

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 Redwood Operating, LLC,  
for compulsory pooling

Case Nos. 22627, 22628

TRANSCRIPT OF PROCEEDINGS

May 5, 2022

EXAMINER HEARING

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Esq., Hearing Examiner, Dean McClure, Technical Examiner, on May 5, 2022 via Webex Virtual Conferencing Platform hosted by the New Mexico Energy, Minerals and Natural Resources Department

REPORTED BY: SHANON R. MYERS, CCR, RPR, CRR, RMR, CRC  
CCR No. 275  
PAUL BACA COURT REPORTERS  
500 Fourth Street, NW, Suite 105  
Albuquerque, NM 87102  
(505) 843-9241

A P P E A R A N C E S

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For Redwood Operating, LLC:

HOLLAND & HART, LLP  
P.O. Box 2208  
Santa Fe, NM 87504-2208  
(505) 988-4421  
agrarkin@hollandhart.com

BY: ADAM RANKIN

For Sabinal Energy Operating, LLC:

STEPTOE & JOHNSON, PLLC  
1780 Hughes Landing Blvd., Suite 750  
Spring, TX 77380-4089  
(281) 203-5730  
blake.jones@steptoe-johnson.com

BY: BLAKE C. JONES

For Anne Lindrith Holdings:

PADILLA LAW FIRM, PA  
P.O. Box 2523  
Santa Fe, NM 87504-2523  
(505) 988-7577  
padillalaw@qwestoffice.net

BY: ERNEST L. PADILLA

I N D E X

Cases called	3:1
Summary of case and exhibits	5:5
Taken under advisement	12:19
Court Reporter's Certificate	13:1

1 (Time noted as 8:55 a.m.)

2 EXAMINER BRANCARD: We'll move on, then, to  
3 cases -- Items Number 41 and 42, Cases 22627, 22628, Redwood  
4 Operating.

5 MR. RANKIN: Good morning, Mr. Examiner. May it  
6 please the Division. Adam Rankin with the Santa Fe office  
7 of Holland & Hart appearing on behalf of the applicant in  
8 these two cases, Redwood Operating.

9 EXAMINER BRANCARD: All right. So we have an  
10 entry of appearance from Sabinal Energy Operating, LLC.

11 MR. JONES: Good morning, Mr. Examiner. Blake  
12 Jones on behalf of Sabinal Energy Operating.

13 EXAMINER BRANCARD: Mr. Jones, you're very soft.  
14 Everybody's very quiet today. Maybe it's my speakers. I  
15 don't know.

16 MR. JONES: I apologize. Is that better?

17 EXAMINER BRANCARD: That's a little better. I'll  
18 raise my audio here a bit so I'm not complaining as much. I  
19 have Anne Lindrith Holdings.

20 MR. PADILLA: Mr. Examiner, Ernest L. Padilla for  
21 Anne Lindrith Holdings, and we no longer have an interest in  
22 this case since Anne Lindrith Holdings reached agreement  
23 with Redwood.

24 EXAMINER BRANCARD: All right. Okay. So I have  
25 several things here, Mr. Rankin. I think you're trying to

1 dismiss Case 22627?

2 MR. RANKIN: I am. And, Mr. Examiner, we have  
3 reached a voluntary agreement with each of the owners in the  
4 shallow portion of this proposed acreage, which involves the  
5 first case on the docket, 22627. Having reached agreement  
6 with all the interest owners required, we have filed a  
7 notice of dismissal of that case and ask that it be  
8 dismissed by the Division.

9 EXAMINER BRANCARD: All right. And in Case 22628,  
10 Sabinal's position is?

11 MR. JONES: Yes, Sabinal is still having  
12 productive negotiations, but does not object at this time.

13 EXAMINER BRANCARD: Okay. All right. So the --  
14 there were several things from the last hearing, several  
15 exhibits that we needed updating, Mr. Rankin.

