

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 NOS: 21799, 21800

APPLICATION OF CHISHOLM ENERGY
OPERATING LLC FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
MAY 6, 2021
SANTA FE, NEW MEXICO

This matter came on for virtual hearing before
the New Mexico Oil Conservation Division, HEARING OFFICER
WILLIAM BRANCARD and TECHNICAL EXAMINER LEONARD LOWE on
Thursday, MAY 6, 2021, through the Webex Platform.

Reported by: Irene Delgado, NMCCR 253
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A P P E A R A N C E S

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BETH RYAN

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1 HEARING EXAMINER BRANCARD: We have now cases 20
2 and 21, also Chisholm Energy, 21799 and 21800.

3 MS. LUCK: Good morning, Mr. Examiner. Kaitlyn
4 Luck with the Santa Fe office of Holland & Hart on behalf of
5 the applicant in these cases, Chisholm Energy Operating LLC.

6 HEARING EXAMINER BRANCARD: We have a number of
7 entries of appearance in this case. I see EOG.

8 MR. RITTENHOUSE: Joby Rittenhouse from Beatty
9 and Wozniak appearing on behalf of EOG.

10 HEARING EXAMINER BRANCARD: Thank you. COG?

11 MS. RYAN: Good morning, Mr. Examiner, this is
12 Beth Ryan entering an appearance on behalf of COG Operating
13 LLC.

14 HEARING EXAMINER BRANCARD: Okay. Legacy?

15 MR. PADILLA: Mr. Examiner, Ernest L. Padilla for
16 Legacy Reserves Operating LLC.

17 HEARING EXAMINER BRANCARD: Okay. And Tap Rock?

18 MR. BRUCE: Yes, Mr. Examiner, Jim Bruce
19 representing Tap Rock.

20 HEARING EXAMINER BRANCARD: Are there any other
21 entries of appearance in Cases 21799 and 21800?

22 (No audible response.)

23 HEARING EXAMINER BRANCARD: So where are we? Ms.
24 Luck, it appears that Tap Rock is objecting to this case
25 going forward by affidavit?

1 MS. LUCK: That's my understanding as well. Tap
2 Rock reached out to Chisholm and requested a continuance and
3 Chisholm does not agree to that continuance because Chisholm
4 would like to proceed with its development.

5 And so there was not a motion filed for a
6 continuance, so at this point Chisholm would like to go
7 ahead and with proceed by putting on its cases by affidavit.

8 HEARING EXAMINER BRANCARD: Well, I will ask the
9 other parties about that. I will start with Mr. Bruce.

10 MR. BRUCE: Again, I object to it being presented
11 by affidavit. The -- I had requested a voluntary
12 continuance from Chisholm, and they wouldn't go with that,
13 and all Tap Rock really wanted was to continue it to a June
14 hearing because they thought they were in settlement
15 negotiations.

16 And if the matter does go on, whenever an order
17 comes out, Tap Rock will file for a de novo hearing. And so
18 going ahead at this point, I don't think, buys Chisholm any
19 time.

20 HEARING EXAMINER BRANCARD: Let me check with the
21 other parties here to see what their level of interest is.
22 EOG?

23 MR. RITTENHOUSE: EOG doesn't have an objection
24 to proceeding by affidavit.

25 HEARING EXAMINER BRANCARD: Thank you. COG?

1 MS. RYAN: We have no objection for it
2 proceeding. Thank you.

3 HEARING EXAMINER BRANCARD: Legacy?

4 MR. PADILLA: No objection to an affidavit
5 hearing.

6 HEARING EXAMINER BRANCARD: Thank you. Ms. Luck,
7 do you have live witnesses?

8 MS. LUCK: I do have the land representative for
9 Chisholm available, Mr. Shelton. He is here for any
10 cross-examination if Mr. Bruce would like to proceed with
11 that, but I do have the exhibit packet that we filed on
12 Tuesday to present the case by affidavit, and then I can
13 have the witnesses available for cross-examination.

14 HEARING EXAMINER BRANCARD: Okay. So how many
15 witnesses do you have? How many affidavits do you have, I
16 guess, is the question?

17 MS. LUCK: I have two affidavits, the affidavit
18 of Luke Shelton, the landman for Chisholm, and I have the
19 affidavit of Josh Kuhn, the geologist for Chisholm.

