

**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:**

**CASE NO. 15670 (REOPENED)
ORDER NO. R-14335-A**

**SECOND AMENDED APPLICATION OF STEWARD ENERGY II, LLC FOR A
NON-STANDARD OIL 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 August 17, 2017, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 1st day of September, 2017, the Division Director, having considered the testimony, the record and the recommendations of 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 SW/4 of Section 3 and the W/2 of Section 10, all in 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. 5H (the "subject well"; API No. 30-025-43735), a horizontal well drilled from a surface location 225 feet from the South line and 1350 feet from the West line (Unit N) of Section 10, to a bottom-hole location 2339 feet from the South line and 1350 feet from the West line (Unit K) of Section 3, all in Township 14 South, Range 38 East, NMPM. The location of the completed interval will be orthodox for oil production within the Unit.

(4) The subject oil well is within the Bronco; San Andres, South Pool (pool code 7500) 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 (12) adjacent quarter-quarter sections oriented south to north.

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

- (a) Applicant requested that the relevant land, geological, and engineering testimony from the April 13, 2017 hearing be incorporated into the August 17, 2017 hearing;
- (b) the evidence from the April 13, 2017 hearing is listed as evidence (c) through (i); the only change being that at the initial hearing the Pollos Hermanos State Com Well No. 5H was proposed, and now the Pollos Hermanos State Com Well No. 5H has been spud;
- (c) the San Andres formation in this area is suitable for development by horizontal drilling;
- (d) the proposed orientation of the horizontal well from north to south or south to north is appropriate for the Unit;
- (e) 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;
- (f) Applicant has working interests in all of the different spacing units within the project area;
- (g) the subject well is planned to be drilled along the approximate quarter-quarter section boundaries within the Unit;
- (h) the planned drilling and completion techniques of the subject well will ensure that the subject well will develop all of the twelve quarter-quarter sections included in the Unit;
- (i) Applicant stated that the optimum development of the Unit entails drilling a minimum of three horizontal wells. Therefore in addition to the Pollos Hermanos State Com Well No. 5H, at least one horizontal well will be drilled in the E/2 SW/4 of Section 3 and the E/2 W/2 of Section 10, and one horizontal well is planned along the W/2 SW/4 of Section 3 and the W/2 W/2 of Section 10;

- (j) Applicant's attorney at the August 17, 2017 hearing stated that the subject well was spud, but not completed;
- (k) notice was provided for the August 17, 2017 hearing to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit;
- (l) notice was provided for the August 17, 2017 hearing to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit; and
- (m) Applicant provided notice of this application by publication before the August 17, 2017 hearing in a newspaper of general circulation in Lea County, New Mexico, the county in which the property is located for the only uncommitted owner Applicant was unable to locate after a diligent search.

(6) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(7) 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.

(8) Even though the W/2 SW/4 of Section 3, and the W/2 W/2 of Section 10 were not penetrated, the W/2 SW/4 of Section 3, and the W/2 W/2 of Section 10 should be included in the Unit. This is based on the Applicant's testimony that portions of the W/2 SW/4 of Section 3 and the W/2 W/2 of Section 10 will be developed by the drilling and completion techniques in the subject well.

(9) If the applicant requests additional wells within the Unit, those proposed wells should be considered infill wells and should be subject to Division Rule 19.15.13 NMAC.

(10) 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.

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

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

(13) 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.

(14) Steward Energy II, LLC should be designated the operator of the subject well and the Unit.

(15) Based on Division records, the subject well was spud on April 26, 2017. Production casing was set on June 9, 2017, and the subject well was hydraulically fractured on July 3, 2017. Tubing was emplaced in the subject well July 8, 2017. No Form C-105 has been filed with the Division.

(16) The as drilled bottom-hole location for the subject well is 2463 feet from the South line and 1401 feet from the West line (Unit K) of Section 3.

(17) 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 subject well.

(18) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,500 per month per well while drilling and \$650 per month per well, while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. 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 (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 SW/4 of Section 3, and the W/2 of Section 10, all in 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. 5H (the "subject well"; API No. 30-025-43735), a horizontal well drilled from a surface location 225 feet from the South line and 1350 feet from the West line (Unit N) of Section 10, to a bottom-hole location 2463 feet from the South line and 1401 feet from the West line (Unit K) of Section 3, all in Township 14 South, Range 38 East, NMPM. The location of the completed interval will be standard for an oil well within the Unit.

(4) Applicant shall supply the required Form C-105 completed in its entirety based on the Hobbs District Office requirements, within 60 days of issuance of this Order. If the C-105 is not supplied satisfactorily to the Division, 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 good cause shown by satisfactory evidence. If the subject well is not completed in all of the standard spacing units it is projected to drain within 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 which the well will develop.

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

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

(7) 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 subject well ("well costs").

(8) 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."

(9) 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 subject 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.

(10) 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.

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$6500 per month per well while drilling and \$650 per month per well, while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. 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, not more than what are reasonable, attributable to pooled working interest owners.

(14) Except as provided above, all proceeds from production from the subject 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).

(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of 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.

(16) 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.

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

(18) If the applicant proposes infill wells within the Unit, the proposed infill wells shall be subject to Division Rule 19.15.13 NMAC.

(19) 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

DAVID R. CATANACH
Director