

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. 20181,  
OPERATING, LLC FOR COMPULSORY                      20182  
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 24, 2019

Santa Fe, New Mexico

BEFORE:   MICHAEL McMILLAN, CHIEF EXAMINER  
         KATHLEEN MURPHY, TECHNICAL EXAMINER  
         TERRY WARNELL, TECHNICAL EXAMINER  
         DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner; Kathleen Murphy and Terry Warnell, Technical Examiners; and David K. Brooks, Legal Examiner, on Thursday, January 24, 2019, 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  
                         New Mexico CCR #20  
                         Paul Baca Professional Court Reporters  
                         500 4th Street, Northwest, Suite 105  
                         Albuquerque, New Mexico 87102  
                         (505) 843-9241

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# APPEARANCES

FOR APPLICANT CHISHOLM ENERGY OPERATING, LLC:

JORDAN L. KESSLER, ESQ.  
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1 (9:43 a.m.)

2 EXAMINER McMILLAN: Call case 20181 first?

3 MS. KESSLER: Yes.

4 EXAMINER McMILLAN: Is it combined?

5 MS. KESSLER: Yes.

6 EXAMINER McMILLAN: And 20181 and 182 shall  
7 be combined.

8 Call for appearances.

9 MS. KESSLER: Mr. Examiner, Jordan Kessler  
10 from the Santa Fe office of Holland & Hart.

11 EXAMINER McMILLAN: Could you give a brief  
12 description?

13 MS. KESSLER: Sure.

14 Mr. Examiner, in Case Number 20181,  
15 Chisholm is seeking an order pooling uncommitted  
16 interests in the Bone Spring Formation in the 640-acre  
17 spacing unit comprised of the east half of Section 1 and  
18 the east half of Section 28, and that's in Township 23  
19 South, Range 26 East in Eddy County. That will be  
20 dedicated to the Cletus 28-21 Fed Com 3BS #3H well. And  
21 it is a Bone Spring 40-acre pool, and the spacing unit  
22 will incorporate the proximity tracts.

23 In Case 20182, Chisholm is seeking to pool  
24 the Wolfcamp Formation underlying the 640-acre spacing  
25 unit comprised of the east half of Sections 21 and 28,

1     again in Township 23 South, 26 East in Eddy County. And  
2     that spacing unit will be dedicated to the Cletus 28-21  
3     Wolfcamp B #1H well and Wolfcamp A #2H well.

4                     If may I proceed, Mr. Examiner?

5                     EXAMINER McMILLAN: What's that?

6                     MS. KESSLER: May I proceed?

7                     EXAMINER McMILLAN: Yes.

8                     Any other appearances?

9                     Please proceed.

10                    MS. KESSLER: Before you and marked as  
11     Exhibit 1 is an affidavit from Luke Shelton, who is a  
12     landman for Chisholm. He's previously testified before  
13     the Division. He outlines the two orders that Chisholm  
14     is seeking to pool -- I'm sorry -- the two orders for  
15     the spacing units that Chisholm is seeking to pool.

16                    Included behind Tab A is the C-102 for the  
17     3H well, and that's the Bone Spring well. There is an  
18     API number assigned and a wildcat Bone Spring pool.  
19     Again, you'll see that the well is within 330 feet from  
20     the centerline of the section, and so we'll incorporate  
21     the proximity tracts.

22                    Turning to Tab B, there are two C-102s, one  
23     for the 1H well and one for the 2H well. As set forth  
24     by a future affidavit, these two wells target different  
25     benches in the Purple Sage; Wolfcamp Formation.

1                   Ownership is common through the Bone Spring  
2   and Wolfcamp Formations, so Tab C is an ownership report  
3   by tract showing all of the interests that Chisholm  
4   seeks to pool for both the Bone Spring and the Wolfcamp  
5   Formations. The unit recap on the third-to-last page  
6   shows the final tabulation of the interest owners and  
7   who Chisholm seeks to pool. And then the last two pages  
8   reflect overriding royalty interest owners that Chisholm  
9   also seeks to pool in both the Bone Spring and the  
10   Wolfcamp Formations.