20 HEARING EXAMINER BRANCARD: And they are both
21 available for cross-examination?

22 MS. LUCK: That's correct.

23 HEARING EXAMINER BRANCARD: Mr. Bruce, do you
24 have these affidavits?

25 MR. BRUCE: Yes, yes. And I would not have any

1 questions for the geologist.

2 HEARING EXAMINER BRANCARD: Okay, but you would
3 have questions for the landman?

4 MR. BRUCE: Yes.

5 HEARING EXAMINER BRANCARD: Okay. So Ms. Luck, I
6 don't know which order you wanted to put them on in, but you
7 may proceed.

8 MS. LUCK: Thank you. I will go ahead and start
9 with the landman, Mr. Shelton.

10 On Tuesday Chisholm filed its exhibit packet with
11 the Division. In that exhibit packet it started off with
12 Exhibit A, which is the affidavit of Luke Shelton, the
13 landman of Chisholm.

14 His affidavit explains that in these two cases
15 Chisholm is seeking orders pooling all uncommitted interests
16 in the Bone Spring formation. This is in the Teas Bone
17 Spring pool, pool code 58960, and underlying two horizontal
18 spacing units comprised of the W/2 of the W/2 of Section 34,
19 Township 19 South, Range 33 East in the W/2 W/2 of Section
20 3, Township 20 South, Range 33 East, and this is all in Lea
21 County.

22 And in the second case it's the same two
23 sections, Sections 3 and 34, but the second case, 21800 is
24 the E/2 W/2 of those two sections.

25 So in case 21799, Chisholm seeks to dedicate the

1 W/2 W/2 acreage of those sections to the Jade 5H and 9H
2 wells, and Mr. Shelton provides the C-102s as Exhibit A-1.

3 In Case 21800, Chisholm seeks to dedicate the E/2
4 W/2 acreage of Section 34 and 3 to the Jade Fed Com 6H and
5 10H wells. Again those C-102s are provided as Exhibit A-1.

6 Exhibit A-2 identifies the tracts in each of the
7 spacing units and the interest owners in each of those two
8 proposed horizontal spacing units in the Bone Spring
9 formation. Mr. Shelton also identifies the interest owners
10 that he seeks to -- or that Chisholm seeks to pool in these
11 two cases.

12 Next Chisholm provides a copy of the well
13 proposal letter in both cases as Exhibit A-3. And finally
14 Chisholm's Exhibit A-4 contains a chronology of the contacts
15 of the uncommitted interest owners in these two cases, and
16 Mr. Shelton's affidavit provides that he believes Chisholm
17 has made a good faith effort to reach an agreement with any
18 of the uncommitted working interest owners in these two
19 units.

20 So with that, I would move the admission of
21 Exhibits A, as well as A-1 through A-4, and I would
22 offer Mr. Shelton for any questions. He is available on the
23 conference at this time.

24 HEARING EXAMINER BRANCARD: Thank you. Mr.
25 Shelton, are you available?

1 THE WITNESS: Can you hear me?

2 HEARING EXAMINER BRANCARD: Yes, I can. First
3 let's get you sworn in. Do you solemnly swear the testimony
4 you are about to give is the truth and nothing but the
5 truth?

6 MR. SHELTON: I do.

7 HEARING EXAMINER BRANCARD: We will start with
8 Mr. Bruce. Questions for the witness?

9 MR. BRUCE: Just a few questions, Mr. Examiner.

10 LUKE SHELTON

11 (Sworn, testified as follows:)

12 CROSS-EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Shelton, on Chisholm's behalf, have you been
15 in discussions with Tap Rock regarding this process?

16 A. Yes, I have.

17 Q. And who have you had most of your contacts with?

18 A. Primarily Erica Hickson. That's the only person
19 I have dealt with.

20 Q. Oh, okay. Are -- have proposals been made
21 regarding settlement?

22 A. Yes, we made a cash offer on March 29 --
23 actually, prior to that, we, we looked at trade options.
24 Our positions don't really line up that well, so she
25 indicated that their preference at the time was to divest.

1 So we made a cash offer. It seemingly was in
2 review by their team for a number of days. Then eventually
3 we increased our cash offer, and that was made on April 20,
4 and I have not yet heard a response to that.

5 **Q. Okay. I was told that they had made -- and you**
6 **can correct me if I'm wrong -- but I was told that Tap Rock**
7 **on the 28th of April did make some other offer to you.**

8 A. My understanding of the April 28 was our CEO had
9 a discussion with someone at Tap Rock, I'm not exactly sure,
10 just he indicated that it was an over-coffee discussion.

