

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 CASE NOS. 16025,
OPERATING, LLC FOR A NONSTANDARD 16026
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 22, 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, March 22, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT CHISHOLM ENERGY OPERATING, LLC:

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EXHIBITS OFFERED AND ADMITTED

Chisholm Energy Operating, LLC Exhibit Numbers 1 through 7	11
Chisholm Energy Operating, LLC Exhibit Numbers 10 and 11	20

1 (10:55 a.m.)

2 EXAMINER JONES: Let's call Case Numbers
3 16025 and 16026, application of Chisholm Energy
4 Operating, LLC for a nonstandard spacing and proration
5 unit and compulsory pooling in Lea County, New Mexico.
6 Each of the cases is titled the same.

7 Call for appearances in both cases.

8 MR. RANKIN: Mr. Examiner, Adam Rankin,
9 with the Santa Fe office of Holland & Hart, on behalf of
10 the Applicant. I have two witnesses this morning.

11 EXAMINER JONES: Any other appearances?
12 Will the two witnesses please stand?

13 (Mr. Sullivan and Mr. Francis sworn.)

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

17 DIRECT EXAMINATION

18 BY MR. RANKIN:

19 Q. Good morning, Mr. Sullivan. Can you please
20 state your full name for the record?

21 A. Beau Sullivan.

22 Q. And by whom are you employed?

23 A. Chisholm Energy.

24 Q. In what capacity?

25 A. I'm a landman.

1 **Q. Have you previously before the Division?**

2 A. I have not.

3 **Q. Will you please review for the Examiners your**
4 **educational background and relevant work experience?**

5 A. Sure. I graduated in 2006 with a Bachelor of
6 Business Administration from the University of Central
7 Oklahoma. I began working as a petroleum landman
8 immediately after that. I've been at Chisholm since
9 November of 2017 working in Lea and Eddy Counties.

10 Prior to that, I was with Range Resources
11 for approximately five years working the Mid-Continent
12 assets, Oklahoma, Kansas, the Texas Panhandle. Prior to
13 Range, I worked for Marathon Oil Company. We were
14 working the Anadarko Basin in western Oklahoma and the
15 Texas Panhandle. And then from the time I graduated
16 school in '06 until 2011 when I went to work for
17 Marathon, I was an independent landman working in the
18 field.

19 **Q. Mr. Sullivan, do you have any certificates or**
20 **professional affiliations?**

21 A. Yes. I'm member of the AAPL. I'm a certified
22 professional landman by the AAPL. I'm a member of the
23 Oklahoma City Landmen Association, Fort Worth Landmen
24 Association and the Permian Basin Landmen Association.

25 **Q. Are you familiar with the applications filed in**

1 **these cases?**

2 A. Yes, I am.

3 **Q. Have you conducted a study of the lands that**
4 **are the subject of these two applications?**

5 A. I am.

6 MR. RANKIN: Mr. Examiner, I tender
7 Mr. Sullivan as an expert in petroleum land matters.

8 EXAMINER JONES: He is so qualified.

9 MR. RANKIN: Thank you, Mr. Examiner.

10 **Q. (BY MR. RANKIN) Mr. Sullivan, has Chisholm**
11 **prepared C-102s for the two wells that are proposed for**
12 **each of these cases?**

13 A. Yes, we have.

14 **Q. And are they identified as Exhibit Number 1 and**
15 **Number 2?**

16 A. They are.

17 **Q. Will you review for the Examiners each in turn**
18 **and, in doing so, reference what Chisholm is seeking in**
19 **each of these cases?**

20 A. Yes. Exhibit 1 is our C-102 for Case 16025.
21 We are requesting authorization for a nonstandard
22 240-acre spacing unit in the Bone Spring. This unit
23 will cover the west half of the west half of Section 14
24 and the west half of the northwest quarter of Section 23
25 all in Township 21 South, Range 34 East. That's in Lea

1 County, New Mexico. And we would like to dedicate this
2 as a proration unit project area for our Outland 14-23
3 State 2BS 2H well.

4 And the second is Case 16026, the same
5 240-acre nonstandard spacing in the Bone Spring. That
6 will cover the east half of the west half of Section 14
7 and the east half of the northwest quarter of Section 23
8 in the same, 21 South, 34 East.

9 Q. And that's spacing unit would be dedicated to
10 which well?

11 A. The 16026 would be our Outland 14-23 State 2BS
12 3H well.

13 Q. In both cases, you're seeking to pool the Bone
14 Spring Formation?

15 A. Correct.

16 Q. And you're seeking to designate -- that
17 Chisholm be designated as the operator of the wells and
18 spacing unit?

