  
8   offset -- I'm sorry -- that was sent to Federal Abstract  
9   Company.

10          Q.    And does it also include the returned green  
11   card?

12          A.    Yes, it does.

13          Q.    And was the notice letter to Federal Abstract  
14   sent under your direction?

15          A.    Yes, it was.

16          Q.    Did Steward Energy publish notice in the "Hobbs  
17   News-Sun" that specifically listed each of the entities  
18   identified in Exhibits 2 and 6?

19          A.    Yes, we did.

20          Q.    And on what date was the notice published?

21          A.    October 27th of 2017.

22          Q.    And would you identify the document marked as  
23   Exhibit 8?

24          A.    This is the Affidavit of Publication that  
25   was -- of the notice that was published in the "Hobbs

1 News-Sun."

2 Q. Is it a true and correct copy of that  
3 affidavit?

4 A. Yes, it is.

5 Q. Can you identify the document marked as Steward  
6 Exhibit 9?

7 A. This is a copy of Steward's AFE for the Pollos  
8 Hermanos 2H.

9 Q. And is it a true and correct copy of the AFE  
10 that was sent with the well proposal?

11 A. Yes, it is.

12 Q. And what are the total estimated well costs  
13 indicated on the AFE?

14 A. 3,900,970.

15 Q. And are those costs similar to the costs  
16 incurred by Steward for other San Andres horizontals?

17 A. Yes, they are.

18 Q. Do you have a recommendation for the amount  
19 Steward should be paid for supervision and  
20 administrative expenses?

21 A. 6,500 while drilling and 650 while operating.

22 Q. And are those amounts consistent with and  
23 similar to those charged by Steward for other San Andres  
24 horizontal wells?

25 A. Yes, they are.

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

4           A.    Yes, I do.

5           Q.    Is Steward requesting a 200 percent charge for  
6   the risk of drilling and completing the 5H well?

7           A.    We are.

8           Q.    In your opinion, will the granting of Steward's  
9   application avoid the drilling of unnecessary wells,  
10   protect correlative rights and serve the interest of  
11   conservation and the prevention of waste?

12          A.    Yes, sir.

13                   MR. LARSON:  Mr. Examiner, I move the  
14   admission of Steward Exhibits 1 through 9.

15                   EXAMINER JONES:  Exhibits 1 through 9 are  
16   admitted.

17                   (Steward Energy II, LLC Exhibit Numbers 1  
18   through 9 are offered and admitted into  
19   evidence.)

20                   MR. LARSON:  And I will pass the witness.

21                   EXAMINER JONES:  Okay.  Mr. Brooks?

22                                   CROSS-EXAMINATION

23   BY EXAMINER BROOKS:

24           Q.    Okay.  I may have misheard, or I wasn't  
25   listening.  I need to clarify something.  First of all,

1     are you proposing two wells at this time?

2           A.     We're proposing just one well.

3           Q.     Okay.   The 2H, that's the Pollos Hermanos #2H?

4           A.     Yes, sir.

5           Q.     Okay.   So there is no other proposal before us?

6           A.     No, sir.

7           Q.     Okay.   I thought I heard Mr. Larson say the 5H.

8                   MR. LARSON:   I did.   There is a similar  
9     project in the west half which is the 5H, and I just  
10    confused them.   This application concerns the 2H.

11                   EXAMINER BROOKS:   Okay.   Now that we've got  
12    that straight, let me go on to some other things.

13           Q.     (BY EXAMINER BROOKS) The exhibit that you have,  
14    Exhibit 3, you said was a list of unleased owners?

15           A.     At the time of the --

16           Q.     And some of them have subsequently leased?

17           A.     Yes, sir.

18           Q.     To Steward, right?

19           A.     That's correct.

20           Q.     So there are no -- are there any -- are there  
21    any other leased interests in this -- in this project  
22    area, or do you -- do you have all the leases?