16 MR. RANKIN: Yes, Mr. Examiner, and we did file a  
17 supplemental cover pleading with the supplemental exhibits  
18 yesterday. We inadvertently left off one of those exhibits,  
19 and I will walk through those as we go through the case. If  
20 you would prefer, Mr. Examiner, I can just start from the  
21 beginning and present the case as I would normally, unless  
22 you want to address anything in particular. Last time we  
23 discussed your questions around Redwood's authority as a  
24 contract operator to -- to proceed and propose a well and  
25 seek compulsory pooling, so I don't know if you want to

1 address that issue first or allow me just to walk through  
2 the exhibits and address that issue in turn.

3 EXAMINER BRANCARD: Why don't you walk through the  
4 exhibits, Mr. Rankin.

5 MR. RANKIN: Okay. So in this case, Mr. Examiner,  
6 Redwood is seeking an order pooling all uncommitted interest  
7 in a 200-acre, more or less, horizontal spacing unit in a  
8 portion of the Yeso formation, from a depth of 3,000 feet to  
9 the base of the Yeso, to be comprised of the SW/4, NW/4 of  
10 Section 18, Township 18 South, Range 27 East, and the S/2  
11 N/2 of Section 13, Township 18 South, Range 26 East, in Eddy  
12 County, New Mexico. The proposed spacing unit would be  
13 dedicated to the Kaiser 18 #4H well.

14 In the exhibits that we originally filed,  
15 Mr. Examiner, there is a compulsory pooling checklist for  
16 this case. It identifies the wells and the other elements  
17 of the spacing unit and the pooling that are required by the  
18 Division. Exhibit B is a copy of the application pertaining  
19 to this case. Exhibit C is the affidavit of Redwood's  
20 landman, Mr. Derek Smith. Mr. Smith has not previously  
21 testified before the Division. He gives an overview of his  
22 education and work experience as a landman. He's at  
23 attached as Exhibit C1 his resume that he believes qualifies  
24 him to testify as an expert in petroleum land matters. At  
25 this time, Mr. Examiner, I would ask that Mr. Smith be

1 recognized by the Division as an expert in petroleum land  
2 matters.

3 EXAMINER BRANCARD: Thank you. Mr. Jones, any  
4 objections?

5 MR. JONES: No objection.

6 EXAMINER BRANCARD: Mr. Padilla, I'm not asking  
7 you any questions because I assume you're out of the case.

8 MR. PADILLA: Yes, I agree.

9 EXAMINER BRANCARD: Thank you.

10 All right. So admitted as an expert. Thank you.

11 MR. RANKIN: Thank you, Mr. Examiner. So I'll  
12 just address the portions of his affidavit that reflect on  
13 the remaining case, which is 22628. Mr. Smith reviews the  
14 proposed spacing unit, the depth, severance issues,  
15 identifies the dedicated well that they proposed initially  
16 for this spacing unit. His -- attached to his affidavit is  
17 Exhibit C2, which is the C-102 for the proposed well, which  
18 would be dedicated to the Red Lake-Glorieta-Yeso pool.  
19 Exhibit C3 -- Mr. Examiner we have filed a revised ownership  
20 breakdown for Exhibit C3, and that Exhibit C3 identifies the  
21 updated owners that Redwood is seeking to pool. The last  
22 remaining owner is a working interest owner, and that is the  
23 Sabinal entity. They have reached an agreement in  
24 principle, and we are just waiting for them, the parties, to  
25 finalize and sign a joint operating agreement. The

1 expectation is that will be forthcoming, and once they do,  
2 we will be able to dismiss this pooling. Unfortunately, it  
3 hasn't happened yet. So the only remaining party is the  
4 Sabinal entity.

