

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

ORIGINAL

APPLICATION OF CHESAPEAKE EXPLORATION,
LLC, TO REINSTATE ORDERS NUMBER R-13303
AND R-13303-A, APPROVING STATUTORY UNITIZATION
OF THE CHAMBERS STRAWN UNIT AREA, THE CORRESPONDING
CHAMBERS STRAWN UNIT WATERFLOOD PROJECT, AND
CERTIFICATION OF THE WATERFLOOD PROJECT AS AN ENHANCED
OIL RECOVERY PROJECT PURSUANT TO THE ENHANCED OIL
RECOVERY ACT, LEA COUNTY, NEW MEXICO

Case 14762

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

December 1, 2011

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, December 1, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART
MICHAEL H. FELDEWERT, ESQ.
110 N. Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505)988-4421

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1 EXAMINER JONES: Let's call Case 14762,
2 Application of Chesapeake Exploration, LLC, to reinstate
3 Orders Number R-13303 and R-13303-A, approving statutory
4 unitization of the Chambers Strawn Unit Area, the
5 corresponding Chambers Strawn Unit Waterflood Project,
6 and certification of the waterflood project as an
7 enhanced oil recovery project pursuant to the Enhanced
8 Oil Recovery Act, Lea County, New Mexico.

9 MR. FELDEWERT: Mr. Examiner, Michael
10 Feldewert, with the Santa Fe law office of Holland &
11 Hart, appearing on behalf of the applicant, Chesapeake
12 Exploration, LLC. I have one witness here today.

13 EXAMINER JONES: Any other appearances?
14 Will the witness please stand, and will the court
15 reporter please swear the witness?

16 (One witness was sworn.)

17 TERRY FROHNAPFEL

18 Having been first duly sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Please state your full name for the record,
22 and identify for whom you are employed and in what
23 capacity.

24 A. My name is Terry Frohnapfel. I'm employed by
25 Chesapeake Energy, and I'm a landman.

1 Q. Are you familiar with the application that's
2 been filed in this case?

3 A. Yes.

4 Q. What does Chesapeake seek under this
5 application?

6 A. Approved statutory unitization of the Chambers
7 Strawn Unit, approved corresponding waterflood project
8 and approved certification of the waterflood project as
9 an enhanced oil recovery project.

10 Q. Mr. Frohnapfel, were those certifications
11 previously obtained under prior Division orders?

12 A. Yes.

13 Q. If you'll turn to what's been marked
14 Chesapeake Exhibits 1 and 2, are these copies of the
15 prior Division orders that were entered in September of
16 2010, and then in October of 2010 approving of the
17 Chambers Strawn Unit?

18 A. Yes.

19 Q. And do they also then approve the
20 corresponding waterflood project, as well as
21 certification of that waterflood project as an enhanced
22 oil recovery project?

23 A. Yes.

24 Q. Did you testify as an expert in petroleum land
25 matters in the Division cases that resulted in these

1 orders?

2 A. Yes.

3 Q. And have you previously testified as an expert
4 in petroleum land matters in other cases before the
5 Division?

6 A. Yes, I have.

7 Q. Are you still the land person that's
8 responsible for the Chambers Strawn Unit area?

9 A. Yes.

10 Q. Are you therefore familiar with the status of
11 the Chambers Strawn Unit?

12 A. Yes.

13 MR. FELDEWERT: I would tender
14 Mr. Frohnapfel as an expert in petroleum land matters.

15 EXAMINER JONES: So qualified.

16 Q. (By Mr. Feldewert) If we take a look at
17 what's been marked Chesapeake Exhibit Number 1, which is
18 Division Order Number R-1303, Mr. Frohnapfel, that was
19 entered in September of 2010; correct?

20 A. Correct.

21 Q. If I turn over to page 9 of that Exhibit 1 and
22 I look at paragraph 19, it indicates that the injection
23 authority granted by the Division shall terminate one
24 year after the date of this order if the unit operator
25 has not commenced injection operations into the well.

1 Was Chesapeake able to commence injection
2 operations within a year of this order?

3 A. No.

4 Q. Would you please explain to the Examiner what
5 happened that prevented the company from proceeding with
6 its injection operations?