11 **Q. Oh, okay.**

12 A. They noted one particular tract that wasn't going
13 to work for us. He has responded to them a couple of days
14 ago, I believe, letting them know that and asking again of
15 their interest in our last cash offer.

16 **Q. Okay. Okay. Is Chisholm still willing to**
17 **continue discussing with Tap Rock options after this**
18 **hearing?**

19 A. Yeah, absolutely. And most all the parties here,
20 we have ongoing discussions with each other.

21 **Q. Okay. I'm looking real quick. What is**
22 **Chisholm's approximate interest in the various well units?**
23 **I know it's in the exhibit package, but there are quite a**
24 **few.**

25 A. Yeah.

1 Q. Quite a few land outlines that are very good, but
2 I don't want to wade through them all.

3 A. It's roughly 43, 43.5 percent.

4 Q. Okay. Okay.

5 MR. BRUCE: Mr. Examiner, that's the only
6 questions I have.

7 HEARING EXAMINER BRANCARD: Thank you. Mr.
8 Bruce, do you have any objections to the exhibits being
9 admitted?

10 MR. BRUCE: No.

11 HEARING EXAMINER BRANCARD: I will then go to the
12 other parties and ask, a, if they have questions, and, b, if
13 they have objections to the exhibits being admitted. EOG?

14 MR. RITTENHOUSE: No questions and no objections.

15 HEARING EXAMINER BRANCARD: Thank you. COG?

16 MS. RYAN: None. Thank you.

17 HEARING EXAMINER BRANCARD: Great. And Legacy?

18 MR. PADILLA: None as well, no objection.

19 HEARING EXAMINER BRANCARD: Thank you. Mr. Lowe,
20 do you have any questions of this witness?

21 TECHNICAL EXAMINER LOWE: No, I do not.

22 HEARING EXAMINER BRANCARD: All right. With
23 that, the exhibits that were offered will be admitted into
24 the record, and Ms. Luck you may proceed with your next
25 witness.

1 (Exhibits A, A-1 through A-4 admitted.)

2 MS. LUCK: Thank you. Turning back to the
3 exhibit packet that was filed on Tuesday in these two cases,
4 Chisholm's Exhibit B is the affidavit of the Josh Kuhn. As
5 I mentioned he is the geologist on the project for the Jade
6 wells.

7 His affidavit explains that he has testified
8 before the Division, and his credentials have been accepted.
9 In these two cases, Chisholm is targeting the Bone Spring
10 formation, and so his Exhibit B-1 is a project location map
11 showing the location for the proposed Jade wells within the
12 First and Second Bone Spring intervals of the Bone Spring
13 formation.

14 His Exhibit B-2 is a subsea structure map for the
15 First Bone Spring formation and identifies the spacing unit
16 within Sections 34 and 3.

17 Then his Exhibit B-3 is a subsea structure map
18 for the Second Bone Spring formation and it also outlines
19 the horizontal spacing unit within Sections 34 and 3. Both
20 of those structure maps, both B-2 and B-3 are also cross
21 section maps that identify the lines of cross section for
22 the cross section prepared by Mr. Kuhn for each of the
23 targeted intervals.

24 So his Exhibit B-4 and B-5 are the cross section
25 for both the First Bone Spring target interval as well as

1 the Second Bone Spring target interval.

2 And Mr. Kuhn testifies that, based on his opinion
3 and his geologic study, that this acreage is appropriate for
4 horizontal well development and spacing is appropriate for
5 the subject acreage.

6 So that with that I would move the admission of
7 Exhibits B, as well as B-1 through 5, and I would offer
8 Mr. Kuhn for any questions.

9 HEARING EXAMINER BRANCARD: Thank you. I will go
10 first to Mr. Bruce. Any questions for this witness and any
11 objections to the exhibits?

12 MR. BRUCE: Two things, no objection to the
13 witness nor the geologic exhibits. I just noticed one thing
14 in looking through the land exhibits, there weren't any AFEs
15 in the land exhibits, and I wonder if we could get those.

16 MS. LUCK: Yeah, of course. That was an
17 oversight if that was not included with our well proposal.

18 MR. BRUCE: I know how that goes. I would just
19 like to see them if I could.

20 MS. LUCK: Of course, I will send them over to
21 you.

22 HEARING EXAMINER BRANCARD: Ms. Luck, do we
23 normally get those as part of our exhibit packet?

24 MS. LUCK: Typically those are provided with my
25 well proposal exhibit, so Exhibit C-3, so I will just

1 supplement my exhibit with those AFEs -- excuse me -- A-3,
2 not C-3.