11                   Behind Tab D, you'll see a well-proposal  
12   letter for the Bone Spring well, along with an AFE.

13                   And behind Tab E, you'll find the proposal  
14   letters and AFEs for the two Wolfcamp wells. Outlined  
15   in Mr. Shelton's affidavit is the fact that these AFEs  
16   are similar to what other wells cost in the area. And  
17   the well-proposal letters, as well the affidavit set  
18   forth the rate that Chisholm is requesting, which is  
19   \$7,500 a month while drilling and 750 a month while  
20   producing.

21                   I will move along to the geology affidavit  
22   put together by Mr. George Roth who has also previously  
23   testified before the Division. He presents a structure  
24   map for both the Bone Spring and Wolfcamp Formations and  
25   does not note any structural issues that would prevent

1 the drilling -- or present impediments to drilling a  
2 horizontal well.

3 He also includes, behind Tabs C and D, the  
4 cross-section exhibits both for the 3rd Bone Spring  
5 Sandstone, and he calls out the target interval in the  
6 3rd Bone Spring. And then you'll see, behind Tab D, the  
7 target interval for the Wolfcamp B well is marked, and  
8 the Wolfcamp A is marked. And he notes that the target  
9 interval is continuous throughout the proposed spacing  
10 units.

11 Exhibit 3 includes our notice affidavits.  
12 Behind Tab A is the notice affidavit for the Wolfcamp  
13 well -- I'm sorry -- yeah. So the letter is included  
14 behind Tab A, and then the Notices of Publication are  
15 included behind Tab B.

16 If there are any questions I can answer, I  
17 would be happy to, or I would direct you to the  
18 affidavit.

19 EXAMINER McMILLAN: Okay. So just for  
20 clarity purposes, not that big of a deal, 82 is Bone  
21 Spring and 81 is Wolfcamp. But I don't know how big a  
22 deal that is.

23 Okay. So first question: There are  
24 unlocatable interests?

25 MS. KESSLER: There are.

1 EXAMINER McMILLAN: Okay. Any depth  
2 severances?

3 MS. KESSLER: No. And that's pointed out  
4 in the affidavit.

5 EXAMINER McMILLAN: Okay. And all  
6 quarter-quarter --

7 MS. KESSLER: The geology affidavit,  
8 Mr. Examiner, outlines that each of the tracts in the  
9 proposed spacing unit are expected to contribute more or  
10 less equally to the production of each of the wells.

11 EXAMINER McMILLAN: Status is "proposed."  
12 Go ahead, David.

13 EXAMINER BROOKS: Where's the depth  
14 severance? You said there was a depth severance?

15 MS. KESSLER: No, Mr. Examiner. I said in  
16 the affidavit it points out there are no depth  
17 severances.

18 EXAMINER BROOKS: Oh, okay. Then I'm not  
19 worried. Thank you.

20 EXAMINER McMILLAN: Kathleen?

21 EXAMINER MURPHY: The target intervals, can  
22 they at least just start pointing out how thick they  
23 are? It's hard to see when the scale on the side is --

24 MS. KESSLER: Sure. And we'll be happy to  
25 provide these electronically. I think it's easier to

1 zoom in on the logs so you can see the depth --

2 EXAMINER MURPHY: Thank you.

3 EXAMINER BROOKS: I have one other question  
4 that I always ask. Overrides?

5 MS. KESSLER: Yes, Mr. Examiner. The  
6 affidavit notes that there are overriding royalty  
7 interest owners that Chisholm seeks to pool, and they've  
8 been included in the notice, and their names are  
9 included in the --

10 EXAMINER BROOKS: Very good.

11 MS. KESSLER: I would ask that these  
12 exhibits be entered into the record and that these two  
13 cases be taken under advisement.

14 EXAMINER McMILLAN: Okay. The exhibits may  
15 now be accepted as part of the record, and Cases 20181  
16 and 20182 shall be taken under advisement.

17 Thank you.

18 (Chisholm Energy Operating, LLC Exhibit  
19 Numbers 1 through 3 are offered and  
20 admitted into evidence.)

21 (Case Numbers 20181 and 20182 conclude,  
22 9:52 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 8th day of February 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters