

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
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APPEARANCES

FOR APPLICANT STEWARD ENERGY II, LLC:

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EXHIBITS OFFERED AND ADMITTED

Steward Energy II, LLC Exhibit Numbers 1 through 9	12
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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.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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5 I, MARY C. HANKINS, Certified Court
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