

**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 TO CONSIDER:**

**CASE NO. 15877
ORDER NO. R-14541**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 30, 2017, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 27th day of December, 2017, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and the subject matter.

(2) Steward Energy II, LLC (the "Applicant") seeks approval of a 480-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the San Andres formation, Bronco; San Andres, South Pool (Pool code 7500), comprising the E/2 of Section 10, Township 14 South, Range 38 East and the SE/4 of Section 3, Township 14 South, Range 38 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the San Andres formation.

(3) The Unit will be dedicated to Applicant's Pollos Hermanos State Com Well No. 2H (the "proposed well"; API No. 30-025-44038), a horizontal well to be drilled from a surface location 226 feet from the South line and 1350 feet from the East line (Unit O) of Section 10, Township 14 South, Range 38 East, to a bottom-hole location 2301 feet from the South line and 1350 feet from the East line (Unit J) of Section 3, Township 14 South, Range 38 East, NMPM. The location of the completed interval will be standard for this horizontal oil well within the Unit.

(4) The proposed well is within the Bronco; San Andres, South Pool and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of twelve adjacent quarter-quarter sections oriented south to north.

(5) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) the San Andres formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well from south to north is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the San Andres formation, so that the Unit as requested will not impair correlative rights;
- (d) the proposed Unit is comprised of 34 separate fee leases and one State tract;
- (e) Applicant has been in contact with the few remaining unleased mineral owners. Drilling will be in the San Andres Oil and the well will develop all quarter-quarter sections.
- (f) the proposed well will be drilled approximately one and one half miles and will be drilled very close to the center line of the 480-acres comprizing the E/2 of Section 10 and the SE/4 of Section 3;
- (g) the well will be completed with perforations and hydraulic fracturing treatments which will enable the well to produce oil and gas from all twelve quarter-quarter sections (standard units) in the proposed Unit and produce it approximately equally;
- (h) notice by certified mail was provided to all uncommitted interest owners in the proposed Unit and to surrounding owners whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments, and whose whereabouts could be ascertained by exercise of reasonable diligence; and
- (i) those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

- (6) No other party appeared or otherwise opposed this application.

The Division concludes as follows:

(7) The hydraulic fracturing proposed for completion of this well should enable all twelve quarter-quarter sections in the proposed Unit to be produced by the well if the well is drilled at the proposed location.

(8) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(9) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(10) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(11) There are interest owners in the Unit that have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(13) Steward Energy II, LLC (OGRID 371682) should be designated the operator of the proposed well and the Unit.

(14) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6500 per month per well while drilling and \$650 per month per well while producing, provided that these rates should be adjusted annually pursuant to the overhead adjustment provision of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Steward Energy II, LLC, a 480-acre non-standard oil spacing and proration unit and project area (the "Unit") is hereby established

for oil and gas production from the San Andres formation, Bronco; San Andres, South Pool (Pool code 7500), comprising the E/2 of Section 10, Township 14 South, Range 38 East and the SE/4 of Section 3, Township 14 South, Range 38 East, NMPM, Lea County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the San Andres formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Pollos Hermanos State Com Well No. 2H (the "proposed well"; API No. 30-025-44038), a horizontal well to be drilled from a surface location 226 feet from the South line and 1350 feet from the East line (Unit O) of Section 10, Township 14 South, Range 38 East, to a bottom-hole location 2301 feet from the South line and 1350 feet from the East line (Unit J) of Section 3, Township 14 South, Range 38 East, NMPM. The location of the completed interval will be standard for this horizontal oil well within the Unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before December 31, 2018, and shall thereafter continue drilling the proposed well with due diligence to test the San Andres formation.

(5) In the event the operator does not commence drilling the proposed well on or before December 31, 2018, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(8) Steward Energy II, LLC (OGRID 371682) is hereby designated the operator of the well and the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator

shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from each non-consenting owner's share of production from each well:

- (a) The proportionate share of reasonable well costs attributable to such interest; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6500 per month per well while drilling and \$650 per month per well while producing, provided that these rates may, at the election of the operator, be adjusted annually pursuant to the overhead adjustment provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required

for operating the well(s), not more than what are reasonable, attributable to each pooled working interest owner.

(16) Except as provided above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

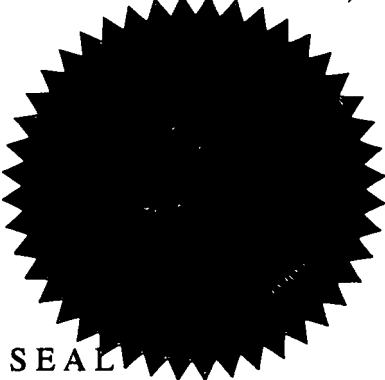
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(18) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this order, this order shall thereafter be of no further effect.

(19) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of parties subject to the compulsory pooling provisions of this order.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

DAVID R. CATANACH
Director