19 A. Yes.

20 Q. Has the Division identified a pool and assigned
21 a pool code for the Bone Spring in this area?

22 A. They have. The pool name is the Grama Ridge;
23 Bone Spring, and the pool code is 28430.

24 Q. And are these -- is this pool governed by the
25 statewide setback rules for oil?

1 A. Yes.

2 Q. And will the wells that you propose in each
3 case, including the completed interval, be within the
4 setback requirements of the statewide rules?

5 A. Yes, they will.

6 Q. And what is the nature of the land in each of
7 those cases?

8 A. All state land.

9 Q. All state land.

10 Will you review for the Examiners what
11 Exhibit Number 3 shows?

12 A. Exhibit 3 was colored to depict the two spacing
13 units that we're here to create today, and it outlines
14 the tracts for the ownership that'll be on the next
15 page.

16 Q. So the west half would be the first case,
17 16025?

18 A. Correct.

19 Q. And the east half of the west half is for Case
20 Number 16026?

21 A. That's correct.

22 Q. And the subsequent pages reflect the ownership
23 interest for each of those tracts for each of those
24 spacing units?

25 A. Correct.

1 Q. And do you have a recapitulation of the total
2 interest in the spacing unit you're seeking to pool?

3 A. I do.

4 Q. Is that on the last two pages of the exhibit --
5 second-to-the-last page of the exhibit?

6 A. Yes.

7 Q. And which of the parties are you seeking to
8 pool in these two cases?

9 A. It would be all the parties in bold -- bold
10 font.

11 Q. And with respect to overrides, are there any
12 overrides in these two spacing units?

13 A. There are.

14 Q. Are those identified on the last page of the
15 exhibit?

16 A. Yes, there are.

17 Q. So you're seeking to pool in these two cases
18 all those uncommitted interest owners; is that correct?

19 A. That's correct.

20 Q. Now, have you sought to reach voluntary
21 agreement with the parties you're seeking to pool?

22 A. We have.

23 Q. Have you sent them well-proposal letters?

24 A. Yes, we have.

25 Q. And is Exhibit 4 a copy -- rather, Exhibits 4

1 and 5, are those copies of the samples of the
2 well-proposal letters that you sent to each of the
3 working interests that you're seeking to pool today?

4 A. Yes, they are.

5 Q. Do the well-proposal letters include an AFE for
6 each of the wells?

7 A. They do.

8 Q. And are those reflected in the exhibits?

9 A. Yes.

10 Q. And are the costs in the AFEs consistent with
11 what Chisholm and other operators in the area have
12 incurred in drilling similar wells?

13 A. They are.

14 Q. These are mile-and-a-half laterals; is that
15 correct?

16 A. That's correct.

17 Q. And has Chisholm identified the administrative
18 and overhead costs that will incur while drilling and
19 while producing the well if successful?

20 A. Yes.

21 Q. What are those?

22 A. It will be 7,500 for drilling and 750,
23 producing.

24 Q. And are these costs consistent with what other
25 operators have incurred for overhead costs while

1 drilling and producing wells in the area?

2 A. Yes.

3 Q. Now, has Chisholm identified the offsetting
4 operators and lessees of record in the surrounding
5 40-acre tracts for each of the spacing units you're
6 proposing to pool?

7 A. Yes, we have.

8 Q. And are Exhibits 6 and 7 copies of the
9 affidavit prepared by me and my office indicating that
10 my office has provided notice to the pool parties and
11 the offsets, as well as the overrides on each of these
12 two cases?

13 A. Yes.

14 Q. And behind those affidavits of this exhibit, is
15 there a copy of the letter that was sent to each of the
16 interest owners and the offsets?

17 A. Yes.

18 Q. And in addition to the letter, is there a list
19 of the parties that received notice in each case?

20 A. Yes.

21 Q. As well as a tracking sheet indicating the
22 status of their green-card receipts?

23 A. Yes.

24 Q. With respect to each of the parties that you've
25 identified and provided notice to, will you just explain

1 for the Examiners how you identified whether -- first of
2 all, were there any unlocatable interests?

3 A. There were no unlocatable interests in either
4 case.

5 Q. And will you just briefly summarize for the
6 Examiners how you identified the correct address for
7 each of those parties?

8 A. Sure. We checked numerous Web sites -- online
9 Web sites, county records. And we also -- in these
10 particular instances that have vertical wells, we had
11 billing and receiving -- they were receiving revenue as
12 well, so we had addresses.

13 Q. For each of the pool parties, did you
14 identify -- you were able to identify all locatable --
15 all interests locatable and -- with a valid, correct
16 address for each of those parties?

17 A. Correct.

18 MR. RANKIN: Mr. Examiner, with that, I
19 would move the admission of Exhibits 1 through 8 -- I'm
20 sorry -- 1 through 7 into the record.

21 EXAMINER JONES: Exhibits 1 through 7 are
22 admitted.

23 (Chisholm Energy Operating, LLC Exhibit
24 Numbers 1 through 7 are offered and
25 admitted into evidence.)