23           A.     We have all the leases.

24           Q.     Okay.   So there is no other oil and gas lease  
25    interest that you're seeking to force pool?

1           A.    No, sir.

2           Q.    Okay.  Now, this list on Exhibit 3 of the  
3   owners -- of the unleased owners at the time, does this  
4   include all of those owners who are identified as the  
5   current owners in instruments of record at the time that  
6   you filed?

7           A.    No, it does not.  This is just the unleased  
8   mineral owners at the time when we filed.

9           Q.    But the leased mineral -- well, yeah.  But it  
10  includes all of -- all of those unleased mineral owners?

11          A.    That's correct.  At the time we had  
12  approximately 90 percent of this leased --

13          Q.    Yeah.

14          A.    -- with the majority of the unleased mineral  
15  interests falling to those that have committed their  
16  mineral interest to participate in the well.

17          Q.    And you're not required to notice the people --  
18  to notice your lessors if you have a compulsory -- if  
19  you have a pooling clause in this lease?

20          A.    That's correct.

21          Q.    So that's what I'm trying to get at.

22                       Now, you talked about your notice by  
23  publication.  Did you have unlocatable interest owners?

24          A.    I wouldn't use the word "unlocatable."  We have  
25  had three mineral owners that have not had any

1 communication with us. We reached out to them  
2 through --

3 **Q. You have addresses for them?**

4 A. We do have addresses, best-known addresses.

5 **Q. Have they returned green cards?**

6 A. All except for Wesley Schnaubert, who -- we  
7 received his green card, and it was unreturnable.

8 **Q. Okay. That's Wesley Schnaubert?**

9 A. Schnaubert.

10 EXAMINER JONES: Schnaubert?

11 **Q. (BY EXAMINER BROOKS) Have you made diligent**  
12 **efforts to find a better address for him?**

13 A. We did. We used a number of people-finder  
14 searches, both of which kept coming up with a New York  
15 address. Actually, it's the one listed. And it's the  
16 only known address that we've been able to find. And we  
17 have actually had another hearing with the same mineral  
18 owner, and at the end of our due diligence, we were  
19 still unable to locate him or have any correspondence  
20 with him.

21 **Q. Okay. And let's see. I'm trying to find your**  
22 **publication. Which exhibit is your of Affidavit of**  
23 **Publication?**

24 A. I believe it's 7.

25 MR. LARSON: It's Number 8.

1 THE WITNESS: 8.

2 Q. (BY EXAMINER BROOKS) Okay. What date was that  
3 published?

4 A. October 27th.

5 Q. October 27th. That's plenty of time.

6 Okay. So then I want to look at your  
7 spacing unit. What is the -- what is the spacing in  
8 this? What is the standard spacing unit size?

9 A. The standard is 160.

10 Q. And what pool is this in?

11 A. This is the Bronco; San Andres.

12 Q. And 160-acre units?

13 A. Yes, sir.

14 Q. Okay. I think that takes care of all my  
15 questions.

16 EXAMINER BROOKS: Pass the witness.

17 CROSS-EXAMINATION

18 BY EXAMINER JONES:

19 Q. So it's -- you said Bronco or Blanco?

20 A. Bronco; San Andres, South.

21 EXAMINER BROOKS: Blanco Bronco.

22 Q. (BY EXAMINER JONES) So it's got special pool  
23 rules. Does anybody know what number that is, the pool  
24 rules? Because it would be San Andres oil, so it would  
25 have to have special rules to have 160 spacing. You



1     **know, it -- I can take care of that.**

2                   EXAMINER BROOKS:  Nobody responded to that  
3     question, so I guess the answer is nobody knows.

4                   THE WITNESS:  I'm unaware of any special --

5           **Q.     (BY EXAMINER JONES) You were just told by Paul**  
6     **Kautz that it had 160?**

7           A.     I was -- that's correct.  We were told it  
8     couldn't be done -- anything more than 160 couldn't be  
9     done administratively.

