

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 CHISHOLM ENERGY
OPERATING, LLC FOR A NONSTANDARD
SPACING AND PRORATION UNIT,
COMPULSORY POOLING, AND UNORTHODOX
WELL LOCATION, LEA COUNTY, NEW MEXICO. CASE NO. 16406

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 20, 2018

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, September 20, 2018, 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.

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APPEARANCES

FOR APPLICANT CHISHOLM ENERGY OPERATING, LLC:

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1 (8:52 a.m.)

2 EXAMINER JONES: Let's go to Chisholm,
3 which is Case Number 16406, application of Chisholm
4 Energy Operating, LLC for a nonstandard spacing and
5 proration unit, compulsory pooling, and unorthodox
6 location, Lea County, New Mexico.

7 Call for appearances.

8 MS. BROGGI: Good morning. Julia Broggi,
9 with Holland & Hart, on behalf of the Applicant,
10 Chisholm Energy Operating, LLC.

11 EXAMINER JONES: Any other appearances?
12 Any witnesses?

13 MS. BROGGI: No. We would ask to present
14 it by affidavit.

15 EXAMINER JONES: Okay.

16 MS. BROGGI: As a preliminary matter, we
17 would like to go ahead and dismiss the portion of the
18 case asking for an unorthodox well location.

19 EXAMINER JONES: Okay.

20 MS. BROGGI: The completed interval has now
21 been moved to the west, so now it complies with the
22 Division setbacks.

23 EXAMINER JONES: Okay. So we're
24 dismissing --

25 MS. BROGGI: Just the portion --

1 EXAMINER JONES: -- the NSL portion?

2 MS. BROGGI: Yeah.

3 EXAMINER JONES: That's really good. I
4 like that, dismissing the NSL portion. I don't have to
5 worry about that.

6 But the surface location is still over in
7 A, A, right, quarter-quarter of A?

8 MS. BROGGI: Yes.

9 EXAMINER JONES: Okay. And you're drilling
10 over in the west half-east half?

11 MS. BROGGI: West half-east half, yes.

12 So this follows the similar format as we've
13 been doing these last few hearings. Exhibit A is the
14 affidavit of the landman, Jacob Daniels, and he
15 testifies that in this case, Chisholm is seeking to
16 create a 320-acre spacing and proration unit, to
17 dedicate that to the proposed Jade 34-3 Fed Com 1BS #7H
18 well and to pool all uncommitted mineral interests in
19 the Bone Spring Formation.

20 And attached to his affidavit as Exhibit A1
21 is the draft C-102, and you can see on the C-102 that
22 the completed interval now complies with the setbacks,
23 because originally it was too close to the eastern
24 boundary.

25 EXAMINER JONES: Okay.

1 MS. BROGGI: And so now it's been moved
2 over.

3 EXAMINER JONES: Okay.

4 MS. BROGGI: There are no depth severances
5 in the Bone Spring Formation. That's included in his
6 affidavit at paragraph eight.

7 Exhibit 2 -- A2 to his affidavit is sort of
8 an ownership exhibit. It shows, on the first page of
9 that exhibit, the tracts, and the proposed wellbore is
10 there in -- I don't know if that's gray or blue, that
11 line. The second page of Exhibit B2 shows the working
12 interest owner by tract and by unit. And for the unit,
13 you can see that the -- it's all working interest owners
14 that we're seeking to pool here. And you can see the
15 ones that are highlighted in yellow. So Devon Energy
16 Production, et cetera, those are the working interest
17 owners Chisholm is seeking to pool in this case.

18 And actually I guess I misspoke. We're
19 also seeking to pool the overriding royalty interest
20 owners, and the list of them is on pages 3 and 4 of B2.

21 So we tried to -- you had sent an
22 email with some direction about how you wanted to see
23 that. So we did -- I don't know if this is too much.

24 EXAMINER JONES: This is good.

25 MS. BROGGI: Is that good?

1 EXAMINER JONES: Yes.

2 MS. BROGGI: Okay. We tried to break it
3 out by tract.

4 EXAMINER JONES: This is good.

5 MS. BROGGI: Some of them are the same
6 but --

7 EXAMINER JONES: Because they're dependent
8 by the tract they're in, I'm sure. It doesn't show
9 their interest within their overrides, but I assume we
10 don't need that.

11 EXAMINER BROOKS: We don't.

12 EXAMINER JONES: Okay. He says no. So --

13 MS. BROGGI: Okay. So then that is a list
14 of the overrides. And to address what I anticipate
15 Mr. Brooks' question is, some of the instruments did
16 allow for pooling, but the majority of them didn't, so
17 out of an abundance of caution, we're just asking to
18 pool all of them.

19 EXAMINER BROOKS: Okay.

20 MS. BROGGI: There are no unleased mineral
21 interest owners.

22 Exhibit A3 is the well-proposal letter --
23 or one of the well-proposal letters that Chisholm sent
24 out to the working interest owners. That includes an
25 AFE, which is also part of Exhibit A3. And they have

1 made an estimate of overhead and administrative costs
2 for drilling and producing, and that is 7,500 a month
3 while drilling and 750 a month while producing.

4 And then in paragraph 14 of the affidavit,
5 Mr. Daniels opines that he has made good-faith efforts
6 to reach agreement with the parties they're seeking to
7 pool. There were many telephone conversations and email
8 correspondence back and forth. And if Chisholm is able
9 to reach an agreement with some of the parties, which
10 they may be able to, they will let the Division know.

