

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:)

CASE NO. 13,646

APPLICATION OF CHESAPEAKE OPERATING,)
 INC., FOR A NONSTANDARD DEEP GAS SPACING)
 UNIT, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 16th, 2006

Santa Fe, New Mexico

2006 MAR 2 PM 2 20

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 16th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

February 16th, 2006
 Examiner Hearing
 CASE NO. 13,646

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APPLICANT'S WITNESS:	
<u>WILLIAM JAMES BALL, JR.</u> (Landman)	
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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: MICHAEL H. FELDEWERT

* * *

ALSO PRESENT:

RODEY, DICKASON, SLOAN, AKIN & ROBB, P.A.
Attorneys at Law
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Santa Fe, New Mexico 87501
P.O.Box 1357
Santa Fe, New Mexico 87504-1357
By: JAMIE R. WYLIE, Paralegal

* * *

1 WHEREUPON, the following proceedings were had at
2 8:26 a.m.:

3 EXAMINER CATANACH: Call Case 13,646, the
4 Application of Chesapeake Operating, Inc., for a
5 nonstandard deep gas spacing unit, Lea County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert with the Santa Fe office of the law firm
9 of Holland and Hart, appearing on behalf of Chesapeake
10 Operating, Inc., and I have one witness today.

11 EXAMINER CATANACH: Okay, any additional
12 appearances?

13 Okay, will the witness please stand to be sworn
14 in?

15 (Thereupon, the witness was sworn.)

16 WILLIAM JAMES BALL, JR.,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Would you please state your full name and where
22 you reside?

23 A. Yes, I'm William James Ball, Jr., and I live in
24 Edmond, Oklahoma.

25 Q. And by whom are you employed and in what

1 capacity?

2 A. Chesapeake Energy Corporation, senior landman,
3 Permian Basin.

4 Q. How long have you been employed with Chesapeake?

5 A. Two and a half years.

6 Q. Mr. Ball, have you previously testified before
7 this Division as an expert in petroleum land matters?

8 A. Yes, I have.

9 Q. And are you familiar with the Application filed
10 by Chesapeake in this case?

11 A. Yes.

12 Q. And are you familiar with the status of the lands
13 in the subject area?

14 A. Yes.

15 MR. FELDEWERT: Mr. Examiner, I would offer Mr.
16 Ball as an expert witness in petroleum land matters.

17 EXAMINER CATANACH: Mr. Ball and I go back a long
18 way. He is qualified.

19 Q. (By Mr. Feldewert) Mr. Ball, would you just
20 briefly state what Chesapeake is seeking with this
21 Application?

22 A. We are seeking an order approving a 160-acre
23 nonstandard gas spacing proration unit, comprised of the
24 southeast quarter of Section 25, 20-30 -- 20 South, Range
25 32 East. These are Lea County.

1 Q. And what is the -- And for what pool are you
2 seeking this nonstandard --

3 A. The South Salt Lake Atoka Gas Pool --

4 Q. And are you also --

5 A. -- and other deep gas formations spaced on 320
6 acres.

7 Q. Okay. So you're here seeking a nonstandard unit
8 for the South Salt Lake-Atoka Gas Pool, as well as all
9 other deep gas pools?

10 A. That's correct.

11 Q. What's the name of the well that Chesapeake
12 proposes to dedicate to this nonstandard spacing and
13 proration unit?

14 A. The existing well name is Little Eddy Unit Well
15 Number 1. I'll mention it probably later too, but the well
16 in its earlier days was called the Audie, A-u-d-i-e,
17 Richards Number 1 well. It's located 660 feet from the
18 south and 660 feet from the east. That's Unit Letter P.

19 Q. From which formation is that well presently
20 producing?

21 A. The Morrow, which is, again, the South Salt Lake-
22 Morrow Gas Pool.

23 Q. Does Chesapeake plan to re-enter this well and
24 recomplete in the Atoka formation?

25 A. Yes.

1 Q. Okay. Now, what spacing unit is presently
2 dedicated to this Morrow well?

3 A. It's a nonstandard 160-acre spacing unit
4 comprised of that southeast quarter.

5 Q. Okay, and is Chesapeake Exhibit Number 1 the
6 Division Order R-4689 that created this nonstandard Morrow
7 unit for the existing well?

8 A. Yes. Do you want me to go over the basics of it?

9 Q. Well, let me ask you this: When was this order
10 entered?

11 A. The 6th day of December, 1973.

12 Q. Okay, and if I go to paragraph 3 of this order,
13 it references a well in the southeast quarter called the
14 Audie Richards Number 1. Is that presently the -- what you
15 call the Little Eddy Unit Well Number 1?