10          **Q.     Okay.  Okay.  So you've got -- you've got**  
11     **Ronnie Miles and his crew owning the leases still around**  
12     **this area, because you noticed Federal Abstract?**

13          A.     Yes.  So there was a state lease -- or state  
14     lands that an existing lease expired probably three to  
15     four months ago, and Federal Abstract was the high  
16     bidder for it.

17          **Q.     Okay.**

18          A.     And since then, they've actually -- they've  
19     assigned that lease as well.  They assigned it in the  
20     last, I think, month.

21          **Q.     That's an offset lease?**

22          A.     That's correct.  It's -- I believe it's to the  
23     southwest.  It's not due south.  I believe it's  
24     southwest.  I believe it's the northwest-northeast of  
25     Section 15, is actually where it is offset to us.

1           Q.    Okay.  You have really nice exhibits.  I would  
2 say that.  They're really clear and --

3           A.    Thank you.

4           Q.    And the well has got an API, so it must -- Paul  
5 must have assigned it a pool.  If you gave him a target  
6 and told him it was oil or gas, he knows who to pool it  
7 to so -- it's on our Web site.

8           A.    Yes, sir.

9           Q.    I don't have any more questions.  Thanks very  
10 much.

11          A.    Thank you.

12                               WILLIAM F. McMANN,  
13           after having been previously sworn under oath, was  
14           questioned and testified as follows:

15                               DIRECT EXAMINATION

16 BY MR. LARSON:

17          Q.    Good morning, Mr. McMann.

18          A.    Good morning.

19          Q.    State your full name for the record.

20          A.    William F. McMann.

21          Q.    And would you spell that for the court  
22 reporter?

23          A.    W-I-L-L-I-A-M, F., capital M, small C, capital  
24 M-A-N-N.

25          Q.    And where do you reside?

1           A.     Flower Mound, Texas.

2           Q.     And what is your position with Steward Energy?

3           A.     Executive vice president.

4           Q.     And your responsibilities include the  
5 development of Steward's acreage in southeast New  
6 Mexico?

7           A.     Yes, sir.

8           Q.     And are you familiar with the matters addressed  
9 in Steward's application?

10          A.     Yes, sir.

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

14          A.     Yes, in Texas, before the Texas Railroad  
15 Commission, and Mississippi, before the Mississippi Oil  
16 and Gas Board, and in Alabama, before the Alabama Oil  
17 and Gas Board.

18          Q.     And in the hearings before those agencies, were  
19 you qualified as an expert in petroleum engineering?

20          A.     Yes.

21          Q.     Have you previously testified at a Division  
22 hearing?

23          A.     No, sir.

24          Q.     Given that, would you briefly summarize your  
25 educational background and professional experience in

1     **the oil and gas industry?**

2           A.     I have a Bachelor of Science in petroleum  
3     engineering from West Virginia University in 1985 and an  
4     MBA with an emphasis in finance from Oklahoma State in  
5     1986. And I have over 32 years in experience in  
6     operations and reservoir engineering across all the  
7     major oil and gas basins in the United States, majority  
8     of them.

9                     MR. LARSON: Mr. Examiner, I tender  
10    Mr. McMann as an expert in petroleum engineering.

11                    EXAMINER JONES: So you were stationed  
12    around Stillwater when you -- when you got your MBA?

13                    THE WITNESS: Yeah. I was in Tulsa.

14                    EXAMINER JONES: In Tulsa?

15                    THE WITNESS: Yeah.

16                    EXAMINER JONES: He's so qualified.

17                    THE WITNESS: That was a good thing.

18            **Q.     (BY MR. LARSON) And could you generally**  
19    **describe Steward's development plan for the proposed**  
20    **project area?**

21            A.     Basically, three one-and-a-half mile wells  
22    across the 480-acre project area.

23            **Q.     And is that the same development plan for**  
24    **the -- as was proposed by Steward for a 480-acre project**  
25    **area in the southwest of Section 3 and the west half of**