5 Exhibit C4, Mr. Examiner, was intended to be submitted  
6 yesterday. From -- my apologies that it was inadvertently  
7 left off. The issue there was that the Word document that  
8 we were provided toggled -- it had a toggle field and  
9 automatically inserted the date that we created the exhibit.  
10 The actual date, and I have it, and I'm sorry that it was  
11 not filed yesterday, but we have it; it is a March 3rd,  
12 2022, well proposal letter to Sabinal, and I will upload  
13 that to the Division so it's part of the record. That  
14 reflects that Redwood had proposed this well to working  
15 interests identified, along with the well proposal, the AFEs  
16 and estimated costs for the well.

17 The costs reflected are commensurate with what other  
18 operators in Redwood has expended drilling similar wells in  
19 the area, in the Yeso. Exhibit C6 is a chronology of the  
20 efforts to reach agreement with the parties. In this case  
21 Redwood is seeking administrative rates of 8,000 per month  
22 for drilling and 800 per month for producing. Exhibit D is  
23 the affidavit of Mr. Charles Sadler. He has previously  
24 testified before the Division. He's familiar with the  
25 applications, and attached to his affidavit are Exhibits D1

1 through D4, in which he reviews the geology of the proposed  
2 spacing unit and confirms that, in his opinion, he has not  
3 identified any impediments to drilling horizontal wells in  
4 the acreage and that they are suitable for horizontal  
5 development, and that each of the acreage will contribute  
6 more or less equally to the production from the proposed  
7 well.

8 Exhibit -- yesterday, Mr. Examiner, we filed an  
9 updated affidavit that I prepared, reflecting that we have  
10 provided notice, along with an updated US Postal Service  
11 report, reflecting the current status as of April 27th of  
12 the postal delivery for certified mail that were sent out to  
13 each of the owners affected by this proposed spacing unit.  
14 And then Exhibit F is the affidavits of publication  
15 prepared -- provided to us by the newspaper of record in the  
16 county, the Carlsbad Current-Argus.

17 In addition, Mr. Examiner, we filed, on Tuesday, the  
18 affidavit of -- and I may get this name wrong, but I'll do  
19 my best; the affidavit of Mr. Justin Teltschik.  
20 Mr. Teltschik -- and that is spelled T-E-L-T-S-C-H-I-K.  
21 Mr. Teltschik is the comanaging manager of Pecos Oil & Gas,  
22 LLC. He's familiar with the applications that were filed  
23 and has personal knowledge. He reviews the fact that Pecos  
24 Oil & Gas is a foreign limited liability company registered  
25 in Delaware and is registered to do business in New Mexico,

1 and is a working interest owner in the proposed spacing unit  
2 and has contracted with Redwood to conduct and manage all  
3 the working interest operations on their behalf for their  
4 leasehold interest in New Mexico, and in particular for the  
5 proposed spacing unit at issue in this case; has authorized  
6 Redwood on their behalf to make well proposals, seek  
7 compulsory pooling orders, and otherwise manage and operate  
8 its acreage. So that was filed as Exhibit G in this case.

9 With that, Mr. Examiner, I would ask that the  
10 supplemental exhibits that were filed of record yesterday,  
11 which is an updated Exhibit A, which reflects that we  
12 have -- I have signed the checklists in this case, updated  
13 Exhibit C3, ownership breakdown page, reflecting the updated  
14 status of the parties that Redwood is seeking to pool. The  
15 updated Exhibit E, which is the affidavit that we prepared  
16 reflecting that notice was provided in accordance with the  
17 Division rules, and then Exhibit G, which is the affidavit  
18 of Pecos Oil & Gas, reflecting that Redwood is authorized to  
19 seek pooling on their behalf. I will be filing an updated  
20 Exhibit C5, which is the well proposal that shows the  
21 correct date, the actual date that the well proposal was  
22 issued, on March 3rd. With that, we ask that Exhibits A  
23 through G and their attachments be accepted into the record.