1 MR. RANKIN: I have no further questions of
2 the witness.

3 EXAMINER BROOKS: Well, I don't think I
4 have any either.

5 CROSS-EXAMINATION

6 BY EXAMINER BROOKS:

7 Q. Well, this is 40-acre spacing, right, the Grama
8 Ridge; Bone Spring?

9 A. Correct. Yes, sir.

10 Q. Okay. And 330-foot setbacks, and you're within
11 the setbacks?

12 A. Yes, sir.

13 Q. I mean, you're not within the setbacks?

14 A. We're going to be at a legal location.

15 Q. You'll be at a legal location?

16 A. Yes, sir.

17 Q. Okay. And these are both 2nd Bone Spring?

18 A. Correct.

19 Q. I assumed that. I wasn't really listening when
20 you said that, but I assumed that fact because it's 2BS
21 in the name.

22 A. That's correct.

23 Q. Okay. Thank you. I have nothing further.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. So three -- is it three separate state leases
4 involved?

5 A. Yes.

6 Q. Okay. So you've got to get a com agreement --

7 A. We will need a com agreement.

8 Q. -- later on?

9 And you're pooling everybody in bold, so
10 basically Marshall & Winston. They're still around,
11 huh? I remember them from a long time ago.

12 So any of these parties look like they
13 might join?

14 A. Yes. We have email confirmation of
15 participation from ZPZ, OXY and Cimarex. We're still
16 finalizing the operating agreement we proposed with our
17 well proposal with them. We've also been in contact
18 with each of these parties to try to negotiate an
19 operating agreement. We've also extended offers to
20 purchase. And in a few situations that makes sense,
21 we've explored potential acre swaps. So things are
22 moving along.

23 Q. Okay. And how long ago did you start
24 negotiations with everybody?

25 A. The wells were proposed December 18th of last

1 year.

2 Q. And you sent these letters out December 18th.
3 These are your proposal letters, I guess.

4 And your AFE, is it coming down some, the
5 AFE costs?

6 A. This is pretty consistent with Chisholm's AFEs,
7 what they've been --

8 Q. Okay. Any other concerns that the parties
9 voiced to you about these wells that you'd be willing to
10 share?

11 A. Not really, no.

12 Q. Okay. There's overrides. Can I ask you about
13 the overrides? These are state leases, but they've got
14 overrides?

15 A. Yes, sir.

16 Q. But you're listing them as part of the pooled
17 parties?

18 A. They don't own a participating interest, but
19 the state leases don't contain pooling provisions. So
20 unless the assignments allow for it where the override
21 was created, we went ahead and named them.

22 Q. Okay.

23 EXAMINER BROOKS: As is required by the
24 rules.

25 EXAMINER JONES: Okay. We can pretty much

1 always assume if they're state leases --

2 EXAMINER BROOKS: Not necessarily, because
3 there may be a pooling clause in the assignment -- in
4 the override assignment. In fact, I think there
5 frequently is but certainly not always.

6 Q. (BY EXAMINER JONES) How did Chisholm come about
7 these leases? Was it -- assigned by who?

8 A. We acquired Nearburg.

9 Q. Nearburg. Okay.

10 A. That was a major acquisition in this county.

11 Q. Was Nearburg the original lessee of these
12 leases?

13 A. No, they were not. The leases are actually
14 older, vintage leases, and they acquired them by
15 assignment.

16 Q. Are any of the leases up for expiration anytime
17 soon?

18 A. No. They've been online production for many
19 years.

20 MR. RANKIN: Just one follow-up question,
21 Mr. Sullivan.

22 REDIRECT EXAMINATION

23 BY MR. RANKIN:

24 Q. Is there a rig schedule or drilling schedule
25 with respect to these two wells?

1 A. Yes.

2 **Q. And what is that?**

3 A. We're trying to get to these by early May.

4 **Q. Okay.**

5 EXAMINER JONES: That shouldn't be a
6 problem, one well compulsory pooling.

7 MR. RANKIN: No further questions,
8 Mr. Examiner.

9 EXAMINER JONES: Thank you very much,
10 Mr. Sullivan.

11 MR. RANKIN: I would call our second
12 witness, Mr. Bill Francis.

13 BILL FRANCIS,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. RANKIN:

18 **Q. Mr. Francis, please state your full name for**
19 **the record.**

20 A. Bill Francis.

21 **Q. By whom are you employed?**

22 A. Chisholm Energy.

23 **Q. And in what capacity?**

24 A. Geologist.

25 **Q. Have you previously testified before the**

1 **Division?**

2 A. Yes, I have.

3 **Q. And you've had your credentials as an expert**
4 **petroleum geologist accepted as a matter of record?**

5 A. Yes.

6 **Q. Mr. Francis, have you also conducted a study of**
7 **the geology subject to these two applications?**