1     Section 10 that the Division previously approved?

2             A.     Yes, it is.

3             Q.     And has Steward drilled and completed a well in  
4     that project area?

5             A.     Yes, the Pollos Hermanos #5H.

6                     MR. LARSON:   Mr. Brooks, that's where I got  
7     my 2H and 5H.

8             Q.     (BY MR. LARSON) Was that the center well in  
9     that project?

10            A.     Yes, it was.

11            Q.     And has the Pollos Hermanos #5H been  
12     productive?

13            A.     Yes, it has.

14            Q.     And in your opinion, is drilling six horizontal  
15     wells across the section the most efficient and  
16     effective way to develop the San Andres on Steward's  
17     New Mexico acreage?

18            A.     Yes, it is.

19            Q.     And what is Steward's view of the preferred  
20     orientation for San Andres horizontal wells on its  
21     acreage?

22            A.     South to north.

23            Q.     And have you had an opportunity to consult with  
24     Steward's in-house geologist regarding the target  
25     interval?

1           A.    Yes, I have.

2           Q.    Did you discuss whether there are any  
3   impediments in the target area?

4           A.    Yes.   There are none.

5           Q.    And looking back at Exhibit Number 1, which is  
6   the C-102, where does Steward intend to locate the  
7   lateral for the #2H well?

8           A.    30 foot west of centerline of the project area.

9           Q.    And would you identify the document that's been  
10   marked as Exhibit 10?

11          A.    Yes.   It's a map of the project area with the  
12   three -- with the three wells indicated, the well we're  
13   petitioning for right now, the 2H and the two future  
14   wells.

15          Q.    And was this exhibit prepared under your  
16   supervision?

17          A.    Yes, it was.

18          Q.    And is the well pattern shown on Exhibit 10  
19   consistent with Steward's view that drilling three  
20   horizontal wells across the half section is the optimal  
21   approach to producing from the San Andres in this area?

22          A.    Yes, sir, it is.

23          Q.    And is it your opinion that the three-well  
24   pattern is the most efficient and economic -- economical  
25   way to develop the San Andres on this acreage?

1           A.    Yes, it is.

2           Q.    And in your opinion, will the Pollos Hermanos  
3   #2H affect, develop and drain portions of each of the  
4   quarter-quarter sections in the proposed project area?

5           A.    Yes, it will.

6           Q.    In your opinion, will the production from the  
7   #2H well be reasonably uniform across the entire length  
8   of the lateral?

9           A.    Yes, it will.

10          Q.    And do you also anticipate the production from  
11   the two infill wells, which would be the Pollos Hermanos  
12   #1H and the #3H, to be reasonably uniform across the  
13   length of those laterals?

14          A.    Yes, I do.

15          Q.    And in your opinion, will the granting of  
16   Steward's application avoid the drilling of unnecessary  
17   wells, protect correlative rights and serve the  
18   interests of conservation and the prevention of waste?

19          A.    Yes, I do.

20               MR. LARSON:  Mr. Examiner, I move the  
21   admission of Exhibit Number 10.

22               EXAMINER JONES:  Exhibit 10 is admitted.

23               (Steward Energy II, LLC Exhibit Number 10  
24   is offered and admitted into evidence.)

25               MR. LARSON:  And I pass the witness.

1 EXAMINER BROOKS: I have no questions for  
2 this witness.

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. If we could get these horizontal well rules  
6 passed, we wouldn't have to -- have to produce this  
7 testimony in hearing.

8 But you are compulsory pooling this whole  
9 480, and you're going to put your well over in the west  
10 half of the east half, but just barely over there. So  
11 what sort of completion? Can you just describe the  
12 completion of the frac job, the perfs and the --

13 A. We'll fracture -- we'll fracture stimulate  
14 along that lateral --

15 Q. Okay.

16 A. -- about every 250 feet. So we'll have 30 --  
17 approximately 30 stages -- 30 frac stages.

18 Q. Okay. 30 stages.

19 And the big 3/8 holes, or what size holes?  
20 1/2-inch holes?

21 A. Six shots per foot.

22 Q. Six?

23 A. And you'll have three -- three intervals perfed  
24 on each one.

25 Q. Okay. Okay.



1           A.    Or four intervals -- I'm sorry -- perfed on  
2   each one.

3           **Q.    Okay.  And your fracture treatment, it will be**  
4   **a slickwater frac, or are you going to put gel in there?**

5           A.    No.  There will be crosslinked gel.  It will be  
6   approximately 5,000 pounds of 100 mesh and then 205,000  
7   pounds of 30/50 proppant put in with a linear gel pad  
8   and then a -- going -- going over a crosslinked pad.  
9   And that's to allow for fracture, gain enough fracture  
10  width to cover the interval within there.

11          **Q.    What kind of frac length are you designing for?**

12          A.    It's -- you know, it's -- it's not  
13  necessarily -- well, it is frac length, but it's not  
14  necessarily in these that we're designing for frac  
15  length.  We're designing a cover so that we drain the  
16  optimal area and that we overlap on -- not so much  
17  overlap, but come right up to one another on each stage  
18  as we come back and go stage to stage.

19          **Q.    Oh, okay.**

20          A.    So the three wells -- having the three wells  
21  will guarantee -- will ensure ultimately that we have  
22  the proper frac length and can cover the 480-acre  
23  section.

24          **Q.    Okay.  But this particular well that you're**  
25  **proposing right now, it will -- the frac completion will**

1     **effectively develop all -- all of these 40s?**

2           A.     Yes, approximately five stages per 40.

3           **Q.     Okay. Okay. And the north-south, can you --**  
4     **do you agree with Mr. Maxey on the --**

5           A.     Well, actually -- actually, our preferred  
6     orientation is south to north. And that's -- generally,  
7     in our area where we're at and over in Yoakum County in  
8     Texas, structure goes from north -- or from south to  
9     north up structure, and so what we have found is  
10    increased recoveries south to north, wells drilled south  
11    to north up structure, so basically toe-up wells.

12          **Q.     Okay. Toe up.**

13                        **So you want to drain down to your pumping**  
14    **unit, or are you going to put a gas lift?**

15          A.     Down to your sump, yeah, down to the heel of  
16    your well.

17          **Q.     The well that you were referring to earlier as**  
18    **an offset, did we have a hearing order for that, number**  
19    **for that or -- did you say there was a hearing for that**  
20    **one?**

21                       MR. LARSON:   Yes. We did a pooling hearing  
22    and requested a 480-acre project area, and that was  
23    approved. It was Mr. McMillan.

24                       EXAMINER JONES:   Was it Steward?

25                       MR. LARSON:   Yes. It was Steward?

1 THE WITNESS: I believe it was April.

2 EXAMINER JONES: I'll find it.

3 Q. (BY EXAMINER JONES) Did it go okay? Can you  
4 talk about it a little bit?

5 A. Yes. The well's been very successful. We  
6 completed with, as I think back, either 24 or 30 stages  
7 on that. We've changed a little bit. But now the  
8 well's on production, and it's done very well. It's  
9 done very well. It's produced over 100,000 on an  
10 electric submersible pump.

11 Q. Okay. You've got electricity out here?

12 A. Yes. Lea County Electric is the provider.

13 Q. I think that was the main thing, is the  
14 direction and the -- whether all 40s are developed and  
15 that effectively sets up your spacing unit.

16 Your target vertically in the San Andres,  
17 is that a similar deal to what Mr. Maxey was referring  
18 to?

19 A. Somewhat. I don't -- I don't feel like we'll  
20 have a main pay -- as much of a main pay interval, but  
21 very much what he said in the residual oil zone, the  
22 ROZ. We'll have high water cuts. You know, we expect  
23 upwards -- I believe the 5H, if I look back, it's  
24 probably 15 to 20 percent oil cut, with 80 to 85 percent  
25 water cut.

