

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 SAMSON RESOURCES COMPANY,)	CASE NOS. 13,492
KAISER-FRANCIS OIL COMPANY, AND)	
MEWBOURNE OIL COMPANY FOR CANCELLATION)	
OF TWO DRILLING PERMITS AND APPROVAL OF)	
A DRILLING PERMIT, LEA COUNTY,)	
NEW MEXICO)	
)	
APPLICATION OF CHESAPEAKE PERMIAN, L.P.,)	and 13,493
FOR COMPULSORY POOLING, LEA COUNTY,)	
NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

Volume I
August 22nd, 2005
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Monday, August 22nd, 2005, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

2005 SEP 6 AM 9 11

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505
and

CHERYL O'CONNOR
Assistant Counsel, NMOCD
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR SAMSON RESOURCES COMPANY:

GALLEGOS LAW FIRM
460 St. Michael's Drive, #300
Santa Fe, New Mexico 87505
By: J.E. GALLEGOS

FOR KAISER-FRANCIS OIL COMPANY:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

FOR MEWBOURNE OIL COMPANY:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

(Continued...)

A P P E A R A N C E S (Continued)

FOR CHESAPEAKE PERMIAN, L.P.:

MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.

Bank of America Centre

500 Fourth Street NW, Suite 1000

P.O. Box 2168

Albuquerque, New Mexico 87103-2168

By: JOHN R. COONEY

and

EARL E. DEBRINE, JR.

and

KELLAHIN & KELLAHIN

117 N. Guadalupe

P.O. Box 2265

Santa Fe, New Mexico 87504-2265

By: W. THOMAS KELLAHIN

* * *

ALSO PRESENT:

MARK M. LAUER

Senior House Counsel

Samson Resources Company

CHARLES C. SMITH

Senior Attorney

Chesapeake Permian, L.P.

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER JONES: Let's go on the record this
4 morning at this special hearing for Cases 13,492, 13,493
5 and 13,505.

6 Does anyone object to having these cases all
7 combined for purposes of testimony and hearing this
8 morning?

9 MR. GALLEGOS: Yeah, Mr. Examiner, Samson
10 Resources, Gene Gallegos. Yes, we do. We believe -- and
11 I'll state more at the appropriate time -- that the -92
12 case, the Application to revoke the permit, should be heard
13 first and then decided.

14 And especially, I think, the -505 case simply is
15 not ready, the circumstances allowing that to be heard,
16 even if the other two were to be heard today.

17 EXAMINER JONES: Okay, that was the other option.

18 MR. BROOKS: Any other opinions on that subject?

19 MR. KELLAHIN: Mr. Brooks, Mr. Examiner, I'm Tom
20 Kellahin of the Santa Fe law firm of Kellahin and Kellahin.
21 I'm appearing this morning on behalf of Chesapeake.

22 In association with me is Mr. Earl DeBrine and
23 Mr. John Cooney of the Modrall firm in Albuquerque.

24 In addition, Mr. Charles Smith, the house counsel
25 from Chesapeake out of Oklahoma City, is present here

1 today.

2 We think we're in a pooling case, and we would
3 like the pooling case to go forward. And if it's to be
4 consolidated with the -82 [sic] case, which is the permit
5 case, that permit case was to cancel the APD. The well is
6 drilled. We're now down to talking about who operates the
7 well and what the spacing unit orientation is going to be.
8 So it seems logical to me to go through this as a
9 compulsory pooling case, but we'll do it any way you want
10 to.

11 MR. HALL: Mr. Examiner, Scott Hall, Miller
12 Stratvert law firm, Santa Fe, appearing on behalf of
13 Kaiser-Francis Oil Company.

14 And I would point out with respect to Case -393
15 [sic], there's a technicality with respect to the
16 advertisement. The original notice and advertisement in
17 the case advertised a well location for the KF 4 well in
18 Unit X.

19 During the course of events here, Chesapeake
20 Operating deviated the wellbore so that it is now in Unit
21 W, so I'll point that out for you.

22 MR. BROOKS: Are you arguing from that that
23 there's a defect in notice for this proceeding?

24 MR. HALL: You know, if it's not a technicality,
25 I wish to push, frankly. I just wanted to point that out

1 to you.

2 MR. BROOKS: Okay. Mr. Gallegos's remarks have
3 indicated that 505 have -- I'm sorry.

4 EXAMINER JONES: Mr. Bruce?

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
6 representing Mewbourne Oil Company. I'm here today in
7 support of Samson Resources Company and Kaiser-Francis Oil
8 Company, and I'll let Mr. Gallegos speak on our behalf.

9 MR. GALLEGOS: If it please the Examiner and
10 counsel, particularly in view of Mr. Kellahin's remarks, I
11 think maybe it's an appropriate time to address what the
12 issues are here, or what we think they are and what needs
13 to be heard, because I think there can be a considerable
14 and significant narrowing of what really needs to be heard
15 and decided.

16 As the Examiner knows, there have been two orders
17 already issued in this case, which of course you can take
18 administrative notice of. But Order 13,492 was previously
19 issued, and then there's -- Excuse me, Order 12,343 and
20 Order 12,343-A have previously been issued in this case.

21 Let me point out some important things that those
22 orders say that seem to lay to rest certain factual issues.

23 In the first order, which was issued on May the
24 5th by the Director, it was found that Chesapeake -- and I
25 quote -- Chesapeake owns no interest in the tract in which

1 its KF 4 State Well Number 1 is located. Chesapeake
2 instead premises its position on the Division's approval of
3 its APD.

4 In the -A order that followed, which was entered
5 on May the 24th, the following facts became a part of the
6 record in this case:

7 Chesapeake Permian, L.P., has filed an
8 application for compulsory pooling, seeking to create a
9 standard standup 320-acre spacing unit consisting of the
10 northern two-thirds of the eastern half of the irregular
11 Section 4, and then they have filed an application for
12 pooling that Mr. Kellahin refers to for what would be the
13 south-half laydown, the southwest and southeast quarter.

14 I quote from the -A Order which says, in regard
15 to that particular unit, the laydown south half, The
16 proposed unit is subject to a communitization agreement
17 approved by the Commissioner of Public Lands, effective
18 April 1, 2005, and a joint operating agreement dated March
19 24, 2005. Mewbourne applied for a permit to drill its
20 proposed Osudo 4 State Com Well Number 1, which would have
21 been dedicated to that -- what I would call east half, two-
22 thirds.

23 Going on with the quote, But the Division denied
24 the application because it had already issued permits to
25 drill to Chesapeake in the same tract.

1 Now, what this has established for the record
2 already is that Chesapeake is asking for a force-pooling,
3 which would include the southeast quarter of this Section 4
4 that is already dedicated to a voluntary spacing unit
5 consisting of that southeast quarter and the lots which, in
6 a normal section, would be the northeast quarter. This
7 happens to be an extended section.

8 So we have a voluntary spacing unit by agreement,
9 by communitization with the approval of the Commissioner of
10 Public Lands, that already covers the southeast quarter.

11 The authority, the force-pooling authority of the
12 Division, is contained in Section 70-2-17.C. It is
13 absolutely clear from that statute that what is anticipated
14 is that the parties with the mineral interests will
15 voluntarily pool a spacing unit. And only if they do not
16 -- and the language is, Where, however, such owner or
17 owners have not agreed to pool their interest, only if they
18 have not voluntarily agreed to a spacing unit does the --
19 has the Legislature given this Division any authority to
20 force pool.

21 So what is being asked and what is said is, the
22 force pooling case is asking this Division to go contrary
23 to law and say what is already acreage that is part of a
24 voluntary agreement is going to be pulled out of that
25 voluntary agreement by statute. There's no authority to do

1 that.

2 In our estimation, there is no pooling case.
3 This is not a force pooling case. This is simply a case of
4 whether or not there are good grounds, which we believe are
5 abundantly clear, that the APD that was issued March the
6 11th for the KF 4 State well, Chesapeake, should be
7 revoked.

8 MR. KELLAHIN: Mr. Examiner, on behalf of
9 Chesapeake, we anticipated that Mr. Gallegos would present
10 this to you in the fashion he has, and we have prepared a
11 trial brief on all this, trying to organize it and
12 synthesize this problem over the permits, the com agreement
13 and the compulsory pooling order, so that you would have
14 one single pleading to consolidate two inches of filings
15 over the permit problem.

16 In essence, Mr. Gallegos has forgotten,
17 apparently, the Pride case. We rely extensively on the
18 Pride order issued by the Commission. In effect, the
19 voluntary agreement cannot trump your authority to
20 determine the appropriate orientation of the spacing unit.
21 And when you look at the details of the Pride order, as
22 well as TMBR/Sharp, you can see that we're on solid grounds
23 with your jurisdictionally to proceed with the compulsory
24 pooling. I have memorandum, if I may submit it to you.

25 MR. BROOKS: Thank you. Well, it would seem to

1 me that the -- we're in -- we have issues joined on the
2 compulsory -- on the permit issue and the compulsory
3 pooling issue, and we have everybody here, and it would
4 seem to me the most expedient thing to do would be to
5 combine these cases for purposes of hearing, with the
6 understanding that once we have heard the testimony, we
7 will then -- the Examiner will then make a decision as to
8 whether or not a consolidated order or separate orders
9 would be entered in the cases.

10 That refers to 13,492 and 13,493.

11 Now, Mr. Gallegos has indicated that 13,505 is
12 not ready, and I understand that to involve separate
13 issues. Do you want to respond to that, Mr. Kellahin?

14 MR. KELLAHIN: Yes, Mr. Brooks, there was a
15 motion to stay drilling on the Cattleman 4-1 well, which is
16 the subject of the -505 pooling Application. And by
17 voluntary agreement, Chesapeake has agreed not to commence
18 action on that permit until the Examiner enters an order
19 here in the disputed case for the south half of the
20 section.

21 So we would either request that you hold that in
22 abeyance -- if it's preferable for you in terms of your
23 procedures and your filings, we certainly have no objection
24 to having that case dismissed without prejudice.

25 MR. BROOKS: Well, I don't know, Mr. Gallegos has

1 indicated he's not ready to go on 13,505, so --

2 MR. GALLEGOS: Well, but I think the right to
3 refile is satisfactory. We have no objection to that, just
4 withdraw it and refile it once it does --

5 MR. KELLAHIN: We'll just take it off the docket,
6 Mr. Examiner.

7 EXAMINER JONES: I think that is this.

8 MR. BROOKS: That's, I believe, right.

9 EXAMINER JONES: So it doesn't conflict -- Is it
10 correct that that does not conflict in any way in acreage
11 with the 13- --

12 MR. GALLEGOS: No --

13 MR. KELLAHIN: Yeah, that's true, it does not.
14 If I could explain that for a moment.

15 This is an irregular section, and it's hard to
16 have the nomenclature for it. When you look at the bottom
17 laydown, south half, that consists, by your nomenclature,
18 in the southeast quarter and the southwest quarter.

19 The balance of that, if you'll think of it as a
20 standard section and, rather than unit letters, if you'll
21 start in the northeast-northeast, that will be tract 1, and
22 you number that 1, and you proceed to the west with your
23 numbers, drop down and then go east, and go in that
24 rotation, starting with number 1, all the way through lot
25 16.

1 And so the pooling case for the Cattleman 2 --
2 4 Number 1 was a pooling case that would have stood up and
3 consisted of lots 2, 4, 7, 8, 9, 10, 15 and 16.

4 EXAMINER JONES: Those lots? That would be the
5 lots for those? It wouldn't be lots 1, 2, 7, 8 --

6 MR. KELLAHIN: -- 7, 8, and dropping down to --

7 EXAMINER JONES: -- 9, 10 --

8 MR. KELLAHIN: -- 9, 10 --

9 EXAMINER JONES: -- 15 and 16.

10 MR. KELLAHIN: -- 15 and 16. I thought I said
11 that, but I --

12 EXAMINER JONES: Okay.

13 MR. KELLAHIN: -- misstated. And then the other
14 one for the Cattleman 4 Number 2 was to pick up the west
15 portion of that standup.

16 So if we simply withdraw the Cattleman problem,
17 postpone that and refile it, we are now in a dispute about
18 what I will characterize as the laydown versus the east-
19 half standup, which is maybe a shorthand way of saying it.

20 MR. BROOKS: In other words, if you look at this
21 as being north half, the south half and the middle half,
22 then 13,493 is the south half -- involves the south half --

23 MR. KELLAHIN: Yes, sir.

24 MR. BROOKS: -- 13,505 involves the --

25 EXAMINER JONES: -- east half of the --

1 MR. BROOKS: -- east half of the north half and
2 the east half of the middle half?

3 MR. KELLAHIN: Yes, sir.

4 MR. BRUCE: And Mr. Examiner, I would point out,
5 however, that the joint Application of Samson, Kaiser-
6 Francis and Mewbourne, 13,492, does involve the APDs on
7 both of the Chesapeake pooling cases, and we seek to cancel
8 both of those APDs.

9 MR. BROOKS: Well, I gather, however, Mr.
10 Kellahin, that you have no objection to dismissal or
11 postponing of 13,505; is that correct?

12 MR. KELLAHIN: The -05 case, which is the --

13 MR. BROOKS: Yeah.

14 MR. KELLAHIN: -- pooling of the Cattleman 4
15 Number 1 well.

16 MR. BROOKS: Okay.

17 (Off the record)

18 EXAMINER JONES: Okay, Mr. Gallegos?

19 MR. GALLEGOS: I just wanted to clarify one
20 point. And it's fine what we're doing with this, but the
21 13,505 Application suffers from the same problem as the
22 -93, which is to say the -05 Application would take the
23 northern 160 that's already voluntarily pooled.

24 So what the Division does about this issue of,
25 can you force pool acreage that's already voluntarily

1 pooled, will have an effect on that Application.

2 EXAMINER JONES: Okay, for purposes of this
3 hearing, we'll hear Cases 13,492 and 13,493.

4 13,492 is the Application of Samson Resources
5 Company, Kaiser-Francis Oil Company, and Mewbourne Oil
6 Company for cancellation of two drilling permits and
7 approval of a drilling permit, Lea County, New Mexico.

8 And -- Do you want to call for appearances in
9 that case before we go on to the next one?

10 (Off the record)

11 EXAMINER JONES: Okay, and Case 13,493, which is
12 the Application of Chesapeake Permian, L.P., for compulsory
13 pooling, Lea County, New Mexico.

14 Let's call for appearances on both cases again.
15 I know some of you have already...

16 MR. GALLEGOS: My name is Gene Gallegos, Santa
17 Fe, New Mexico, attorney for Samson Resources.

18 I want to also introduce Mark Lauer, who's in-
19 house counsel for Samson Resources.

20 MR. BRUCE: Jim Bruce representing Mewbourne Oil
21 Company.

22 MR. HALL: Mr. Examiner, Scott Hall appearing on
23 behalf of Kaiser-Francis Oil Company.

24

25 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin on

1 behalf of Chesapeake Operating Company.

2 MR. COONEY: Mr. Examiner, John Cooney on behalf
3 of Chesapeake.

4 MR. DEBRINE: Earl DeBrine with the Modrall
5 Sperling, with Mr. Cooney, on behalf of Chesapeake, Permian
6 Chesapeake Operating.

7 EXAMINER JONES: Okay.

8 MR. KELLAHIN: And then finally, Mr. Examiner,
9 I'd like to introduce Mr. Charles Smith who's the house
10 attorney for Chesapeake.

11 EXAMINER JONES: Okay. Will the witnesses -- the
12 -- everybody that intends to testify in this case, can you
13 please stand to be sworn?

14 (Thereupon, the witnesses were sworn.)

15 EXAMINER JONES: Okay, the first filed case was
16 13,492, so let's have the Applicants in 13,492 proceed with
17 their case.

18 MR. GALLEGOS: On that case, Mr. Examiner, Samson
19 Resources would call its first witness, Rita Bures.

20 RITA A. BURESS,
21 the witness herein, after having been first duly sworn upon
22 her oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. GALLEGOS:

25 Q. Would you state your name, please?

1 A. Rita A. Buress.

2 Q. Where do you live, Ms. Buress?

3 A. Midland, Texas.

4 Q. What is your occupation?

5 A. Senior landman with Samson Resources.

6 Q. Are you a certified professional landman?

7 A. I am.

8 Q. Would you please describe for the Examiner your
9 experience in the oil and gas industry as a landman?

10 A. I earned a bachelor's degree in economics from
11 the University of New Mexico in May of 1983, graduated with
12 honors, earned a master's degree in business administration
13 from the University in May of 1984.

14 I worked for ARCO Oil and Gas Company in Midland,
15 Texas, and in Dallas, Texas, for 10 years. I worked
16 southeastern New Mexico, west Texas and southern Oklahoma,
17 working all phases of oil and gas, negotiating agreements,
18 checking title, buying leases, curing title, handling
19 purchase -- property purchases and sales.

20 And for close to ten years after that I worked as
21 an independent, doing the same kind of work for companies
22 from majors to individuals, throughout west Texas and
23 southeast New Mexico, prior to being hired by Samson.

24 Q. Have you previously testified before any courts
25 or regulatory bodies?

1 A. I've testified before the Oklahoma Corporation
2 Commission.

3 Q. And have you done an investigation of the oil and
4 gas leases and other instruments of title that pertain to
5 Section 4 that's at issue in this case?

6 A. I have.

7 MR. GALLEGOS: Mr. Examiner, we ask that Ms.
8 Buress be recognized -- with her expertise, be recognized
9 as a professional petroleum landman.

10 EXAMINER JONES: Mr. Kellahin, any objection?

11 MR. DEBRINE: No objection.

12 EXAMINER JONES: How do you spell your last name,
13 Ms. Buress?

14 THE WITNESS: B-u-r-e-s-s.

15 Q. (By Mr. Gallegos) Before going into the
16 specifics of this particular matter, would you just explain
17 for the Examiner what your usual practice is when you're
18 asked to investigate into ownership of oil and gas leases
19 or interests in land that may pertain to rights to develop
20 minerals?

21 A. Typically, I would check with the country
22 records, in this case Lea County records in Lovington, New
23 Mexico, check at the office of the abstractor and at the
24 office of the county clerk, to see what's been filed
25 against the property. And in the case of a state oil and

1 gas lease, check the records of the State Land Office.

2 Should it be a federal oil and gas lease, check the BLM
3 records also.

4 Q. Are you familiar with the Application in this
5 case, Number 13,492, for cancellation of a drilling permit
6 that was issued to Chesapeake Operating Company for a
7 portion of Section 4 that's at issue?

8 A. I am.

9 Q. And do you understand what the objective of that
10 Application is?

11 A. I do.

12 Q. And what is that?

13 A. It is an application by Mewbourne Oil Company,
14 Samson Resources and Kaiser-Francis Oil Company to cancel
15 two APDs that were issued in Section 4, and approve a
16 separate APD.

17 Q. Have you prepared the documents in the notebook
18 that's on the witness stand in front of you that contains
19 exhibits -- as to the exhibits tabbed at A through N?

20 A. I have.

21 Q. Would you just -- to assist the Examiner and his
22 counsel, please explain the system or the construction of
23 this notebook before we go into --

24 A. Oh, okay.

25 Q. -- before we go into the details of the exhibit?

1 A. Behind each tab, A, B, C, D, E, F, G, there's a
2 plat that shows the section at issue. And this is an
3 oversize section, as we've said before, so it contains
4 close to 960 acres, about one and a half sections.

5 And just for ease in referring to the leases,
6 since the description of the section is unusual, I've
7 called the lease covering the southeast quarter Lease
8 Number 1, which is approximately 160 acres. And then the
9 southwest quarter is called Lease Number 2. The middle 320
10 acres is covered by a third lease entitled Lease Number 3.
11 And then the northern 320 acres is covered by one lease,
12 and that's referred to as Lease Number 4.

13 Q. And with each of the -- as you address each of
14 these leases in these exhibits, then you have documents
15 within the tabs --

16 A. Right, supporting the ownership of that or
17 further clarifying whatever is illustrated on the plat.

18 Q. All right. Well, if you'd draw your attention,
19 then, to Exhibit A and just describe what that shows.

20 A. Okay, Exhibit A deals with Lease Number 1, being
21 the southeast quarter of the Section, and behind the plat
22 there's an index.

23 This lease dates back to December of 1932. It
24 was issued by the State of New Mexico to Empire Gas and
25 Fuel Company. There were a number of intervening

1 assignments, and title is now vested in Samson Resources,
2 Kaiser-Francis Oil Company, and Mewbourne Oil Company.

3 Q. And in a later exhibit, for Examiner and counsel,
4 will you demonstrate what those particular percentages are?

5 A. Yes, the percentages are shown behind Tab F, on
6 the plat, for Lease Number 1. Samson Resources Company
7 owns 12 1/2 percent of that lease, Kaiser-Francis has 72.7
8 percent, approximately, and Mewbourne has the balance, 14.7
9 percent.

10 Q. Would you turn to Exhibit B, please, and explain
11 what that shows?

12 A. Exhibit B illustrates on the plat the location of
13 Lease Number 2, the southwest quarter of the subject
14 Section 4. And behind the plat there's an index to the
15 documents.

16 The oil and gas lease was issued May 1 of 2004 by
17 the State of New Mexico to Rubicon Oil and Gas, L.P. There
18 are intervening assignments again, and it is now owned by
19 Chesapeake Permian, L.P.

20 Q. Okay, Exhibit C then.

21 A. Exhibit C deals with Lease Number 3, illustrated
22 on the plat. And Lease Number 3 is an oil and gas lease
23 dated May 1st, 2004, from the State of New Mexico to Samson
24 Resources Company. That lease is still held by Samson
25 Resources Company.

1 Q. One hundred percent?

2 A. Correct.

3 Q. Okay, and Exhibit D?

4 A. Exhibit D shows the location of Lease Number 4
5 within Section 4. And that lease was issued May 1 of 2004
6 by the State of New Mexico to Rubicon Oil and Gas Company,
7 L.P. There are a number of intervening assignments, and it
8 is now by Chesapeake Permian, L.P. And that lease --

9 Q. Let me ask you, you showed Chesapeake Permian,
10 L.P. That ownership is not in Chesapeake Operating?

11 A. No, it is not. The title at the State Land
12 Office and at the county records show the lease to be owned
13 by Chesapeake Permian, L.P.

14 Q. All right, thank you. And Exhibit E?

15 A. Exhibit E shows the ownership of Section 4 on
16 March 10th, 2005, when --

17 Q. Why did you select that date?

18 A. That's the date that Chesapeake Operating, Inc.,
19 applied for an APD covering the south half of the section,
20 which is comprised of Lease Number 1 and Lease Number 2,
21 for a drilling permit, to drill the KF well.

22 Q. Okay Ms. Buress, let me ask you something with
23 your attention to Lease Number 1, the southeast quarter of
24 Section 4. Did you make any investigation in regard to
25 surface rights?

1 A. The surface rights are owned by the State of New
2 Mexico.

3 Q. Okay. Is there a grazing lease outstanding?

4 A. Yes, there is.

5 Q. Livestock grazing lease?

6 A. That's correct.

7 Q. Did you find any instrument that indicated that
8 the State of New Mexico had given surface rights for entry
9 to -- for mineral development?

10 A. No. Exhibit E shows that Lease Number 1, as of
11 March 10th, was owned 12.5 percent by Samson Resources
12 Company and 87.5 percent by Kaiser-Francis Oil Company.

13 Q. Okay.

14 A. And then Lease Number 2 was owned 75 percent by
15 Chesapeake Exploration Limited Partnership and 25 percent
16 by Rubicon Oil and Gas, L.P.

17 The drilling permit had been applied for by
18 Chesapeake Operating, Inc. --

19 Q. Okay.

20 A. -- who had no ownership at the time.

21 Q. Was there a change in Chesapeake entity from what
22 was shown for Lease Number 4 previously?

23 A. Correct, correct. One of the intervening
24 assignments on both Leases 2 and 4 assigned all of the
25 interest into Chesapeake Permian, L.P. The assignment

1 executed April 26, 2005, assigned all the interest from
2 Rubicon Oil and Gas and Chesapeake Exploration Limited
3 Partnership into Chesapeake.

4 Q. Into which Chesapeake?

5 A. Into Chesapeake Permian, L.P.

6 Q. Well, what I'm asking is, on Exhibit E you show
7 Lease Number 2, 75 percent Chesapeake Exploration Limited
8 Partnership.

9 A. As of that date, that's -- that was the
10 Chesapeake entity that owned the lease.

11 Q. All right. And did that change?

12 A. That did change.

13 Q. All right, at what point in time, into who?

14 A. Assignment dated April 26th, 2005.

15 Q. I see, after this date?

16 A. Correct.

17 Q. To what entity?

18 A. It was assigned to Chesapeake Permian, L.P.

19 Q. All right. Then if you'll turn back to Exhibit
20 F, which you referred to before, and explain to the
21 Examiner why you show the ownership as March 28, 2005.

22 A. March 28, 2005, was the date that Mewbourne Oil
23 Company applied for a drilling permit to drill the Osudo 4
24 State Com Number 4 well in the southeast corner of Section
25 4 on Lease Number 1.

1 At that time, that lease was owned 12 1/2 percent
2 by Samson Resources, 72 percent by Kaiser-Francis, and
3 Mewbourne Oil Company owned the balance.

4 Q. All right.

5 A. And Lease Number 2 was owned by Chesapeake and
6 Rubicon.

7 Q. And now you're saying at that date there was what
8 application?

9 A. Application by Mewbourne Oil Company for a
10 drilling permit to drill the Osudo 4 State Com Number 1
11 well.

12 Q. Located where?

13 A. In the southeast quarter on Lease Number 1.

14 Q. And what happened in the case of that
15 application?

16 A. That application was denied.

17 Q. Do you know why, what reason was given?

18 A. The NMOC had previously issued a drilling permit
19 to Chesapeake for the KF well.

20 Q. Okay. Turn if you would, please, to Exhibit G
21 and explain what that shows.

22 A. Exhibit G shows the configuration of the lands
23 covered by the communitization agreement between Samson
24 Resources Company, Kaiser-Francis Oil Company and Mewbourne
25 Oil Company. It covers Lease Number 1, the southeast

1 quarter of Section 4, and then lots 9, 10, 15 and 16, to
2 form a standup 320.