8 A. Yes.

9 MR. RANKIN: Mr. Examiner, I would retender
10 Mr. Francis as an expert in petroleum geology.

11 EXAMINER JONES: He's qualified as an
12 expert in petroleum geology.

13 MR. RANKIN: Thank you.

14 **Q. (BY MR. RANKIN) Mr. Francis, with these two**
15 **cases, what is the target formation interval for the two**
16 **wells?**

17 A. The 2nd Bone Spring.

18 **Q. Did you prepare some exhibits reflecting your**
19 **geology in the area?**

20 A. Yes.

21 **Q. Would you review for the Examiners what Exhibit**
22 **Number 10 shows?**

23 A. Yes. Exhibit 10 is a structure map -- subsea
24 structure map on top of the Lower 2nd Bone Spring Sand.
25 The contour interval is 50 feet. And posted on this map

1 are wells greater than 9,000 feet. The dip is gently to
2 the west-northwest in this area. The red lines indicate
3 our two wells that we'll be spudding on the north side
4 of Section 14, drilling south slightly updip at about
5 1.5 degrees, mile-and-a-half lateral. The 2H is the
6 well to the west, and the 3H is the well to the east. I
7 believe that's it.

8 Q. And you also identified three wells for -- you
9 used to construct the cross section?

10 A. Yes. I did miss that. A, A prime, you think
11 see the three wells that go along the path of our two
12 laterals. Will be reflected in the cross section in
13 Exhibit 11.

14 Q. Okay. In your opinion, did you choose these
15 three wells because they're most representative of the
16 geology in the area?

17 A. Yes.

18 Q. And of the target formation?

19 A. Yes.

20 Q. Will you review for the Examiners what your
21 cross section shows in Exhibit 11?

22 A. Yes. Exhibit 11 is a cross section, A, A
23 prime, a stratigraphic cross section. I've basically
24 got three curves showing. The left track is the gamma
25 ray. The middle curve is resistivity, and on the right

1 side is the density and neutron porosity curves. You
2 can see I'm hung on the top of the 2nd Bone Spring Sand.
3 Down below, shaded in yellow, would be our target zone,
4 what we would call the Lower 2nd Bone Spring Sandstone.

5 Q. What is the approximate thickness of your
6 target zone?

7 A. It's about -- it ranges from about 55 feet to
8 the north side. It gets down to about 45 towards the
9 south end.

10 Q. Do you find that that target interval is
11 consistent across the mile-and-a-half lateral you're
12 proposing here?

13 A. Yes.

14 Q. Have you identified any geologic impediments,
15 faulting or pinch-outs that would impair development of
16 mile-and-a-half laterals in this area?

17 A. No.

18 Q. In your opinion, will each of the 40-acre
19 tracts that comprise the proposed spacing units in each
20 case contribute more or less equally to production in
21 the well?

22 A. Yes.

23 Q. In your opinion, will the granting of
24 Chisholm's applications in both of these cases be in the
25 interest of conservation, protection against waste and

1 **protection of correlative rights?**

2 A. Yes.

3 MR. RANKIN: Mr. Examiner, I'd move the
4 admission of Exhibits 10 and 11, skipping over Exhibits
5 8 and 9.

6 EXAMINER JONES: Exhibits 10 and 11 are
7 admitted.

8 (Chisholm Energy Operating, LLC Exhibit
9 Numbers 10 and 11 are offered and admitted
10 into evidence.)

11 MR. RANKIN: Mr. Examiner, I have no
12 further questions. Pass the witness.

13 EXAMINER JONES: Okay.

14 EXAMINER BROOKS: No questions.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 **Q. The separation on your resistivity logs between**
18 **the -- I guess that's the deep and the --**

19 A. Yes, shale.

20 **Q. Is that just because of invasion -- differences**
21 **in the drilling mud?**

22 A. Yeah, invasion and also, you know, an
23 indication of maybe permeability in the formation.

24 **Q. Thanks very much.**

25 A. Uh-huh.

1 EXAMINER JONES: So you skipped over some
2 exhibits?

3 MR. RANKIN: We did, because they were not
4 necessary, and we have identified all interests.

5 EXAMINER JONES: I was hoping you'd say
6 that.

7 MR. RANKIN: Yeah. We have left that out.

8 EXAMINER JONES: Okay. Thank you very
9 much.

10 THE WITNESS: Uh-huh. Thank you.

11 EXAMINER JONES: If that is all on these
12 two cases?

13 MR. RANKIN: That's all, Mr. Examiner.
14 Request that these two cases be taken under advisement.

15 EXAMINER JONES: Cases 16025 and 16026 are
16 taken under advisement.

17 (Case Numbers 16025 and 16026 conclude,
18 11:14 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 10th day of April 2018.

21

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