7 A. Well, we mainly had problems getting
8 right-of-ways through. We had an initial plan of
9 bringing water in from our Big Bertha waterflood -- I
10 mean Big Bertha Saltwater disposal system about four or
11 five miles away, and we encountered problems a lot more
12 involved than we initially thought.

13 So we had to bore under a road, highway, and
14 we got to be -- we weren't -- we had several different
15 routes picked out, and none of them were without their
16 problems.

17 So we had a second option. We got a water
18 agreement in place with a company called Gandy
19 Corporation. And they were actually closer, and they had
20 a saltwater disposal system probably within a mile, and
21 so we got a water agreement with them.

22 And since then, their disposal system
23 developed problems. It's pressuring up, and it's not
24 going to be able to give us the volume that we need. So
25 we plan on trucking water from several wells that we

1 operate.

2 Q. Does the company anticipate being in a
3 position within the next year to commence injection
4 operations?

5 A. Yes.

6 Q. Is that why you're then seeking to reinstate
7 by this application Orders Numbers 13303 and 13303-A,
8 which have been marked as Exhibit Numbers 1 and 2?

9 A. Yes.

10 Q. Why don't you -- I'm going to go out of order
11 for a minute. Why don't you turn to what's been marked
12 Exhibit Number 5?

13 A. (Witness complies.)

14 Q. Is this a map that identifies the Chambers
15 Strawn Unit area?

16 A. Yeah. The red outline is the Chambers Strawn
17 Unit area. And the three wells that are highlighted with
18 the window box, those are the wells that we're going to
19 bring water from. Those are Chesapeake-operated wells.

20 Q. Then within the Chambers Strawn Unit area in
21 red, we see three blue squares. What do those depict?

22 A. Those are the three wells that make up the
23 three active wells in the Chambers Strawn Unit. Two of
24 them are going to be converted to injection wells, and
25 the one in the center will remain as a producer.

1 Q. That was the authority to commence -- the
2 authority to commence these operations was granted by the
3 Division in the orders that have been marked as Exhibits
4 1 and 2?

5 A. Correct.

6 Q. What is the character of the land in the unit
7 area?

8 A. It's all fee.

9 Q. Is Chesapeake Exhibit Number 3 -- is this an
10 affidavit confirming that notice of this application to
11 reinstate these order was provided to the affected
12 parties?

13 A. Yes.

14 Q. If I take a look at what is now the third page
15 of that exhibit, the third and fourth pages, does that
16 contain a list of the parties that were notified of this
17 application to reinstate the prior Division orders?

18 A. Yes.

19 Q. And does that list include all the working
20 interest owners in the unit area?

21 A. Yes, it does.

22 Q. Does it also include all the non-costbearing
23 interest owners in the unit area?

24 A. Yes.

25 Q. Does it include, as well, then on page 4 of

1 that exhibit, the surface owners for the two injection
2 wells that were previously approved by the Division?

3 A. Yes.

4 Q. And did you also examine whether there were
5 any leasehold operators within a half mile of the each of
6 the two injection wells previously approved by the
7 Division?

8 A. Yes. There are none.

9 Q. There are none?

10 A. Right.

11 Q. All right. If I look through this notice
12 list, I observe we are missing a return receipt from a
13 Piyush V. Patel and Meena Patel Family Trust, which has
14 an address there in Midland, Texas?

15 A. Correct.

16 Q. What's the -- first off, what's the nature of
17 that particular interest?

18 A. It's a working interest. It's less than 1
19 percent. It's about two-tenths of 1 percent. We've
20 never been able to contact these people or find them.
21 That was their last address of record in the courthouse.

22 And we talked to other interest owners and
23 looked in other public records and Internet sites and
24 different telephone directories and can't find them.

25 Q. Were you also able to contact other

1 individuals with the last name of Patel?

2 A. Yes, and they were unfamiliar with this
3 person.

4 Q. Now, did you likewise -- were you likewise
5 unable to locate this particular interest prior to the
6 entry of the Division orders that previously approved the
7 Chambers Strawn Unit?

8 A. Yes.

9 Q. The other return receipt that we are missing
10 here for purposes of this application was from Shelley
11 Marsh Rice. What's the nature of her interest?

12 A. She's got a royalty interest, and we've always
13 been able to get in contact with her through that
14 address. She signed the -- she ratified the unit
15 agreement, and then she re-ratified it later. So that
16 address is good.

17 We just didn't get the return receipt. We
18 didn't get the letter back saying it was undeliverable.
19 We just didn't receive the receipt, so we're thinking
20 it's still good.

21 I tried to contact her, but I don't have a
22 phone number for her.

23 Q. Were all of the interest owners that were
24 listed here likewise subject of notice in the proceedings
25 previously that resulted in the entry of the Division

1 orders approving the Chambers Strawn Unit?

2 A. Yes.

3 Q. Okay. Is Chesapeake Exhibit Number 4 an
4 affidavit of publication of this matter in the Lovington
5 Leader?

6 A. Yes.

7 Q. Were Exhibits 1 through 5 compiled under your
8 direction and supervision?

9 A. Yes.

10 MR. FELDEWERT: Mr. Examiner, I move the
11 admission into evidence of Chesapeake Exhibits 1 through
12 5.

13 EXAMINER JONES: Exhibits 1 through 5 will
14 be admitted.

15 (Exhibits 1 through 5 were admitted.)

16 MR. FELDEWERT: I would further ask that
17 the record from Case Numbers 14477 and 14478, which
18 resulted in the two orders that are marked as Chesapeake
19 Exhibits Numbers 1 and 2, we ask that that record
20 likewise be incorporated into this case for purposes of
21 reinstating these orders.

22 EXAMINER JONES: The records in Cases
23 14477 and 14478 shall be incorporated into this case.

24 MR. FELDEWERT: That concludes our
25 presentation.

EXAMINATION

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BY EXAMINER JONES:

Q. Okay. I think I have -- the only question before I turn it on over to Mr. Brooks is that the final unit agreement, do you have a copy of that, or the -- you have a unit agreement and a working interest agreement; is that correct?

A. We have a unit agreement and a unit operating agreement. I do have a copy.

Q. We usually -- the language I see in our permits is to incorporate by reference. But you do have -- it's pretty much finalized at this point?

A. Right.

EXAMINER JONES: So it wouldn't hurt for us to get a copy, do you think, Mr. Brooks?

EXAMINER BROOKS: I think they should be filed. Of course, it's hard for us to ever find these agreements. Whenever I look for one, you don't seem to be able to find it.

MR. FELDEWERT: The only thing I can offer is that both the documents you were talking about were part of the examination in the subject of the prior orders, including the second order, which dealt with an amendment to the description of the unitized interval, I think it was.

1 EXAMINER BROOKS: Are the unit
2 agreements -- were they admitted as exhibits in the
3 previous proceedings?

4 MR. FELDEWERT: Mr. Brooks, I don't
5 remember if they were or not. I haven't checked the
6 orders to see if they reference them or not. We'd be
7 happy to get copies to you.

8 EXAMINER BROOKS: I think that would be
9 good if you could file them as part of this proceeding so
10 we have them.

11 EXAMINER JONES: I'll turn it over to
12 David.

13 EXAMINER BROOKS: I really don't have any
14 questions.

15 EXAMINER JONES: Okay. With that, thank
16 you for coming. And we'll take this case, Case 14762,
17 under advisement.

18 MR. FELDEWERT: Just as a matter of
19 clarification, do you need both the unit agreement and
20 the unit operating agreement?

21 EXAMINER BROOKS: I would think so, yes.

22 MR. FELDEWERT: I'd be happy to get that
23 to you.

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner

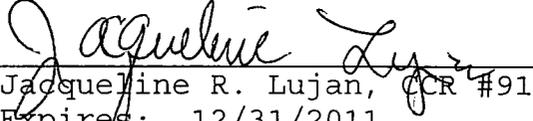
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on December 1, 2011, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

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

WITNESS MY HAND this 12th day of December,
2011.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2011