3 Q. On that -- and I'm going to just refer to it as
4 the east lower two-thirds.

5 A. Okay.

6 Q. I can never remember the lot number. But is
7 there also a joint operating agreement between the parties
8 who own those leases for the operation of a well dedicated
9 to that unit?

10 A. There is, there is. And copies of the operating
11 agreement are attached behind that tab, the cover page, the
12 signature pages and the Exhibit "A".

13 Q. Does your exhibit notebook also contain a copy of
14 the communitization agreement and the approval of that
15 agreement by the Commissioner of Public Lands of the State
16 of New Mexico?

17 A. It does.

18 Q. Would you direct the Examiner to where that would
19 be found?

20 A. Under Tab 11 is the certificate of approval from
21 the Commissioner of Public Land. And then under Tab Number
22 12 is the communitization agreement.

23 Q. What is the effective date of the communitization
24 agreement?

25 A. April 1st, 2005.

1 Q. Now, have you prepared a timeline that reflects
2 certain significant events pertaining to the matters in
3 dispute here, Ms. Buress?

4 A. I have.

5 Q. Does that appear as Exhibit H?

6 A. Yes, it's behind Tab H.

7 Q. Can we display that in some way? Because if some
8 others' eyes are like mine -- pretty small print.

9 A. Yeah, we can --

10 Q. Okay. Now, first of all, what is the span of
11 time on the calendar that's covered on your timeline?
12 Beginning when and ending when, is my question.

13 A. The timeline begins February 27, 2005, with the
14 logging of Mewbourne's Osudo 9 State Com Number 1 well,
15 which is an offset to Chesapeake's Kaiser-Francis KF well,
16 directly south of the well.

17 And it ends April 27th, 2005, the date Chesapeake
18 spud the KF well in Section 4.

19 Q. Okay, let's start, and why do you select the
20 logging of the Osudo 9 well as your first entry on the
21 timeline?

22 A. The Osudo 9 well is directly south of
23 Chesapeake's KF well. The well was logged February 27th,
24 and the logs indicated in excess of 40 feet of pay in the
25 Morrow on that date.

1 Q. Did Chesapeake have any interest in that well so
2 that it would have knowledge of what was shown by the
3 data --

4 A. Yes. Yes, Chesapeake did have ownership in the
5 well.

6 Q. So just to orient, when we talk about that well,
7 would it be in what we'd call the northeast corner of
8 Section 9, the section directly underlying Section 4, and
9 directly underlying the southeast quarter of Section 4?

10 A. Yes, that's correct.

11 Q. All right. What is the next entry?

12 A. The next entry is March 8th of 2005. Mewbourne
13 puts the Osudo 9 State Com Number 1 on gas sales pipeline.

14 The following day, March 9th of 2005, was the
15 date of Chesapeake's proposal letter regarding the KF 4
16 State Number 1 to Samson. That letter was not received by
17 Samson until March 11th. It was received by fax on that
18 date.

19 Q. Can you explain -- What was the nature of that
20 letter?

21 A. That letter is attached behind the timeline in
22 the binder. It shows a date of March 9th. It's actually
23 addressed to our Tulsa, Oklahoma, office, from Chesapeake,
24 and the letter is styled as an election letter, what a
25 company would expect to receive if there was an existing

1 operating agreement covering lands.

2 Q. In fact, was there an existing operating
3 agreement --

4 A. No.

5 Q. -- to which Samson and Chesapeake were parties,
6 covering that land?

7 A. No, there was not.

8 Q. But does the letter say at the bottom of the
9 first page that Samson has to -- has an election to make?

10 A. Right, right. The final sentence reads,
11 "However, please be advised that entering into negotiations
12 to sell Samson's interest does not excuse or allow Samson
13 to delay the required election under this well proposal."

14 Q. Okay. What happened as far as any action being
15 taken on this letter?

16 A. With regard to that letter, that was received in
17 our Tulsa office March 11th via fax, and our Tulsa office
18 prepared information and forwarded it to Midland.

19 After seeing that letter, they thought there was
20 an operating agreement in place and prepared internal
21 documents indicating that there was, forwarded it to
22 Midland for an election under an operating agreement.

23 On the 22nd, Samson agreed to participate in the
24 well and signed the proposal letter from Chesapeake and
25 signed Chesapeake's AFE.

1 Q. And then what occurred?

2 A. We did not -- Chesapeake had requested in their
3 proposal letter that we pay our share of the dryhole costs
4 as part of our election to participate. We did not pay the
5 dryhole costs at that point.

6 Q. Or at any other point?

7 A. No.

8 Q. Okay.

9 A. No, we never paid the dryhole costs as requested.

10 In the meantime -- That was on the 22nd, on the
11 timeline, 11 days after receiving the letter from
12 Chesapeake.

13 In the meantime, on March 10th of 2005, prior to
14 our receipt of the proposal letter, Chesapeake filed an
15 application to get a drilling permit for the KF 4 State
16 Number 1 for a south-half spacing unit.

17 On the 11th, that application was approved by the
18 NMOC.

19 Q. Let's go back to this election letter, though.
20 Did, in time, Samson learn that there was no JOA and inform
21 Chesapeake that that was the case and that there was no
22 election to participate in the well --

23 A. Yes.

24 Q. -- under the mistaken impression that there had
25 been a joint operating agreement?

1 MR. DEBRINE: And I'll object on the lack of
2 personal knowledge of the witness as to what was known by
3 Samson.

4 MR. BROOKS: Well if there's letters, it seems to
5 me they would be the best evidence.

6 Q. (By Mr. Gallegos) Yeah, is there a letter
7 showing -- reflecting this revocation?

8 A. Yes, there is.

9 Q. Okay. Would you direct the Examiner to that --

10 A. Yeah, that's --

11 Q. -- and the date?

12 MR. HALL: It's under Tab H.

13 THE WITNESS: That's right, it's under Tab H.
14 It's a letter dated March 30th, 2005, from Chesapeake
15 Permian -- addressed to Chesapeake Permian from Samson.

16 Q. (By Mr. Gallegos) All right. And what did it
17 say?

18 A. And that letter said that -- referred to our
19 election, Samson's election, and said that, "Upon reviewing
20 Samson's records we have determined that there is actually
21 no JOA between the parties which would support an election
22 for this well. In addition, the time frame for the
23 purported election has not yet expired. Accordingly,
24 please be advised...Samson hereby rescinds and revokes its
25 invalid election to participate in Chesapeake's proposed KF

1 State 4 Number 1 well."

2 Q. By the way, Ms. Buress, going back to the March
3 9th, 2005, letter from Chesapeake, does that show that
4 letter is from Chesapeake Operating, Inc., and signed by
5 Lynda Townsend?

6 A. It does.

7 Q. And on March -- if you'll remind us, on March 9,
8 2005, did Chesapeake Operating have any interest in it?

9 A. No.

10 Q. In the leases in the south half of Section 4?

11 MR. DEBRINE: And I'll object to the question on
12 misstating the evidence. The letter clearly indicates that
13 it's being sent on behalf of Chesapeake Permian in the very
14 first line.

15 Q. (By Mr. Gallegos) Would you answer my question?

16 A. On March 9th there was no interest by --
17 Chesapeake Exploration, Limited Partnership, owned interest
18 in the lands. Chesapeake Operating, Inc., nor Chesapeake
19 Permian, L.P., owned any interest.

20 Q. Okay, thank you. Let's go back, then, to the
21 timeline, and I think you were past March the 11th, and so
22 would you just describe what you've shown on the timeline
23 for March 18th?

24 A. Okay, on March 18th, 2005, Chesapeake filed
25 drilling -- applications for drilling permits for a

1 Cattleman 4 State Com Number 1 and Cattleman 4 State Com
2 Number 2 wells, both to be drilled in the subject Section
3 4.

4 On the 21st, those applications were approved by
5 the NMOCD.

6 Again, those applications were filed by
7 Chesapeake Operating, Inc., which at that time had no
8 interest or ownership in Section 4.

9 Q. Okay. If you'll just proceed, then, your next
10 entry?

11 A. On -- March 24th is the effective date of the
12 operating agreement between Samson Resources, Mewbourne Oil
13 Company and Kaiser-Francis Oil Company.

14 Q. And is that for the acreage that's shown on
15 Exhibit G --

16 A. Yes --

17 Q. -- that I referred to --

18 A. -- the standup two-thirds --

19 Q. The east lower two-thirds?

20 A. Right, correct.

21 And the 28th of March is the date that Mewbourne
22 filed application for a drilling permit for the Osudo 4
23 State Com, the well to be drilled pursuant to the operating
24 agreement and the communitization agreement --

25 Q. Okay.

1 A. -- that we've discussed.

2 Q. Yes, ma'am.

3 A. On March 29th, 2005, Mewbourne proposed the Osudo
4 4 State Com Number well -- 1 well, to Samson and Kaiser-
5 Francis.

6 Then on March 30th, 2005, the NMOCD denied the --
7 Mewbourne's application for a drilling permit for the Osudo
8 4 State Com Number 1, because a drilling permit had already
9 been issued to Chesapeake for a south-half spacing unit
10 with a well on that same southeast quarter.

11 Q. And you have another entry on that same date?

12 A. Yeah, on that same date, was the date of the
13 letter we looked at where Samson revoked its election to
14 join Chesapeake's KF 4 State Number 1 well.

15 Q. Thank you. The next entry, then, does that refer
16 to the communitization agreement that you've already
17 described and --

18 A. It does. It's described under Tab G for the
19 standup 320-acre spacing unit.

20 Q. All right. And then your timeline moves over
21 to -- around the last two or three days of that particular
22 period you describe what events occurred at that point?

23 A. On March 26th, Samson was notified by Mewbourne
24 that Chesapeake had built a location on the southeast
25 quarter of Section 4 for the KF 4 State Number 1 well.

1 Samson sent someone out to the location to verify that, and
2 meanwhile on the same date, Mewbourne filed the subject
3 application to withdraw Chesapeake's drilling permit for
4 the KF 4 State Number 1, and Chesapeake filed a pooling
5 application for the KF 4 State Number well.

6 Q. Okay.

7 A. Then on the 27th of April, Chesapeake spuds the
8 KF 4 State Number 1 well in the southeast quarter of
9 Section 4. That same date, the communitization agreement
10 for the standup 320-acre spacing unit was approved by the
11 State Land Office, and Samson's attorney writes to
12 Chesapeake to cease operations on the drilling of the KF 4
13 State Number 1 well.

14 Q. Okay. Let me ask you something about this
15 election letter that came in from Chesapeake to Samson, and
16 then when it was learned that there was no election
17 required, no joint operating agreement, and the revocation,
18 I think, was on March 30th --

19 A. March 30th, correct.

20 Q. Okay. Have you investigated to see whether or
21 not any of the other mineral lessees in the southeast
22 quarter, Kaiser-Francis or Mewbourne, were confronted with
23 the same kind of supposed election letter?

24 A. Kaiser-Francis received a similar election
25 letter.

1 Q. And what did it do?

2 A. They did not respond to it.

3 Q. And do you know if Mewbourne received such a
4 letter or --

5 A. No, Mewbourne did not.

6 Q. All right. Did you -- You've completed what was
7 on the timeline?

8 A. Right.

9 Q. All right. Can you now, by reason of use of
10 PowerPoint, just review for the Examiner and counsel the
11 particular events so that they can be portrayed in a way
12 that --

13 A. Okay.

14 Q. -- they can actually be seen there?

15 A. We have a map presentation that shows the
16 locations of the wells in question and the spacing units
17 and so on, to kind of illustrate it visually and make it
18 easier to follow.

19 Do you have a --

20 Q. I do, someplace here.

21 A. -- pointer somewhere?

22 This map shows -- You can see Section 4 shows the
23 Samson Resources acreage in yellow. The southeast quarter
24 is also owned by Mewbourne --

25 Q. Push that button.

1 A. Okay. -- and Kaiser-Francis. And the well --
2 this is prior to any of the current activity in the area,
3 Section 4.

4 And then on April 28th of 2004, Samson applied
5 for a drilling permit for the Hunger Buster Number 1 well.
6 That was approved a few days later. That was down in
7 Section 9, directly to the south.

8 Mewbourne applied for the drilling application on
9 the Osudo 9 State Com Number 1 well. This is the one that
10 was later logged. That drilling application was approved
11 September 19th.

12 Q. And that proved to be quite a --

13 A. That's the well that had over 40 feet of sand in
14 the Morrow.

15 Q. And the well in which Chesapeake had an interest?

16 A. Correct.

17 Q. Okay.

18 A. And then on January 12th of '05, Samson applied
19 for a drilling permit on the Hunger Buster Number 2 well,
20 also in Section 9. That was approved by the NMOCD.

21 And then Mewbourne spud its Osudo 9 State Number
22 1 well on January 18th of 2005. That well was logged on
23 the 26th. We received the logs on the -- the logs were
24 received on the 27th, showing over 40 feet of pay in the
25 Morrow, and was put on sales on March 6th. And the subject

1 location is directly north of that, shown by the little red
2 circle.

3 And then on March 10th, Chesapeake applies for a
4 drilling permit for that KF 4 State Number 1 well. It was
5 approved the following day.

6 And by March 6th, Mewbourne's well was on its gas
7 sale pipeline, and they were producing.

8 And again, there's the location of Chesapeake's
9 well, for which they had applied and received a drilling
10 permit.

11 Q. The KF --

12 A. The KF 4 State Number 1.

13 Q. All right. Let me just -- Ms. Buress, let me
14 just ask you to be a little more specific, because for the
15 record, when you say "there" --

16 A. Okay, okay.

17 Q. -- it doesn't really --

18 A. Okay.

19 Q. -- know where that is, so --

20 A. Mewbourne well is shown there in Section 9, the
21 Osudo State Number 1 well, the well that had over 40 feet
22 of pay in the Morrow.

23 KF 4 State Number 1 in Section 4 is the well for
24 which Chesapeake applied to get a drilling permit on March
25 10th, received it on March 11th. Then --

1 Q. In the southeast quarter, directly --

2 A. In the southeast quarter of Section 4, directly
3 north of Mewbourne's Osudo 9 well.

4 Also in Section 4, in lots 9, 10, 11 and 12,
5 Chesapeake applied for an APD for the Cattleman 4 State
6 Number 1 well, to be drilled on a standup 320 acres. That
7 location there for the Cattleman 4 State Number 1 well is
8 -- that is a 100-percent Samson Resources lease, Lease
9 Number 3 in the binder.

10 Q. Do you have a -- In this presentation, do you
11 have a reminder of what acreage is within the voluntary
12 unit? Or if not --

13 A. Yes, that's on the next page --

14 Q. All right.

15 A. -- I think the next couple of pages.

16 Q. Okay.

17 A. And then up in the northwest quarter, lots 3, 4,
18 5 and 6, is the location of Chesapeake's Cattleman 4 State
19 Number 1 well. They applied for a drilling permit on that
20 also on March 18th and received it on March 21 of '05.

21 Q. All right.

22 A. On March 28th, Mewbourne applied for an APD for
23 the Osudo State 4 Number 1 well, also in the southeast
24 quarter of Section 4 at the -- a north offset to the Osudo
25 9, operated by Mewbourne down in Section 9. That was

1 denied on March 30th because of the Chesapeake APD.

2 This shows the configuration of the spacing unit,
3 covered by the communitization agreement and the operating
4 agreement for the Cattleman 4 State Number 1.

5 Q. And does it -- and it also shows where the --

6 A. Right, and it shows that the KF 4 State Number 1
7 is there in the southeast quarter of that standup 320, and
8 the Cattleman 4 State Number 1 well is in the northeast 160
9 acres of that same unit.

10 So the communitization unit covers 320 acres, and
11 there are two wells located within it.

12 Q. Well, one well and one application?

13 A. Right.

14 Q. Okay.

15 A. And then on April 1st, after discussions with
16 Kaiser-Francis, Samson canceled its drilling application
17 for the Hunger Buster Number 1 and the Hunger Buster Number
18 2 to the south in Section 9, south of the subject Section
19 4.

20 Q. So that well did not drill?

21 A. Right, neither of those wells were drilled.

22 Q. Okay.

23 A. In early April of '05, Apache applied for a
24 drilling permit for a State WE L Number 2 well in Section
25 10, which is a direct east offset to Mewbourne's well in

1 Section 9, a prolific Morrow.

2 Q. Do you know what --

3 A. That was approved --

4 Q. Okay.

5 A. -- April 6th. That well has since been plugged.

6 There was no Morrow sand present in Apache's well in

7 Section 10.

8 Kaiser-Francis then applied for an APD for its
9 Hunger Buster Number 3 in Section 9, a south offset to
10 Mewbourne's Osudo 9 State Number 1 well in Section 9. That
11 APD was approved April 8th.

12 On April 7th, Chesapeake proposed the Cattleman 4
13 State Number 1 well to Samson. In the initial proposal
14 letter the well location was referred to as the south half
15 of Section 4. We got a letter and an AFE similar to the
16 one in the binder for the KF well. This was the well for
17 which Chesapeake had applied for a drilling permit on March
18 18th and received it on March 21st.

19 On April 19th, Chesapeake sent a JOA to Samson.
20 That JOA contained the location information for the
21 Cattleman 4 State Number 1 well. They're in lots 9, 10, 15
22 and 16.

23 On April 21st, Samson wrote to Chesapeake,
24 refusing to make an election on the Cattleman 4 State
25 Number 1 well, because our otherwise was -- interest was

1 otherwise committed. It was communitized and covered by an
2 operating agreement.

3 On May 9th, Chesapeake filed a compulsory pooling
4 for the Cattleman 4 State Number 1 well.

5 On April 21st, Kaiser-Francis spud its Hunger
6 Buster Number 3 well there in Section 9, the south offset
7 to the Mewbourne Osudo 9 State Number 1 well. They logged
8 it May 29th, and it was on gas sales by July 22nd.

9 Q. Okay, does that -- Oh, one more, excuse me.

10 A. And then this kind of goes through what also had
11 been going on. Mewbourne had filed a pending permit
12 application to withdraw the APD issued to Chesapeake, the
13 KF 4 State Number 1, as well as the Cattleman 4 State
14 Number 1 well.

15 On April 27th, Chesapeake spud the KF 4 State
16 Number 1 well, the north offset to the Osudo 9 State Number
17 1. That same day Samson attorney wrote to Chesapeake
18 requesting that Chesapeake cease operations on the KF 4
19 State Number 1.

20 On July 1st the KF well was logged.

21 And then on August 11 Chesapeake completed the KF
22 well in Section 4.

23 Q. Thank you, would you --

24 A. And just one additional -- We had mentioned this
25 earlier, but this illustrates again the location of the

1 Apache well there in Section 10, a Morrow well, the east
2 offset to the Mewbourne well in Section 9 where there was
3 no Morrow sand present. The well has been plugged.

4 MR. GALLEGOS: Okay, thank you, Ms. Buress. If
5 you would resume the stand.

6 Mr. Examiner, we move the admission of Exhibits A
7 through H and pass the witness for cross-examination.

8 EXAMINER JONES: Any objections?

9 MR. DEBRINE: No objections.

10 EXAMINER JONES: Exhibits A through H will be
11 admitted to evidence.

12 CROSS-EXAMINATION

13 BY MR. DEBRINE:

14 Q. Just to clarify, Ms. Buress, Samson filed for
15 their communitization agreement after Chesapeake had
16 already filed and received an APD for the KF 4 State well;
17 is that correct?

18 A. Correct.

19 Q. And who was responsible for -- or who came up
20 with the idea to try and obtain a communitization agreement
21 to compete with the proposed spacing unit that Chesapeake
22 had proposed for the KF 4?

23 A. What was discussed internally didn't involve
24 trying to compete with the KF 4 APD. At the point we
25 discussed on the timeline where we discussed with

1 Mewbourne, when Mewbourne came to Samson on March 29th to
2 propose the Osudo 4 well, the day after they had made their
3 drilling application, we were unaware that Chesapeake had
4 an APD.

5 Q. But I thought you testified earlier that you
6 received an election letter for the KF 4 from Chesapeake;
7 is that correct?

8 A. That's correct.

9 Q. And so you had knowledge that they were seeking
10 to drill that well --

11 A. That's correct.

12 Q. -- at the time that you were negotiating a com
13 agreement?

14 A. That's correct, and we didn't --

15 Q. And you also --

16 A. -- know there was a drilling permit issued.

17 Q. You didn't know there was a drilling permit
18 issued?

19 A. No.

20 Q. Did anyone check with the OCD to determine if an
21 APD had been granted for that well?

22 A. Not to my knowledge.

23 Q. Can you tell the Hearing Examiner when someone in
24 Samson first learned that an APD had been granted for the
25 KFC -- or for the KF 4 State Number 1 well?

1 A. On March 30th, when Mewbourne's application for
2 the Osudo 4 State Com Number 1 was denied.

3 Q. So there was no investigation at all done by
4 Samson with regard to the status of the APD that Chesapeake
5 had applied for?

6 A. Not to my knowledge, no.

7 Q. Did anyone at Samson contact Chesapeake to
8 discuss the proposed election for the well before Samson
9 agreed and sent the election letter back agreeing to
10 participate in the KF 4 Number 1?

11 A. Yes.

12 Q. Who was that?

13 A. The landman who wrote the letter dated March
14 30th, under Exhibit H, Tim Reece, contacted Lynda Townsend
15 at Chesapeake.

16 Q. Do you know when he spoke to her?

17 A. I don't have the date, no. I don't know the
18 exact date that he did.

19 Q. Do you know what his level of knowledge was with
20 regard to the proposal that had been made by Chesapeake and
21 the specific circumstances as to the status of the APD at
22 that point in time when the two of them spoke?

23 A. No, I don't.

24 Q. Do you think it's likely that he would have known
25 and would have been informed that an APD would have already

1 been granted for the well at that time?

2 A. I don't know.

3 Q. Did anyone at Samson speak with the Commissioner
4 of Public Lands Office to discuss the com agreement that
5 was subsequently entered into?

6 A. Not to my knowledge. Mewbourne filed a
7 communitization agreement with the State Land Office --

8 Q. Do you know --

9 A. -- communitization.

10 Q. Do you know who they dealt with at the Land
11 Office to discuss that agreement?

12 A. No, I don't.

13 Q. At the time the election letter was sent back to
14 Chesapeake, it was Samson's intention at that time to
15 participate in the cost of drilling for the KF 4 State
16 Number 1 well?

17 A. Yes.

18 Q. And you had all the knowledge you needed to
19 intelligently make that election at that time?

20 A. No.

21 Q. What additional information would you have
22 needed?

23 A. At the time we made that election, Samson made
24 that election, we were under the impression that there was
25 an operating agreement between Chesapeake and Samson, under

1 which we were obligated to make an election or go
2 nonconsent.

3 Q. How do you know that?

4 A. Internal correspondence within Samson and
5 discussions with parties that make the election.

6 Q. Can you point to any correspondence that you've
7 either produced in this case or are offering for an exhibit
8 to reflect that understanding?

9 A. No.

10 Q. So whose understanding was it, then? What
11 specific person at Samson had that understanding?

12 A. Peggy Kerr, the landman who was working for
13 Samson Resources at that time on southeast New Mexico.

14 MR. DEBRINE: I would move to strike the earlier
15 testimony with respect to Samson's understanding as not
16 based on the personal knowledge of the witness.

17 MR. GALLEGOS: If it please the Examiner, the
18 whole line of examination here is rather mystifying,
19 because it's previously been represented by Chesapeake, and
20 it's set forth in Order 12,343 that Chesapeake does not
21 premise its position on this particular AFE approval. I
22 think that's the law of the case, and they never objected,
23 unless they're trying to change their position now. That's
24 been the previous position, and adopted by order of the
25 Division. And I don't -- It seems to me this questioning

1 is irrelevant anyway.

2 (Off the record)

3 EXAMINER JONES: Mr. DeBrine, can you clarify
4 that motion to strike?

5 MR. DEBRINE: Yes, I think the witness earlier
6 testified that it was -- that the election was made based
7 on the understanding of Samson that there was a JOA in the
8 -- in place between Chesapeake and Samson, and this witness
9 doesn't have any understanding, she didn't have any
10 personal involvement, she didn't perform any investigation
11 to determine whether there was a JOA in place or not.

12 The letter that was sent by Chesapeake enclosing
13 the -- asking Samson to make an election never mentioned a
14 JOA. So the election letter wasn't contingent on the
15 existing of a JOA. It was just in a letter asking Samson
16 to participate in the cost of drilling the well.

17 There was a subsequent letter that I can't
18 remember if Ms. Buress referred to or not, where Chesapeake
19 forwarded a JOA after Samson attempted to withdraw its
20 election, and then Chesapeake, in order to comply with the
21 Commission's Rules, to try and form a voluntary unit, then
22 sent a further letter asking Samson to execute a JOA, if
23 that was supposedly their objection to participating in
24 this well.

25 MR. BROOKS: And what you're asking to strike is

1 her testimony with regard to the understanding with which
2 Samson signed the AFE originally?

3 MR. DEBRINE: Yes.

4 MR. BROOKS: And Ms. Buress, did you testify that
5 you were not a party to that transaction; is that correct?

6 THE WITNESS: That's correct.

7 MR. BROOKS: So your knowledge of the
8 understanding with which that was signed would have been
9 baaed on subsequent conversations with other people at
10 Samson; is that --

11 THE WITNESS: That's correct, on subsequent
12 conversations with people at Samson and on internal
13 correspondence of Samson's which hasn't been submitted into
14 evidence, although I do have it in Mr. Gallegos's office,
15 if we need that.