11 EXAMINER JONES: Okay.

12 MS. BROGGI: And in paragraph 15,
13 Mr. Daniels testifies that he gave us a list of the
14 names and addresses for the parties, both working
15 interest owners and the overrides, to our law firm and
16 that they conducted a diligent search of all public
17 records and that all parties were locatable.

18 So the next exhibit is Exhibit B, and
19 that's an affidavit from the geologist, Josh Kuhn, and
20 he has two exhibits, Exhibit B1 and Exhibit B2 to his
21 affidavit. He testifies that in this case, they're
22 targeting the 1st Bone Spring Formation.

23 Exhibit B1 is the subsea structure map.
24 The contour interval is 50 feet. Chisholm's acreage is
25 what's been highlighted in yellow on Exhibit B1, and you

1 can see the proposed wellbore path of the proposed Jade
2 34-3 Fed Com 1BS #7H well. That's that dashed line in
3 gray. The structure map shows that the 1st Bone Spring
4 is gently dipping to the southeast. And Mr. Kuhn
5 testifies that the structure appears consistent across
6 the proposed wellbore path and that he does not observe
7 any faulting, pinch-outs or other geologic impediments
8 to horizontal drilling.

9 You will also see on Exhibit B1 the four
10 representative wells marked from A to A prime that
11 Mr. Kuhn used in the stratigraphic cross section, which
12 is Exhibit B2 to his affidavit. And B2 is that
13 stratigraphic cross section, and it displays the
14 open-hole logs for the 1st Bone Spring for the four
15 representative wells. And he has concluded that the
16 target interval within that 1st Bone Spring is
17 consistent in thickness across the entire proposed
18 spacing unit. I also will mention that the target
19 interval is highlighted in green and marked on that
20 exhibit, B2.

21 And then finally he testifies that in his
22 opinion, each quarter-quarter section will be productive
23 and contribute more or less equally to each 40-acre unit
24 comprising the spacing and proration unit and that in
25 his opinion, horizontal drilling will be the most

1 efficient method to develop the acreage, to prevent the
2 drilling of unnecessary wells and to result in the
3 greatest ultimate recovery.

4 And finally, he testifies that in his
5 opinion, the granting of the application in this case
6 will be in the best interest of conservation, the
7 prevention of waste and the protection of correlative
8 rights.

9 And finally, Exhibit C is an affidavit from
10 myself with the notice letters that went out to the
11 proposed pool parties.

12 I will tell you that we did have some
13 issues with notice, so we are going to have to continue
14 the case for a month to provide notice to some
15 additional overrides and address some issues with the
16 post office.

17 EXAMINER JONES: Okay. That would be to
18 October 18th?

19 MS. BROGGI: Yes.

20 And then finally, even though all the
21 interests were locatable, we did, out of an abundance of
22 caution, do notice by publication, and an Affidavit of
23 Publication is attached as Exhibit D.

24 So I would ask that Exhibits A through D
25 and the exhibits that are attached to those affidavits

1 be put into evidence.

2 EXAMINER JONES: Exhibits A through D are
3 admitted.

4 (Chisholm Energy Operating, LLC Exhibit
5 Letters A through D are offered and
6 admitted into evidence.)

7 EXAMINER JONES: Will you be publishing a
8 new newspaper notice also possibly?

9 MS. BROGGI: Possibly. Yeah. I'm almost
10 certain we will.

11 EXAMINER JONES: Okay.

12 At the same time, can you -- I'm not
13 sure -- so the pool -- do we have any idea about the
14 pools in Lea County?

15 MS. BROGGI: I do know the pool code on
16 this.

17 EXAMINER JONES: Pardon?

18 MS. BROGGI: The pool code.

19 EXAMINER JONES: Yeah, the pool code.

20 MS. BROGGI: The pool code is in paragraph
21 six of the landman's affidavit, and it's Pool Code
22 58960.

23 EXAMINER JONES: That's an old code, so
24 that means there is a real pool there.

25 EXAMINER BROOKS: You don't have a pool

1 name?

2 MS. BROGGI: That, I don't know. Would you
3 like me to find that?

4 EXAMINER JONES: I can look it up by pool
5 code.

6 EXAMINER BROOKS: Yeah. That's true.

7 EXAMINER JONES: Sounds like it's a defined
8 pool, and it probably includes 40-acre spacing and no
9 special pool rules probably.

10 MS. BROGGI: I don't think so.

11 EXAMINER JONES: Probably not.

12 And they're up reasonably close to the
13 Delaware, but we don't have a vertical setback in our
14 horizontal well rules anyway, so I guess I won't worry
15 about it.

16 EXAMINER BROOKS: We don't. Of course,
17 when you file the C-102 that goes with the APD, you'll
18 have to show the spacing unit in the C-102, because
19 that's the only way it gets declared, since we don't
20 establish it in our order.

21 MS. BROGGI: Okay.

22 EXAMINER JONES: Any rush on drilling that
23 you know about?

24 MS. BROGGI: No.

25 EXAMINER JONES: You'll tell us at the next

1 hearing if there is?

2 MS. BROGGI: Well, in two hearings.

3 EXAMINER JONES: Yeah, October 18.

4 EXAMINER BROOKS: 18.

5 MS. BROGGI: So if there are no further
6 questions, we would ask that Case 16406 be taken under
7 advisement.

8 EXAMINER BROOKS: I thought it was
9 continued.

10 MS. BROGGI: I'm sorry. Yes.

11 EXAMINER JONES: So Case Number 16406 is
12 continued to October 18th.

13 MS. BROGGI: Thank you.

14 (Case Number 16406 concludes, 9:03 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.

20 DATED this 6th day of October 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters