

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 AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO. CASE NO. 15851

Consolidated with

APPLICATION OF CHISHOLM ENERGY
OPERATING, LLC FOR A NONSTANDARD
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO. CASE NO. 15852

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 12, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 12, 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.

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APPEARANCES

FOR APPLICANT CHISHOLM ENERGY OPERATING, LLC:

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FOR INTERESTED PARTIES MRC SPIRAL RESOURCES, LLC; MRC
DELAWARE RESOURCES, LLC; MRC EXPLORERS RESOURCES, LLC:

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1 (9:50 a.m.)

2 EXAMINER GOETZE: Case Number 15851,
3 application of Chisholm Energy Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,
8 from the Santa Fe office of Holland & Hart. And I had
9 requested in the pre-hearing cases that 15851 and 15852
10 be consolidated for hearing purposes.

11 EXAMINER GOETZE: Case Numbers 15812 and
12 15852 are consolidated for hearing.

13 Thank you.

14 And will the witnesses identify yourselves
15 to the court reporter?

16 MS. KESSLER: Two witnesses.

17 EXAMINER GOETZE: You want to come back?

18 MR. BRUCE: I want to have fun.

19 EXAMINER GOETZE: Other appearances?

20 MR. BRUCE: Mr. Examiner, Jim Bruce of
21 Santa Fe. I'm entering an appearance in both cases on
22 behalf of MRC Spiral Resources, LLC; MRC Delaware
23 Resources, LLC; and MRC Explorers, with an S, Resources,
24 LLC. I have no witnesses.

25 EXAMINER GOETZE: Okay. I saw your

1 application for entry. Sorry about that.

2 Come on up and sit in the front if you
3 want.

4 MR. BRUCE: No. Thank you.

5 EXAMINER GOETZE: Would the witnesses
6 please stand, identify yourself to the court reporter
7 and she will swear you in?

8 MR. ARMOUR: Davis Armour.

9 MR. KUHN: I'm Josh Kuhn.

10 (Mr. Armour and Mr. Kuhn sworn.)

11 MS. KESSLER: May I proceed?

12 EXAMINER GOETZE: Please.

13 DAVIS ARMOUR,

14 after having been first duly sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MS. KESSLER:

18 **Q. Please state your name for the record and tell**
19 **the Examiners by whom you're employed and in what**
20 **capacity?**

21 A. My name is Davis Armour, and I'm employed by
22 Chisholm as a senior landman.

23 **Q. Have you previously testified before the**
24 **Division?**

25 A. I have not.

1 **Q. Can you please outline your educational**
2 **background?**

3 A. Sure. In 2007, I graduated from Texas
4 Christian University with a degree in history. In 2016,
5 I graduated from the University of Houston with an MBA.
6 I've worked as a landman since 2007, but more recently
7 since 2011, I've been working as a landman in the
8 Permian Basin, working in Texas and in New Mexico.

9 **Q. So you have worked as a petroleum landman since**
10 **approximately 2007?**

11 A. That's correct.

12 **Q. Okay. And your experience in recent years has**
13 **focused on the Permian Basin?**

14 A. That's correct.

15 **Q. Are you a member of any professional**
16 **associations?**

17 A. Yes. I'm a member of the Permian Basin
18 Landmen's Association and the AAPL.

19 **Q. Do you have any professional certifications?**

20 A. I do. I'm a certified professional landman
21 from the AAPL.

22 **Q. Are you familiar with the applications filed in**
23 **these consolidated cases?**

24 A. Yes.

25 **Q. And are you familiar with the status of the**

1 **lands in the subject area?**

2 A. Yes.

3 MS. KESSLER: Mr. Examiner, I'd ask that
4 Mr. Armour be qualified as an expert in petroleum land
5 matters.

6 EXAMINER GOETZE: He is so qualified.

7 **Q. (BY MS. KESSLER) Can you please --**

8 EXAMINER GOETZE: Oh, wait a minute.
9 Mr. Bruce?

10 MR. BRUCE: No objection.

11 EXAMINER GOETZE: Very good.

12 **Q. (BY MS. KESSLER) Can you please explain what**
13 **Chisholm seeks under these two applications?**

14 A. Yes. We are here seeking the formation of two
15 160-acre proration unit -- spacing units that would pool
16 the Bone Spring Formation.

17 **Q. That would be two nonstandard 160-acre spacing**
18 **units, correct?**

19 A. Correct.

20 **Q. Do you seek to pool the uncommitted interest**
21 **owners in the Bone Spring Formation?**

22 A. That's correct, the working interest.

23 **Q. Okay. What is Exhibit 1? Is this an approved**
24 **C-102 for the Gazelle 32 State 2BS #1H well?**

25 A. Yes.

1 Q. And this C-102 has been approved; is that
2 correct?

3 A. Yes.

4 Q. There is an API number associated with this
5 well?

6 A. Yes.

7 Q. What is the spacing unit for the 1H well?

8 A. The 1H is the west half of the west half of
9 Section 32, Township 18 South, Range 33 East.

10 Q. And that's in Lea County?

11 A. Correct.

12 Q. Is Exhibit 2 the approved C-102 for the Gazelle
13 32 State 2BS #2H well?

14 A. Yes.

15 Q. What is the spacing unit for this well?

16 A. The spacing unit is the east half-west half of
17 Section 32, Township 18 South, Range 33 East.

18 Q. And, again, an API number has been assigned to
19 this well, correct?

20 A. Yes.

21 Q. Has the Division identified a pool and pool
22 code covering each of these spacing units?

23 A. Yes, they have.

24 Q. What is it?

25 A. It's the Corbin; Bone Spring, South Pool.

1 Q. That's Pool Code 13160?

2 A. Correct.

3 Q. Is that pool governed by Division statewide
4 rules?

5 A. Yes.

6 Q. So 330-foot setbacks and 40-acre spacing,
7 correct?

8 A. Yes.

9 Q. Will each of the completed intervals comply
10 with the setback requirements?

11 A. Yes.

12 Q. What type of land is in each spacing unit?

13 A. It is state land.

14 Q. Do I understand that there are two state leases
15 covering the two spacing units?

16 A. That's correct.

17 Q. Are there any depth severances in this pool?

18 A. No.

19 Q. Is Exhibit 3 an ownership plat identifying
20 ownership by tract?

21 A. Yes.

22 Q. And this is identical for the 1H and 2H wells,
23 correct?

24 A. That's correct.

25 Q. Now, if I look at the second page of Exhibit 3,

1 does this highlight the entities that you seek to
2 compulsory pool for each of those applications?

3 A. Yes.

4 Q. What type of interests are these? Are they
5 uncommitted interests?

6 A. Correct. They are uncommitted interests.

7 Q. Is Exhibit 4 is copy of the well-proposal
8 letter that you sent to the uncommitted working interest
9 owners for the 1H well?

10 A. Yes.

11 Q. On what date did you send this letter?

12 A. It was sent on July 27th, 2017.

13 Q. And the second and third pages are an AFE,
14 correct?

15 A. Correct.

16 Q. And this was sent along with the well-proposal
17 letter?

18 A. Yes.

19 Q. Is Exhibit 5 a copy of the well-proposal letter
20 for the 2H well?

21 A. Yes.

22 Q. Again, this was sent on July 27th, correct?

23 A. Correct.

24 Q. And it also included an AFE?

25 A. Yes.

1 Q. In addition to sending these two well-proposal
2 letters, have you been in negotiations with the entities
3 that you are seeking to pool over a potential trade?

4 A. Yes. We are -- we are discussing a trade
5 currently at the -- we've even exchanged documents that
6 would facilitate the trade.

7 Q. In the event that you do achieve a trade or
8 some other type of agreement, will you notify the
9 Division --

10 A. Yes.

11 Q. -- and dismiss this hearing?

12 A. Yes.

13 Q. Looking back at these AFEs, are the costs on
14 the AFEs consistent with what other operators in the
15 area charge for similar 2nd Bone Spring wells?

16 A. Yes.

17 Q. And do the well-proposal letters that you sent
18 identify overhead and administrative costs while
19 drilling and producing?

20 A. They do.

21 Q. And do you understand that typical costs are
22 approximately 7,000 a month while drilling and 700 a
23 month while producing?

24 A. Yes.

25 Q. Are those the costs you're asking for?

1 A. Yes.

2 EXAMINER GOETZE: May I just interrupt?

3 So on your request on your letter, you have
4 1,000 and 10,000. And so you're going with 700 and
5 7,000?

6 THE WITNESS: Yes.

7 EXAMINER GOETZE: Thank you.

8 Q. **(BY MS. KESSLER) Do you ask that those costs be**
9 **incorporated into any order resulting from this hearing?**

10 A. Yes.

11 Q. **And do you request that they periodically be**
12 **adjusted in accordance with COPAS accounting procedures?**

13 A. Yes.

14 Q. **For any uncommitted working interest owners, do**
15 **you request that the Division impose a 200 percent risk**
16 **penalty?**

17 A. Yes.

18 Q. **And finally, did Chisholm identify the offset**
19 **operators or lessees of record in the 40-acre tract**
20 **surrounding the proposed nonstandard spacing units?**

21 A. Yes.

22 Q. **And they were included in the notice of this**
23 **hearing?**

24 A. Yes.

25 Q. **Is Exhibit 6 an affidavit prepared by my office**

1 with attached letters providing notice of both the 1H
2 and 2H applications to the parties that you seek to pool
3 and the offsets?

