

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:

SECOND AMENDED APPLICATION OF  
STEWARD ENERGY II, LLC FOR A  
NONSTANDARD OIL SPACING AND  
PRORATION UNIT AND COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15670

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 17, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
SCOTT DAWSON, TECHNICAL EXAMINER  
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Scott Dawson, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, August 17, 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  
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APPEARANCES

FOR APPLICANT STEWARD ENERGY II, LLC:

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1 (8:25 a.m.)

2 EXAMINER McMILLAN: With that in mind, I  
3 would like to call the first case, and it is Case Number  
4 15670, second amended application of Steward Energy II,  
5 LLC for a nonstandard oil spacing and proration unit and  
6 compulsory pooling, Lea County, 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 for the Applicant, Steward Energy II, LLC.

11 EXAMINER McMILLAN: Any other appearances?  
12 Please proceed.

13 MR. LARSON: Thank you.

14 I do not have any witnesses. May I  
15 proceed, Mr. Examiner?

16 EXAMINER McMILLAN: Yes.

17 MR. LARSON: The hearing in this case was  
18 held on April 13 of this year on Steward Energy's first  
19 amended application, which requested approval of a  
20 400-acre project area and compulsory pooling. And  
21 during the hearing, Steward withdrew its request for  
22 approval of an unorthodox location for the Pollos  
23 Hermanos State #5H horizontal well. Nobody appeared to  
24 oppose Steward's first amended application.

25 And as you'll recall, Mr. Examiner, several

1 weeks after the hearing, you informed me that the case  
2 would be dismissed without prejudice because Steward's  
3 well-proposal letters identified a 240-acre project area  
4 rather than the 400-acre project area identified in the  
5 first amended application and testified about by  
6 Steward's witnesses at the hearing.

7           Steward then pushed the reset button and  
8 sent new well-proposal letters to the three remaining  
9 uncommitted interests in the proposed project area. The  
10 well-proposal letter properly identified the proposed  
11 project area as comprising 480 acres. Steward also  
12 filed its second amended application, which omits the  
13 previous request for approval of an unorthodox well  
14 location and reiterates Steward's previous request for  
15 approval of a 400-acre project area and the pooling of  
16 all uncommitted interests in the San Andres Formation.

17           I would direct your attention to a document  
18 which has been marked as Steward Exhibit Number 13,  
19 which is the self-affirmed statement of a Mark Taylor  
20 Warren, one, and second, who provided land testimony at  
21 the previous hearing. And as noted in his affidavit,  
22 Mr. Warren sent identical certified mail well-proposal  
23 letters via certified mail to the three remaining  
24 uncommitted interest owners. Copies of one of the  
25 well-proposal letters and USPS tracking information are

1 attached to the affidavit as Exhibit A.

2 As further noted in the affidavit, timely  
3 certified mail notice letters were sent to the three  
4 uncommitted interest owners, as well as all offset  
5 interests. True and correct copies of samples of the  
6 hearing notice letters and associated green cards are  
7 attached to the affidavit as Exhibits B and C.

8 Finally, Steward caused the notice of  
9 today's hearing to be published in the "Hobbs Daily  
10 News-Sun" on July 20th. A copy of the Affidavit of  
11 Publication is attached to Mr. Warren's affidavit as  
12 Exhibit D.

13 And with that, I move the admission of  
14 Exhibit 13.

15 EXAMINER McMILLAN: Exhibit 13 may now be  
16 accepted as part of the record.

17 (Steward Energy II, LLC Exhibit Number 13  
18 is offered and admitted into evidence.)

19 EXAMINER McMILLAN: Okay. Simply for  
20 clarity purposes, you meant to say 480 acres? You said  
21 400 acres, but it's 480 acres, correct?

22 MR. LARSON: That's absolutely correct, 480  
23 acres.

24 EXAMINER McMILLAN: And what about the  
25 geologic testimony? Do you want to incorporate the

1 existing testimony?

