

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

ORIGINAL

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

CASE NO. 14165

APPLICATION OF CHESAPEAKE ENERGY
CORPORATION, LLC, TO AMEND DIVISION
ORDER R-11993 FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
WILLIAM V. JONES, Technical Examiner
TERRY WARNELL, Technical Examiner

October 2, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,
WILLIAM V. JONES, Technical Examiner, and TERRY WARNELL,
Technical Examiner, on Thursday, October 2, 2008, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

2008 OCT 8 PM 4 19

A P P E A R A N C E S

FOR THE APPLICANT:

W. Thomas Kellahin, Esq.
KELLAHIN AND KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501

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1 MR. JONES: Let's call Case 14165, Application of
2 Chesapeake Energy Corporation, LLC, to Amend Division
3 Order R-11993 for a Compulsory Pooling, Lea County, New Mexico.

4 Call for appearances.

5 MR. KELLAHIN: My name is Tom Kellahin. I'm with the
6 Santa Fe law firm of Kellahin and Kellahin, appearing this
7 morning on behalf of the applicant. We're submitting this
8 application by affidavit.

9 MR. JONES: Any other appearances?

10 MR. KELLAHIN: With your permission, Mr. Examiner,
11 I'll proceed to explain to you what exhibits we're asking you
12 to admit this morning.

13 First of all, you find before you what is marked as
14 Exhibit No. 1. It's the existing compulsory pooling order for
15 this 40-acre spacing unit. It was obtained from the Division
16 in '03 for Xeric Oil and Gas Corporation. Pursuant to this
17 order, then, Xeric drilled a downhole commingled Tubb and
18 Drinkard well bore in this 40-acre tract. And it continued to
19 produce from those formations in relatively small amounts.

20 The commingled production is -- I'm not sure I have
21 the current rates, so I won't guess at it. But what occurred,
22 though, is in May of '04, Chesapeake Operating acquired the
23 property from Xeric, and they continue to operate the well
24 pursuant to the pooling order.

25 At this point in time in June of this year,

1 Chesapeake proposed to all the working interest owners that
2 they add an additional zone. They wanted to come up hole and
3 add the Abo as an additional zone commingled with the other
4 two. And because of the change in the parties that were
5 originally pooled from the time they were pooled to now, we
6 chose to file to amend the pooling order to make it clear that
7 we were seeking the authority to modify the order to add the
8 additional zone.

9 Independent of this action, the applicant Chesapeake
10 will file an application for down hole commingling and give the
11 parties and the Division the appropriate allocations. But at
12 this point, we are seeking authority to amend the order to
13 specifically include the Abo. The original order was broad
14 enough to include the Abo, but the operator Xeric chose at that
15 time only to complete in the Tubb and Drinkard creating the
16 argument that they have abandoned that portion of the order
17 associated with the Abo. To avoid any discussion about that,
18 we're asking you to issue us an amended order.

19 Following Exhibit No. 1, taken from the case file of
20 the division is the exhibit that was introduced at that time
21 that showed the parties for which there was no agreement and
22 for which the order ultimately pooled their interest.

23 Exhibit No. 3 is Chesapeake's current spreadsheet for
24 the property indicating who, in their belief, are the
25 appropriate interest owners at this time. Pursuant to that

1 belief, then, Chesapeake sent on June 10th of '08, a proposal
2 to all these interest owners for the re-completion of the well.

3 Which now takes you to what is marked as
4 Exhibit No. 4, which is Mr. Ed Birdshead's affidavit.
5 Mr. Birdshead is a landman with Chesapeake whose
6 responsibilities were to do the necessary work to get this
7 done. At the second page of the affidavit, he reiterates what
8 I've just described for you. He talks about his efforts to
9 contact these various people, some of which were successful and
10 others which simply ignored him.

11 At this point, all the people shown in the attachment
12 to that initial letter -- which if you thumb over through the
13 affidavit, you're going to come -- past his signature page --
14 you're going to come to what at the bottom says "Exhibit B."
15 It's a one-page list starting off with Todd Burns and ending
16 with Bruce Burns. This is the list of the parties that are
17 intended to be covered by the current modification of the
18 pooling order.