4 A. That is correct.

5 Q. And all of the green cards were returned, but
6 are Exhibits 7 and 8 Affidavits of Publication?

7 A. Yes.

8 Q. Were Exhibits 1 through 5 prepared by you or
9 compiled under your direction or supervision?

10 A. Yes.

11 MS. KESSLER: Mr. Examiners, I'd move
12 admission of Exhibits 1 through 8, which include notice
13 affidavits.

14 MR. BRUCE: No objection.

15 EXAMINER GOETZE: Thank you.

16 Exhibits 1 through 8 are so entered.

17 (Chisholm Energy Operating, LLC Exhibit
18 Numbers 1 through 8 are offered and
19 admitted into evidence.)

20 EXAMINER GOETZE: You're done with this
21 witness for now?

22 MS. KESSLER: Yes.

23 EXAMINER GOETZE: Mr. Brooks?
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CROSS-EXAMINATION

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BY EXAMINER BROOKS:

Q. I'm going to learn more about maps. But this is in Lea County, and it's fairly far north. 18 South is relatively as far north compared to where drilling is going on now. Where is it in relationship to Hobbs and Lovington?

A. It's about 32 miles to the west of Hobbs.

Q. Okay. That's a long way from there. So I'm not familiar with that area.

Thank you.

CROSS-EXAMINATION

BY EXAMINER GOETZE:

Q. So we were able to identify all parties of interest with regards to the tracts interested in compulsory pooling?

A. Yes.

Q. Thank you for modifying your overhead costs because there would have been a homework assignment to justify them if there hadn't been.

A. Okay.

EXAMINER GOETZE: No further questions.

MS. KESSLER: Call my next witness.

EXAMINER GOETZE: Please.

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JOSH KUHN,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiners by whom you're employed and in what capacity.

A. My name is Josh Kuhn. I'm a geologist employed by Chisholm Operating, LLC.

Q. Have you previously testified before the Division?

A. No.

Q. Can you please outline your educational background?

A. I received my Bachelor of Science degree in geoscience in 2008 from Penn State University, and in 2011, I graduated from Texas Christian University with my master's in geoscience.

Q. What has your work experience been?

A. I worked at Range Resources from 2008 to early 2017. Early 2017, I switched jobs to Chisholm Energy.

Q. And at Range Resources, did your responsibilities include a variety of basins but also the Permian Basin?

1 A. Yes. The Permian Basin was one, also working
2 in the Woodford [sic] Basin, Appalachian Basin and
3 Anadarko Basin.

4 **Q. Are you a member of any professional**
5 **associations?**

6 A. Yes. I'm a member of the Fort Worth Geological
7 Society, and I signed up for the AAPG in 2008.

8 **Q. Are you familiar with the applications that**
9 **have been filed in this case -- in these cases?**

10 A. Yes.

11 **Q. And are you familiar with the geology**
12 **underlying the subject lands?**

13 A. Yes.

14 MS. KESSLER: Mr. Examiner, I'd tender
15 Mr. Kuhn as an expert in petroleum geology.

16 MR. BRUCE: No objection.

17 EXAMINER GOETZE: Very good.

18 He is so qualified.

19 **Q. (BY MS. KESSLER) What is the target interval**
20 **for each of these wells?**

21 A. The target interval is the 2nd Bone Spring
22 Sand.

23 **Q. Have you prepared a structure map and cross**
24 **sections for the Examiners?**

25 A. Yes.

1 **Q. I'd ask you to please turn to Exhibit 9 and**
2 **identify this map for the Examiners.**

3 A. This is a subsea structure map on the top of
4 the 2nd Bone Spring Sandstone, contour interval of 50
5 feet. It's consistently dipping to the southeast,
6 relatively low bed dips, less than a degree. Also on
7 this map, the blue attributed wells are wells used to
8 create this structure map. The Gazelle 32 State 2BS 1H
9 is identified in brown on the western half of Section
10 32, and the Gazelle 32 State 2BS 2H is identified in
11 green. The Chisholm leasehold is identified in yellow,
12 and the cross section -- or type section for the 2nd
13 Bone Spring Sand is identified from A to A prime. I
14 just wanted to point out there is consistent structure
15 and no geologic impediments as far as faulting or
16 pinchouts.