16 MR. BROOKS: Okay, I would advise the Examiner to
17 grant the motion to strike.

18 EXAMINER JONES: Okay, we'll grant the motion to
19 strike that particular testimony.

20 MR. GALLEGOS: Okay. And Mr. Examiner, if we
21 can, I want the record to be very clear on this particular
22 issue, because Order 12,343 in this case says, page 2, The
23 following facts are apparently undisputed: Chesapeake owns
24 no interest in the tract on which its KF 4 State Number 1
25 well is located. It may have some rights based upon

1 approval of an authority for expenditure for the well by
2 another working interest owner, but such AFE was not
3 circulated pursuant to an operating agreement, and
4 Chesapeake does not premise its position on this AFE
5 approval. End quote. An undisputed fact in this case.

6 MR. DEBRINE: If I could respond, I think that
7 order says apparently undisputed, and I think that was just
8 a characterization. That was a tentative decision in the
9 nature of a request for preliminary injunction as you see
10 in a civil proceeding where the Division was making a
11 tentative ruling where there was an application to halt the
12 drilling operations that were being conducted, and that
13 doesn't bind the Division with respect to the ultimate
14 facts and the merits of the case, which the Division set
15 for hearing today.

16 And the issue that has been raised by Mewbourne
17 and Samson and Kaiser-Francis is, did Chesapeake have a
18 good-faith basis for applying for that APD? And I would
19 submit to the Division that good faith envelopes all of the
20 relevant facts, the state of mind of Chesapeake when it did
21 apply for that APD, and the fact that it had sent and
22 received an AFE letter approved by a working interest owner
23 who would participate in the spacing unit, is relevant to
24 that issue of good faith.

25 MR. GALLEGOS: And we would say, then, on the

1 issue of good faith, it's of note that Chesapeake took one
2 position on May the 3rd before the Examiner in this case
3 and now wants to take another position on this particular
4 issue.

5 MR. BROOKS: Well, I believe the evidentiary
6 objection related to this witness's knowledge and not to
7 the -- whether -- any issues that might arise from
8 positions that have been taken by Chesapeake previously, so
9 I don't think that affects it. When we get to addressing
10 the merits, we'll address those issues.

11 You may proceed.

12 EXAMINER JONES: Okay, proceed, Mr. --

13 MR. DEBRINE: No further questions.

14 REDIRECT EXAMINATION

15 BY MR. GALLEGOS:

16 Q. Ms. Buress, let me ask you to turn your attention
17 once again to this letter that's in question that is dated
18 April -- excuse me, March 9th, 2005, and it is part of
19 Exhibit H. On the reference there, does it indicate that
20 there's a well to be drilled in the southeast quarter?

21 A. No.

22 Q. What does it say?

23 A. It indicates the well will be drilled in the
24 south half of Section 4.

25 Q. Okay, no other information as to --

1 A. No other location.

2 Q. -- the location of it?

3 A. The attached AFE indicates the same thing, that
4 the well is to be drilled in the south half of Section 4.

5 MR. GALLEGOS: All right. Thank you, that's all
6 the questions that we have.

7 EXAMINATION

8 BY EXAMINER JONES:

9 Q. Ms. Buress, the -- Rubicon, do they still have an
10 interest in --

11 A. Rubicon no longer has an interest in the leases.

12 Q. And can you tell me who the owners -- who the
13 interest owners were in the Osudo 9 State Number 1, I think
14 it is, the good well?

15 A. Mewbourne had an interest in it, Chesapeake did,
16 and I don't know the ownership of any remaining interest.

17 Q. Mewbourne and Chesapeake?

18 A. Mewbourne and Chesapeake --

19 Q. And no one else --

20 A. -- at least. There may have been an additional
21 party that had an interest. The bulk of the interest was
22 owned by those two parties. There may have been other
23 owners that I'm not aware of.

24 MR. HALL: Mr. Examiner, the other interest owner
25 is Finley Resources, James D. Finley.

1 Q. (By Examiner Jones) Okay. So Mewbourne is the
2 operator --

3 A. Correct.

4 Q. -- of the well, and Samson is a part interest
5 owner --

6 A. No, Samson has --

7 Q. -- I mean --

8 A. -- no interest in the Osudo 9, but Chesapeake
9 does.

10 Q. Okay, Chesapeake does. Okay. And -- But as far
11 as the acreage that is controlled in the Section 4 by
12 Samson --

13 A. Right.

14 Q. -- Samson -- it's -- there's an agreement between
15 the other parties that Samson will be the operator?

16 A. That's correct.

17 Q. Okay.

18 EXAMINATION

19 BY MR. BROOKS:

20 Q. Okay, just wanted to clarify. As you mentioned,
21 this timeline has very small print.

22 There are a few --

23 A. Do you want to project it again?

24 Q. No, you can just answer these questions,
25 because --

1 A. Okay.

2 Q. -- there are a few dates I am interested in
3 making sure.

4 When was the AFE approved for the KF State 4
5 Number 1?

6 A. The signature date -- let's see, the -- It was
7 signed by Samson Resources on March 16th and communicated
8 to Chesapeake on March 22nd.

9 Q. This is the AFE?

10 A. The AFE, correct.

11 Q. When was it approved by the Division? I'm sorry,
12 the APD.

13 A. Oh, the APD. The APD was approved --

14 Q. My mistake.

15 A. -- by the Division on March 11th.

16 Q. March 11th?

17 A. Correct. It was applied for on March 10th.

18 Q. Okay. When was -- Now, this AFE election
19 occurred when? It was signed by Samson when?

20 A. Let's see, the proposal itself was received March
21 11th, and Samson signed it March 22nd and communicated that
22 to Chesapeake.

23 Q. And when was the com agreement signed?

24 A. The com agreement --

25 Q. The com agreement is --

1 A. -- is under Number 12, and that has Samson's
2 signature on April 12th.

3 Q. That was the com agreement that purported to
4 establish a unit consisting of the east half of the
5 southeast -- the east half of the south half and the east
6 half of the middle half --

7 A. Right.

8 Q. -- of Section 4? Okay, and that was signed by
9 Samson on 4-12 of '05?

10 A. Correct.

11 Q. Now, when did the Commissioner of Public Lands
12 approve that com agreement?

13 A. On April 27th.

14 Q. April 27th.

15 A. Correct.

16 Q. Now, when was the Osudo 4 State Number 1 spudded?

17 A. April 27th.

18 Q. Okay. When was the Application in Case Number
19 13,492, the revocation case -- when was that filed?

20 A. That was filed April 26th.

21 Q. And when was the Application in 13,493 filed?
22 That's the compulsory pooling?

23 A. April 26th.

24 Q. Okay, so those were filed the same day?

25 A. Right.

1 MR. BROOKS: Okay, thank you. That's all I have.

2 FURTHER EXAMINATION

3 BY EXAMINER JONES:

4 Q. Ms. Buress, one more question. Does Samson --
5 Are you an employee of Samson?

6 A. I am, yes.

7 Q. Okay. Do they have operating entities,
8 exploration entities or any other entities, or there's just
9 one entity?

10 A. They operate as Samson Resources in New Mexico,
11 that one entity.

12 Q. Okay. So they don't have an exploration entity
13 that they operate all over the United States and they turn
14 it over to another company, another Samson company, for
15 drilling or operating?

16 A. No, we do our business in New Mexico as Samson
17 Resources.

18 It's my understanding that in Texas business is
19 done as Samson Lone Star, but I don't personally do that.
20 Everything I do in New Mexico is done as Samson Resources,
21 drilling applications, contracts, leases.

22 Q. Okay. When you worked for ARCO did they operate
23 as separate entities?

24 A. They had -- Atlantic Richfield Company was the
25 corporate overhead -- ownership, and we were a branch of

1 it, ARCO Oil and Gas Company. But they did everything
2 under Atlantic Richfield.

3 Q. Okay. Now, your office in -- is it Oklahoma
4 City?

5 A. Tulsa.

6 Q. Tulsa, I'm sorry.

7 A. Okay.

8 Q. And -- communicated with the office in Midland?

9 A. That's right.

10 Q. Okay. And they didn't -- they forwarded an
11 election to participate in a well, but without telling the
12 office in Midland that there was a com agreement or any
13 kind of agreement in place; is that --

14 A. You mean when they got their proposal letter from
15 Chesapeake?

16 Q. Yeah.

17 A. The proposal letter from Chesapeake went to
18 Tulsa, and --

19 Q. From Chesapeake to Tulsa --

20 A. From Chesapeake --

21 Q. Chesapeake Exploration, right?

22 A. I have to look at the letter and make sure I get
23 it right.

24 Yeah, Chesapeake Operating on behalf of
25 Chesapeake Permian, L.P., made the proposal. It was sent

1 to our Tulsa, Oklahoma, office.

2 People in Tulsa got that. They researched, found
3 what they thought was an operating agreement that covered
4 this well, did a piece of internal correspondence stating
5 that and what the election deadline was, forwarded that to
6 Midland, in order for the folks in Midland to make an
7 election --

8 MR. DEBRINE: And I'll again object and move to
9 strike testimony about what people in Tulsa thought,
10 because this witness doesn't have knowledge as to what was
11 in their mind.

12 EXAMINER JONES: Okay, but she is in Tulsa.

13 THE WITNESS: No, I'm in Midland.

14 Q. (By Examiner Jones) Oh, you're in Midland?

15 A. That's right.

16 Q. And do you have any other witnesses from the
17 Tulsa office --

18 A. No.

19 Q. -- who are going to be showing up? Okay.

20 So you're in Midland, and you were just reacting
21 to the -- Tulsa forwarding you --

22 A. Correct.

23 Q. -- this --

24 A. Correct.

25 MR. BROOKS: Nothing further.

FURTHER EXAMINATION

BY MR. GALLEGOS:

Q. Okay, let's clarify the dates here. I want to draw your attention to the March 30th, 2005, letter that's part of Exhibit H. Okay? First of all, is that from Samson Resources' Midland office?

A. It is, yes.

Q. And was it faxed to Chesapeake? Not just mailed but faxed to Chesapeake?

A. That's correct, it was faxed to Chesapeake Permian.

Q. On March 30, 2005?

A. It was.

Q. And does it recite that -- determine that there was no JOA between the parties to support an election, and what had been done before was revoked?

A. That's correct.

Q. And then did approximately four weeks intervene after that letter was faxed, before Chesapeake spudded the KF 4 State Number 1?

A. That's correct.

MR. GALLEGOS: That's all.

FURTHER EXAMINATION

BY MR. DEBRINE:

Q. Could you remind me of the different companies

1 you've worked for during your career?

2 A. I've worked as an employee for ARCO Oil and Gas
3 Company, Atlantic Richfield Corporation, and then I've
4 worked as an independent for a number of different
5 companies, including Chevron and ChevronTexaco both, U.S.
6 Perenco, Exxon, ExxonMobil, OXY, Burlington, and then a
7 number of small individuals and privately owned companies.

8 Q. And in your experience it is not uncommon for an
9 operating company that operates properties on behalf of
10 affiliated companies that hold title to property, to apply
11 for regulatory approval for drilling wells; isn't that
12 correct?

13 A. I don't -- I don't know. Typically, when they're
14 applied for, they're -- they specify very clearly the name
15 of the entity.

16 Q. Right, the name of the entity applying for the
17 permit is specified, but they may -- the actual ownership
18 may be in a different entity; isn't that correct?

19 A. Well, an example would be -- what I'm more
20 familiar with, what I've seen is, when ARCO Oil and Gas
21 Company applied for something it would say ARCO Oil and Gas
22 Company, a Division of Atlantic Richfield Corporation.
23 That's how it would be stated on an application for a
24 drilling permit. That's how written proposals would be
25 stated, that's how AFEs would be styled.

1 Q. How about when you worked for Burlington? Did
2 Burlington make applications for APDs on behalf of any of
3 its affiliates that own title to the underlying property?

4 A. I didn't personally deal with the drilling
5 applications, so I don't know how they styled them.

6 Q. Did any of the companies you worked for ever do
7 that, where an operating company made an application to
8 obtain authority to drill a well on behalf of an affiliated
9 entity that owned title to the property?

10 A. I don't know, I don't have personal knowledge of
11 that.

12 MR. DEBRINE: No further questions.

13 EXAMINER JONES: Okay, no further --

14 MR. GALLEGOS: Nothing further, thank you.

15 EXAMINER JONES: Thank you, Ms. Buress.

16 MR. HALL: At this time, Mr. Examiner, we would
17 like to call James Wakefield from Kaiser-Francis Oil
18 Company.

19 And the way we wish to proceed, Mr. Examiner, if
20 you'll refer to your exhibit notebook, we'll be discussing
21 Exhibit O, and there are Tabs 1 through 12 under Exhibit O,
22 so O-1, O-2, et cetera.

23 And we have an additional orientation map to
24 provide you, marked Exhibit P.

25 MR. BROOKS: You've got a fancy map here.

1 EXAMINER JONES: Yeah.

2 JAMES WAKEFIELD,

3 the witness herein, after having been first duly sworn upon
4 his oath, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. HALL:

7 Q. For the record, please state your name, sir.

8 A. James Wakefield.

9 Q. And Mr. Wakefield, where do you live and by whom
10 are you employed?

11 A. I live in Tulsa, Oklahoma, employed by KF Energy,
12 L.L.C.

13 Q. And in what capacity?

14 A. Vice president.

15 Q. What's your relationship to Kaiser-Francis Oil
16 Company?

17 A. KF Energy, L.L.C., is the general partner of KF
18 Energy, LTD., which acts on behalf of Kaiser-Francis Oil
19 Company.

20 Q. And you're a petroleum engineer; is that right?

21 A. Yes.

22 Q. Have you previously testified before the Division
23 and any of its Examiners and had your credentials
24 established as a matter of record?

25 A. Both here in New Mexico and in Oklahoma and in

1 Texas.

2 Q. All right, briefly -- just briefly, give the
3 Hearing Examiner a brief overview of your educational
4 background and work experience.

5 A. Graduated in 1972 from the University of Tulsa
6 with a degree of bachelor of science in petroleum
7 engineering.

8 Worked for Gulf Oil in west Texas for about three
9 years, mostly waterflooding. Skelly and Getty, again
10 mostly waterflooding, in Duncan, Oklahoma. Area engineer
11 for Getty in Drumright, Oklahoma.

12 Subsequently that with Grace Petroleum, first as
13 an expert on waterflooding, to install some waterfloods in
14 Cushing Field. Subsequently as the assistant vice
15 president of engineering for Midland region, which included
16 New Mexico, where we did a lot of drilling.

17 Subsequent to that, worked for Lee Keene and
18 associates as a consulting engineer for three years doing a
19 variety of bankruptcy, protection for banks, year-end-type
20 reports, evaluation work for a number of companies both in
21 Michigan, New Mexico, Oklahoma and the Rockies.

22 I've been with Kaiser-Francis since 1985, part of
23 -- initially a six-member group called the acquisition
24 group, where we were in charge of managing approximately
25 10,000 properties. My area of expertise was, again, New

1 Mexico, southwest Oklahoma, Oklahoma and Texas panhandle,
2 southern Oklahoma, both gas, oil, waterfloods, drilling,
3 acquisitions, drilling, divestitures.

4 And then in April of '04 Kaiser-Francis formed
5 four separate L.L.C.s -- actually more than four, but four
6 main ones, one of which was KF Energy, L.L.C., which
7 centers on activity in the west Texas-New Mexico area and
8 three counties in east Texas.

9 And currently my main area of focus is New
10 Mexico.

11 Q. Are you familiar with the lands and the events
12 that are the subject of this Application?

13 A. I am.

14 MR. HALL: Mr. Examiner, we offer Mr. Wakefield
15 as a qualified expert petroleum engineer.

16 MR. DEBRINE: No objection.

17 EXAMINER JONES: Mr. Wakefield is qualified as an
18 expert petroleum engineer.

19 Q. (By Mr. Hall) Mr. Wakefield, did you help
20 assemble some exhibits for your testimony in this case
21 today?

22 A. I did.

23 Q. Let's look at Exhibits O. Start with Exhibit
24 O-1. Would you identify that, please?

25 A. O-1 is a chronology of events related to the

1 activity in this case.

2 Q. All right, let's take --

3 A. I would say a partial chronology.

4 Q. Partial chronology. This is focusing on a
5 specific period of time; is that right?

6 A. It is.

7 Q. We started September 30, 2003, and wind up on
8 April 27th, 2005, on Exhibit 1?

9 A. That is correct.

10 Q. Let's look at the first entry, September 30,
11 2003, and then refer to Exhibit 2, if you would, please.
12 Why don't you identify what Exhibit 2 is?

13 A. Exhibit 2 is a farmout request for the south half
14 of Section 9 from Mewbourne wherein they want to drill a
15 Morrow test. And we did not come to agreement on that.

16 Q. Well, what is the significance of this exhibit?

17 A. It's showing that activity in this area has been
18 ongoing for some time. Kaiser-Francis's involvement in
19 this area goes back to 1970, mid-1970s, when we acquired
20 leases -- or actually interest in wells, in this general
21 area as well as this lease.

22 Q. Is this an indication of your first relationship
23 with Samson for the acreage in the area?

24 A. It is.

25 Q. Let's refer to Exhibit 3. What is that?

1 A. Exhibit 3 is a farmout proposal from Mewbourne
2 Oil Company. At this time they were wanting to obtain our
3 rights in -- it doesn't say that -- the Osudo area, is what
4 they call it. And in particular they're wanting our rights
5 in Section 4, the southeast quarter, which is the subject
6 of this hearing, as well as the south half of Section 9,
7 which are part and parcel of the same lease.

8 And they're offering to trade interest in two
9 prospects they own for the rights that Kaiser-Francis owns.

10 Q. All right, and this letter is dated what?

11 A. May 5th, 2004.

12 Q. So -- And if you'll refer to Exhibit "B" to that
13 acreage trade proposal letter, it identifies your ownership
14 in Section 4 and Section 9?

15 A. It does.

16 Q. Now, with respect to your ownership in the
17 southeast quarter of Section 4, what did you have in mind
18 as of May 5, 2004, for the development of that acreage?

19 A. My analysis of the Morrow -- middle Morrow sands
20 in this area was basically a north-south type of
21 development, keying off of the depletion -- or the wells
22 that existed in Sections 10, 15 and 16. And in particular
23 the well in 10 had been re^g-frac'd and had a substantial
24 increase in production, and it was my thought that we could
25 probably drill wells along the east half -- or the east

1 edge of Sections 4 and 9 to develop Morrow production.

2 Q. What sort of unit configuration were you
3 contemplating for your acreage in the southeast quarter of
4 Section 4 at that time?

5 A. Actually, what I wanted to do was drill wells in
6 9 and then move north as we went, to develop 4.

7 Q. All right. But with respect to Section 4, as
8 you worked up --

9 A. We would look for a standup -- I'm sorry, a
10 standup unit.

11 Q. Okay. And if it's helpful to you, Mr. Wakefield,
12 please feel free to refer to Exhibit P to orient us on --

13 A. Okay.

14 Q. -- discussion of the acreage here.

15 Let's refer to Exhibit 4. What is that?

16 A. Exhibit 4 is a May 21st -- you know,
17 approximately two weeks later from the May 5th letter.
18 We'd had several conversations with Mewbourne. It's
19 obvious that a trade, as they had represented, was not
20 going to work, and they made an offer to purchase our
21 acreage, slightly over \$500 an acre with a 77-1/2-percent
22 net revenue interest.

23 And we decided to -- we didn't want to do that at
24 that time.

25 Q. But you continued to have ongoing negotiations

1 with Mewbourne?

2 A. Right, we told them we still wanted to do a
3 trade, just not the way that they were proposing it.

4 Q. Okay.

5 A. And we felt \$500 an acre was too little. We felt
6 like -- based on that time, there had been some recent
7 state land sales at \$1000-plus an acre.

8 Q. All right. Now, from that time frame, the May,
9 2004, time frame, how did your negotiations with Mewbourne
10 proceed?

11 A. Well, during this time frame we were also
12 communicating with Samson. They had, I believe, on Exhibit
13 -- What did you call this, Exhibit --

14 Q. P.

15 A. -- Exhibit P. We have taken off the Hunger
16 Buster 1-9 and 2-9 locations that were on the PowerPoint
17 display. Hunger Buster 1-9 was in the northwest of the
18 southwest, and the Hunger Buster 2-9 was in the southeast
19 of the southwest, for future reference.

20 Q. Of Section 9?

21 A. Right. But Samson was interested in drilling a
22 well called the Dilly Bar State Number 1. That was spud
23 6-04 in the southeast quarter of 8. And they were
24 interested in drilling more -- according to our
25 understanding of conversations with them -- in the

1 southwest quarter of 9 at that time. And we didn't want to
2 drill because our analysis of the sands didn't include any
3 sand quality that would justify drilling in the west half
4 of Sections 4 and 9.

5 Q. So as you continue to negotiate, let's turn to
6 Exhibit 5. Why don't you identify that? Where did your
7 negotiations lead you?

8 A. I show Exhibit 5 to be a letter from Larry
9 Cunningham -- or to Larry Cunningham, actually, from myself
10 in regard to a trade of acreage between Kaiser-Francis and
11 Mewbourne wherein we would trade a small number of acres --
12 it actually turned out to be 23.667 acres; I think it
13 mentions 36.667 in the letter -- from our holdings in the
14 southeast quarter of Section 4, for a like number of acres
15 in the southeast quarter of 33 of 21 South, 26 East, just
16 outside of Carlsbad, New Mexico.

17 Q. So is this the letter agreement which led to the
18 acquisition by Mewbourne of its interest in the southeast
19 quarter of 4?

20 A. It is a trade wherein I negotiated to bring
21 Mewbourne into the southeast quarter of Section 4, in order
22 for us to gain a couple of things: one, gain information on
23 the Osudo State 1-9 well that had been drilled by this time
24 and was on production. The negotiations with Mewbourne for
25 this particular transaction began early in February, and it

1 took a while to find a corresponding trade that would work
2 for both parties.

3 Q. And this deal was signed up what date?

4 A. Pardon me?

5 Q. What date was this deal signed up?

6 A. We made this agreement on March the 10th.

7 Q. All right. And because we're dealing with an
8 irregular section here, I want to make sure we have the
9 nomenclature right in our minds. If you would look at the
10 first page of Exhibit 5, the fourth line down, when it
11 describes the trade acreage it says, "...the east half of
12 the most southerly 320 acres of the oversized section..."

13 Is that another way of describing the southeast
14 quarter?

15 A. At that time I didn't understand that you could
16 determine that was the southeast quarter, so I was
17 struggling what it was, and east half, the most southerly
18 320 acres was as close as I could get at the time.

19 Q. That was your intent, anyway?

20 A. Right, to describe what is now termed for this
21 hearing the southeast quarter.

22 Q. Okay. Now, that was signed up on March 10th.
23 That's step back a day and look at the exhibit under Tab 6.
24 Could you identify that, please?

25 A. Exhibit 6 is a well proposal letter and farmout

1 proposal or purchase acquisition proposal from Chesapeake
2 that was dated March 9th. It refers to a proposed KF State
3 4 Number 1 well that they -- the first paragraph say it's
4 going to be a 12,100-foot Morrow test to be drilled at an
5 unspecified location in the south half of Section 4.

6 The letter further goes on to put a price to
7 drill this well, dryholewise, of \$1.229 million. And based
8 upon our 43.75 percent of the south half they're wanting to
9 form, it would have a cash contribution of \$537,687.50 as a
10 dryhole contribution, if we were to join with them in this
11 venture.

12 They also are interested, in the third paragraph,
13 in purchasing our interest, and in the sentence -- end
14 sentence of that paragraph, it says if -- "...please be
15 advised that entering into negotiations to sell Kaiser
16 Francis' interest does not excuse or allow Kaiser Francis
17 to delay the required election under this well proposal."

18 And there was --

19 Q. Let me ask you --

20 A. -- no existing agreement us to cause that, and so
21 I just ignored it.

22 Q. Well, let me ask you specifically, what did that
23 phrase mean to you, "required election"? Did that trigger
24 your interest?

25 A. Well, this is more or less a typical Chesapeake-

1 type well proposal, farmout -- slash farmout, offer they
2 make, consistently. It varies from time to time but
3 basically has all the same components. It's very
4 nonspecific as to where they drill the well, it tends to be
5 very informative how much money they're going to spend, and
6 it alerts you that something's going to happen. And they
7 would like to own your interest if at all possible.

8 Q. Did it cause you to question whether or not there
9 was a pre-existing joint operating agreement that applied
10 to this acreage?

11 A. I did check before I called them, and there was
12 none.

13 Q. All right. Was this March 9th letter accompanied
14 by a standard form operating agreement?

15 A. No, it came naked, just like this. It did have
16 an AFE on the back, which is shown, and it's very small
17 print, but if -- with the aid of some magnifying glasses
18 it's -- shows a completed well cost of \$2,012,000 --

19 Q. All right.

20 A. -- dated 3-8-05.

21 Q. On the AFE is there any indication about the well
22 location?

23 A. No, I did look there for it as well. There was
24 none.

25 Q. And behind the AFE that looks like a fax

1 transmittal sheet -- Do you see that there?

2 A. Yes, I do.

3 Q. What date was this well proposal sent to you?

4 A. It says start time was 3-11, so it was received
5 3-11, in Kaiser-Francis's office.

6 Q. March 11th?

7 A. Yes, sir.

8 Q. Do you know what day of the week that was?

9 A. That's a Friday.

10 Q. Okay. And then the next page after that is a
11 delivery certificate for the mail?

12 A. Yes, it is.

13 Q. What date was it delivered?

14 A. Also March 11th.

15 Q. Okay. By the way, refer back to the first page
16 of that exhibit. On whose behalf is the well proposal
17 made?

18 A. Chesapeake Operating, Inc., on behalf of
19 Chesapeake Permian, L.P. --

20 Q. Okay.

21 A. -- i.e., styled Chesapeake.

22 Q. Okay. Did you actually lay eyes on this well
23 proposal yourself on March 11th?

24 A. No.

25 Q. When did you first see it?

1 A. I first saw it on March 14th.

2 Q. Okay. And what did you do on March 14th?

3 A. I read it and talked to our land representative.
4 We checked to make sure that we were right, that there was
5 no agreement. There was none existing that we could
6 ascertain. And I called Lynda Townsend at Chesapeake about
7 it.

8 Q. And what did you discuss with her?

9 A. I asked her where she intended to drill the well.

10 Q. And what did she tell you?

11 A. She said she wasn't real certain where they were
12 going to drill, but right now they were leaning to the
13 southeast of the southwest quarter.

14 Q. So on their acreage in the southwest quarter?

15 A. Yes.

16 Q. And during that conversation did you discuss your
17 plans, Kaiser-Francis's plans, for your acreage in the
18 southeast quarter?

19 A. We were not interested in drilling a well in the
20 southwest quarter, our interest would be in the southeast.

21 Q. And did you express to Ms. Townsend that you had
22 any pre-existing plans for the southeast quarter?

23 A. No, I did not.

24 Q. All right. Looking back at your chronology,
25 there's an entry there for March 24th.

1 A. On the timeline?

2 Q. Exhibit 1, yes.

3 A. Or the chronology, actually. Okay.

4 Q. What's the significance of that date?

5 A. That's the effective date of the joint operating
6 agreement, forming a standard standup 320-acre unit.

7 Q. Okay. And then the next entry is April 4th,
8 2005. What's the significance of that date?

9 A. That's the date that Kaiser-Francis executed the
10 communitization agreement, JOA --

11 Q. Okay.

12 A. -- for the standup 320-acre unit, for the
13 voluntary unit, actually, we were forming with Mewbourne
14 and Samson.

15 Q. Okay. Let's look at Exhibit 7 now. Why don't
16 you identify that, please?

17 A. Exhibit 7 is a letter mailed by Chesapeake on
18 April 4th, 2005, in which they're making a -- Chesapeake
19 Operating is making a proposal on behalf of Chesapeake
20 Exploration Limited Partnership, again styled Chesapeake,
21 which is dated March the 9th, 2005. And they note that,
22 "...enclosed is Chesapeake's standard operating agreement."
23 They requested that we sign and return the signature pages
24 to their -- to the attention of Lynda Townsend.

25 And attached along with this letter is the cover

1 page of the model form operating agreement.

2 And then page 4 of the operating agreement which
3 specified a location 660 feet from the south line and 990
4 feet from the east line of Section 4, Township 21 South,
5 Range 35 East, which is the location that was earlier
6 discussed by Ms. Rita Buress.

7 Q. Okay. If you look at --

8 A. And there's --

9 Q. Go ahead.

10 A. -- a couple other exhibits that delineate
11 ownership for Chesapeake, Kaiser-Francis and Samson and
12 denotes some -- the leases to be involved in the proposed
13 south-half --

14 Q. First page of that exhibit, up in the upper
15 right-hand corner, there's a date-received stamp. Do you
16 see that?

17 A. Yes, I do.

18 Q. What date did you receive this?

19 A. I received it in my office the 5th of April.

20 Q. All right. And in fact, you received the entire
21 standard form operating agreement?

22 A. I did.

23 Q. And this is just a brief --

24 A. Yes, I didn't mean to imply that I didn't receive
25 the whole thing.

1 Q. You've looked at the cover page of the JOA. It
2 shows a date, March 9, 2005. Do you see that?

3 A. Yes, sir.

4 Q. Was this JOA sent with Ms. Townsend's original
5 March 9, 2005, letter?

6 A. No, it was not.

7 Q. So this is the first date you had seen this,
8 April 5; is that right?

9 A. That's correct.

10 Q. And by the way, if you refer to the Exhibit "A"
11 in the operating agreement, is Chesapeake Permian shown as
12 an owner?

13 A. It shows that the joint operating agreement would
14 be between Chesapeake Exploration Limited Partnership as
15 operator and Kaiser-Francis Oil Company and Samson
16 Resources Company as nonoperators.

17 Q. So at the time you had received Ms. Townsend's
18 April 4th letter, by that date did you know that
19 Mewbourne's APD had been denied?

20 A. Yes, I did.

21 Q. Okay. You received this on April 5th. What else
22 happened on April 5th?

23 A. Lynda Townsend called me.

24 Q. What did you discuss?

25 A. She started out the conversation along the lines,

1 had we received the JOA? And I said we had and that I had
2 noted that the -- it specified a location which was 660
3 feet from the south line and 990 feet from the east line,
4 which was different than the location she had said they
5 were interested in drilling back on March 14th.

6 Q. Did you discuss with Ms. Townsend your pre-
7 existing agreement with Mewbourne and Samson?

8 A. The purpose of her call was to obtain our
9 concurrence to join her south-half unit --

10 Q. All right.

11 A. -- and I had to tell her immediately that we were
12 not going to do that.

13 Q. And why not?

14 A. That we had, based on her representations of
15 drilling a well in the southwest quarter, moved to form a
16 standup unit with Samson and Mewbourne, to drill a well in
17 the east half of that south part of the section.

18 Q. Did she react to that?

19 A. She was not very happy about that. She wanted
20 our concurrence to join her unit.

21 Q. What else did she say?

22 A. She said we were making a mistake, that we were
23 not going to be able to form that, that they were going to
24 go move ahead, they had an APD and that they could go
25 forward with the well and we would just be left out of the

1 loop, basically.

2 Q. Was there any discussion about rig availability?

3 A. She said they had a rig available at least within
4 two weeks and that potentially they would look just to move
5 in on their -- based on their APD and drill it.

6 Q. When you say "move in", move in where?

7 A. Move in the location they proposed, 660 by 990.

8 Q. In the southeast quarter?

9 A. In the southeast quarter.

10 Q. On your lease?

11 A. (Nods)

12 Q. And how did you react to that?

13 A. I didn't think it was the right thing to do. I
14 told her we would oppose that, and I didn't think that her
15 counsel, Mr. Kellahin, would advise her to do that.

16 Q. Anything else said about that?

17 A. She wanted me to talk to Mike Brown, the -- she
18 termed him the head geologist for Chesapeake. She either
19 transferred me or wasn't able to, and he called me back
20 within a few minutes. He and I had about a five-minute
21 conversation wherein he determined that we were making a
22 mistake for several reasons.

23 One, his interpretation of the middle Morrow
24 sands that they were exploring were to be derived on an
25 east-west basis, not on a north-south as I had reported to

1 Ms. Townsend.

2 He indicated that the location that we were
3 drilling, the Hunger Buster 3-9 -- which he didn't know we
4 were drilling; I told him that we were doing that -- would
5 be a pure dry hole, that, you know, there was no way we
6 were going to find any sand at that location, and that the
7 best place to drill a well for the Osudo State sands would
8 be 660 by 990 in the southeast quarter of 4, and that's
9 where they intended to drill.

10 Q. Okay.

11 A. And I did not discuss with him anything else.
12 That was it.

13 Q. All right. Let's turn to Exhibit 8, and so we
14 can understand this exhibit properly, why don't you go to
15 the top of the exhibit and identify what this is, the first
16 page there?

17 A. This is a -- actually there's three pages to it.
18 It's an e-mail series originating from Chesapeake, actually
19 originating from Mike Hazlip with Chesapeake. He was
20 addressing Tom Ward who's the COO of Chesapeake --

21 Q. Let me just stop you first, so we take this and
22 can identify it. Take it from the top, if you will. It
23 shows -- first message there, dated April 18, 2005 --

24 A. Oh, I'm sorry, I didn't understand what you
25 meant.

1 Q. Yeah. From -- Who is Buddy Kleemeier is the
2 chief executive officer and vice president of Kaiser-
3 Francis Oil Company.

4 Q. And he sent this to T. Ward. Who is T. Ward?

5 A. Tom Ward.

6 Q. And who is he?

7 A. He's the COO of Chesapeake in Oklahoma City.

8 Q. Okay.

9 A. Buddy Kleemeier is in Tulsa, Oklahoma.

10 Q. All right. And the subject line says KF 4 State
11 Number 1. Do you see that there?

12 A. Right.

13 Q. Okay. Now, let's go back to the beginning, if
14 you refer back to page 2, it appears this round robin
15 started with an e-mail from Mike Hazlip to Tom Ward dated
16 April 14th --

17 A. Thursday. Thursday, April 14th.

18 Q. All right, and this e-mail eventually made its
19 way to Kaiser-Francis; is that right?

20 A. Yes, it did.

21 Q. Okay. Now, if you look at that, what was the
22 subject matter that Mr. Hazlip was discussing with Mr.
23 Ward?

24 A. Mr. Hazlip was setting out the situation for Mr.
25 Ward in regard to the KF 4 State well that Chesapeake was

1 going to drill. He explains that it's an elongated section
2 and that we're -- they're actually going to spud or drill a
3 well, called the KF 4 State Number 1, 660 from the south
4 line and 990 from the east line, actually in location X.
5 Kaiser-Francis owned 43.75 percent, Samson 6.25 percent.

6 He purports that Kaiser told her, told Lynda
7 Townsend, that Mewbourne had proposed a well on standup 320
8 consisting of the standup that we previously discussed, in
9 competition to the laydown. "Their well was not..." --
10 their well, being Mewbourne's well -- "...was not
11 permitted, but they obviously intend to hook up with
12 Mewbourne and do battle with us here."

13 Continued on page 3, he notes that "A well
14 desperately needs to be drilled..." to offset the Osudo 9
15 State Com Number 1 well, which at the time he wrote this he
16 had knowledge that the well was "producing 252 barrels of
17 oil and 16.95..." MCF of gas per day -- "...MMCDF of gas
18 per day at 2100 pounds." And he purports that it's odd
19 that we would choose to delay drilling the well and that
20 doing so with Mewbourne was essentially slitting our own
21 throat.

22 "We should prevail in a fight for the unit and
23 for operations", he says, "because we first filed the
24 permit in the unit and we have standing to do so."

25 Q. All right. Back to page 2, that last paragraph

1 on that page, the reference to Lynda -- we assume Lynda
2 Townsend --

3 A. Yes.

4 Q. -- here he's referring to the conversation --

5 A. -- between myself and Ms. Townsend on the 14th.

6 Q. I'm sorry?

7 A. No, on the -- Pardon me, the 5th of April, 5th of
8 April, would be what he was referencing.

9 MR. DEBRINE: I'll object, it's calling for
10 speculation.

11 THE WITNESS: On my part?

12 MR. DEBRINE: Yes.

13 THE WITNESS: I only talked to her two days.
14 What two days do you want to discuss?

15 MR. BROOKS: Excuse me, we don't need -- We
16 should not be having colloquy between objecting counsel and
17 the witness.

18 I would advise the Examiner to overrule that
19 objection.

20 EXAMINER JONES: Okay, objection overruled.

21 Q. (By Mr. Hall) Now, back again on page 2, we'll
22 work our way --

23 A. Okay.

24 Q. -- forward in time. What did Tom Ward do with
25 this e-mail?

1 A. He forwarded it to Buddy Kleemeier, essentially
2 his counterpart at Kaiser-Francis.

3 Q. Okay, and what did Buddy Kleemeier do with it?

4 A. Buddy forwarded it to myself and Brent Meadows,
5 who is the president of KF Energy, L.L.C.

6 Q. Okay. And is Mr. Meadows' response indicated at
7 the top of page 2 there?

8 A. Yes, it is.

9 Q. And does it reaffirm that KF had entered into a
10 prior deal?

11 A. Yes.

12 Q. Now, back on page 1, the text starting at the
13 middle of that page, is that your message? Is that your
14 response?

15 A. Yes, where it starts with "Buddy, net..." is my
16 writing, through the end of the page.

17 Q. All right. Summarize that for the Hearing
18 Examiner, please.

19 A. I just explained to Mr. Kleemeier how we got into
20 this situation and that Chesapeake had an unspecified
21 location in the south half of Section 4, per conversations
22 with Ms. Townsend, represented to be a test they wanted to
23 drill in the southeast-southwest. We deem southeast to be
24 a better location and work to obtain the information on the
25 Osudo well and the rights to drill a standup unit for the

1 southeast quarter and then lots 9, 10, 15 and 16.

2 And I also say that the laydown versus standup
3 unit, since our interest remains the same regardless, is
4 basically a confrontation or a battle between Samson and
5 Chesapeake, since their interest will vary by 50 percent,
6 depending upon the configuration of the unit.

7 Q. Now, refer again to the second paragraph in your
8 e-mail message. It says there, again referring to your
9 conversation with Ms. Townsend, she "indicated verbally at
10 that time that Chesapeake location would be in the
11 southeast southwest quarter...which KFOC didn't want to
12 drill..." Is that again referring to your conversation
13 with Ms. Townsend on --

14 A. Yes, on 3-14-05.

15 Q. Okay. Now, was all of this information
16 transmitted to Chesapeake through Mr. Ward?

17 A. The entire e-mails was transmitted back to Tom
18 Ward. From where there it went I do not know.

19 Q. You would have received this on April 18th, as
20 far as you --

21 A. April 18th.

22 Q. All right, let's refer to Exhibit 9, and again
23 referring to your chronology entry for April 20th, what
24 happened on April 20th?

25 A. This is a communitization agreement for the Osudo

1 4 State Com Number 1 well, the well that Mewbourne, Kaiser-
2 Francis and Samson would like to drill.

3 Q. Is this a transmittal letter?

4 A. It is a transmittal letter to the Commissioner of
5 Public Lands, and there's a check accompanying it of \$30 to
6 cover the filing fee.

7 Q. Okay. And let's look at Exhibit 10. Identify
8 that, please.

9 A. Exhibit 10 is a communitization agreement
10 approval from the State of New Mexico Commissioner of
11 Public Lands for the prior document, application for
12 communitization.

13 Q. And what date is that?

14 A. April 27th.

15 Q. All right, and that's followed by Exhibit 11.
16 What's that?

17 A. That's the actual communitization agreement
18 between the parties of Kaiser-Francis, Mewbourne and
19 Samson.

20 Q. Let's be clear, make sure the exhibit numbers are
21 not out of order. Is Exhibit 11 --

22 A. I'm sorry --

23 Q. -- the Land Commissioner's certificate of
24 approval for the communitization --

25 A. I'm sorry --

1 Q. -- agreement?

2 A. -- New Mexico State Land Office is 11,
3 certificate of approval by the Commissioner of Public
4 Lands, State of New Mexico, for the Osudo 4 State Com Well
5 Number 1, lots 9, 10, 15 and 16, southeast quarter of
6 Section 4.

7 Q. Now, does Exhibit 11 reflect the findings that
8 the Land Commissioner is required to make in approving
9 communitization agreements?

10 A. I believe it is.

11 Q. Okay. And Exhibit 12, identify that, please.

12 A. Exhibit 12 is the actual communitization
13 agreement between Samson, Kaiser-Francis and Mewbourne.

14 Q. All right. If you would for the Hearing
15 Examiner's benefit, just identify the dates of execution
16 for each of the interest owners under the com agreement.

17 A. There are signature attached -- signature pages
18 attached. Samson -- let's see. Wayne Fields signed it on
19 the 4th of April, 2005, for Kaiser-Francis. He's our
20 attorney-in-fact. Marlin R. Garrett signed it as vice
21 president, Samson Resources Company, on April 12th. And
22 there isn't one for Mewbourne.

23 Q. If you'll look at page 6 -- Perhaps you don't
24 have that.

25 A. No, I have the one I had.

1 Q. Does page 6 show an --

2 A. Okay, for Samson and -- oh, I'm sorry, both,
3 Mewbourne.

4 Q. What date for Mewbourne?

5 A. 20th of April.

6 Q. All right. The effective date of the
7 communitization agreement is when?

8 The effective date of the communitization
9 agreement is when?

10 A. Yes.

11 Q. When?

12 A. I'm sorry, my hearing is not too good sometimes.

13 Q. Why don't you look at Exhibit --

14 A. Oh, I'm sorry, it's April 1.

15 Q. All right. Last entry on your Exhibit 1, the
16 timeline, is April 27th, 2005. What happened after that?

17 A. Chesapeake moved in its drilling rig on the
18 location in the southeast quarter of Section 4, which was
19 660 from the south line and 990 from the east line.

20 MR. HALL: Okay. That concludes our direct of
21 Mr. Wakefield, Mr. Examiner.

22 We'd move the admission of Exhibits O-1 through
23 -12 and Exhibit P.

24 EXAMINER JONES: Any objections?

25 MR. KELLAHIN: No objection, Mr. Jones.

1 EXAMINER JONES: Exhibits O-1 through -12 and
2 Exhibit P will be admitted to evidence.

3 Mr. Kellahin?

4 CROSS-EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Wakefield, I've got this locator map P. Do
7 you have that --

8 A. Yes, sir, I do.

9 Q. -- before you?

10 Sit back with me for a moment, Mr. Wakefield, and
11 help me confirm what Kaiser's acreage position was in this
12 immediate area. If we start with Section 4 --

13 A. Southeast quarter --

14 Q. The southeast quarter --

15 A. -- it's termed in this hearing.

16 Q. All right.

17 A. Okay.

18 Q. And you have that exclusively --

19 A. We own 87 1/2 percent of that, and Chesa- --
20 pardon me, and Samson owns 12 1/2 percent.

21 Q. And at what point in time are we talking?

22 A. Before --

23 Q. Is that prior to drilling --

24 A. Prior --

25 Q. -- the Osudo 9 Number 1 well in the north half?

1 A. Yes.

2 Q. So you and Samson shared that 160 acres?

3 A. Yes, at that time --

4 Q. Right. At what --

5 A. -- which would be February or January.

6 Q. At about that time, then, Mr. Wakefield, what
7 additional acreage did Kaiser have in the immediate area?

8 A. Part of the same lease with the south half of
9 Section 9.

10 Q. Was the south half of Section 9 100-percent
11 Kaiser?

12 A. No, it's the same percentages.

13 Q. You split that, again, with Samson?

14 A. Well, it's the way it's been forever.

15 Q. Did you have any interest in the acreage over in
16 Section 10?

17 A. No.

18 Q. There was mention earlier this morning about the
19 existence of a location for the Hunger Buster Number 1
20 well --

21 A. Yes, sir.

22 Q. -- somewhere down in Section 9. Where was that
23 to have been located?

24 A. That would have been the northwest of the
25 southwest --

1 Q. North- --

2 A. -- approximately 1980 from the south and 660 from
3 the west.

4 Q. Please do that again for me?

5 A. 1980 from the south, 660 from the west. That's
6 an approximate -- I'd have to go back and --

7 Q. Okay, that would have been the Hunger Buster
8 Number 1?

9 A. Yes, sir.

10 Q. And this location was permitted, was it?

11 A. It was permitted.

12 Q. You filed a permit for that and obtained a
13 Division approval?

14 A. No, Samson proposed it.

15 Q. What orientation of spacing unit were they
16 choosing for that well?

17 A. It was a south half. There's a voluntary
18 agreement that covers all of the acreages involved in our
19 lease. Both the southeast quarter of 4 as well as the
20 south half of 9 are a part of that voluntary agreement.

21 Q. Does the Hunger Buster Number 1 -- that
22 permitting, predate the drilling of the Chesapeake KF 4
23 State Number 1?

24 A. Say your question again --

25 Q. Yes, sir.

1 A. -- I'm missing the dates.

2 Q. Does the Hunger Buster 1 permit approval predate
3 the drilling by Chesapeake of the well up in Section 4?

4 A. By about a year.

5 Q. So the permitting of the Hunger Buster Number 1
6 is going to be before the Osudo 9-1?

7 A. Yes, sir. It will be contemporaneously with the
8 Dilly Bar 1-8, or slightly after it.

9 Q. Was there a geologic basis that you and Samson
10 had for positioning the Hunger Buster Number 1 well where
11 you --

12 A. I didn't do anything with the Hunger Buster
13 Number 1, only Samson.

14 Q. No, as part of your participation did you do any
15 geologic investigation to decide if this was consistent
16 with the orientation that you believed existed in this
17 area.

18 A. I'm not sure you understood what I said a while
19 ago. I said I didn't want to drill that well and refused
20 to do so.

21 Q. Was that because it was inconsistent with your
22 interpretation?

23 A. Yes.

24 Q. And in what way was it inconsistent?

25 A. I didn't think it would find Morrow sand.

1 Q. And what was wrong with its position?

2 A. It was between north-south-trending sand groups
3 where you would hope -- you would expect to find enough
4 sand.

5 Q. At the time you were making that decision, did
6 you have a geologic study in-house, prepared, that would
7 support your suggestions about the orientation of the
8 Mewbourne -- of the Morrow sands in this area?

9 A. I did.

10 Q. Do you have that here today?

11 A. No, I don't.

12 Q. Do you intend to present it as an exhibit in this
13 hearing?

14 A. No, I don't.

15 Q. Is there any engineering study of any of this
16 that you prepared?

17 A. No, not here. Yes, at the office, but not here.

18 Q. Do you intend to present that today?

19 A. No, I don't.

20 Q. Let's turn now to the Hunger Buster Number 2.

21 Tell me where that well was to have been located, Mr.

22 Wakefield.

23 A. It was located 660 feet from the south and east
24 lines of Section 9.

25 Q. Who permitted that well?

1 A. Samson.

2 Q. Samson again. Did you agree in that location?

3 A. Yes.

4 Q. Again, was there any science done, either
5 engineering or geologic science, performed by your
6 company --

7 A. Yes.

8 Q. -- to support that location?

9 A. Yes.

10 Q. Are you going to submit that here today?

11 A. No.

12 Q. Why was that well not drilled?

13 A. At my insistence, Chesapeake did not move a rig
14 in because the Osudo 9 well had been either --

15 Q. You mean Samson.

16 A. Pardon me, sorry. What did I say?

17 Q. You said Chesapeake.

18 A. I'm sorry, I apologize.

19 Q. Samson.

20 A. Thank you for keeping me straight. Start over.

21 Q. Yes, sir.

22 A. Samson proposed the Hunger Buster 2-9
23 contemporaneously with the Mewbourne Osudo State 9 Number
24 1. I encouraged them not to drill the well, because I
25 wanted to see the results of the Osudo State 1-9. If it

1 turned out to be the well I thought it could be, we would
2 want to move the location to where we drilled the Hunger
3 Buster State Number 3-9.

4 Q. What objective did you achieve by moving closer
5 to the Osudo 9 well in the north half of 9?

6 A. Reduced the risk of missing the sand.

7 Q. Is part of your reason for moving in that
8 direction towards that producing well to get closer to that
9 wellbore?

10 A. Yes, sir.

11 Q. Am I correct in understanding, Mr. Wakefield,
12 that if the Division approves the com agreement standup
13 spacing unit, that your percentage interest for Kaiser will
14 be the same percentage as you would have if the spacing
15 unit was a laydown spacing --

16 A. Exactly the same. That is in the KF 4 State
17 Number 1 --

18 Q. Right.

19 A. -- well, you're referring to?

20 Q. You had some testimony a while ago about
21 conversations with Mrs. Townsend about what you had
22 understood to be a change in the location. And when you
23 finally received these final papers, you were aware then
24 that the location was to be 660 from the south and I think
25 1980 from the east.

1 A. No, 660 from the south and 990 from the east --

2 Q. 990.

3 A. -- was their -- on their April 5th joint
4 operating agreement, there was on page 4 a location
5 specified, which is the first time they had denoted a
6 location to Kaiser-Francis of where they wanted to drill
7 the well.

8 Q. And that would have been a location consistent
9 with the location you would have desired for that well?

10 A. It would have been.

11 Q. Had they told you that initially and that was
12 your understanding, would you have been participating in
13 the spacing unit for the south half?

14 A. We could have entered into discussions to do
15 something, but I didn't get any cooperation.

16 Q. Have you done any further engineering work on
17 behalf of your company or others under your supervision
18 with regards to the engineering details concerning the
19 Hunger Buster 3 well?

20 A. Since it was drilled or --

21 Q. Yes.

22 A. Yes.

23 Q. What type of studies have you done?

24 A. Looked at the reserves, I've looked at the
25 production, looked at the geology, we've had several wells

1 drilled.

2 Q. Do you have sufficient data on the Hunger Buster
3 Number 3 well to estimate what you believe to be its total
4 estimated recovery?

5 A. I wish that I did, but I don't.

6 Q. What current rate do you have on that well?

7 A. That's a changing concept. The last I saw on
8 Friday was about 750 MCF a day.

9 MR. KELLAHIN: Thank you, Mr. Examiner.

10 EXAMINATION

11 BY EXAMINER JONES:

12 Q. Mr. Wakefield, I guess first of all, you're not a
13 geologist, right?

14 A. No. I've taken a lot of geology and I've done a
15 lot of geology for 30 years in the industry, so I'm kind of
16 a geology by hack.

17 Q. Okay. Do you work with a geologist?

18 A. No, I don't.

19 Q. So you seem to know a lot about this area
20 geologically and as far as engineeringwise.

21 A. Yeah, I don't have a degree, but I do all of my
22 own geology.

23 Q. Do you do all your own? What about land work, do
24 you do that too?

25 A. I wind up doing a lot of my own land work. I get

1 assistance from Wayne Fields, but he doesn't do the
2 negotiations and the development of prospect interest or
3 trades, he does the closing at the end --

4 Q. Okay.

5 A. -- so I wind up doing that as well.

6 Q. Okay. What about this workover you were talking
7 about that showed some potential in this area?

8 A. There was a paper written actually about the
9 Apache State WE Com L Number 110, denoting the benefits of
10 fracture treating with gelled methanol, and it was a well
11 that had had a history of being a very poor producer, but
12 it had on long-term buildups pretty nice pressure still,
13 not virgin, but it had -- showing a lot of gas reserves,
14 potential. It made about 750 million cubic feet of gas
15 through, I believe, about 1993.

16 And they frac'd it with one of these methanol
17 treatments, was kind of the first success for this new type
18 of treatment. Historically, fracture-treating Morrow wells
19 had yielded very little if any positive results due to the
20 clays within the Morrow not giving back the water,
21 essentially swelling. And this well went from, I think, 30
22 MCF a day, 15 MCF a day, to 1500, 2000 MCF a day after
23 frac. And instead of having an ultimate recovery of less
24 than a BCF it will now have an ultimate recovery of about 5
25 to 6 BCF. So it was outstanding treatment.

1 My analysis of the reservoir was that the same
2 thing could be done, maybe not to the same extent, in --
3 for the Osudo PQ State Com Number 1, and Samson -- after a
4 couple of discussions with them, went out and frac'd that
5 well and improved it from nearly nothing to 300 or 400 MCF
6 a day, and the well is still improving. It's getting
7 better with time instead of worse with the same kind of
8 treatment.

9 And so it's my contention that we should be
10 drilling wells in the east half of 9 and 4, working our way
11 north in an orderly fashion, to take advantage of these
12 treatments, because some of these sands out here are fairly
13 tight and don't produce by just perforating them in a
14 conventional tubing-conveyed gun way and have to be
15 treated, and the acid-job historical treatments weren't
16 doing any good.

17 And so we thought we could maybe drill wells
18 through there when Mewbourne and Samson over -- in 2004 we
19 were talking about that, we're just trying to find a way to
20 make the deal work for all of us. To make it work with
21 Mewbourne we need to do a standup unit.

22 Samson was more interested in drilling the Hunger
23 Buster 1-9 at the time in the southwest quarter, wouldn't
24 agree to drill the east half at that time, later changed
25 their mind when the Dilly Bar 1-8 fell on its face.

1 So with time we became a unified north-south-type
2 sand depositional trend, between Kaiser-Francis, Mewbourne
3 and Samson. But by that time, the lease in the northwest
4 quarter of 9 was obtained by Rubicon, later owned by
5 Chesapeake in their acquisition of Concho and Rubicon, and
6 a north-half unit was formed by Mewbourne to move forward
7 with the well they wanted to drill, which was the Osudo
8 State Com 1-9.

9 Q. Which was canceled? No, that --

10 A. That was drilled, that was drilled under a
11 farmout from Apache. Mewbourne's interest came from a
12 farmout via Apache, which gave them a back-in payout. They
13 have now backed into the well and caused Apache to drill
14 the State WE L Com 2-10 well, which turned out to be a dry
15 hole in the very recent past, like July.

16 Q. So Mewbourne's spacing unit in Section 9 is the
17 north half?

18 A. Is the north half, and it was again forced by
19 Kaiser-Francis, Samson, couldn't get our agreements
20 together in time to do that, and they eventually formed a
21 unit with Chesapeake.

22 Q. This -- so basically -- What frac job did they
23 use on the Osudo 9 --

24 A. It's a methanol -- gelled methanol job --

25 Q. They're using --

1 A. -- and the risk factor for the frac'ing company
2 is so high they quit doing it, because it's very volatile.
3 And so the next -- then what's taken its place is CO₂ or
4 nitrogen fracs, basically CO₂ fracs, with a little bit of
5 methanol gelled in it.

6 Still, the home run for Morrow remains to
7 perforate tubing conveyed gun, as was the Osudo State 1-9
8 and the KF 4 State Number 1. If they produce, then you
9 stop and produce the well.

10 Q. That State WE Com L Number 1 --

11 A. Uh-huh.

12 Q. -- that was -- does it have similar pressures as
13 the Mewbourne Osudo 9 State Com Number 1?

14 A. Well, what happened was -- actually, you have to
15 go back to State WK 1 in Section 15. Initial bottom- --
16 it's just immediately to the south of that, the northeast
17 -- pardon me, the northwest quarter of 15. The initial
18 well, I believe, was that one. And they had a bottomhole
19 pressure of around 7400 pounds. And the bottomhole
20 pressure at the Apache State WE Com L 1-10 was very close
21 to that.

22 And with time, the State WK 1-15 has depleted and
23 has been plugged. State WE Com L 1-10 still had a lot of
24 pressure left at the time they frac'd it, and it was
25 successful because of that, it wasn't depleted.

1 Q. Did they know the pressure was there before they
2 frac'd it?

3 A. Yes, they had --

4 Q. Okay.

5 A. -- there was pressure data available in *Dwight's*.

6 Now, the pressure data that you're asking for, I
7 guess, on Osudo State 9 Com 1 -- Is that what you asked?

8 Q. I just asked if it was similar to the --

9 A. It is not -- I have no idea right now what the
10 pressure on the State WE Com L 1 is, they haven't issued
11 any --

12 Q. The e-mail says --

13 A. -- shut-in tubing pressures.

14 Q. -- flowing pressure was 2100 pounds or so, the
15 e-mail that you showed us.

16 A. That was for the Osudo State Com 1-10, that was
17 the flowing tube pressure on that well.

18 Q. Oh, okay. That wasn't the good well --

19 A. Yeah --

20 Q. -- over --

21 A. -- that's the good well, the good well was
22 flowing at 2100 pounds.

23 Q. Yeah.

24 A. The -- I see what you're asking, okay. The State
25 WE Com L 1-10, I believe is producing on compression.

1 Q. Okay.

2 A. So the flowing tubing pressure is way down.

3 Q. What about the thickness of the Morrow?

4 A. It's a different thickness. There's 40-plus foot
5 of sand in the Osudo 9. State WE Com L 1 is probably about
6 10 to 15 feet.

7 Q. And the -- those clays that are in there, what
8 kind of clays are those?

9 A. They're a swelling type of clay.

10 Q. Just a swelling type?

11 A. I mean, I'm not real sure exactly how you define
12 them, you know, they do absorb water and don't give them
13 back.

14 Q. The effect --

15 A. We've had several unfortunate circumstances where
16 casing leaks have ruined wells that we operate in the
17 Morrow, and we've had a couple unfortunate circumstances
18 where operators of wells we're in have pulled packers and
19 dumped fluid on the Morrow and ~~run~~ ^{Ran} the well and we couldn't
20 get it back.

21 Q. Why would the casing problems happen? What zone
22 is corrosive to the casing?

23 A. In this area I don't know that there are any, but
24 in other areas --

25 Q. Other areas, okay.

1 A. -- there are, yeah.

2 Q. Okay, what about this spacing unit we're all
3 arguing about today, this north half versus south half in
4 Section 4? Obviously in the southeast quarter, you have
5 the same interest, no matter what?

6 A. Which is a fortunate place to be.

7 Q. And so -- Yeah. But you're, I guess, counting on
8 drilling another well?

9 A. We want to drill a well to the north.

10 Q. Okay. And what else leads you to believe that
11 well to the north would be viable as a drilling prospect?

12 A. The sand in the KF 4 State Number 1, we think it
13 had adequate strength to the interpretation that we have
14 that the sands will continue to go north-south and that the
15 sand continues into the north 160 of the KF State 4-1. I
16 think it's lots 9, 10, 15 and 16, for our description here.
17 We think the sand does go up in there and that it will be
18 productive.

19 Q. These Morrow sand channels, do they not trend
20 north -- a bit northwest-southeast? Or are they just
21 straight north-south?

22 A. They're predominantly north-south, and lack --
23 for lack for anything better to do, most wells here are
24 drilled north-south, tend to follow the sand trends.

25 Q. So you don't think you'd get anything if you

1 drilled over in the southwest quarter of Section 9 -- 4?

2 A. The well on this plat, called the Hammon Jake L
3 State E-8321-1 -- that would be in lot 13 --

4 Q. Of 4?

5 A. -- shown here -- of 4, I'm sorry, yes, of 4, went
6 to the Morrow as a pure dry hole. And over in Section 5,
7 just to the southeast of the Number 5, it says Phillips
8 Petro Company Wilson J 1 -- both are pure dry holes. And
9 there's a whole rack of dry holes due north of Section 4 in
10 32, pretty much, we think precludes the sand from going to
11 this --

12 Q. Dry holes --

13 A. -- northwest.

14 Q. -- because of lack of --

15 A. Lack of sand deposition.

16 Q. Sand deposition.

17 A. No sand.

18 Q. No sand. Now, you should have gotten the
19 information on this well that just got drilled.

20 A. We did.

21 Q. Did that change your --

22 A. It enforced our opinion.

23 Q. Okay. You're saying all this today without
24 showing us any numbers or any maps or -- no pressure maps,
25 no net-pay maps. Are you doing that for a reason?

1 A. Mr. Ron Johnson is going to --

2 Q. Oh --

3 A. -- present our --

4 Q. Okay.

5 A. -- testimony on geology --

6 Q. Okay.

7 A. -- if you -- I'm sorry, I'm not trying to
8 pre-empt him, I'm just -- answering your question.

9 Q. I understand.

10 A. The -- I would say that in response to the KF 4
11 State 1, they took a pressure on it last Thursday, showed a
12 bottomhole pressure of 6600 pounds, roughly. The pressure
13 at the Osudo 9 State Com Number 1 was 53-, 5400 pounds,
14 based on its shut-in tubing pressure of 4300 pounds when it
15 was completed.

16 Mewbourne has not taken any subsequent shut-ins,
17 so we don't know what its pressure is now.

18 I would also say that Osudo State Com 9 Number 1
19 well, when drilled, was drilled with 10.3-pound-per-gallon
20 mud, which is a lesser bottomhole pressure equivalent than
21 the 6600 pounds measured at the KF 4 State Number 1,
22 implying that the depleted area -- or the area of
23 depletion, historically, in 16, by the Osudo PQ State Com
24 Number 1, the State WE K Number 1 in 15 and the Apache WE
25 Com L 1-10, those three wells' production, which totals

1 about -- oh, about 10 BCF, it's our interpretation, created
2 the reduced pressure measured at the Osudo State Com 1-9.
3 Instead of being virgin at 7400 pounds it was 5400 pounds.

4 Because the KF 4 State is that much further away,
5 it has suffered less drainage. Instead of being 7400
6 pounds, it's 6600 pounds.

7 Q. What about the thickness and the porosity?

8 A. Pardon me?

9 Q. The thickness of the sand and --

10 A. The thickness --

11 Q. -- and the porosity.

12 A. -- of the sand is only about six to eight feet at
13 the KF 4 State 1. And then there's -- there's actually
14 more than one sand, but the very cleanest, best sand is
15 about six to eight feet.

16 Q. So it would thicken going south?

17 A. Or it could thicken to the east of the KF 4 State
18 1, where it's -- right at the bottomhole location is --
19 that's another thing that hasn't -- we didn't into in the
20 testimony a while ago, is that they deviated the well from
21 660 from south, 990 from east, to an approximate location
22 1650 from the east, 660 from the south, on -- once they got
23 to the top of the Wolfcamp.

24 So the bottomhole location, instead of being
25 where they proposed the well, turns out to be at the

1 location that Mewbourne, Samson and Kaiser-Francis wanted
2 to drill the Osudo 4 State Com 1 APD that was denied. We
3 think now that if they had just drilled straight hole, they
4 would have found thicker sand.

5 Q. But it was thinner sand than the Osudo 9 State
6 Com Number 1 --

7 A. Yes, sir.

8 Q. -- so going north, wouldn't you assume that would
9 be thinner yet?

10 A. Well, I think it thins up to the east.

11 Q. To the east.

12 A. Again, Mr. Johnson will clarify that for you.

13 Q. Okay. So to the east is better.

14 So what about Chesapeake's well there, the CC 3
15 State Number 1 --

16 A. That was a --

17 Q. -- in Section 3?

18 A. -- nearly a pure dry hole. They got -- they
19 tested -- They got a big show in the Morrow, tested it,
20 they had 2 1/2 million a day, lot of pressure.

21 Lynda Townsend called me, wanted to get our
22 rights in the southeast quarter of 4 and the south half of
23 9, so at that time in November they knew what we owned.

24 I said, Fine, send me a well proposal or
25 something.

1 She never sent anything back, never heard from
2 her again until March the 14th.

3 But that well was basically a dry hole in the
4 Morrow, and they did test some Bone Springs as well.

5 Q. And why is that dry?

6 A. It has a very thin sand in it. They caught
7 enough sand to get a high-pressure gas flow, but not enough
8 to accomplish any production. Maybe it's a very isolated
9 two-foot, one-foot stringer.

10 Difficult -- log is difficult to read, to
11 determine what sand is actually there.

12 Q. So somewhere on the line of the sections is the
13 thickest between those two?

14 A. It appears to be so.

15 EXAMINER JONES: Okay, I don't have any other
16 questions.

17 EXAMINATION

18 BY MR. BROOKS:

19 Q. Okay. The conversation that you had with Ms.
20 Townsend with Chesapeake, in which you stated, I gather
21 rather emphatically, that you would not join in the south-
22 half unit in Section 4 -- I have in my notes that that was
23 on April 5th.

24 A. That is correct, sir. By that time we had pretty
25 much gone down the path, forming a com- -- a standup unit

1 and filing the -- for preparation for a JOA and
2 communitization agreement.

3 Q. Okay. The well you were just talking about that
4 had the very thin sand in the Morrow, the --

5 A. -- CC 3 State 1.

6 Q. Yeah, that was in the southeast quarter of --

7 A. Southwest, southwest --

8 Q. Southwest quarter of Section 3?

9 A. Yes.

10 Q. Now, the -- I believe you said, did you not, that
11 there was a well in the west half of Section 4 -- in the
12 west half of the middle half?

13 A. Right, it's essentially about ~~2500~~ ^{(322' FNL) WTS} feet from the
14 north and about 660 from the west. It's the State E 8321
15 Number 1 drilled by Jake Hammon --

16 Q. And --

17 A. -- in 1964.

18 Q. -- you said that well was dry in the Morrow?

19 A. Yes, very thin -- maybe a one- or two-foot
20 indication of sand on the log.

21 Q. Okay. Now, what was the well that you said that
22 Samson drilled that you disagreed with?

23 A. They didn't drill it, they drilled -- Mewbourne
24 and Samson drilled a well called the Dilly Bar 1-8 in the
25 southwest southeast of 8, which would be 660 from the south

1 and about 1980 from the -- or 1650 from the east.

2 Q. Yeah, that one's marked on this --

3 A. Yeah, that's 06-04.

4 Q. -- Exhibit A.

5 A. The location that --

6 Q. Exhibit P, I'm sorry.

7 A. Yes. Yeah, O, location O.

8 Q. Okay.

9 A. And then contemporaneously with that, they wanted
10 to drill a well called the Hunger Buster 1-9, 1980 from the
11 south and 660 from the west, which would be the northwest
12 of the southwest.

13 Q. In Section 9?

14 A. In Section 9 --

15 Q. And --

16 A. -- thinking that the sands would go through
17 there.

18 Q. -- that was the one you disagreed with?

19 A. We disagreed with it, did not want to drill it.

20 Q. And they did not drill it?

21 A. They did not drill.

22 Q. Okay. Now, the Hunger Buster Number 3 over here
23 in the east half of 9, that one is a producing well --

24 A. Yes, making 750 MCF a day.

25 EXAMINER JONES: Okay, thank you. That's all.

1 MR. HALL: Brief follow-up.

2 FURTHER EXAMINATION

3 BY MR. HALL:

4 Q. Mr. Wakefield, in response to one of Mr.
5 Kellahin's questions about your conversations with the
6 Chesapeake folks on April 5th and March 14th, you indicated
7 that you didn't receive any cooperation.

8 Let me ask you, did Chesapeake share with you any
9 well data from the Osudo 9-1 well?

10 A. No, they -- they said they could not.

11 Q. Okay, and --

12 A. And that's on the April 5th.

13 MR. HALL: All right, nothing further.

14 EXAMINER JONES: Okay, thank you, Mr. Wakefield.

15 Let's take a break and come back at 11:00.

16 (Thereupon, a recess was taken at 10:49 a.m.)

17 (The following proceedings had at 11:05 a.m.)

18 EXAMINER JONES: Let's go back on the record.

19 And we'll continue till approximately 12:00, if
20 anyone has an objection, we'll go to -- 12:00 till 1:30 for
21 lunch, and then later on tonight, probably till 6:00 or
22 7:00 tonight.

23 Okay, where were you, Mr. Scott -- Mr. Hall?

24 MR. GALLEGOS: We call Paul Kautz.

25 EXAMINER JONES: Paul Kautz.

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PAUL KAUTZ,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. GALLEGOS:

Q. Would you state your name, please?

A. Paul Kautz.

Q. Where do you live, Mr. Kautz?

A. Hobbs, New Mexico.

Q. Are you employed?

A. I'm employed by the New Mexico Oil Conservation Division.

Q. How long have you worked for the New Mexico Oil Conservation Division?

A. More than 24 years.

Q. What was your training or work experience prior to that?

A. I got a BS degree from the University of New Mexico in 1974. I've presented a paper on the geology of the Espinazo formation, north central New Mexico, and had a paper published by the Geological Society of America, and --

Q. Has your professional career been basically you've been employed with the Division?

A. Yes, sir.

1 Q. Are you a geologist --

2 A. Yes.

3 Q. -- by training?

4 A. Uh-huh.

5 Q. Do you have some responsibilities with the
6 Division Office in Hobbs concerning the processing of
7 applications for permits to drill?

8 A. I do the final approval on the APDs.

9 Q. How long have you had that as part of your
10 duties?

11 A. Oh, continuously for about five years, but my
12 prior supervisor, when he was gone, I would approve them,
13 and that would be since -- probably since about 1982.

14 Q. Who is the supervisor at the Hobbs office
15 presently?

16 A. Chris Williams.

17 Q. So your testimony is, Chris Williams does not
18 perform the function of approving the APDS?

19 A. Only when I'm not there.

20 Q. Now, you said that you have -- I think you said
21 the final approval; is that the term?

22 A. Yes, sir.

23 Q. Does that indicate that there are some others who
24 play a role in the process of this application procedure?

25 A. The administrative section is checked by Donna

1 Mull, Karen Sharp and myself.

2 Q. And what does that mean? On the paper-flow
3 process, just describe for us what is done.

4 A. Well, when the APD first comes in it's stamped in
5 with the date, if it comes in by paper. Online, it's
6 automatically stamped with the date. Then it goes to what
7 we'll call the administrative section for approval, and
8 that's done by Donna Mull or Karen Sharp.

9 Q. How long have they been with the office?

10 A. Oh, at least 15 years.

11 Q. Are they engineers or geologists?

12 A. No.

13 Q. And then what happens after they act on the
14 application?

15 A. Then it comes to me, and I double-check some of
16 the things that they've done, and I approve the wellbore
17 construction and the -- check the pools, make sure that
18 it's dedicated to -- assigned to the right pool, correct
19 pool.

20 Q. Okay. What has been the workload in regard to
21 processing APDs at the Hobbs office in 2005? How would you
22 describe that?

23 A. Well, it varies from day to day. Some days it
24 may be only one or none. Other days -- recently, we had 20
25 APDs submitted online in one day.

1 Q. Let me ask you to turn to this white notebook
2 that's on the witness stand and go to the exhibit that's
3 under Tab L, Exhibit L. Do you have that, Mr. Kautz?

4 A. Yes.

5 Q. I want to call your attention to Regulation
6 19.15.13.1102.A, and you're familiar that this regulation
7 pertains to the -- what is known as the Form C-102?

8 A. Yes.

9 Q. And does that regulation specify that the form is
10 also used to show the ownership and status of each lease
11 contained within the dedicated acreage?

12 A. Yes.

13 Q. And does Subsection B say that, "All information
14 required on form C-102 shall be filled out and certified by
15 the operator of the well..."?

16 A. Yes.

17 Q. Let me ask you to turn to Exhibit M, which is
18 under Tab M in that notebook, and do you recognize this
19 document as being the instructions to an applicant who is
20 seeking a permit to drill concerning filling out the Form
21 C-102?

22 A. Yes.

23 Q. What is the Form C-102?

24 A. It is the land plat showing the location of the
25 proposed well.

1 Q. Does item 14 of this instruction provide, and I
2 quote, "If more than one lease of different ownership has
3 been dedicated to the well show the consolidation code from
4 the following table" colon, and then you have -- Code C
5 would be communitization, U would be unitization, F would
6 be force pooling, O would be other, and P would be
7 consolidation pending?

8 A. Yes.

9 Q. Okay, and you're familiar with this instruction,
10 of course?

11 A. Uh-huh.

12 Q. And Number -- under Number 16 does this
13 instruction provide, and I quote, "If more than one lease
14 has been dedicated to this completion, outline each one and
15 identify the ownership as to both working interest and
16 royalty." Is that part of the instruction?

17 A. Yes.

18 Q. Let's turn, if we will, to Exhibit J, and let me
19 give you a moment and ask if you recognize this particular
20 Form C-102 submitted by somebody by the name of Brenda
21 Coffman.

22 A. Yes, I do recognize it.

23 Q. Okay. Did you do some work on this -- on the
24 processing of this application?

25 A. No, sir.

1 Q. Do you note that the consolidation code -- Did
2 you note that this form has a space to be filled in, in
3 which the words "Consolidation Code" appear?

4 A. Yes, there is a box for that.

5 Q. Okay, and that would relate back to what we were
6 previously reading in Exhibit M about the instructions;
7 isn't that true?

8 A. Yes.

9 Q. Okay. And is it true, Mr. Kautz, in this case
10 the consolidation code is blank?

11 A. That's correct.

12 Q. Now let me ask you to turn to Exhibit I. Do you
13 recognize Exhibit I?

14 A. Yes, I do, it's the printable version of the
15 online form.

16 Q. Okay. And previously -- and I failed to ask you
17 the question. On Exhibit J does it show that it was
18 submitted by Chesapeake Operating, Inc.?

19 A. Yes.

20 Q. Okay. And Exhibit I, the C-101, who submitted
21 that?

22 A. Chesapeake Operating, Inc.

23 Q. Okay. Did this come to your attention?

24 A. Yes.

25 Q. What role did you have regarding processing this?

1 A. I reviewed the pool, proposed pools, the
2 formation, the proposed casing program and cementing
3 program and the proposed blowout-prevention program.

4 Q. Okay, let me ask you to turn to the second page
5 of Exhibit I, which is the Form C-101 submitted by
6 Chesapeake Operating Company, and do you see that that form
7 also provides a space for the consolidation code to be
8 filled in?

9 A. Yes.

10 Q. And is it true that that is blank?

11 A. Yes, it is.

12 Q. All right. What date was this submitted?

13 A. I do not know.

14 Q. Does the lower left-hand of the first page
15 show --

16 A. Yes, that should indicate the date that it was
17 submitted.

18 Q. And does it show there March 10, 2005?

19 A. Yes.

20 Q. When the consolidation code was left blank, did
21 you do anything to try and have the applicant provide the
22 information?

23 A. No.

24 Q. But you did go ahead and approve this
25 application, did you not, Mr. Kautz?

1 A. Yes, because it's nonmandatory field on the OCD
2 online form.

3 Q. So by that you mean that the instructions do not
4 have to be followed, the instructions that we were looking
5 at earlier, as far as you're concerned?

6 A. I guess so.

7 Q. So whether or not somebody has any rights or
8 interest in the property that is described in the
9 application for permit to drill is of no interest --

10 A. That's correct.

11 Q. -- to you?

12 And let's look then at -- under Tab J, if you'll
13 go back to that part of Exhibit J, is this a Form C-103?

14 A. Yes.

15 Q. And who submitted this?

16 A. Chesapeake Operating, Inc.

17 Q. And what is the subject of the submittal?

18 A. It's checked as being they closed the pit, notice
19 of intent.

20 Q. Okay. Is the C-101 and the C-102 each
21 descriptive of what's known as the KF 4 State well in
22 Section 4 of Township 21 South, Range 35 East?

23 A. Yes.

24 Q. And is it the same well that's the subject of
25 this Form C-103 that's part of Exhibit J?

1 A. Yes.

2 Q. Okay, did you have anything to do with the
3 processing of this, the C-103?

4 A. Yes, I approved it.

5 Q. Okay. There's some handwriting here, for
6 example, over at the well location, unit location X and
7 then handwritten "slash P". Can you explain that?

8 A. That means the surface location is in OCD Unit
9 Letter X, and it's in ONGARD Unit Letter P.

10 Q. Did you write that in?

11 A. No, sir, that was Donna Mull.

12 Q. I'm sorry?

13 A. Donna Mull.

14 Q. All right. And then on the pool name where the
15 printing is "Osudo" and "Morrow", there's handwritten the
16 word "south" and then in parentheses "(gas)", and then a
17 number "82200". Did you write that in?

18 A. No, sir.

19 Q. Who did?

20 A. Donna Mull.

21 Q. How do you know that?

22 A. I believe it's Donna Mull. It could be Karen
23 Sharp. They administratively review the forms before they
24 come to me, and if there's any missing information they
25 will go ahead and complete that information, usually after

1 contacting the operator.

2 But in the case of the unit letter, ever since
3 ONGARD we operate under two unit-letter systems.

4 Q. So if there's any missing information, their
5 instructions are to contact the applicant/operator to
6 obtain the missing information?

7 A. Yes, sir.

8 Q. Don't the same instructions apply to rights in
9 the lease, the information called for by the consolidation
10 code?

11 A. The -- as explained from Jane Prouty, anything
12 that's not marked with an asterisk is not mandatory to be
13 filled in on the OCD online application.

14 Q. Now, explain your testimony there. Jane Prouty
15 is who?

16 A. Our computer -- one of our computer people here
17 in Santa Fe.

18 Q. So Jane Prouty, a computer person, is overriding
19 the printed instructions and the regulations issued by the
20 Division; is that your testimony?

21 A. Yes.

22 Q. So if we look at the Form C-101, Exhibit I, you
23 would tell her there are some of the many fields to be
24 completed, that if they don't have an asterisk, then the
25 information does not have to be submitted by the applicant?

1 A. That's correct.

2 Q. Give me an example of one that has an asterisk.

3 I mean, I don't see any --

4 A. The OCD online, the mud program doesn't have an
5 asterisk, the --

6 Q. No, I -- Maybe you misunderstood my question. I
7 don't see any of these that do have an asterisk. I'm
8 asking you --

9 A. The only place you see the asterisk is on --
10 where the operator fills out the information on the online
11 system and on the section for the OCD approval.

12 Q. Well, let's see. The online application comes
13 into your office and would look like Exhibit I?

14 A. No, sir.

15 Q. It does not?

16 A. It's a computer visual form.

17 Q. Well, my question wasn't clear. I mean on the
18 screen, on your computer screen, does it look like Exhibit
19 I?

20 A. No, sir.

21 Q. So -- But on your computer screen, certain of the
22 fields have an asterisk and certain of them do not?

23 A. That's correct.

24 Q. And that is a result of some decision that was
25 made by Jane Prouty here in Santa Fe, who's in charge of --

1 A. That's what we were told.

2 Q. When did that direction come about?

3 A. When we -- probably -- I'm not sure, but it was
4 during -- probably during the testing phase after it went
5 active.

6 Q. Can you tell us about when that was in terms of
7 month and year?

8 A. I have no idea right off the top of my head.

9 Q. Well, I mean -- what I'm asking is, it's been the
10 practice as a result of that lady's directions for a year
11 or a few months or --

12 A. Probably a year.

13 Q. Probably a year?

14 A. Yes, sir.

15 Q. But is it true that operators have been able to
16 make applications for permits to drill online for in excess
17 of a year? Or are you saying that only became available
18 when it had these directions?

19 A. It's been slightly over a year since we went
20 online with OCD online.

21 Q. And sometime after you went online, then the
22 directions were given by this lady that you've recited?

23 A. Yes, sir.

24 Q. So tell us, since we can't see the computer
25 screen, what is it that Ms. Prouty -- is that the correct

1 pronunciation?

2 A. Prouty.

3 Q. Prouty, okay. What is it that Ms. Prouty has
4 decided are the fields that are important and that have an
5 asterisk?

6 A. Well, it wasn't just Ms. Prouty, it was also
7 industry -- members of industry that was on the committee,
8 along with her.

9 Q. Oh. So a committee, industry, decided what would
10 need to be in the application form and what was not
11 essential to be in the form?

12 A. Yes, sir.

13 Q. Okay, is that reflected, Mr. Kautz, some way in a
14 report of that committee?

15 A. I do not know.

16 Q. Now, on the Form C-102, this Exhibit J, can you
17 tell us, was that submitted in paper form as opposed to
18 being on the computer, on the --

19 A. It looks like it was submitted by paper, since
20 the pool name is written in.

21 Q. All right. And was that written in by somebody
22 on your staff in Hobbs?

23 A. Yes, because usually the -- more than likely,
24 because usually the pool name and pool code is left out, in
25 the event that we might change the proposed pool.

1 Q. Okay. And the plat shows an indication that the
2 subject of this C-102 is what acreage in Section 4?

3 A. The southern half of Section 4.

4 Q. As a result of the little lines that are drawn
5 there, the double lines drawn along the section
6 boundaries --

7 A. Yes, sir.

8 Q. -- or the quarter-section boundaries?
9 And who drew that, do you know?

10 A. It was probably either Donna Mull or Karen Sharp.

11 Q. Somebody in your office?

12 A. Yes, sir.

13 Q. In other words, it was not submitted that way by
14 the applicant?

15 A. Sometimes the applicants leave that off and other
16 times they highlight it. When they highlight it, it
17 doesn't show up when it's scanned into the system, so we
18 have to put hachmarks.

19 Q. Well, what I'm curious about is that it shows
20 that the location is to be in lot X and it's 320 acres, but
21 it doesn't say whether it's laydown south half or standup
22 east half --

23 A. It's laydown south half --

24 Q. No, but I mean, that was put in by your people,
25 correct?

1 A. Yes, sir, after -- probably after contacting
2 Chesapeake.

3 Q. Okay, so they must have talked to Chesapeake
4 about that, and Chesapeake said it's supposed to be the
5 south half?

6 A. Yes, sir.

7 Q. Okay. Are you aware, or did they give you the
8 information that they learned from Chesapeake that they
9 learned that there were two leases involved in that south
10 half?

11 A. There's no way for us to know that there's more
12 than one lease.

13 Q. Unless the applicant tells you; is that correct?

14 A. That's correct.

15 Q. And is it the -- if the applicant tells you that
16 or submits a plat in that way, the applicant would put in
17 information on this form that would show the lease, for
18 example, state lease number so-and-so, which would give you
19 that information, correct?

20 A. Yes, sir.

21 Q. Okay. But there is no such information on this
22 Form C-102, is there?

23 A. No, sir.

24 Q. Did it come to your attention, Mr. Kautz, that
25 sometime later -- and I believe around March the 27th -- an

1 application was submitted by Mewbourne for an APD to drill
2 a well in the southeast quarter of Section 4, 21 South, 35
3 East?

4 A. I do not remember any application.

5 Q. Okay, but you have no knowledge of an application
6 of that sort being rejected because the application that
7 we're talking about had been issued on March 11th of 2005?

8 A. It's a possibility. I was told about it, but I
9 just don't remember.

10 Q. You've been in the hearing room this morning,
11 have you not?

12 A. Yes, sir.

13 Q. You heard the testimony to that effect?

14 A. Yes, sir.

15 Q. But you have no knowledge one way or the other
16 about that series of events?

17 A. We get so many APDs in that it's hard to remember
18 all of them.

19 MR. GALLEGOS: Okay. All right, that completes
20 my questions. Thank you, Mr. Kautz.

21 EXAMINER JONES: Mr. Kellahin?

22 MR. KELLAHIN: Thank you, Mr. Jones.

23 CROSS-EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Kautz, as part of preparation for coming to

1 testify this morning, did you pull up your records on the
2 KF State 4 well that Chesapeake got permitted, that Mr.
3 Gallegos is talking about?

4 A. Yes, sir, I printed out the entire form.

5 Q. So you've looked at not only what was filed
6 electronically. Did you make hard copies of what was filed
7 as paper copies?

8 A. Yes, sir.

9 Q. Can you track the sequence with regards to the
10 fact that there's two different C-102s here? We've got one
11 filed electronically, and then there's another one that
12 appears to be a hard copy that was manually filed.

13 A. Yes, sir, I noticed that, and I have no
14 explanation why there's two submittals.

15 Q. When you look at an APD for approval, part of the
16 APD filing includes a C-102, does it not?

17 A. Yes, sir.

18 Q. And when you look at the C-102 on any of these
19 examples, it says a consolidation code that Mr. Gallegos
20 was talking about, right?

21 A. Right.

22 Q. Have you ever rejected an AFE because the
23 consolidation code had not been posted on the C-102?

24 A. No.

25 Q. When we look at the consolidation codes that are

1 printed in the rule book, one of the choices for the
2 operator is to simply say P, consolidation pending?

3 A. Yes, sir.

4 Q. What's that going to tell you? It tells me
5 there's one pending. It means absolutely nothing.

6 Q. Is it frequent that you see the approval of an
7 APD that does not have the consolidation code listed on the
8 C-102?

9 A. Yes.

10 Q. When you look later down in the section display
11 where either the Division with the assistance of the
12 operator or the operator marks out the spacing unit, that
13 marking out area helps you know, then, what they think is
14 the spacing unit size for the particular formation they
15 were trying to penetrate, right?

16 A. Yes, sir.

17 Q. And then you'll go up and look at the pool name
18 that they've put in, or if they've left it blank then
19 you'll do the research to figure out what their spacing
20 pattern should be?

21 A. That's correct.

22 Q. And you're looking down at where they've hached
23 or outlined or color-coded the spacing unit? In this case
24 it was the south half?

25 A. Yes, sir.

1 Q. Once you've done that and satisfied yourself that
2 the location is a standard location, then the APD is
3 approved if the other pieces are in place?

4 A. That's correct.

5 Q. So you don't make any distinction or rejection of
6 an APD if they've not filled in the consolidation code?

7 A. That's correct.

8 Q. And you assist the operator in making sure that
9 his configuration of a spacing unit and his pool name are
10 correct, as according to your records?

11 A. Yes, sir.

12 Q. Just above the outline of the section there's a
13 notation here. It says, "No allowable will be assigned to
14 this completion until all interests have been consolidated
15 or a non-standard unit has been approved by the Division."

16 What is the practice for implementing that
17 cautionary note on this form?

18 A. That's to notify the operator that even though
19 their APD is approved, it is conditional on them being able
20 -- producing it is conditional on them being able to get
21 some type of agreement or if -- compulsory pooling.

22 Q. So then when the operator goes ahead and drills
23 the well and comes back with his completion report and his
24 request for authority to produce, at that point do you then
25 look at this file and determine if he's got his spacing

1 unit consolidated?

2 A. That's correct.

3 Q. And that he's got approval either for a
4 nonstandard proration unit or his location is an NSL, he's
5 got those approvals?

6 A. Yes.

7 Q. Have you checked the Division files in Hobbs with
8 regards to how the forms were filed by Mewbourne in the
9 north half of Section 9 for the Osudo 9-1 well?

10 A. No, sir.

11 Q. Do you know whether or not they checked the
12 consolidation blank or not?

13 A. I do not know.

14 MR. KELLAHIN: No further questions, thank you.

15 EXAMINATION

16 BY EXAMINER JONES:

17 Q. Mr. Kautz, how do you determine -- prior to
18 someone -- some operator producing a well, how do you
19 determine they have a communitization agreement or a -- I
20 know how you determine a nonstandard proration unit, but
21 how do you know they have a com agreement?

22 A. It's -- One way of knowing it is by the name,
23 because it has the word "com" as part of the name.

24 Q. So they don't submit anything to the District
25 Office, they don't submit the actual com agreement signed

1 by the supposed owners in the spacing unit?

2 A. I'm not involved in that part.

3 Q. Who would be involved?

4 A. Donna Mull.

5 Q. Well, okay, practically speaking -- the operator
6 can't produce unless they have a -- they represent to the
7 Division they have a com agreement?

8 A. (Nods)

9 Q. So somewhere they do represent to the Division
10 that they do have a com agreement?

11 A. Yes, sir.

12 Q. Okay. Practically speaking, couldn't that be
13 done before the APD is issued, rather than before the
14 approval to transport it and produce is done?

15 A. Could you repeat that question?

16 Q. You know, you've been doing this a long time, so
17 is there a real need to grant APDs prior to actually
18 verifying there's a com agreement or a nonstandard
19 proration unit has been formed and in effect to produce?
20 In other words, why do we wait until afterwards?

21 A. I do not know.

22 Q. Okay. What about the advent of the online
23 permitting? Has that restricted or changed the way that
24 you approve APDs?

25 A. No, sir.

1 Q. No way has it changed any -- has it restricted
2 your options?

3 A. We still follow the same procedure. There's a
4 paper form.

5 Q. So it hasn't harmed anything, as far as your
6 ability to approve these in the way that the Rules say they
7 have to be approved?

8 A. That's correct.

9 Q. Has it helped?

10 A. I think it's cut down the time it takes to
11 approve an APD.

12 Q. And when did this happen, when did the online
13 permitting happen?

14 A. I'd like to say it was sometime -- first half of
15 last year.

16 Q. Okay. So all of these wells in question were
17 permitted online. Is permitting online an option, or does
18 the --

19 A. It is an option.

20 Q. Just an option.

21 A. Right now, we only receive maybe a small fraction
22 of our APDs online.

23 Q. Okay. Has it helped your workload --

24 A. Yes.

25 Q. -- to have that option?

1 A. Yes, it has.

2 Q. Okay, what about these pools? You're the keeper
3 of the pools in southeast New Mexico. Is this -- This very
4 good well that everybody is talking about today, the Osudo
5 9 State Number 1, produces a lot of oil, or condensate, I
6 guess. Is that normal in this area of --

7 A. Yes, sir.

8 Q. -- southeast New Mexico?

9 A. Usually the Morrow formation under reservoir
10 conditions is gas, but as it's produced it produces a lot
11 of condensate.

12 Q. So you say that the reservoir -- the gas in the
13 reservoir is in a state of -- in a gaseous state?

14 A. Usually, yes, sir.

15 Q. So there's no question about any kind of other
16 type -- so this is a nonassociated gas reservoir --

17 A. That's correct.

18 Q. -- in your opinion?

19 A. Yes, sir.

20 EXAMINER JONES: And do you have any opinion
21 about the -- Well, I'm sorry, I won't even ask you that.

22 Do you have any questions?

23 MR. BROOKS: No questions.

24 EXAMINER JONES: Okay, any other questions?

25 MR. GALLEGOS: I do.

FURTHER EXAMINATION

BY MR. GALLEGOS:

Q. Mr. Kautz, is it a fact that prior to the availability of online applications for APDs, the practice was to require filling in of the consolidation code providing ownership concerning the leases?

A. No.

Q. It was some -- Was there some point when that became --

A. Looking back through the forms that were approved over the years, at some point it fell by the way.

Q. It just quit being observed --

A. Yes, sir.

Q. -- for regulation?

A. Yes, sir.

Q. Now, when we speak of a spacing unit including two or more leases, do you understand the term "consolidation"?

A. Yes, sir.

Q. What does that mean?

A. It means that there's been an agreement to allocate between the lease's production and royalties and --

Q. You don't understand that as meaning that the lessees have agreed, either voluntarily or as the result of

1 an order of the Division, that their leases will be
2 dedicated to a well-spacing unit?

3 A. Yes, sir.

4 Q. You do understand that it means that?

5 A. Uh-huh.

6 Q. All right. So the code P, consolidation pending,
7 then does mean something, doesn't it, Mr. Kautz?

8 A. Not to our process for approving, it doesn't mean
9 anything.

10 Q. But it means something to you in your
11 understanding of the industry and how leases are
12 consolidated to form a spacing unit?

13 A. Yes, sir.

14 Q. But it doesn't mean anything in terms of
15 processing this paperwork? That's what you're telling me?

16 A. Yes, sir.

17 Q. All right. So if there is, let's say, a section
18 in Lea County, New Mexico, and I decide that the geology
19 looks good and apply for an APD for a 320-acre spacing unit
20 and have the information that's generally asterisked by the
21 computer and a supervisor, then whether I have any
22 ownership or not, you're going to issue the APD?

23 A. When you sign --

24 Q. That's the way it works?

25 A. When you sign the form, you're stating you have

1 the rights to drill that well. That's all we're concerned
2 with.

3 Q. So if somebody signs that form and they don't
4 have the rights, you're not concerned with that, you're
5 going to issue the APD?

6 A. We -- If they don't sign it, we don't approve it.

7 Q. No, no, but I say once they sign it, even if the
8 fact is that the party signing it has no interest in the
9 lease upon which the well is going to be drilled, you go
10 ahead and issue an APD?

11 A. Yes, sir.

12 Q. And you then -- in issuing the APD for the KF 4
13 State well to Chesapeake Operating Company, what
14 representation by signature did you rely on that they were
15 saying they had those rights? Can you point that out to us
16 in the exhibits we have?

17 A. Down there on the Form C-101, where Brenda
18 Coffman, regulatory analysis -- analyst, electronically
19 signed the form.

20 Q. Okay, that's -- We're talking about Exhibit I?

21 A. Yes, sir.

22 Q. Okay. So by that signature, that is the sum
23 total of what your office does to determine whether anybody
24 has any rights in the acreage on which the well is going to
25 be located; is that your testimony?

1 A. Yes, sir.

2 MR. GALLEGOS: That's all.

3 MR. KELLAHIN: Follow up.

4 EXAMINER JONES: Okay.

5 FURTHER EXAMINATION

6 BY MR. KELLAHIN:

7 Q. Mr. Kautz, let me make sure I understand
8 something.

9 A. Uh-huh.

10 Q. The verification on the forms that you're relying
11 upon the operator to attest to, that he has an ownership,
12 applies to an interest within the spacing unit?

13 A. Yes, sir.

14 Q. It doesn't confine that interest to be located at
15 the well location itself?

16 A. That's correct.

17 MR. KELLAHIN: No further questions.

18 FURTHER EXAMINATION

19 BY MR. GALLEGOS:

20 Q. Well, wait a minute, Mr. Kautz, let's look at
21 that signature. Where does it say anything about
22 ownership? It says, "I hereby certify that the information
23 given above is true and complete to the best of my
24 knowledge and belief" on the form, when it says nothing
25 about consolidation code. Where does that signature attest

1 to anything about ownership? It does not, does it?

2 EXAMINER JONES: Ms. O'Connor?

3 MS. O'CONNOR: I'm going to object. I'm Cheryl
4 O'Connor, attorney with the OCD. I believe that you're
5 asking for a legal conclusion, and Mr. Kautz certainly is
6 not qualified to testify as to ownership interest.

7 Q. (By Mr. Gallegos) No, my question is, this
8 signature place here says nothing about ownership interest,
9 does it?

10 A. That's correct.

11 MR. GALLEGOS: Thank you.

12 EXAMINER JONES: Okay. Any more questions for
13 Mr. Kautz? Thank you, Mr. Kautz.

14 MR. GALLEGOS: Mr. Kautz was under subpoena.
15 Could he be excused?

16 MR. KELLAHIN: No objection.

17 EXAMINER JONES: I didn't ask him one question
18 that I might want to ask him if I don't get the answer from
19 one of the other geologists.

20 MR. GALLEGOS: Okay, then you're not going to
21 excuse him.

22 (Laughter)

23 EXAMINER JONES: Thank you, Mr. Kautz.

24 MR. BROOKS: You can go ahead and ask him the
25 question now if you want to, or you can retain him.

1 EXAMINER JONES: I wanted to retain him.

2 MR. BROOKS: Okay, that's fine, you can do that.

3 EXAMINER JONES: One more night in Santa Fe.

4 (Laughter)

5 EXAMINER JONES: I'm sorry, Mr. Bruce?

6 MR. BRUCE: No, I don't have any questions.

7 EXAMINER JONES: Ms. O'Connor?

8 MS. O'CONNOR: Just for clarification, is he
9 retained through tomorrow?

10 EXAMINER JONES: Does everyone think we're going
11 to continue on until tomorrow?

12 MR. GALLEGOS: We hope not.

13 MR. DEBRINE: I think that's a reasonable
14 possibility.

15 EXAMINER JONES: Reasonable possibility. If --

16 MR. DEBRINE: But I don't think we'll need Mr.
17 Kautz.

18 EXAMINER JONES: Well, I might need him.

19 MR. DEBRINE: Okay.

20 MR. KELLAHIN: That's your decision, Mr.
21 Examiner. We're prepared to excuse him.

22 EXAMINER JONES: Okay, I think -- Yeah, with
23 that, let's break for lunch until 1:15.

24 MR. KELLAHIN: Okay.

25 EXAMINER JONES: And if later on in the day we

1 know for sure we're going on till tomorrow, we'll break a
2 little bit early, like maybe five o'clock.

3 (Thereupon, noon recess was taken at 11:48 a.m.)

4 (The following proceedings had at 1:20 p.m.)

5 EXAMINER JONES: Okay, let's go back on the
6 record and continue with Mr. Gallegos, I guess.

7 MR. GALLEGOS: Yes, we have one other item Mr.
8 Bruce is going to address.

9 MR. BRUCE: Mr. Examiner, I'm just submitting
10 as -- what I've marked as Mewbourne Oil Company Exhibit 1
11 is simply the affidavit of notice regarding the notice
12 given to Chesapeake Operating of the Application as amended
13 in Case 13,492, and I would ask that that be admitted into
14 evidence.

15 MR. KELLAHIN: No objection.

16 EXAMINER JONES: No objection?

17 MR. KELLAHIN: No.

18 EXAMINER JONES: This will be Mewbourne Exhibit
19 Number 1. Mewbourne Oil Company Exhibit Number 1 will be
20 admitted to evidence.

21 MR. GALLEGOS: Okay, Mr. Examiner, that completes
22 the evidence on behalf of Samson on Case 13,492, and we'll
23 reserve argument that we would like to present after the
24 conclusion of Chesapeake's case.

25 EXAMINER JONES: Okay.

1 MR. HALL: As well as on behalf of Kaiser-
2 Francis.

3 EXAMINER JONES: Okay, do the Applicants in
4 13,492 contemplate presenting responsive evidence in
5 13,493?

6 MR. HALL: Yes.

7 MR. GALLEGOS: Yes.

8 EXAMINER JONES: Since we've consolidated them
9 for purposes of hearing, then I would assume it would be
10 appropriate for the Respondent to proceed -- for Chesapeake
11 to proceed both as Respondent in 13,492 and as Applicant in
12 13,493.

13 MR. KELLAHIN: We're prepared to do whatever
14 you'd like.

15 MR. BROOKS: Well, we're considering all the
16 evidence in both cases, so I -- Okay, if that's okay with
17 the Examiner.

18 EXAMINER JONES: Yeah.

19 MR. KELLAHIN: And we're ready to do that.

20 MR. BROOKS: Okay.

21 MR. KELLAHIN: We'll go ahead and present the
22 land portion of our case, and within the context of doing
23 so I think rebut their objections about our permitting.

24 And then we'll follow that in with our technical
25 people so we can get to the heart of what I say is the

1 heart of the issue, which is the science about orientation
2 of the spacing unit.

3 MR. BROOKS: Right. And then after their
4 responsive evidence, then your final -- you'll be given an
5 opportunity for rebuttal, but that will be limited to
6 rebuttal on 13,49- --

7 MR. KELLAHIN: I expect that we'll technical
8 experts --

9 MR. BROOKS: Okay.

10 MR. KELLAHIN: -- and we'll move in that
11 direction.

12 MR. BROOKS: Okay.

13 MR. HALL: In view of that, Mr. Examiner, what
14 I'd like to do is present you with a hearing memorandum put
15 together for the -492 case. I believe you got one from Mr.
16 DeBrine earlier. This is the original.

17 MR. BROOKS: Just for a point of information, how
18 many witnesses do you have, Mr. Kellahin?

19 MR. KELLAHIN: Mr. Brooks, we're going to try to
20 consolidate our presentation, and if I'm guessing correctly
21 I think we'll have five and maybe four.

22 MR. BROOKS: Okay, and how long do you estimate
23 the testimony --

24 MR. KELLAHIN: The geologist and the engineer are
25 going to take some time, but we have three people to touch

1 on the land issues, and I'm not sure how long that will
2 take.

3 MR. BROOKS: Do you have an estimate as to
4 whether you'll be able to complete your case today? I'm
5 not holding --

6 MR. KELLAHIN: It's possible.

7 MR. BROOKS: I'm not holding you to --

8 MR. KELLAHIN: It's certainly possible.

9 MR. BROOKS: -- anything, I'm just -- these
10 questions --

11 MR. KELLAHIN: We may come down to the end of
12 the day and finish with the cross-examination of our
13 engineer --

14 MR. BROOKS: Okay.

15 MR. KELLAHIN: -- or be -- before we stuck on
16 what to do the rest of the time.

17 MR. GALLEGOS: So just so we're clear on the way
18 we're proceeding, instead of completing the evidence in
19 Case 13,492 and having the record on that, you're going to
20 have the Chesapeake presentation go -- run back over into
21 the next case?

22 MR. BROOKS: Yes, we have consolidated the two
23 cases for purposes of hearing, so all of the evidence will
24 be considered in the context of both cases.

25 Just for the purpose of keeping everything

1 together, my suggestion was -- and I believe the Examiner
2 has concurred in that -- that we have Chesapeake present
3 their case on both issues, and then you would present --
4 the original Applicants would present their responsive case
5 in the compulsory pooling case, and then any rebuttal from
6 Chesapeake on the compulsory pooling case, and then we
7 would wrap up the argument on all the issues. Okay?

8 MR. GALLEGOS: (Nods)

9 MR. BROOKS: You may proceed.

10 MR. DEBRINE: Chesapeake would like to call as
11 its first witness Lynda Townsend.

12 And here are the exhibits pertinent to the land
13 case, which I'll distribute. There's some overlap between
14 these exhibits and the ones that were introduced by the
15 Movants on the challenge to the permit, but it may be -- we
16 may try and use their exhibits, or maybe it might be easier
17 to just refer to the ones that we're presenting, but
18 hopefully everybody will be on the same page.

19 LYNDA F. TOWNSEND,
20 the witness herein, after having been first duly sworn upon
21 her oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. DEBRINE:

24 Q. Ms. Townsend, could you please describe your
25 position and your responsibilities for Chesapeake Energy?

1 A. Yes, I'm the senior landman for southeast New
2 Mexico. Basically I cover Lea County and Eddy Counties and
3 some in Chavez, but I have been so for the last eight
4 years. It's my primary responsibilities to propose all the
5 wells, do all the contracts, do all the negotiations,
6 leasing, et cetera.

7 Q. And although you are employed by Chesapeake
8 Energy, do you also perform services for its affiliates,
9 including Chesapeake Permian, Chesapeake Exploration
10 Limited Partnership and Chesapeake Operating, Inc.?

11 A. Yes, I do.

12 Q. Could you describe the relationship among those
13 companies?

14 A. Chesapeake Operating, Inc., is the general
15 partner for both Chesapeake Permian, L.P., and for
16 Chesapeake Exploration Limited Partnership.

17 Chesapeake Permian, L.P., was a limited
18 partnership that was formed to do acquisitions, when we did
19 the Concho acquisition, et cetera. So it's basically an
20 acquisition company.

21 CELP is our leasehold company. It usually -- all
22 the title usually stays in the CELP. And eventually
23 Chesapeake Permian or those acquisition companies, title
24 will roll over into CELP.