19 Attached to this and furnished to all these parties
20 was Chesapeake's AFE, which is the last attachment to his
21 affidavit. We're talking about a total cost of subsequent
22 operation of just under \$350,000.

23 MR. JONES: Okay.

24 MR. KELLAHIN: The existing order has operating rates
25 that were paid on the COPUS bulletin back then. I've asked

1 Chesapeake to provide me what is the escalation of those
2 numbers. And page 4 of Mr. Birdshead's affidavit indicates
3 that part of the charges we're dealing with were the
4 operational cost, and the escalation now would be \$521.81,
5 which I've placed in my handwriting.

6 It's probably not necessary to change these numbers
7 in the existing order because we'll just continue to escalate
8 them as originally approved. But that's where it is now if you
9 do the escalation.

10 MR. JONES: Okay.

11 MR. KELLAHIN: The next Exhibit No. 5 is my affidavit
12 indicating that in July on the 23rd, we sent notice to all
13 these parties of our intention to obtain a compulsory pooling
14 order. Again, it's the same list of parties shown. Also
15 attached to the list is an explanation of where the Todds -- or
16 the Burns -- came from. The Burns people -- and there's four
17 of them -- are all associated with being heirs of Harold Muller
18 or Helen Muller.

19 And then all the rest of the names remain the same.
20 There's a Bannatyne individual who is deceased and for which
21 there's uncertainty about the heirs. I've attached to my
22 affidavit not only the green cards but the search records from
23 a title broker in which he explains his effort to find the
24 heirs of this M.S. or Alice Bannatyne. In doing so, we
25 realized there were going to be parties that we could not find,

1 so Exhibit 6 is our affidavit of notification in the Lovington
2 Leader Newspaper, which lists all these people for whom I was
3 not able to obtain a service of hearing for this case.

4 MR. JONES: Okay.

5 MR. KELLAHIN: With your permission, Mr. Examiner, we
6 would ask that you admit Exhibits 1 through 6.

7 MR. JONES: Exhibits 1 through 6 will be admitted.

8 [Applicant's Exhibits 1 through 6 admitted into
9 evidence.]

10 MR. JONES: It's around 350,000 to re-complete it.
11 When are they going to do this? Do you have any idea?

12 MR. KELLAHIN: I'm not sure of the timing. I would
13 assume as soon as they're satisfied that I have obtained a
14 pooling order, and we've made the post order effort to give
15 these parties elections. So I would guess within the next 90
16 or 120 days.

17 MR. JONES: Okay. So there's more parties that came
18 to light after the original order? Are these -- is this a
19 division of interest vertically in the well?

20 MR. KELLAHIN: No, it's not a division of interest
21 vertically. They are successors to the original parties that
22 were pooled.

23 MR. JONES: Okay.

24 MR. KELLAHIN: So there's some heirs now that are
25 listed as potential owners that weren't listed --

1 MR. JONES: That weren't listed?

2 MR. KELLAHIN: -- before because the party for whom
3 they were the heir was still alive.

4 MR. JONES: Okay. And that was -- the escalation --
5 you still want the 60,000 for the re-completion at the time
6 when the re-completion is happening?

7 MR. KELLAHIN: I don't know what else to do but leave
8 it at 6,000, and let them use the COPUS escalator.

9 MR. JONES: Okay. 6,600, then.

10 MR. KELLAHIN: But I think the current rates these
11 operators are using out here are probably a bit higher than
12 that. But that's a conservative number.

13 MR. JONES: Okay.

14 MR. KELLAHIN: The purpose of this is shown on the
15 letter to these people which is the June 11th of '07 -- or '08
16 letter. Chesapeake's belief is that re-completion and adding
17 the Abo will add about ten barrels of oil a day and 23 MCF of
18 gas a day. So there's an incremental additional component that
19 justifies the cost.

20 MR. JONES: Okay. So some parties have not ever been
21 located or they have chosen not to reply at all?

22 MR. KELLAHIN: That's true.

23 MR. JONES: Okay. I don't know where Cheboygan,
24 Michigan, is.

25 MR. KELLAHIN: We did initially get green cards back

1 from everybody.