16 A. Yes, it is.

17 Q. Okay. Then paragraph 6 of this order notes that
18 this well is part of the Little Eddy Unit, and I assume
19 that is still the case?

20 A. That is still the case, yes.

21 Q. Now, what are the existing -- or what are the
22 operational problems posed by this order?

23 A. Towards the end of the order, under the end of
24 the paragraph it says "PROVIDED HOWEVER", it states that
25 the "Commission approval of the non-standard gas proration

1 unit shall terminate upon recompletion of the well in any
2 other gas zone of Pennsylvanian age or older." And this
3 Atoka zone is Pennsylvania age.

4 Q. Okay. So essentially what you're trying -- what
5 you're asking here today is to continue this existing
6 nonstandard unit for your Atoka recompletion in any other
7 deep gas formations?

8 A. That's correct.

9 Q. All right. Why don't you then turn to Chesapeake
10 Exhibit Number 2, and could you describe that for the
11 Examiner, please?

12 A. This is a plat showing that this unit is several
13 sections large. The black outline outlines the unit. The
14 Little Eddy Unit there is shown in white area -- white --
15 the land is colored in white, the southeast of 25.

16 The two -- Within Section 25 there's a total of
17 three wells. Our well that we're wanting to recomplete in
18 the Atoka is a vertical hole. The other two wells in the
19 section, the one to the north is operated by Samson. It's
20 called the Felmont Federal Number 1. It's a Morrow
21 producer with a proration unit of the north half of Section
22 25.

23 The last well in the section is in the southwest
24 quarter. It's an Atoka well, and I'll note that their
25 spacing is 160 acres, being the southwest quarter.

1 Q. Now, you mentioned there's three wells. Are they
2 -- You have your existing Little Eddy Unit shown in red --
3 I'm sorry, your existing Little Eddy Unit Well Number 1
4 shown in red on this map, correct?

5 A. Correct.

6 Q. The other two wells that you describe, are they
7 directionally drilled?

8 A. Those are directionally drilled with the
9 bottomholes shown again, the north half of 25 is the
10 bottomhole for the Samson well, the Felmont Federal Number
11 1, and Breck Operating's well bottomhole is in the
12 southwest quarter of 25.

13 Q. And if I'm reading this map correctly, Mr. Ball,
14 the only portion of Section 25 that is within the existing
15 boundaries of the Little Eddy Unit is the southeast
16 quarter; is that right?

17 A. That's correct.

18 Q. Okay. All right, would you then turn to
19 Chesapeake Exhibit Number 3 and describe that for the
20 Examiner, please?

21 A. This exhibit primarily shows Section 25. It
22 shows the Little Eddy Unit Number 1. It's really just a
23 blown-up version of what I just went over, but it shows the
24 bottomhole locations, Samson's being again to the north,
25 and the Breck Operating being the southwest quarter.

1 The existing proration unit is outlined for our
2 Little Eddy Unit Number 1 in blue -- excuse me, green. The
3 hached mark is our proposed area, so basically it's showing
4 the same southeast quarter. The -- Breck's well is shown
5 with an outline in red for their proration unit. And
6 Samson's, the north half, shown outlined in blue.

7 Q. Okay, I'd like to just walk through now what --
8 the unique ownership reasons that have caused Chesapeake to
9 seek approval of this nonstandard unit.

10 First of all, what is the status of the acreage
11 in this particular section?

12 A. The status is, the southeast quarter shown in
13 white, and also with the hached marks on it, is fee lands.
14 The remainder of Section 25 is one single federal oil and
15 gas lease.

16 Q. Okay. Now you mentioned that the -- if I'm
17 looking at Exhibit Number 3 -- that the well to the north
18 of the Little Eddy Unit Number 1 is a Morrow well; is that
19 correct?

20 A. That's correct.

21 Q. And it has an existing north-half spacing unit
22 dedicated to that well?

23 A. Correct.

24 Q. And it's operated by Samson Resources; is that
25 right?

1 A. That's right.

2 Q. Okay. Then if I go counterclockwise and I go
3 down to the southwest quarter, that well down there, is
4 that an Atoka well?

5 A. That's correct.

6 Q. But it has dedicated to it a 160-acre spacing
7 unit; is that right?

8 A. That's correct.

9 Q. Okay. Is Chesapeake Exhibit Number 4 -- is that
10 the amended administrative order from the Division that
11 created -- or that authorized this nonstandard 160-acre
12 spacing unit for this existing Atoka well in the southwest
13 quarter?