3 HEARING EXAMINER BRANCARD: Okay. Thank you, and
4 I will quickly go through the other parties. Any questions
5 for this witness? Any objections to the exhibits? EOG?

6 MR. RITTENHOUSE: No, sir. Thank you.

7 HEARING EXAMINER BRANCARD: COG?

8 MS. RYAN: No, thank you.

9 HEARING EXAMINER BRANCARD: And Legacy?

10 MR. PADILLA: No, no questions.

11 HEARING EXAMINER BRANCARD: Mr. Lowe?

12 TECHNICAL EXAMINER LOWE: I have no questions.
13 Thank you.

14 HEARING EXAMINER BRANCARD: All right. So with
15 that, we will take the exhibits associated with the geologic
16 testimony, admit them into the record. Ms. Luck, do you
17 have any other exhibits or testimony for us?

18 (Exhibits B, B-1 through B-5 admitted.)

19 MS. LUCK: Yeah, I just have my few final
20 exhibits to wrap up the exhibit packet.

21 So Exhibit C is the checklist for both cases.

22 Exhibit D are copies of the applications for both
23 cases.

24 Exhibit E is a notice affidavit by me reflecting
25 that our office provided timely notice of this hearing by

1 mail to the interest owners to be pooled.

2 And then finally Exhibit F is an affidavit of
3 publication just reflecting that just in case any of these
4 mailings weren't delivered, we also published notice of this
5 hearing in the newspaper in Lea County to be sure that all
6 the interest owners received proper notice of this hearing.

7 So that wraps up my exhibits, and I move the
8 admission of Exhibits C through F as well.

9 HEARING EXAMINER BRANCARD: Thank you. I will
10 open it up to all the parties. Are there any questions or
11 objections to these exhibits? COG?

12 MR. PADILLA: None from Legacy.

13 MS. RYAN: None from COG.

14 MR. RITTENHOUSE: None from EOG.

15 HEARING EXAMINER BRANCARD: Mr. Bruce?

16 MR. BRUCE: No objection.

17 HEARING EXAMINER BRANCARD: Thank you. Mr. Lowe,
18 any questions regarding these exhibits?

19 TECHNICAL EXAMINER LOWE: No, I have no questions
20 questions, but I want to compliment Ms. Luck on her
21 exhibits. Her exhibits are a lot easier to get through, so
22 thank you for that.

23 HEARING EXAMINER BRANCARD: Thank you.

24 MS. LUCK: No problem. I can't take credit for
25 that, that's all my secretary, Carla. She does a great job.

1 TECHNICAL EXAMINER LOWE: Well, she did a great
2 job.

3 HEARING EXAMINER BRANCARD: Ms. Luck, are you
4 done with your direct testimony here?

5 MS. LUCK: That's all that I have for Chisholm,
6 so I would ask that Case 21799 and 21800 be taken under
7 advisement.

8 HEARING EXAMINER BRANCARD: So I will quickly go
9 to the other parties. Are there any other issues wanting to
10 be raised or objections at this point? Mr. Bruce, we'll
11 start with you.

12 MR. BRUCE: Nothing else at this time.

13 HEARING EXAMINER BRANCARD: Thank you. EOG?

14 MR. RITTENHOUSE: Nothing from EOG.

15 HEARING EXAMINER BRANCARD: COG?

16 MS. RYAN: Nothing, thank you.

17 HEARING EXAMINER BRANCARD: Legacy?

18 MR. PADILLA: None, thank you.

19 HEARING EXAMINER BRANCARD: Thank you. Okay.
20 With that, then the remaining exhibits, Ms. Luck, will be
21 taken under -- will be admitted into the record, and cases
22 21799 and 21800 will be taken under advisement. Thank you.

23 MS. LUCK: Thank you.

24 (Exhibits C through F admitted.)

25 (Taken under advisement.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico Certified Court Reporter, CCR 253, do hereby certify that I reported the foregoing virtual proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.

I FURTHER CERTIFY that the Virtual Proceeding was of poor to good quality.

Dated this 6th day of May 2021.

/s/ Irene Delgado

Irene Delgado, NMCCR 253
License Expires: 12-31-21