1           **Q.    What about gas?**

2           A.    Gas is about 1,000 GOR typically on these  
3   wells.

4           **Q.    And if you move higher in the San Andres, do**  
5 **you just get less porosity, or do you get more gas or --**

6           A.    Yeah, less porosity.  It's really not as much  
7   as a structural play like Mr. Maxey said.  So you'll  
8   get -- you'll just go to basically what we jokingly  
9   refer to as tombstone and a lot of anhydrite, too,  
10  calcium sulfates.  But no, it will not be oil-bearing.

11          **Q.    So does it get more fractures as you get deeper**  
12 **in that residual zone?**

13          A.    Really, it is -- the San Andres isn't so much a  
14  fracture play.  There is probably some fracture -- there  
15  probably is some -- some of that associated with it, but  
16  this area wasn't tectonically active and that at this  
17  time when it was buried.  So there is not a lot of --  
18  there is not a lot of that to concern with.  So --

19          **Q.    The lithology out there, is it pure dolomite,**  
20 **or does it have --**

21          A.    It's mostly dolomite, maybe 90 percent, 100  
22  percent in some areas.  A lot of it -- a lot of what  
23  you'll find -- what else would be some anhydrite  
24  stringers within it, and then when you got down to where  
25  rock wasn't dolomitized, it'll be -- you'll find

1 limestone, and that'll be much tighter.

2       **Q. Are you concerned about it being too shallow or**  
3 **not?**

4       A. No, not at all. Our -- our -- our zone out  
5 here -- in fact, where we've been fracking, our zone out  
6 here is probably 150 foot deeper than what we've done --  
7 the same as we've done over in Texas in Yoakum County,  
8 which this is all connected, the acreage is.

9       **Q. Okay. I hear good things about the Yoakum**  
10 **County.**

11       A. Yeah. We've -- and good things out here.  
12 We've extended this play. We were concerned and had our  
13 doubts whether -- you know, how far west we could extend  
14 it, and we've extended the play. So we drilled --  
15 between Manzano and when we took over that property,  
16 they had 36 horizontal wells. We've drilled another,  
17 approximately, 25 to 30, and throughout this play,  
18 within this Bronco Field, we have over 9,500 barrels a  
19 day production now.

20       **Q. The Bronco Field, is that close to Crossroads**  
21 **or near Milnesand? Is that correct?**

22       A. Not sure. Not sure.

23       **Q. Okay. Okay. Well, thank you very much for**  
24 **coming up here. We appreciate it.**

25       A. Thank you.

1                   MR. LARSON: Mr. Examiner, I just have one  
2 follow-up question.

3                   EXAMINER JONES: Yes.

4                   REDIRECT EXAMINATION

5 BY MR. LARSON:

6           Q.    Steward's acreage is east of NewTex's, right?

7           A.    Yes.

8           Q.    So that would explain the different approaches  
9 to north and south?

10          A.    Yeah.

11                  EXAMINER JONES: Okay. So you're closer to  
12 the state line then?

13                  THE WITNESS: Right. We're right on the  
14 state line. This well will be one mile in from the  
15 state line. So yeah.

16                  EXAMINER JONES: Yeah. I think Mr. Maxey  
17 appeared here once before, right next to the state line  
18 in this area and had some increased density vertical  
19 wells. So long time ago, though.

20                  MR. LARSON: That's all I have,  
21 Mr. Examiner.

22                  THE WITNESS: Thank you.

23                  EXAMINER JONES: Take Case 15877 under  
24 advisement.

25                  And we're going to bump over the Concho

1 cases, the three -- the four Concho cases, we're bumping  
2 them to this afternoon until at least 1:30. We're not  
3 starting before 1:30, anyway, for those.

4 EXAMINER BROOKS: Can we take a recess.

5 EXAMINER JONES: Let's take a recess. And  
6 then after the recess, well, we'll start with the RKI  
7 case.

8 (Recess, 9:23 a.m. to 9:40 a.m.)

9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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  
Paul Baca Professional Court Reporters

25