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WRITER:

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2017 MAR 20 P 3:22

March 20, 2017

VIA HAND DELIVERY

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

Re: Case No. 15670 - Steward Energy II, LLC Amended Application

Dear Florene:

Enclosed please find for filing the original and one (1) copy of Steward Energy II, LLC's amended application in Case No. 15670. Also enclosed is proposed amended hearing notice. I will email the amended notice to you in Word format.

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. 15670

AMENDED 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 SW/4 of Section 3 and the W/2 of Section 10, Township 14 South, Range 38 East, Lea County, New Mexico, and (ii) pooling all uncommitted mineral interests in the San Andres formation. Additionally, Steward requests approval, pursuant to 19.15.15.13, of an unorthodox location for its Pollo Hermanos State #5H well. In support of its Amended Application, Steward states:

1. Steward (OGRID No. 371682) is a working interest owner in the SW/4 of Section 3 and the W/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 Pollo Hermanos State #5H well, which will be horizontally drilled from a surface location in Unit N of Section 10 to a bottom hole location in Unit K of Section 3, Township 14 South, Range 38 East.
3. 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.

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

5. 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.

6. Approving an unorthodox location for the Pollo Hermanos State #5H well will allow Steward to more efficiently and economically produce the well.

WHEREFORE, Steward requests that this amended application be set for hearing on April 13, 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 SW/4 of Section 3 and the W/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 Pollo Hermanos State #5H well;

D. Approving an unorthodox location for the Pollo Hermanos State #5H well;

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

F. Considering the cost of drilling and completing the Pollo Harmanos State #5H well and allocating the cost among the uncommitted mineral interest owners;

G. 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

H. Imposing a 200% penalty for the risk assumed by Steward in drilling and completing the Pollo Hermanos State #5H well against any mineral interest owner who does not voluntarily participate in the drilling of the well.

HINKLE SHANOR LLP

A handwritten signature in dark ink, appearing to read "Gary W. Larson", is written over a horizontal line.

Gary W. Larson

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Counsel for Steward Energy II, LLC

AMENDED PROPOSED NOTICE

Case No. 15670: Amended Application of Steward Energy II, LLC for a non-standard oil spacing and proration unit, compulsory pooling, and unorthodox well location, 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 SW/4 of Section 3 and the W/2 of Section 10, Township 14 South, Range 38 East, NMPM, in Lea County, (ii) pooling all mineral interests in the San Andres formation underlying this acreage, and (iii) approving an unorthodox location for applicant's Pollo Hermanos State #5H well. The project area is to be dedicated to the Pollo Hermanos State #5H well, which will be horizontally drilled from a surface location in Unit N of Section 10, Township 14 South, Range 38 East to a bottom hole location in Unit K 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 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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