2 MR. LARSON: Sure. I would like to  
3 incorporate all of the testimony presented at the April  
4 13th hearing.

5 EXAMINER McMILLAN: And I assume the well  
6 costs will be based on the previous testimony?

7 MR. LARSON: That's correct.

8 EXAMINER McMILLAN: And there are  
9 unlocatable interests, correct?

10 MR. LARSON: That is correct. And  
11 Mr. Warren testified about that at the previous hearing.

12 EXAMINER McMILLAN: It's also his testimony  
13 that you're essentially drilling a well more or less  
14 along the quarter-quarter section and that you do have  
15 plans for development for the east half of the west half  
16 and the west half of the west half?

17 MR. LARSON: That's correct. There will be  
18 three wells across the half section. The first well  
19 will be just off the centerline of the half section.

20 EXAMINER McMILLAN: Okay. And, once again,  
21 the project area will be orthodox?

22 MR. LARSON: Yes.

23 EXAMINER McMILLAN: And they haven't  
24 drilled the well, correct?

25 MR. LARSON: Correct.

1 EXAMINER McMILLAN: Okay. For clarity  
2 purposes, it was geologic and engineering testimony,  
3 correct?

4 MR. LARSON: That's correct. There was a  
5 land witness, the CEO of Steward, who is a petroleum  
6 engineer, and then the in-house geologist.

7 And in terms of the well, I don't want to  
8 say unequivocally it hasn't been drilled. I know it's  
9 been spud.

10 EXAMINER McMILLAN: Spud but not --

11 MR. LARSON: There was an issue with the  
12 state lease, which had a June 1 termination date.

13 EXAMINER McMILLAN: So basically you're  
14 saying it's spud, but it probably hasn't been completed?

15 MR. LARSON: That, I'm fairly certain of.

16 EXAMINER McMILLAN: Okay. So it's really a  
17 subject well?

18 MR. LARSON: And, again, we had a June 1  
19 termination date on a state lease.

20 EXAMINER McMILLAN: And you're also going  
21 to incorporate relevant portions of the landman's  
22 testimony, correct?

23 MR. LARSON: Absolutely, all of the  
24 testimony from the April 13th hearing.

25 EXAMINER McMILLAN: Let's see. Do you have

1 any questions?

2 EXAMINER DAWSON: What did they do about  
3 the June 1 termination of the state lease?

4 MR. LARSON: They got an extension from the  
5 State Land Office.

6 EXAMINER DAWSON: The State Land Office?  
7 Is that part of the record?

8 MR. LARSON: No. It's not part of the  
9 record.

10 EXAMINER DAWSON: That should probably be  
11 part of the record. Do you think?

12 EXAMINER McMILLAN: If you want.

13 EXAMINER DAWSON: I think it should be part  
14 of the record.

15 EXAMINER McMILLAN: Then you'll just email  
16 it to me. Email it to the OCD and everybody involved.

17 MR. LARSON: Would you like me to mark it  
18 as an exhibit?

19 EXAMINER DAWSON: That would be  
20 appropriate, yes. Thank you.

21 EXAMINER McMILLAN: Just do it today and  
22 get it done.

23 MR. LARSON: I will do it.

24 EXAMINER McMILLAN: Any questions?

25 EXAMINER BROOKS: No questions.

1                   EXAMINER McMILLAN: Case Number 15670 shall  
2 be taken under advisement.

3                   MR. LARSON: The new exhibit would be  
4 marked Exhibit 14, the letter from the State Land  
5 Office.

6                   EXAMINER McMILLAN: Okay.

7                   Before we go any further, I just -- the one  
8 Case Number 15758 and 15759, OneEnergy, shall be heard  
9 after lunch.

10                   (Case Number 15670 concludes, 8:33 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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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.

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MARY C. HANKINS, CCR, RPR  
Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2017  
Paul Baca Professional Court Reporters