14 A. Yes, it is. It covered the South Lake-Atoka Gas
15 Pool. And also the exhibit has an attachment, Mr. Michael
16 Stogner's notes of a conversation he had with Evelyn Downs
17 in Hobbs, saying that the order should have dedicated 160
18 acres, not 320 acres.

19 Q. Okay. Well, let me -- if I may, Mr. Examiner, at
20 this point, I think the Division records will show that in
21 1990 apparently Rule 104 had an exception to the 320-acre
22 requirement for pools that were created prior to 1964, if
23 I'm understanding things, and that accordingly they
24 dedicated a 160-acre spacing unit to that Atoka well. It's
25 my understanding -- or now, of course, Rule 104 has a

1 blanket statewide rule of 320, so my understanding is that
2 while it was standard in 1990 for 160 acres for this pool,
3 under today's rules it would be nonstandard.

4 With this existing configuration out there, Mr.
5 Ball, in your opinion, what do you believe to be the best
6 approach for continued Atoka development in this area, as
7 well as other deep gas development? For this section, I
8 should say?

9 A. I would leave the north-half spacing unit intact,
10 continue with the nonstandard 160-acre spacing units in the
11 south half. This would bring certainty to ownership and
12 operations for future deep gas recompletions.

13 Q. Would your Application allow Samson Resources,
14 for example, if they chose to recomplete in the Atoka, to
15 maintain their north-half spacing unit?

16 A. Yes, it would.

17 Q. Okay. Has Samson Resources and Breck Operating
18 been notified of this Application?

19 A. Yes, they have.

20 Q. Now, you mentioned that the north half and the
21 southwest quarter is comprised of federal acreage. Has the
22 BLM been notified of this Application?

23 A. Yes, they have.

24 Q. Is Chesapeake Exhibit Number 5 an affidavit with
25 the attached letters giving notice of this hearing?

1 A. Yes, it is.

2 Q. And is Chesapeake Exhibit Number 6 an affidavit
3 of publication in *The Lovington Daily Leader* for this
4 Application?

5 A. Yes.

6 Q. Were Chesapeake's Exhibits 1 through 6 prepared
7 by you or compiled under your direction and supervision?

8 A. Yes, they were.

9 MR. FELDEWERT: Mr. Examiner, at this time I
10 would move the admission into evidence of Chesapeake
11 Exhibits 1 through 6.

12 EXAMINER CATANACH: Exhibits 1 through 6 will be
13 admitted.

14 MR. FELDEWERT: And that concludes my examination
15 of this witness.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Mr. Ball, did Samson or Breck express any
19 concerns about your Application to you?

20 A. No. I did have at least one conversation with
21 Samson on other issues, and they never brought it up. That
22 was the same person that I sent it at her request to send
23 it to her attention, so she knew it was coming. And then
24 we had the follow-up conversation, but she never indicated
25 that there was a problem of any sort.

1 Q. To your knowledge, besides the Atoka and the
2 Morrow, is there a potential for other development of those
3 formations in that --

4 A. I would think maybe on down the road Delaware is
5 the other main zone in there. But as far as deep gas,
6 Atoka is the only one that's been thrown out at this point
7 for that particular formation.

8 Q. Okay. I was looking at that order 45- -- or
9 Order 4689, and it did have a finding in there that said if
10 it was completed in any other deep productive gas zone,
11 communitization could take place. I guess I don't
12 understand why they could not communitize the Morrow
13 initially. Do you have any idea about that? I understand
14 that part of the acreage is in the unit and part of it is
15 outside the unit, but is that a problem as far as
16 communitizing or...

17 A. I guess it isn't the desired way, but I didn't
18 specifically ask if it could or couldn't be done for other
19 reasons, no.

20 Q. Okay. Do you know how long the Breck well has
21 been producing from the Atoka?

22 A. I've got something over here that could answer
23 that, or --

24 Q. Okay, if you've got it.

25 A. Yeah.

1 MR. FELDEWERT: Mr. Examiner, it looks like, as I
2 look at Exhibit Number 4, that there was an administrative
3 Order, NSL-2191, issued in 1985, which authorized a
4 nonstandard bottomhole in the South Salt Lake-Atoka Gas
5 Pool. I know that doesn't directly answer your question,
6 but it may give us some indication of how long it's been
7 producing.