25 Chesapeake Operating, Inc., is the bonded

1 operating company in the State of New Mexico with both the
2 OCD and the State Land Office. It has been the bonded
3 operating company since we've been drilling there. It has
4 always taken our permits and it has always done our
5 drilling.

6 Q. How long have you had responsibility for
7 overseeing the permitting process for the drilling of wells
8 or the combining of tracts for the drilling of wells in New
9 Mexico?

10 A. For approximately eight years.

11 Q. During that time, how many wells would you
12 estimate have been permitted through the Oil Conservation
13 Division by Chesapeake?

14 A. I think it's somewhere around about 187, 188
15 wells.

16 Q. And in each of those instances was the APD filed
17 by Chesapeake Operating on behalf of the affiliated company
18 that actually may hold title to the leasehold interest?

19 A. Yes, it was.

20 Q. During that same time, how many applications to
21 seek compulsory pooling of interests would you estimate
22 you've filed with the New Mexico Oil Conservation Division?

23 A. There's been somewhere between 35 and 40.

24 Q. What's your educational background?

25 A. I am a paralegal, I have a bachelor of science

1 from the university of -- Oklahoma City University in
2 graduated legal studies.

3 Q. And have you previously testified before the Oil
4 Conservation Division and the New Mexico Oil Conservation
5 Commission?

6 A. Yes, I have.

7 Q. And have you been accepted as an expert by either
8 of those bodies in connection with your testimony?

9 A. Yes, sir.

10 MR. DEBRINE: We would offer Ms. Townsend as an
11 expert in land matters.

12 EXAMINER JONES: Any objection?

13 MR. GALLEGOS: No objection.

14 MR. BRUCE: No objection.

15 EXAMINER JONES: Ms. Townsend is qualified as an
16 expert in land matters.

17 MR. DEBRINE: Based on your experience, have you
18 gained a familiarity with the requirements of the New
19 Mexico Oil Conservation Division for drilling an oil and
20 gas well?

21 A. Yes, sir.

22 Q. And as a result of that experience, have you
23 further become familiar with the OCD's requirements for
24 seeking a compulsory pooling of interests to form a spacing
25 unit?

1 A. Yes, sir.

2 Q. Are you familiar with the land matters that were
3 involved in the APD for the KF 4 State Number 1 well?

4 A. Yes.

5 Q. Were you responsible for overseeing the filing of
6 the APD for that well?

7 A. I was responsible for overseeing the filing. I
8 did not do the actual filing.

9 Q. And I think you touched on this earlier, but why
10 was the APD filed by Chesapeake Operating?

11 A. Because it is the bonded operating company in the
12 State of New Mexico.

13 Q. And before the APD was filed for the KF 4 State,
14 were you aware of orders that had been issued by the Oil
15 Conservation Commission regarding their requirements for
16 filing and APD and seeking a compulsory pooling of
17 interests?

18 A. Yes, sir.

19 Q. What was your understanding of what the
20 Commission's prior orders had authorized when an operator
21 was filing for an APD on acreage a proposed pool to form a
22 spacing unit for the well in question?

23 A. The TMBR/Sharp case allowed us to file a pooling
24 after the fact, after the well was drilled. The Pride case
25 allowed you to drill on other leases within a standard

1 regulatory spacing unit.

2 MR. DEBRINE: Our exhibit book --

3 MR. BROOKS: The original Applicant's exhibit
4 book?

5 MR. DEBRINE: Yes.

6 MR. BROOKS: Okay.

7 Q. (By Mr. DeBrine) I've just handed you what's
8 been labeled a book of land exhibits, and did you -- were
9 you involved in the preparation of those exhibits for the
10 testimony that you were going to be giving here today?

11 A. Yes, sir.

12 Q. And are you familiar with the exhibits within
13 that book?

14 A. Yes.

15 Q. What is the first exhibit?

16 A. The first exhibit is an assignment of an oil and
17 gas lease from Rubicon Oil and Gas Company into Chesapeake
18 Exploration Limited Partners. It covers the southwest
19 quarter of Section 4 of 21 South, 35 East.

20 Q. And could you describe for the Hearing Officer
21 how it came about that Chesapeake took title to its
22 interest in that southwest quarter?

23 A. Through Rubicon, through the purchase of Rubicon,
24 we acquired them.

25 Q. And if you'd look at Exhibit 2, could you

1 describe that?

2 A. All right, it is a letter from the State of New
3 Mexico Commissioner of Land that has approved the
4 assignment on that lease in Section 4, the southwest
5 quarter of 21 South, 35 East.

6 Q. And who are the parties to the assignment that's
7 being approved?

8 A. It would be Rubicon and Chesapeake Permian, L.P.

9 Q. What is the statement in the enclosing letter of
10 the approval of the assignment that's made by the
11 Commissioner of Public Lands? Could you read that?

12 A. Yes. "Please be aware that, before you commence
13 exploration or drilling operations on the leased lands, all
14 surface improvement damage requirements must be met.
15 Failure to do so may result in possible cancellation of
16 your lease. Thank you, if you have already complied with
17 this requirement."

18 Q. And I think you testified earlier that Chesapeake
19 Operating is the entity that has executed the required
20 surface damage bond with the State Land Office?

21 A. Yes, sir.

22 Q. And that bond is applicable to any operations
23 that Chesapeake may conduct on state leases?

24 A. Yes.

25 Q. And Exhibit 1 and 2, are those the two

1 assignments establishing the title of Chesapeake Permian in
2 the property where the KF 4 State Number 1 well was
3 drilled?

4 A. Yes, sir.

5 MR. DEBRINE: Move the admission of Exhibits 1
6 and 2. I think they've already been admitted in connection
7 with the prior notebook of exhibits.

8 EXAMINER JONES: Any objections?

9 MR. BROOKS: No objection.

10 EXAMINER JONES: Chesapeake Exhibits 1 and 2 will
11 be admitted.

12 Q. (By Mr. DeBrine) Could you describe what Exhibit
13 3 consists of in the notebook?

14 A. Exhibit 3 consists of the Forms C-102 and C-103
15 on the KF 4 State Well Number 1. And I believe there's
16 also a pit diagram and an application for permit to drill,
17 re-enter, deepen, plug back or add a zone on the
18 horizontal, on the directional drill.

19 Q. So it's got the two Form C-103s that were filed
20 in connection with the State Number 1 well?

21 A. Yes, sir.

22 Q. And were you responsible for overseeing the
23 preparation of those two forms?

24 A. Yes.

25 Q. Would you look at Exhibit 4 and describe for the

1 Hearing Officer what that is?

2 A. Exhibit 4 is the electronic application for
3 permit to drill. It was entered electronically, and I
4 believe -- let's see, it has an approval -- I think this is
5 just the form. Yeah, this is just the form that was --
6 Yeah. It was electronically approved on 3-11, on the first
7 page.

8 Q. And we can skip ahead to Exhibit 8 in the
9 notebook --

10 A. Uh-huh.

11 Q. -- and ask if you can describe that exhibit.

12 A. This is a chronology that was prepared by me for
13 the series of events leading up to the well completion on
14 the KF State.

15 Q. And does it accurately summarize the pertinent
16 events, from your standpoint, as to the application for the
17 permit to drill and the compulsory pooling Application that
18 were filed by Chesapeake --

19 A. Yes, sir.

20 Q. -- and are being heard today?

21 A. Yes, sir.

22 MR. DEBRINE: I would move the admission of
23 Exhibits 3, 4 and 8.

24 EXAMINER JONES: Any objections?

25 MR. HALL: Mr. Examiner, I think this might be

1 the time to interpose an objection to at least Exhibit 8 to
2 the extent it refers to meeting with the Land Commissioner
3 on June 20th, and I see that their Exhibit 15 is also a
4 letter that resulted from that meeting. We filed a motion
5 *in limine* on that, and I think that's ready for
6 adjudication.

7 MR. GALLEGOS: And we object to Exhibit 8 at this
8 time. I think it will be necessary to have this witness's
9 testimony concerning knowledge of the various events here.
10 We'll see how that develops, but we object to it being
11 admitted at this time.

12 MR. DEBRINE: And we intend to tie up the
13 witness's knowledge of the different events that are
14 listed, and it's just merely to illustrate and present in a
15 concise form for the Hearing Examiner the pertinent events
16 and for the witness to refer to during her testimony.

17 MR. BROOKS: Why don't you then, just as a
18 suggestion, just offer this after some completion of her
19 testimony. It would appear to be hearsay and wouldn't -- I
20 don't think it would comply with the summary rule, because
21 it's not really a summary of record, so perhaps there will
22 be no objection to it, other than the one about the Land
23 Commissioner, once the testimony has come in.

24 MR. DEBRINE: Yes, and it's really a
25 demonstrative exhibit --

1 MR. BROOKS: Yeah.

2 MR. DEBRINE: -- and we're prepared to argue the
3 issue with respect to the admissibility of the letter from
4 the Land Office.

5 MR. BROOKS: Well --

6 MR. GALLEGOS: See, some of the problems of this
7 -- and this is the first time we've seen it, but right away
8 you see some characterization of -- as opposed to just
9 relating events. For example, "received letter attempting
10 to withdraw their election". Those kind of argumentative
11 characterizations are going to be a problem as far as
12 admission.

13 So I think -- You know, we don't have any
14 objection to just going on with this witness as to what she
15 knows about events as they transpired, but we do as to the
16 admission of the document.

17 MR. DEBRINE: I think when you compare it to the
18 chronologies that were prepared by Kaiser-Francis, it is
19 similar in form, and they were different characterizations.

20 MR. BROOKS: Would you object -- Mr. Gallegos,
21 would you object to the admission of the document merely as
22 a demonstrative aid and not for the truth of the matters
23 stated?

24 MR. GALLEGOS: Yeah, we'd reserve objection as to
25 the truth of the matter stated, but it could be used as a

1 device for recollection -- for the witness's refreshing her
2 memory.

3 MR. BROOKS: Well, I think it can be admitted as
4 a demonstrative aid. I recognize the hearsay nature of
5 some of the things in it and the argumentative nature of
6 some of the things in it, so I would acknowledge that it's
7 not evidence as to those matters. But I think the
8 appropriate course in this type of proceeding would be to
9 admit it as a demonstrative aid.

10 EXAMINER JONES: How about this?

11 MR. BROOKS: Well, I suppose the attorneys
12 probably want to argue this Land Commissioner issue. Can
13 we cover everything else with this witness and reserve that
14 issue for a subsequent witness?

15 MR. DEBRINE: Yes, our third witness is the one
16 who's going to address -- Mr. Hazlip is going to speak to
17 his meeting that he had with the Land Commissioner. And
18 before he testifies, that would be the appropriate time,
19 probably --

20 MR. BROOKS: Okay --

21 MR. DEBRINE: -- to hear that motion.

22 MR. BROOKS: -- that's fine. I would then advise
23 the Examiner to admit Exhibit 8 as a demonstrative aid
24 only.

25 I believe there were two other exhibits tendered,

1 were there not?

2 MR. DEBRINE: Yes, the APDs and the C-103s.

3 MR. BROOKS: Which exhibit numbers?

4 MR. DEBRINE: That would be 4 and 5.

5 EXAMINER JONES: Okay, Exhibits 4 and 5 will be
6 admitted --

7 MR. DEBRINE: Excuse me, 3 and 4.

8 EXAMINER JONES: 3 and 4, will be admitted into
9 evidence, and Exhibit 8 as a demonstrative aid.

10 Q. (By Mr. DeBrine) Ms. Townsend, when did you
11 first propose to Samson and Kaiser-Francis to drill the KF
12 4 State Number 1 well?

13 A. The proposed letter was dated March the 9th, and
14 it was faxed to both parties.

15 Q. And at that time, what prior investigation of
16 title had been done by Chesapeake with regard to the
17 ownership of the --

18 A. Our broker --

19 Q. -- location where the well would be drilled?

20 A. Okay, our broker had gone to the Lea County
21 Courthouse and researched that title. We had searched
22 title through the State Land Office, through the county
23 court. It's pretty much what we do every time. We do a
24 fairly thorough search.

25 Q. And did you determine who the surface lessee was

1 at that time, as well?

2 A. Yes.

3 Q. Do you know if the surface lessee contacted?

4 A. Yes.

5 Q. When was the surface lessee contacted?

6 A. The surface lessee was contacted on the same day
7 that we wrote the proposal letters.

8 Q. Now, I notice from the admission of the letter in
9 the prior testimony that the letter was sent just to Samson
10 Resources and Kaiser-Francis.

11 A. Yes.

12 Q. And apparently at a later point in time Mewbourne
13 acquired an interest in that same lease; is that right?

14 A. That's right, but we were not aware of that at
15 the time, they did not hold record title.

16 Q. So on March 9th, Mewbourne did not own any
17 interest in the southwest quarter?

18 A. No.

19 Q. Do you know the date that Mewbourne acquired an
20 interest in the southwest quarter?

21 MR. GALLEGOS: I think you mean the southeast,
22 don't you?

23 Q. (By Mr. DeBrine) Right, southeast quarter, I'm
24 sorry.

25 A. I believe the assignment was recorded on April

1 the 18th.

2 Q. And how did you determine that that was the
3 recordation date for Mewbourne's assignment, for its
4 interest in the southeast quarter?

5 A. Our broker checked the courthouse and pulled a
6 copy of the assignment.

7 Q. If you turn to Exhibit 5, could you describe for
8 the Hearing Examiner what that exhibit consists of?

9 A. Okay, there's two different plats here. The top
10 plat shows the correction Section 4, which contains
11 approximately 960 acres, as well as the north half of
12 Section 9, where the Osudo well is located.

13 This first plat shows the leasehold ownership and
14 the numbers of the state leases and how they're spread out.
15 The yellow indicates Chesapeake's leases, the blue is
16 Samson's leases, the orange is Kaiser-Francis, and the
17 peach color is Mewbourne.

18 Q. Could you identify the pools and OCD Rules that
19 you believe apply to the compulsory pooling Application
20 that Chesapeake filed in this proceeding?

21 A. It would be the Osudo South-Morrow Gas field.

22 Q. And the well that is the subject of the pooling
23 Application, the KF 4 State Number well [sic], is located
24 within that pool?

25 A. Yes, it is.

1 Q. And are there any special rules for pools that
2 are applicable to that well?

3 A. It will be the standard 320-acre gas unit, 660
4 from the lease lines.

5 Q. Now, the southeast quarter, at the time that
6 Chesapeake filed its APD, was owned by which entities?

7 A. Kaiser-Francis and Samson.

8 Q. And so would Kaiser-Francis or Samson have been
9 able to drill a well on that quarter section without
10 forming a spacing unit for that well?

11 A. No, they would have had to combine it with
12 another 160-acre unit.

13 Q. So in order to drill a well within that quarter
14 section, they would have had to have done the same thing
15 that Chesapeake was attempting to do, to combine it with
16 adjacent acreage to form the standard 320 spacing unit?

17 A. Yes, sir.

18 Q. Were you responsible for preparing Chesapeake's
19 pooling Application in this proceeding?

20 A. I was responsible for talking with Mr. Kellahin,
21 who did prepare the pooling Application under my direction.

22 Q. If you turn to Exhibit 6, is that the Application
23 you're referring to?

24 A. Yes, sir.

25 MR. DEBRINE: We would move the admission of

1 Exhibits 5 and 6.

2 EXAMINER JONES: Any objection?

3 MR. HALL: (Shakes head)

4 EXAMINER JONES: Exhibits 5 and 6 will be
5 admitted to evidence.

6 Q. (By Mr. DeBrine) Could you turn to Exhibit 7 in
7 the notebook?

8 A. Yes.

9 Q. And what does that consist of?

10 A. It's the certificate of mailing for the pooling
11 Application, the notice.

12 MR. DEBRINE: We'd move the admission of Exhibit
13 7.

14 MR. GALLEGOS: No objection.

15 EXAMINER JONES: Exhibit 7 will be admitted to
16 evidence.

17 Q. (By Mr. DeBrine) And so Exhibit 8, turning back
18 to the chronology, the first item listed on there is the
19 proposal letter that we discussed earlier --

20 A. Yes.

21 Q. -- and that went out to both Samson and Kaiser-
22 Francis?

23 A. Yes.

24 Q. When did you receive a response from either of
25 those parties?

1 A. I received a letter on March the 16th from Thena
2 Anderson with Samson, electing to participate in the
3 drilling of the KF State.

4 Q. If you turn to Exhibit 9, do you find your letter
5 and the approval that you were referring to?

6 A. Yes, sir.

7 Q. I believe in the front -- the original letter is
8 in front of the --

9 A. Right.

10 Q. -- letter that was faxed back and signed by
11 Samson.

12 A. Right. And it was faxed out on 3-11. It was
13 signed by Marlin Garrett, vice president.

14 Q. Did you have any contact with anyone at Samson
15 between the time that the letter was first sent on March
16 9th and the time that Chesapeake received back their -- the
17 signed letter electing to participate in the KF State --

18 A. I did not, no.

19 Q. Did anyone else at Chesapeake have any contact
20 with Samson --

21 A. Yes, I believe --

22 Q. -- during that period?

23 A. -- I believe David Godsey did.

24 Q. Do you know what the nature of that communication
25 was?

1 A. No, I really don't. I think -- I mean, I know
2 part of it, but it's -- I believe Samson told Mr. Godsey
3 that we had beaten them to the punch and they would be
4 sending in their election.

5 Q. Did Samson at any time, to your knowledge,
6 qualify their election that they made in Exhibit 9?

7 A. No, sir.

8 MR. DEBRINE: We'd move the admission of Exhibit
9 9.

10 MR. GALLEGOS: No objection.

11 EXAMINER JONES: Exhibit 9 will be admitted into
12 evidence.

13 Q. (By Mr. DeBrine) At the time that you sent out
14 the letter to Samson and to Kaiser-Francis, you were not
15 requesting that they participate in the cost of drilling
16 the well pursuant to an existing joint operating agreement,
17 were you?

18 A. No.

19 Q. And you didn't condition their election on the
20 execution of a particular form of joint operating
21 agreement?

22 A. No, I did not.

23 Q. How would you characterize the form of the offer
24 that you made to them?

25 A. By asking them to get their election in timely,

1 it's -- we do that as a matter of course of business,
2 simply because at the end of the 30-day period we can file
3 for a pooling.

4 Q. Do you know the date that the APD that Chesapeake
5 filed for the KF 4 State Number Well Well [sic] was
6 approved by the OCD?

7 A. Yes, it was approved on March the 11th.

8 Q. And I believe Mr. Wakefield testified earlier
9 that he had a conversation with you on March 14th?

10 A. Yes, sir.

11 Q. Is that correct? Did he have the date right?

12 A. Yes.

13 Q. And that was three days after the APD had already
14 been approved for the KF 4 State Number 1 well?

15 A. Yes, it was.

16 Q. What is your recollection of your discussion with
17 Mr. Wakefield on the 14th?

18 A. When he's talking about the southeast of the
19 southwest, I refer to that as possibly having been a
20 location at one time but that we were permitting it in the
21 southeast quarter.

22 He told me that we could not get a permit on the
23 southeast quarter, because it was not on our specific
24 lease.

25 And I told him, yes we could, because we had it.

1 And he said that he had talked with Mewbourne and
2 that Mewbourne had told him that they had been very
3 successful in overturning three or four permits just
4 recently, and they would not be joining us.

5 Q. And so you didn't at any time in that
6 conversation tell him that your proposal was somehow
7 involving the southwest quarter of Section 4?

8 A. No, not for the well location, because we already
9 had the permit.

10 Q. Right, and it would make no sense for you -- I
11 mean, you didn't try to mislead him in any manner, you'd
12 already permitted the well and --

13 A. Right.

14 Q. -- you described for him the specific location
15 that the drilling was going to take place?

16 MR. GALLEGOS: I'm going to have to object.
17 There's been a lot of leading and I haven't objected to
18 this point, but right now counsel is doing the testifying.
19 This is his witness. Object to the --

20 MR. BROOKS: Technically, that is a valid
21 objection.

22 MR. DEBRINE: I would agree, but the rules are
23 somewhat relaxed in this proceeding and I was trying to
24 expedite things. But I'll move on.

25 Q. (By Mr. DeBrine) You didn't -- did -- You didn't

1 attempt to mislead Mr. Wakefield during that conversation
2 with regard to Chesapeake's plan to develop that acreage?

3 A. No, I tried to get him to change his mind.

4 Q. When you sent the proposal letter, did it include
5 an AFE for the cost of drilling the well?

6 A. Yes, sir.

7 Q. And what was the figure that had been estimated
8 at that time?

9 A. \$2,012,000 completed well cost.

10 Q. Now, the letter -- did it demand that the share
11 of the proposed well cost be paid in order to participate
12 in the well?

13 A. No, it did not, it requested it.

14 Q. And what is the normal practice in the industry
15 in that regard?

16 A. Well, if you're under a JOA, yes, you can request
17 prepayment if that is covered in the JOA. If you have no
18 JOA covering it -- Of course you'd like to have your
19 dryhole money up front, so if you request it sometimes you
20 get it and sometimes you don't.

21 Q. And once Samson elected, they were not required
22 to tender those costs in advance in order to participate in
23 the well?

24 A. No.

25 Q. And the same would have been true for Kaiser-

1 Francis?

2 A. Yes.

3 Q. How would you have recouped your costs from those
4 two parties, had they both agreed to participate and form a
5 voluntary spacing unit for the well in question?

6 A. They would have been billed at either -- they
7 would have agreed in the JOA to pay their prepaids, their
8 dryhole costs, or they would have been billed at the end of
9 each month.

10 Q. Other than the conversation on the 14th with Mr.
11 Wakefield, did you have any further conversations or
12 discussions with anyone at Kaiser-Francis or Samson --

13 A. I had --

14 Q. -- during the month of March?

15 A. I'm sorry, during who?

16 Q. During the month of March?

17 A. I had -- Let me think. I talked with Tim Reece
18 of Samson, and he had told me that they were going to --
19 that they were rescinding their election to participate in
20 the well. And I asked him what the problem was, and he
21 said that they had just gone and done another deal and that
22 they would not be participating. And I said I understood
23 that that was what he was intending to do or trying to do,
24 that did not necessarily mean that we accepted that.

25 Q. And what was his reaction to that statement?

1 A. He really had none, he just said that they were
2 not in the well.

3 Q. If you look at Exhibit 10, is that the letter you
4 were referring to?

5 A. Yes.

6 MR. DEBRINE: In response -- Well, we would move
7 the admission of Exhibit 10, which I believe is already a
8 part of the exhibits tendered by the other side.

9 MR. GALLEGOS: It's in, but we have no objection
10 to having it twice.

11 EXAMINER JONES: Exhibit 10 will be admitted into
12 evidence.

13 Q. (By Mr. DeBrine) During your conversation, did
14 he mention the fact that there was no joint operating
15 agreement between the parties that authorized Chesapeake to
16 send the election letter?

17 A. Yes, he did, and I told him one would be on its
18 way.

19 Q. Did you follow up, then, with the proposed
20 operating agreement?

21 A. I did.

22 Q. Could you turn to Exhibit 11? Is that the letter
23 you're referring to?

24 A. Yes, sir.

25 Q. Did Chesapeake have any prior -- Strike that.

1 Was Chesapeake and either Kaiser-Francis or
2 Samson parties to any other joint operating agreements that
3 you're aware of?

4 A. Chesapeake was not a party with Samson and
5 Kaiser-Francis, no --

6 Q. Okay, not on --

7 A. -- not in that area.

8 Q. Not on any other acreage in the State of New
9 Mexico? Are you --

10 A. Well, possibly. I have not researched that, so I
11 can't tell you, but I'm sure there were some.

12 Q. Was there any response by Samson during the month
13 of March with regard to the offer letter that was sent at
14 the beginning of the month by you?

15 A. I really did not have that many conversations
16 with Samson. I believe that they were talking with Mike
17 Hazlip at the time.

18 MR. DEBRINE: We would move the admission of
19 Exhibit 11.

20 MR. HALL: It's already in, no objection.

21 MR. GALLEGOS: No objection.

22 MR. BRUCE: No objection.

23 EXAMINER JONES: No objection?

24 MR. DEBRINE: Do you --

25 EXAMINER JONES: Exhibit 11 will be admitted to

1 evidence.

2 Q. (By Mr. DeBrine) Do you know what the overhead
3 charges were within the joint operating agreement that you
4 had proposed to Samson and Kaiser-Francis?

5 A. Yes, they were \$8136 and \$813 or -30, I'd have to
6 look.

7 Q. Do you recall what the overhead charges were for
8 the operating agreement covering the Osudo Number 9 well
9 between Chesapeake and Mewbourne?

10 A. I believe they were \$750 and \$7000.

11 Q. How about the operating agreement that has been
12 proposed by Mewbourne, Samson, and Kaiser-Francis for the
13 standup unit?

14 A. I believe that's \$7000 and \$750 also.

15 Q. And if the Division were to accept the compulsory
16 pooling Application proposed by Chesapeake, would you be
17 willing to agree that any of those amounts would be
18 reasonable and consistent with custom and practice in the
19 industry --

20 A. Yes.

21 Q. -- and would be appropriate for the Division to
22 enter as an appropriate overhead rate?

23 A. Yes, sir.

24 Q. With regard to the AFE that you submitted to
25 those parties, was that consistent with Chesapeake's prior

1 experience in drilling a well to the depth proposed in the
2 Osudo formation?

3 A. Yes.

4 Q. And although further witnesses are going to cover
5 that, I guess the actual drilling costs turned out to be a
6 little bit more than that; is that right?

7 A. They did.

8 Q. But with respect to the actual costs as they
9 turned out, were those also consistent with the experiences
10 of Chesapeake in drilling wells in the Osudo formation?