2 MR. JONES: Okay.

3 MR. KELLAHIN: But there's some doubt among the
4 documents in my affidavit from the title search as to whether
5 that identified the right person for which the receipt was
6 obtained. So we went ahead and put notice in the newspaper to
7 make sure we sought out at least technically everybody we
8 thought had an interest.

9 MR. BROOKS: Yeah. I think that's a wise precaution.
10 People often tend to come up on records, and they often get
11 tendered with green cards that are signed by -- either signed
12 by somebody different than they're addressed to or they're
13 signed by somebody whose name was not printed or the signature
14 is illegible, so you don't know --

15 MR. KELLAHIN: We have some of that problem here, so
16 you're not sure what you have.

17 MR. BROOKS: Yeah. Are these the same owners that
18 were in the original, or are they different owners in the Abo?

19 MR. KELLAHIN: They're the same owners. We have the
20 same problem in the other formations.

21 MR. BROOKS: So you're not bringing any new people
22 in.

23 MR. KELLAHIN: No, sir.

24 MR. BROOKS: And you contemplate that they will be
25 given a new election for the re-completion in the Abo?

1 MR. KELLAHIN: Our effort was to supply them in June
2 of this action, but pursuant to the pooling order, they would
3 get a new election as to their share of the Abo costs.

4 MR. BROOKS: You're contemplating that. Okay. I
5 think that's all I have.

6 MR. JONES: The Tubb was not listed as one of the
7 pools in the original one, but it was completed, you said.

8 MR. KELLAHIN: That's backwards.

9 MR. JONES: Okay.

10 MR. KELLAHIN: The Abo was listed and not completed.

11 MR. JONES: Okay. The Abo was listed and not
12 completed, but the Tubb was completed; is that correct? The
13 Tubb and the Drinkard?

14 MR. KELLAHIN: I may have to pull out the well files
15 off your website to make certain I've not misspoken. The
16 original order had the Abo, the Drinkard and the Blinebry.

17 MR. JONES: Okay. Well -- but we're pooling anything
18 from the surface to the base of the Abo, so --

19 MR. KELLAHIN: It's going to pick them all up.

20 MR. JONES: -- that would pick them up all.

21 MR. KELLAHIN: And I may have misspoke. The current
22 well bore is in the Tubb and the Drinkard.

23 MR. JONES: Okay. Oh, no, you said that.

24 MR. KELLAHIN: And the effort now was to add the Abo,
25 which was originally pooled but may be argued abandoned when

1 they didn't complete in it.

2 MR. JONES: Okay. And the Blinebry is still waiting
3 for a future day, right?

4 You guys have any more questions?

5 MR. WARNELL: No questions.

6 MR. JONES: Okay. Thank you, Mr. Kellahin.

7 MR. KELLAHIN: Thank you, Mr. Examiner. We request
8 you take this case under advisement.

9 MR. JONES: Okay. Let's take Case 14165 under
10 advisement.

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

20 _____, Examiner
21 Oil Conservation Division
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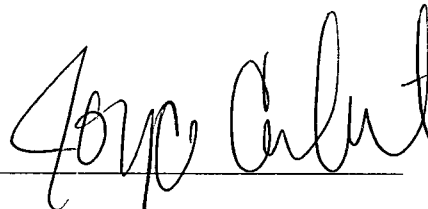
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REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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 proceeding.

DATED this 2nd of October, 2008.

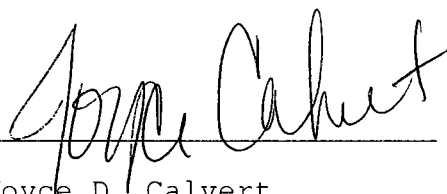


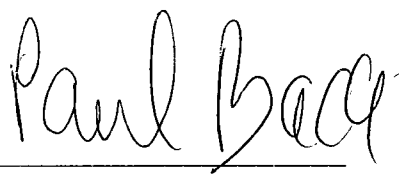
JOYCE D. CALVERT
New Mexico P-03
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1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

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4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
8 1-11 inclusive, are a true and correct transcript of my
9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 2nd day of
12 October, 2008.

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