8 EXAMINER CATANACH: Okay. That was from a
9 previous operator for Grace Petroleum?

10 MR. FELDEWERT: I think that's right.

11 THE WITNESS: I'm showing a plat, Grace in 1985.
12 It looks like this well was spud -- now, this is the --
13 Breck's well --

14 MR. FELDEWERT: Right.

15 THE WITNESS: -- July 23rd, 1979. Its completion
16 date was February 24th, 1980. It looks like at first it
17 might have been a Morrow, and then later was completed as
18 Atoka.

19 EXAMINER CATANACH: Okay, it's probably in 1990
20 or so, or thereabouts, when it was recompleted, I would
21 venture a guess.

22 THE WITNESS: Okay, here is at least one request
23 for transport of oil and gas, 1993, but that doesn't mean
24 that that was the first one.

25 EXAMINER CATANACH: Okay. I can probably look it

1 up in our well records and see. That's fine, thank you,
2 Mr. Ball.

3 Q. (By Examiner Catanach) So the owners in the
4 southeast quarter of this section have not shared in any of
5 that production from the Breck well?

6 A. No.

7 Q. And if there's any potential for Atoka production
8 in the north half, it would probably be logical to continue
9 to develop the north half to an Atoka well; isn't that
10 your --

11 A. I would guess that -- similar situations to ours,
12 where you produce from the Morrow long enough that they
13 would look at the potential of their Atoka, and that would
14 give them the option to do whatever they wanted, either do
15 what ourselves and Breck has done, or not do anything.

16 Q. Uh-huh. Okay.

17 A. By the way, we have no interest in that well, so
18 I haven't asked specifically what their plans are.

19 Q. Okay. Has your well already been recompleted?

20 A. No, sir.

21 Q. You haven't done any work on it yet?

22 A. No, sir.

23 EXAMINER CATANACH: Okay. I think that's all I
24 have, Mr. Feldewert.

25 For the record, though, we did yesterday receive

1 a letter from the Rodey law firm.

2 Are you from the Rodey, by any chance?

3 MS. WYLIE: Yeah, I am, hi.

4 EXAMINER CATANACH: Okay. And they represent
5 Intrepid Potash, and they state that they are the potash
6 lessee of the southeast quarter of Section 25, 20 South, 32
7 East. They also state that the subject well is within
8 Intrepid's life-of-mine reserve. And in this letter they
9 requested -- they stated that they have not received notice
10 of this case, and they did request a continuance of this
11 Case 13,646.

12 I did -- after reviewing this letter, I looked --
13 I reviewed the potash rules in R-111-P, and basically what
14 the potash rules say, that notice has to be given to the
15 potash lessee in the event of a new drill. This is not a
16 well that's going to be drilled, this is an existing well
17 that's been there for a very long time and is simply, as I
18 understand it, just going to be recompleted uphole.

19 As far as I could determine from reviewing
20 R-111-P, Chesapeake was under no obligation to provide
21 notice to Intrepid in this case.

22 I did talk to somebody from the Rodey law firm
23 this morning, and I told them in order to preserve their
24 rights in this case that they may want to have somebody up
25 here and just make an appearance in this case, and I assume

1 that's what you're here for?

2 MS. WYLIE: Yes, I'm here on behalf of Intrepid.
3 My name is Jamie Wylie.

4 EXAMINER CATANACH: And you're with the Rodey law
5 firm?

6 MS. WYLIE: I'm a paralegal with the Rodey law
7 firm.

8 EXAMINER CATANACH: Okay. So that appearance
9 will be on record. And do you have anything that you want
10 to add at this time?

11 MS. WYLIE: No.

12 EXAMINER CATANACH: Okay. Then is there anything
13 further, Mr. Feldewert?

14 MR. FELDEWERT: No, Mr. Examiner.

15 EXAMINER CATANACH: There being nothing further,
16 Case Number 13,646 will be taken under advisement.

17 Can we get a copy of exhibits to these guys? Do
18 you have an extra --

19 MR. FELDEWERT: Yes, I have a set right here.

20 MS. WYLIE: Thank you.

21 (Thereupon, these proceedings were concluded at
22 8:48 a.m.)

23 * * *

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 13646,
heard by me on February 16, 2006.

David R. Catnach, Examiner
STEVEN T. BRENNER, GCRB, Conservation Division
(505) 989-9317

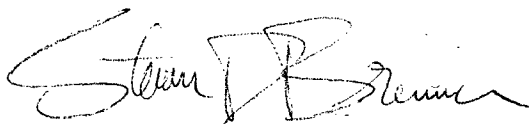
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 16th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006