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October 24, 2017

VIA HAND DELIVERY

Case 15877

Florene Davidson
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Re: Steward Energy II, LLC Application

Dear Florene:

Enclosed please find: for filing, (i) the original and one (1) copy of an application by Steward Energy II, LLC ("Steward") for approval of a 480-acre, non-standard oil spacing and proration unit to be dedicated to Steward's Pollos Hermanos #2H well and compulsory pooling, and (ii) a proposed hearing notice. I will email the proposed hearing notice to you in Word format.

As stated in the application, Steward requests that the application be placed on the Division's November 30, 2017 hearing docket.

Thank you for your assistance.

Very truly yours,

Gary W. Larson

GWL:jwl
Enclosures

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

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**APPLICATION OF STEWARD ENERGY II,
LLC FOR A NON-STANDARD
SPACING AND PRORATION UNIT
AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

Case No. 15877

APPLICATION

Pursuant to NMSA § 70-2-17, Steward Energy II, LLC ("Steward") applies for an order (i) approving a 480-acre, non-standard spacing and proration unit in the SE/4 of Section 3 and the E/2 of Section 10, Township 14 South, Range 38 East in Lea County, New Mexico, and (b) pooling all uncommitted mineral interests in the San Andres formation. In support of its Application, Steward states:

1. Steward (OGRID No. 371682) is a working interest owner in the SE/4 of Section 3 and the E/2 of Section 10 and has the right to drill a well thereon.
2. Steward proposes to dedicate the above-referenced non-standard spacing and proration unit as the project area for the Pollos Hermanos #2H well, which will be horizontally drilled from a surface location in Unit O of Section 10 to a bottom hole location in Unit J of Section 3, Township 14 South, Range 38 East.
3. The completed interval for the Pollos Hermanos #2H well will remain within the 330-foot standard offset required by 19.15.15.9(A) NMAC.
4. Steward has undertaken diligent, good-faith efforts to obtain voluntary agreements from all mineral interest owners in the proposed project area to participate in the drilling of the well, but has been unable to obtain voluntary agreements from all of the mineral interest owners.

5. The pooling of those uncommitted mineral interests will avoid the drilling of unnecessary wells, prevent waste, and protect correlative rights.

6. In order to allow Steward to obtain its just and fair share of the oil and gas underlying the subject lands, all uncommitted mineral interest owners in the non-standard spacing and proration unit should be pooled and Steward should be designated the operator of the proposed horizontal well and project area.

WHEREFORE, Steward requests that this Application be set for hearing on November 30, 2017 and that, after notice and hearing, the Division enter an order:

A. Approving a 480-acre, non-standard spacing and proration unit (project area) in the San Andres formation in the SE/4 of Section 3 and the E/2 of Section 10, Township 14 South, Range 38 East, in Lea County;

B. Pooling all uncommitted mineral interests in the proposed project area;

C. Designating Steward as the operator of the project area and the Pollos Hermanos #2H well;

D. Authorizing Steward to recover its costs of drilling, equipping, and completing the well;

E. Considering the cost of drilling and completing the Pollos Hermanos #2H well and allocating the cost among the uncommitted mineral interest owners;

F. Approving the actual operating charges and costs of supervision during drilling and after completion, together with a provision for adjusting the rates pursuant to the COPAS accounting procedure; and

G. Imposing a 200% penalty for the risk assumed by Steward in drilling and completing the Pollos Hermanos #2H well against any mineral interest owner who does not voluntarily participate in the drilling of the well.

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Counsel for Steward Energy II, LLC

PROPOSED NOTICE

Case No. 15877: Application of Steward Energy II, LLC for a non-standard oil spacing and proration unit and compulsory pooling, Lea County, New Mexico. Applicant seeks an order (i) creating a 480-acre, non-standard oil spacing and proration unit (project area) comprised of the SE/4 of Section 3 and the E/2 of Section 10, Township 14 South, Range 38 East, NMPM, in Lea County, and (ii) pooling all mineral interests in the San Andres formation underlying this acreage. The project area is to be dedicated to the Pollos Hermanos #2H well, which will be horizontally drilled from a surface location in Unit O of Section 10 to a bottom hole location in Unit J of Section 3, Township 14 South, Range 38 East. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost, the designation of Steward Energy II, LLC as the operator of the proposed project area and the Pollos Hermanos #2H well, and a 200% charge for the risk involved in drilling and completing the well. The proposed project area is located approximately 16.5 miles northwest of Tatum, New Mexico.

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