

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 CHESAPEAKE OPERATING,)
INC., FOR AN UNORTHODOX GAS WELL)
LOCATION AND TO AMEND ORDER R-11,432-A,)
LEA COUNTY, NEW MEXICO)

CASE NO. 13,267

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

July 8th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, July 8th, 2004, 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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WVJ
7/28/04

I N D E X

July 8th, 2004
Examiner Hearing
CASE NO. 13,267

PAGE

REPORTER'S CERTIFICATE

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR YATES PETROLEUM CORPORATION:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 8:46 a.m.:

3 EXAMINER JONES: Let's call Case 13,267,
4 Application of Chesapeake Operating, Incorporated, for an
5 unorthodox gas well location and to amend Order R-11,432-A,
6 Lea County, New Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant this morning.

11 EXAMINER JONES: Any other appearances?

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe office of Holland and
14 Hart, L.L.P. We represent Yates Petroleum Corporation in
15 this matter.

16 EXAMINER JONES: Any other appearances? Any
17 witnesses?

18 MR. KELLAHIN: No, sir.

19 EXAMINER JONES: Okay, go ahead, Mr. Kellahin.

20 MR. KELLAHIN: Mr. Examiner, Chesapeake presented
21 this case back to you on June 10 and we had an expert
22 engineering witness, Mr. Andrew McCalmont, who testified
23 about this. And during the course of the presentation it
24 became apparent that Chesapeake still needed the order they
25 sought to terminate. They were seeking to terminate an R

1 order, and during the course of the hearing we recognized
2 that we still needed that. So we have amended the
3 Application and had it readvertised to reflect the change.

4 In addition, in the interim Mr. Carr and I have
5 been working on a mutual waiver between Yates and
6 Chesapeake. Yates is the offsetting operator towards whom
7 the unorthodox well location encroaches. I think Mr. Carr
8 and I are very close to having that done. Midafternoon
9 yesterday, he faxed me some additional language that I have
10 submitted to Chesapeake, and it's my hope in the next few
11 days we will have that resolved and this matter will then
12 be complete.

13 I have a proposed draft order that I have
14 submitted to you, and I will give a copy now to Mr. Carr,
15 but we believe this matter is ready for you to take under
16 advisement.

17 EXAMINER JONES: Okay, I have one more question
18 on that for Mr. Carr. Yates is the operator of record, and
19 they're going for Atoka, lower and upper Atoka, I noticed,
20 the Brunson Atoka and the lower and the upper Atoka, and
21 your well can have both zones perforated, correct?

22 MR. CARR: Yes, and what the mutual waiver is
23 addressing is whether or not we go -- it would give us the
24 right to go back and complete in the middle and lower Atoka
25 and at an unorthodox location equidistant from the common

1 boundary. All other rules of the Oil Conservation Division
2 would approve and require deepening our Big Flat Number 2,
3 which is at a 330 location.

4 Our concern was that certain Atoka zones don't
5 appear to be productive, but there may be others that, if
6 we took a well down, could be productive, and we just
7 wanted to preserve that right. So that's the basis of our
8 participation in that case, and that's the subject of the
9 agreement that Mr. Kellahin and I are developing.

10 EXAMINER JONES: Okay, the main question I had
11 is, is there any other -- Yates is the operator of record,
12 but the other interest owners in Yates's spacing unit, are
13 they aware of your deal that you're making with --

14 MR. CARR: I think so. I'm not certain on the
15 title, but I think it's all Yates-related entities. I
16 can --

17 EXAMINER JONES: I think our notice rule says
18 notice the operator of record --

19 MR. CARR: Uh-huh.

20 EXAMINER JONES: -- and we're trusting Yates to
21 notify their interest owners in the spacing unit, and --

22 MR. CARR: What we're doing is --

23 MR. KELLAHIN: The concept, Mr. Jones, is that
24 the Chesapeake 5 well is not to produce out of the Brunson.
25 In the companion Yates Number 2 well, if that well is

1 deepened to the base of the Atoka, then it too cannot
2 produce out of the Brunson --

3 MR. CARR: Right.

4 MR. KELLAHIN: -- so that if there's any
5 competition between the two companies as to the upper and
6 middle Atoka, then that's what we're trying to achieve.
7 The Brunson is produced by the Number 3 well for
8 Chesapeake, and I believe Yates has got another well in the
9 east half of 10 that is their Brunson well.

10 EXAMINER JONES: And your -- Chesapeake's
11 interest owners are also aware of this -- or at least --

12 MR. KELLAHIN: Pursuant to joint operating
13 agreements and other contracts, then --

14 EXAMINER JONES: Yes.

15 MR. KELLAHIN: -- they are representing the other
16 working interest owners as the operator of the spacing
17 unit --

18 EXAMINER JONES: Okay.

19 MR. KELLAHIN: -- and I would assume the same
20 thing applies to Yates in their spacing unit.

21 MR. CARR: -- applies on the unit -- All we're
22 trying to do here is just be able to offset the production
23 if, in fact --

24 EXAMINER JONES: Yeah.

25 MR. CARR: -- under the same terms.

1 EXAMINER JONES: Okay, that was the only question
2 I had.

3 Gail, do you have any questions?

4 MS. MacQUESTEN: No, thank you.

5 EXAMINER JONES: Okay, let's take -- Anything
6 else? Let's take Case 13,267 under advisement.

7 (Thereupon, these proceedings were concluded at
8 8:51 a.m.)

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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 July 10th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006