17 **Q. And you use three wells for your cross section;**
18 **is that correct?**

19 A. That is correct.

20 **Q. Do you consider those logs representative of**
21 **Bone Spring wells in the area?**

22 A. Yes.

23 **Q. Is Exhibit 10 your cross-section exhibit?**

24 A. Yes.

25 **Q. Can you please walk us through this?**

1 A. This is a cross section -- subsea structural
2 cross section running from northeast to southwest, from
3 A to A prime, across the western half of Section 32.
4 The top of the 2nd Bone Spring Sandstone is identified
5 in brown, and the base of the 2nd Bone Spring Sandstone
6 is identified in black, the base of the cross section.
7 The target interval is also identified.

8 The first two logs seen here are
9 representative of the Yates Atlantic-State 32 #1. The
10 third and fourth logs are representative of the Matador
11 Atlantic 32 State #7, and the final log is
12 representative of just the Matador 32 State #1. On that
13 last well, we didn't have any access to any porosity
14 logs. So -- the first log for each well is the
15 resistivity log, and the porosity is the second.

16 Our target interval is defined by the high
17 porosity and the base of the 2nd Bone Spring Sand.
18 Also, with good permeability, it's kind of hard to see
19 because of the log resolution from the Raster images,
20 but there is good separation -- permeability. I also
21 want to point out the continuity of the thickness of the
22 2nd Bone Spring Sand and the continuous section that we
23 are targeting the base.

24 **Q. So no major thickening or thinning of the**
25 **formation?**

1 A. No.

2 **Q. What conclusions have you drawn based on your**
3 **study of this area?**

4 A. In general, the conclusions are that I haven't
5 noticed -- there are no geologic impediments that would
6 affect horizontal development of this Gazelle acreage in
7 Section 32 drilling one-mile laterals. This area can be
8 developed efficiently and economically by way of
9 horizontal development, and the proposed nonstandard
10 units will, on average, contribute more or less equally
11 to each well across the unit area.

12 **Q. In your opinion, is the granting of these**
13 **applications in the best interest of conservation, the**
14 **prevention of waste and the protection of correlative**
15 **rights?**

16 A. Yes.

17 **Q. And were Exhibits 9 and 10 prepared by you or**
18 **compiled under your direction and supervision?**

19 A. Yes, they were.

20 MS. KESSLER: Mr. Examiner, I'd move
21 admission of Exhibits 9 and 10.

22 EXAMINER GOETZE: Mr. Bruce?

23 MR. BRUCE: No objection.

24 EXAMINER GOETZE: Exhibits 9 and 10 are so
25 entered.

1 (Chisholm Energy Operating, LLC Exhibit
2 Numbers 9 and 10 are offered and admitted
3 into evidence.)

4 EXAMINER GOETZE: Mr. Brooks?

5 EXAMINER BROOKS: No questions.

6 CROSS-EXAMINATION

7 BY EXAMINER GOETZE:

8 Q. Good morning.

9 A. Morning.

10 Q. I notice that we have two Matador wells off to
11 the east --

12 A. Correct.

13 Q. -- in 32. Have you looked at their production
14 and history and success or --

15 A. Yes. And I'm sorry that I failed to mention
16 that. The cumulative production we have from those two
17 wells in the eastern half of Section 32 is labeled
18 underneath the well symbol. Those wells are to the
19 north, and ours are to the south. And that is
20 production from -- from his in February of 2017 through
21 June of this year.

22 Q. So north-south is -- south-north is preferred
23 orientation.

24 Has anybody done any east-west in this
25 area? Any consideration of that orientation?

1 A. There has been some in the general area drilled
2 east-west, but from the data that we have, we would
3 suggest the maximum horizontal stress direction is more
4 so oriented east-west, so more north-south --

5 **Q. Very good.**

6 EXAMINER GOETZE: No more questions for
7 this witness.

8 Thank you very much.

9 THE WITNESS: Thank you.

10 EXAMINER GOETZE: Mr. Bruce?

11 MR. BRUCE: Nothing.

12 EXAMINER GOETZE: On that note, Case
13 Numbers 15851 and 15852 are taken under advisement,
14 which leaves you as the sole case.

15 (Case Numbers 15851 and 15852 conclude,
16 10:08 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

21

22

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

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24

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