24 EXAMINER BRANCARD: Thank you.

25 Mr. Jones, any questions?

1 MR. JONES: No, no objection from Sabinal.

2 EXAMINER BRANCARD: Thank you.

3 Mr. McClure, questions?

4 TECHNICAL EXAMINER McCLURE: No questions from me.

5 EXAMINER BRANCARD: All right. So let me get this  
6 straight. Which exhibits are you having to file with us?

7 MR. RANKIN: So everything has been filed,  
8 Mr. Examiner, but for an updated C5 exhibit, which is the  
9 well proposal letter. That's the last one that was  
10 inadvertently left off our filing yesterday, so we'll be  
11 submitting that today -- or on Tuesday.

12 EXAMINER BRANCARD: So what I have in our records  
13 is that you filed a notice of supplemental exhibits, were  
14 apparently supposed to attach Exhibit C5, and there's  
15 nothing attached it to.

16 MR. RANKIN: Correct. I realized that this  
17 morning, Mr. Examiner, when I was confirming, and we'll be  
18 correcting that shortly.

19 EXAMINER BRANCARD: So that is what we're  
20 correcting.

21 MR. RANKIN: Yeah.

22 EXAMINER BRANCARD: That is the one thing that you  
23 need to do.

24 MR. RANKIN: That's the one thing, I hope.

25 EXAMINER BRANCARD: Okay. All right. Thank you.

1 So I'm reading the affidavit of Mr. Teltschik here, and so  
2 Redwood has a contractual relationship with Pecos and it  
3 says they're authorized to propose the wells and file the  
4 applications on its behalf, okay. But then he says at the  
5 end Redwood Operating has a right to propose, drill and  
6 operate the wells. That sounds more like a transfer of  
7 working interest than a contractual relationship.

8 MR. RANKIN: Well, I think, Mr. Examiner, I don't  
9 think it's in conflict. They have a contractual right to  
10 proceed on their behalf, and that's, I think, what the  
11 intent of that statement was.

12 EXAMINER BRANCARD: But it is a contractual  
13 relationship.

14 MR. RANKIN: It is a contractual relationship.

15 EXAMINER BRANCARD: Not a transfer of a lease or  
16 transfer of working interest.

17 MR. RANKIN: It is not.

18 EXAMINER BRANCARD: So Pecos continues to own the  
19 working interest --

20 MR. RANKIN: That's correct.

21 EXAMINER BRANCARD: -- here. And so Redwood, as  
22 it says in the previous Paragraph 7, is authorized to file  
23 his application on Pecos' behalf, okay. All right. Thank  
24 you. We've been mulling this over internally. I don't know  
25 if there's a problem, but we just kind of need to be

1 comfortable with this idea, but you have given us what we  
2 asked you to give us, which is what is the nature of the  
3 relationship between Pecos and Redwood, and something from  
4 Pecos, which is what we asked you to provide.

5           Again, Mr. McClure, did you have anything to follow-up  
6 on that?

7           TECHNICAL EXAMINER McCLURE: No, I didn't. I was  
8 just -- same -- looking at the same position you are, I  
9 guess.

10           EXAMINER BRANCARD: All right. Thank you. Is  
11 there anything further, then, on Cases 22627, 22628?  
12 Hearing none. I think where we are is Case 22627 will be  
13 dismissed, correct, Mr. Rankin?

14           MR. RANKIN: Correct.

15           EXAMINER BRANCARD: Case 22628, the exhibits will  
16 be taken into the record with your request that -- or  
17 revised Exhibit C5. Did I get that correctly --

18           MR. RANKIN: Correct.

19           EXAMINER BRANCARD: -- will be submitted? And  
20 this case will be taken under advisement. Thank you.

21           (Proceedings concluded at 9:11 a.m.)

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2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, SHANON R. MYERS, New Mexico Certified Court Reporter, CCR #275, 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 extremely poor to good quality.

Dated this 2nd day of June 2022.

/s/ Shanon R. Myers  
\_\_\_\_\_  
SHANON R. MYERS, CCR, RPR, CRR, RMR, CRC  
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