11 A. Yes.

12 Q. Did you receive a further letter from Samson in
13 response to your sending them the joint operating
14 agreement?

15 A. Yes.

16 Q. Could you turn to Exhibit 12? Is that the letter
17 you're referring to?

18 A. Yes.

19 Q. And so Samson wrote a second letter with regard
20 to its attempt to rescind its withdrawal --

21 A. Yes, they did.

22 Q. -- to an election to participate in the drilling
23 of the costs of the KF 4 State Number 1?

24 A. Yes.

25 Q. Was there any further conversations with Samson

1 concerning that second letter that it sent?

2 A. I believe they called to let me know that it had
3 been -- that they had once again sent a second letter to
4 rescind their election.

5 Q. Do you know who that conversation took place
6 with?

7 A. I believe it was Tim Reece.

8 Q. Excuse me?

9 A. Tim Reece, I believe.

10 Q. Okay. And who at Chesapeake's side was on the
11 other end of the conversation?

12 A. I really -- I think I talked to him, and then I
13 think maybe Rita Buress and Mike Hazlip talked.

14 Q. Are there any differences in the pooling
15 Application for the KF 4 State Number 1 well and any others
16 that you've handled for Chesapeake and sought the
17 Division's approval for?

18 A. Yes, because we are pooling after the fact, after
19 the well is drilled.

20 Q. And was that the first time Chesapeake had done
21 that?

22 A. No.

23 Q. How many times has Chesapeake pooled after the
24 fact?

25 A. Probably about six to eight times.

1 Q. And in each one of those instances, did the
2 Division approve the after-the-fact pooling --

3 A. Yes.

4 Q. -- of the interests to form a spacing unit?

5 A. Yes, sir.

6 Q. And did you view this as a routine application of
7 the orders that the Commission had entered in 2004 with
8 regard to -- in the Pride and TMBR/Sharp case, with regard
9 to obtaining an APD first and then filing for a compulsory
10 pooling application after the APD had been granted?

11 A. Yes.

12 MR. DEBRINE: Pass the witness.

13 CROSS-EXAMINATION

14 BY MR. HALL:

15 Q. Ms. Townsend, if you would, you indicated you
16 have extensive expertise and familiarity with the
17 Division's Rules for permitting wells; is that right?

18 A. Yes.

19 Q. Do you know -- If an operator obtains an approved
20 APD on a spacing unit, does that prevent another operator
21 from obtaining an APD on that same spacing unit?

22 A. Yes.

23 Q. I'm sorry?

24 A. Yes, I'm sorry.

25 Q. And tell us about the record title ownership in

1 the southwest quarter of Section 4 on March 10th, 2005.

2 A. I don't believe that we had received the final
3 application. It had been filed, the assignment had been
4 filed with the state, changing from Rubicon into Chesapeake
5 Permian -- or CELP, and then from CELP into Chesapeake
6 Permian.

7 Q. So as of the date of the application for the APD,
8 Chesapeake Operating had no record title interest in the
9 southeast quarter?

10 A. Well, but we had an assignment from Rubicon on an
11 acquisition.

12 Q. Is the answer to my question yes?

13 A. Yes.

14 Q. And tell me again, when your force pooling
15 Application was filed?

16 A. The force pooling application was filed on April
17 the 26th.

18 Q. And what was ownership in the southwest quarter o
19 that date?

20 A. It was -- I believe then it was into Chesapeake
21 Permian, L.P.

22 Q. Let's look at your Exhibit 2, if you would.
23 That's the -- Do you have that in front of you?

24 A. Uh-huh. Okay.

25 Q. That's your assignment for the Rubicon lease.

1 A. Right.

2 Q. What was the effective date of that assignment?

3 A. The effective date of the assignment is --

4 MR. BROOKS: Which exhibit is this?

5 THE WITNESS: Two.

6 MR. HALL: Sorry, Exhibit 2, Mr. Brooks.

7 THE WITNESS: It was -- let's see -- executed the
8 27th day of April but effective February the 1st, 2005.

9 Q. (By Mr. Hall) If you would turn to the last page
10 of that assignment, it shows an acknowledgement there.
11 What date is that acknowledgement?

12 A. 20th day of June, 2005.

13 Q. And who is Douglas Johnson?

14 A. He's the senior vice president of Chesapeake
15 Operating, Inc.

16 Q. Okay. What happened here, Ms. Townsend? Did
17 this -- Did you have some problems getting this
18 assignment --

19 A. No.

20 Q. -- run through the State Land Office?

21 A. No.

22 Q. Was it kicked back at all?

23 A. No. This was done through acquisitions and
24 divestments, and they handle all this --

25 Q. I see.

1 A. -- and they pass it forward to us.

2 Q. Can you explain the difference on the face of the
3 lease where it says executed the 27th day of April, and
4 then the acknowledgement is June 20th? What's the
5 explanation for that?

6 A. I don't know.

7 Q. It was actually filed with the Land Commissioner
8 on May 10th, correct?

9 A. Yes, assignment was filed in my office May the
10 10th.

11 Q. Ms. Townsend, who owns the surface of the
12 southeast quarter of Section 4?

13 A. The State of New Mexico.

14 Q. And I understand you may have obtained a damage
15 release from the grazing lessee out there; is that right?

16 A. Yes, sir.

17 Q. And is that Merchant Livestock Company?

18 A. Yes.

19 Q. I understand you're presenting a representative
20 of Merchant to testify on your behalf today?

21 A. No.

22 Q. You're not? You listed one on the prehearing
23 statement; is that no longer effective?

24 A. No, it wasn't a representative of Merchant.

25 Q. Clabe Pearson? Who's he?

1 MR. DEBRINE: Yes, Mr. Hall, we initially
2 intended on calling him and determined we didn't need him,
3 we could cover him through other -- that testimony through
4 other witnesses.

5 MR. HALL: So you're not presenting him?

6 MR. DEBRINE: No, he's not going to be
7 testifying.

8 MR. HALL: Okay. I don't want to reinvent the
9 wheel here, but who are you presenting your surface damage
10 release through, so I don't have to cover it through --

11 MR. GALLEGOS: Scott --

12 MR. DEBRINE: You can ask her a question. She
13 may have knowledge of those issues. But Mr. Gutierrez is
14 going to testify primarily.

15 MR. HALL: Okay.

16 MR. DEBRINE: He's the one who negotiated with
17 the surface owner.

18 Q. (By Mr. Hall) Ms. Townsend, you said that you
19 had at least five previous occasions where you pooled after
20 the fact, pooled after a well was drilled on Chesapeake
21 acreage; is that right?

22 A. Yes, approximately five.

23 Q. Can you give us some identification? Do you have
24 well names, case numbers?

25 A. Well, no, I don't, not with me --

1 Q. Can you remember the well names?

2 A. -- not with me. I'm sorry, but not right off the
3 top of my head, I can't.

4 Q. In any of those circumstances, did you have a
5 circumstance like we have here today where the well was
6 drilled off lease?

7 A. No.

8 Q. They were always drilled on a Chesapeake lease?

9 A. Yes.

10 Q. So there's no precedent for what Chesapeake has
11 done here, to your knowledge?

12 A. Those were drilled before the precedent was set.

13 Q. All right, so the answer to my question is yes?

14 A. (Nods)

15 MR. HALL: I pass the witness.

16 CROSS-EXAMINATION

17 BY MR. GALLEGOS:

18 Q. Ms. Townsend, as I understand it you are offering
19 an interpretation of one of the decisions that has been
20 made by the Commission in a prior case, in support of your
21 position about the APD entitling you to drill this well?

22 A. I'm sorry, I don't understand your question.

23 Q. You referred in your direct testimony to a
24 certain case.

25 A. Uh-huh.

1 Q. What case was that?

2 A. To drill the well --

3 Q. The precedent -- the precedent that you can get
4 an APD, drill a well, and then ask for force pooling. I
5 believe you said --

6 A. I'm sorry, yes.

7 Q. -- that there was a case that you relied on
8 that --

9 A. That was the TMBR/Sharp case.

10 Q. All right. And so you have an interpretation of
11 this TMBR/Sharp case that you have made; is that correct?

12 A. No, I have not made that. I have simply
13 consulted with our attorney who interprets that for me.

14 Q. All right. And tell us what your understanding
15 is, then, based on that information having been given to
16 you by your attorney.

17 A. Well, basically it's that precedent had been set
18 that you could pool after the fact on a case where you
19 couldn't get everyone to agree, but you were in a bind,
20 though, or something.

21 Q. That you what?

22 A. When you were in a bind and we had a rig coming.

23 Q. So the precedent, as you understand it, applies
24 to a circumstance where your company is going to drill a
25 well on a tract of land to which it holds no leasehold

1 interest?

2 A. Right.

3 Q. And the attorney who told you that that was
4 precedent set in the TMBR/Sharp case is who?

5 A. Well, it was Mr. Kellahin, but it's that we owned
6 an interest in this spacing unit.

7 Q. The spacing unit -- At the time that you applied
8 for the APD, there was no spacing unit formed either by an
9 agreement or by a force-pooling order of this Division;
10 isn't that true?

11 A. Yes.

12 Q. Okay. But what you're saying -- the precedent is
13 that if you're in a bind with a rig coming, then you can go
14 ahead and drill on another party's lease and then file for
15 force pooling?

16 A. Well, no, I'm sorry, I stated that very badly.

17 Q. Well, but that -- whether -- We can take out the
18 part about being in a bind, but that's what you're saying
19 the position is, and you say that's based on what Mr.
20 Kellahin told you?

21 A. That was an example, yes.

22 Q. And is it then your testimony that if you don't
23 have a rig coming, rather than taking such a step to start
24 a well on land that has not been made part of a spacing
25 unit, either by voluntary agreement or by force pooling,

1 you would file the force pooling application and wait to
2 see the outcome of that?

3 A. Yes.

4 Q. Okay. So only in the case where you've got a rig
5 coming, some sort of pressure like that, then do you
6 circumvent the process of waiting to see whether there's a
7 force pooling order that grants your application?

8 A. It's not circumventing the process, it's
9 following a precedent that's been set. And as busy and as
10 competitive as New Mexico is, you have to use everything
11 you can to your advantage and work as quickly as you can.

12 Q. And using it to your advantage is -- you think
13 gives you the right, gives Chesapeake Operating, the right
14 to get a permit and drill a well on another party's lease
15 without a force pooling order, and without agreement?

16 A. It's not just Chesapeake. Any operator, now that
17 precedent has been set, I would think, would have the right
18 to at least try to do that.

19 Q. I see. So the APD and the drilling of the well,
20 in your opinion and the opinion of your company, comes
21 first, and then later you'll see whether there's a spacing
22 unit agreement or a force pooling order?

23 A. Sir, this is nothing that we have done just on
24 our own. It's even being done to us right now, and we made
25 no objection about it.

1 Q. But that's what you're saying, is the fact that
2 your company engages in and you're saying that some others
3 do it too?

4 A. Yes.

5 Q. And then if you take that kind of a procedure,
6 what happens if you don't get a force pooling order?

7 A. Well then you've taken on that liability
8 yourself. But you make that business decision at the
9 first.

10 Q. And you've put a well on somebody else's lease?

11 A. More than likely.

12 Q. And with no force pooling order, no agreement,
13 you have no interest in the well or in the production of
14 the well; that's the risk you take?

15 A. That's right.

16 Q. Okay. Now, let's talk about going on this
17 particular -- the surface of this particular lease. You've
18 mentioned in your chronology that on March 9th you
19 contacted Merchant Livestock Company.

20 A. I did not contact them.

21 Q. Oh, did somebody contact them?

22 A. Yes, Cecil Gutierrez did. He takes care of our
23 surface damages, releases and right-of-way.

24 Q. All right. Are you aware of this much, that
25 Merchant Livestock Company is a grazing lessee of the State

1 of New Mexico?

2 A. Yes, I am.

3 Q. Okay. Did you deal with Merchant Livestock
4 Company?

5 A. I did not.

6 Q. Well, let me ask you this. In your landman
7 experience has it been Chesapeake's practice to obtain the
8 right to go on and start oil and gas development operations
9 based on the permission of a grazing lessee who owns no
10 minerals?

11 A. Yes, because the State has required us to do
12 that.

13 Q. Let me make the distinction. There's a
14 difference between going to a rancher and saying, we want
15 to make some arrangements for surface damages, such as the
16 acreage that will be devoted to location and roads and that
17 type of thing, right?

18 A. Yes.

19 Q. And in fact, isn't that what was done here, is,
20 you paid Merchant Livestock Company \$5000 for surface
21 damages?

22 A. Yes.

23 Q. You did not bring the documents between
24 Chesapeake and Merchant Livestock Company here as part of
25 your exhibits?

1 A. Yes.

2 Q. They are in this book?

3 A. They're in -- under 13.

4 Q. No, I'm talking about the documents themselves
5 that relate to the grazing lease and the arrangement that
6 was made with the grazing lessee.

7 A. No, I did not bring the grazing lease between
8 Merchant Livestock and the State.

9 Q. And I think -- Did you say it was Cecil Gutierrez
10 who made those arrangements?

11 A. Yes, sir.

12 Q. And is he here, going to be available to testify?

13 A. Yes, sir.

14 Q. All right. Now, let's turn to your Exhibit 9,
15 which has been entered as another exhibit in this case, but
16 this is the March 9, 2005, letter to Samson Resources over
17 your signature --

18 A. Yes.

19 Q. Correct? All right. And the fax information
20 attached to it shows that it was actually sent on March the
21 11th of 2005; is that correct?

22 A. Yes.

23 Q. Now --

24 MR. BROOKS: What exhibit number?

25 MR. GALLEGOS: It's number 9, Exhibit 9.

1 MR. BROOKS: Thank you.

2 Q. (By Mr. Gallegos) Now at this point in time,
3 March the 11th, 2005, you knew that as far as the southeast
4 quarter of Section 4, Chesapeake and any of the Chesapeake
5 entities owned no interest whatsoever in the State of New
6 Mexico oil and gas leases, correct?

7 A. Where?

8 Q. In the southeast quarter of Section 4.

9 A. In the southeast quarter, yes.

10 Q. Zero interest, zero ownership interest?

11 A. Not in the lease, just in the 320-acre unit.

12 Q. Pardon me?

13 A. Just in the 320-acre unit.

14 Q. Well, you did not have a -- you have -- On March
15 9th, 2005, Ms. Townsend, you did not have a JOA or a
16 communitization agreement or any other voluntary agreement
17 for the 320 acres, did you?

18 A. No.

19 Q. And you did not have a force pooling area on the
20 -- force pooling order on the 320 acres, did you?

21 A. No.

22 Q. So what you had was a lease in the southwest
23 quarter, and Samson and Kaiser-Francis had a lease in the
24 southeast quarter; that was the state of ownership at that
25 time?

1 A. Yes.

2 Q. All right. And Kaiser-Francis had an interest of
3 -- to the extent of 87.5 percent in that lease, correct?

4 A. Yes.

5 Q. And Samson only 12.5 percent, correct?

6 A. Yes.

7 Q. All right. So you send this letter to Samson,
8 and you sent -- almost verbatim, except for the dollar
9 amount -- almost verbatim, the same letter to Kaiser-
10 Francis --

11 A. Yes.

12 Q. -- at the same time, did you not?

13 A. Yes.

14 Q. Okay. And on the reference, you refer to the
15 south half of Section 4, but you do not in any place state
16 where well would be located, do you?

17 A. No.

18 Q. Now, at that time, you said there's no JOA in
19 place, no joint operating agreement?

20 A. No.

21 Q. So there's no nonconsent provision between the
22 parties --

23 A. No.

24 Q. -- correct? Okay.

25 And there's no accounting procedure between the

1 parties that is ordinarily attached to a joint operating
2 agreement, is there?

3 A. That's correct.

4 Q. Okay, and there's no overhead rate between the
5 parties?

6 A. No.

7 Q. And there's no drilling operator rate between the
8 parties?

9 A. No.

10 Q. No preferential -- none of those things that you
11 have in a joint operating agreement, correct?

12 A. That's correct.

13 Q. And the last sentence of the last paragraph on
14 your March 9, 2005, letter says, even though negotiations
15 are going on, don't delay -- and I'm quoting -- the
16 required election under the well proposal, end quote.

17 How was that required of Samson?

18 A. This is our standard letter, and that's how they
19 go out. The only thing that was required is an election
20 within the 30-day period, or it would be filed -- or a
21 pooling would be filed on the uncommitted interest.

22 Q. It doesn't say that, does it?

23 A. No.

24 Q. So your standard letter is sent out like this, in
25 the absence of a JOA, to cast the impression to the

1 recipient that there is a JOA in force, isn't it?

2 A. No, I assume they know whether there is one or
3 not.

4 Q. Well, when you refer to a required election, it
5 means that there must be some kind of agreement. It says
6 that you've either got to say yes or no.

7 A. Well, their election is required within 30 days
8 or we'll file a pooling. That's the requirement, that's
9 it.

10 Q. And that's the requirement just dictated by
11 Chesapeake Operating Company, not by any agreement between
12 the parties?

13 A. It's not an agreement between the parties, no.

14 Q. Okay. And at no time, even though you did get a
15 response to this -- and we'll talk about what happened to
16 that -- at no time did you get any kind of affirmative
17 response to this request from the 87.5-percent interest
18 owner in the lease in the southeast quarter, did you?

19 A. No.

20 Q. So on March 30th, 2005 -- and now I'm referring
21 to Exhibit 10 --

22 A. Uh-huh.

23 Q. -- you received not by mail but by fax a letter
24 from Samson that says, We've looked at the records, there
25 isn't any JOA, there's no requirement to make an election,

1 and be advised that we're rescinding and revoking the
2 invalid election that was made previously. That's what you
3 were advised, correct?

4 A. Yes.

5 Q. And on March 30, 2005, not only did you have no
6 positive response from Kaiser-Francis, but in fact your
7 conversations with Mr. Wakefield had already indicated that
8 they disagreed with you drilling a well, and particularly
9 drilling a well on their acreage; isn't that correct?

10 A. Yes.

11 Q. But at that time, even though you had an APD, the
12 well had not been spudded, had it, on March 30th?

13 A. No.

14 Q. Okay. And that APD stays in force for how long
15 without having to be renewed?

16 A. One year.

17 Q. Okay. So you had an opportunity then, rather
18 than go drill a well, to apply to the Division for a force
19 pooling order, didn't you?

20 A. I believe the decision will be covered in the
21 technical examination. I cannot answer that.

22 Q. Well, you can answer the question that on March
23 30th you knew you did not have agreement by either of the
24 parties who own an interest in the southeast quarter, and
25 Chesapeake Operating could have filed a force pooling

1 application and awaited the outcome of that application
2 before drilling the well?

3 A. Well, we had an election from one of the parties,
4 even though they had rescinded it. The other party, no, we
5 did not have an election on.

6 And there again, I -- that's going to have to be
7 a technical examination. I don't -- I'm not -- I can't
8 answer exactly when we did that. It was a decision made by
9 upper management.

10 Q. So let's see if we can put a cap on this, then.
11 Upper management decided that rather than going through a
12 force-pooling application, given that one party had
13 rescinded and the other party had said no outright, upper
14 management decided, We're just going to go ahead and drill
15 the well on the southeast quarter where we have no
16 interest?

17 A. Well, let me suggest there were reasons why.

18 Q. Well, do you know the reasons?

19 A. No, that's what I said. You're going to have to
20 go through the technical examination.

21 Q. I see. As a land person, in dealing with these
22 kind of matters -- all right, so that -- you were the one
23 who eventually came up with the JOA that you sent to
24 Samson, even though they had already told you there was
25 none and their invalid election was rescinded; isn't that

1 correct?

2 A. They had told me that, but we still sent the JOA
3 because we still had their election letter.

4 Q. Well, you also had their very clear letter that
5 said it was invalid, we're rescinding it, didn't you?

6 A. Well, we sent Kaiser-Francis a JOA also, and they
7 had never elected in.

8 Q. So what -- you were just hoping -- hoping that
9 somebody would --

10 A. I believe --

11 Q. -- would not be alert and would sign the JOA?

12 A. In anticipation of filing a pooling, we wanted a
13 JOA in front of the parties.

14 Q. Okay, so you were anticipating at that time
15 filing for a force pooling?

16 A. Well, we anticipated filing for a force pooling
17 when we sent the proposal letter. Therefore that's why
18 that was in there. Should that come about and we have to
19 do it, we're covered and ready to go.

20 Q. I see. So as far back as March the 9th, you were
21 anticipating filing a force-pooling order?

22 A. If we had to. So we had to be ready to do it.

23 Q. And Chesapeake did not file for force pooling
24 until after it moved a rig on location and started drilling
25 a well; isn't that true?

1 MR. DEBRINE: Objection --

2 THE WITNESS: No.

3 MR. DEBRINE: -- it misstates the facts in
4 evidence.

5 THE WITNESS: No.

6 MR. GALLEGOS: Well --

7 MR. DEBRINE: The pooling application was filed,
8 it's in the record, the day before the rig was moved on the
9 location.

10 MR. BROOKS: Okay, I believe that --

11 Q. (By Mr. Gallegos) Well, I thought the well
12 started drilling on the 24th --

13 A. No --

14 Q. -- maybe I have that wrong.

15 A. -- the 27th.

16 Q. 27th. So the day you started drilling was the
17 day you filed the force pooling application?

18 A. No, we filed the force pooling the day before.

19 Q. Oh, okay. You didn't have -- you hadn't had a
20 hearing on it, had you?

21 A. No.

22 Q. And you hadn't had -- you sure didn't have an
23 order on it, did you?

24 A. No.

25 Q. Okay. So on April the 5th, when you sent out

1 these joint operating agreements, at that point you had not
2 started drilling the well?

3 A. No.

4 Q. So management could still make the decision at
5 that time, let's file a force pooling application, let's
6 give the legal process an opportunity to play out, and
7 let's see if we can get a force pooling order?

8 A. Well --

9 Q. Was that opportunity available to management for
10 Chesapeake?

11 A. It was, but you try everything you can before you
12 file a pooling application. You try to come to some sort
13 of an --

14 Q. Such as --

15 A. -- agreement with all the parties.

16 Q. -- fooling people with your March 9th letter into
17 signing up; is that --

18 MR. DEBRINE: Object as argumentative.

19 Q. (By Mr. Gallegos) Well, what do you mean, you're
20 trying to --

21 A. I don't understand what you mean about fooling
22 people with your March 9th letter.

23 Q. Well, casting the impression in the letter that
24 there is a JOA and that people have to make an election.

25 A. We did not cast that --

1 MR. DEBRINE: Same objection, I think he's
2 arguing with the witness.

3 MR. BROOKS: When there is an objection, the
4 witness should not answer the question until we have had a
5 chance to rule on the objection. If the attorney wishes to
6 respond to the objection, he should address his remarks to
7 the bench. We don't want to have colloquies going on
8 between counsel during the proceedings.

9 Okay, do you want to restate your question?

10 Q. (By Mr. Gallegos) Okay. No, I just -- your
11 testimony is that you try everything -- try anything you
12 can do before filing for a force pooling application?

13 A. We try to come to any voluntary agreement we can
14 before we file a pooling, yes.

15 Q. Okay. And in all of your prior experience where
16 you've force pooled, as you call it, after the fact, you
17 were locating a well on Chesapeake's leasehold acreage?

18 A. Yes.

19 Q. About the conversation on March 14th of 2005 with
20 Jim Wakefield, my notes say you tried to get Mr. Wakefield
21 to change his mind.

22 A. Yes.

23 Q. And was that to persuade him that the well should
24 be located on the southwest quarter instead of on the
25 southeast quarter?

1 A. No.

2 Q. I see. You had not indicated to him at any time
3 that the southwest quarter was going to be the location of
4 the well; is that your testimony?

5 A. As I have testified previously, I mentioned to
6 him that that at one time had been considered, but we had
7 moved it to the southeast quarter.

8 Q. And when was that, that you told him that you
9 moved it to the southeast quarter?

10 A. On March the 14th.

11 MR. GALLEGOS: Okay. Thank you, Ms. Townsend.
12 That concludes my questions.

13 EXAMINER JONES: Mr. Bruce?

14 CROSS-EXAMINATION

15 BY MR. BRUCE:

16 Q. Ms. Townsend, I was going through the book. Are
17 there any proposal letters to -- the exhibit book. Are
18 there any proposal letters to Mewbourne Oil Company in
19 here?

20 A. No.

21 Q. Why is that?

22 A. Mewbourne was not an owner of record at the time.

23 Q. Have you ever sent a proposal letter to Mewbourne
24 Oil Company?

25 A. No, I have not.

1 Q. Now, Chesapeake is in the -- Mewbourne's Osudo
2 9-1 well to the south, is it not?

3 A. Yes, sir.

4 Q. And there was a force pooling hearing on that
5 well, was there not?

6 A. Yes.

7 Q. Although Chesapeake eventually signed a JOA with
8 Mewbourne?

9 A. Right, we had already elected in some time before
10 that.

11 Q. You had signed an AFE, but you had not -- by the
12 time of the pooling hearing, Chesapeake had signed an AFE,
13 but they had not signed the JOA until after the hearing, I
14 believe; is that correct?

15 A. I don't remember. I thought we had signed it the
16 day before the hearing. I don't know, I'd have to look.

17 Q. And Mewbourne did not commence that well until
18 after the JOA was signed; is that correct?

19 A. That's right, but they had outstanding interest.

20 Q. Well, actually at the time of the hearing,
21 Chesapeake was the only owner in the Morrow, was it not,
22 other than Mewbourne?

23 A. Yes.

24 Q. Now, you said something about -- well, let's go
25 back. You did reference the TMBR/Sharp and Pride cases.

1 Are you aware that in the TMBR/Sharp case where the well
2 was drilled before pooling, that TMBR/Sharp owned a lease
3 or leases on the drillsite tract?

4 A. I believe so.

5 Q. And are you aware in the Pride Energy Case that
6 Pride took no action to re-enter that well until a pooling
7 order was issued?

8 A. Yes.

9 Q. And you mentioned a couple of times where
10 something similar to what Chesapeake is attempting to do in
11 this case is being done to you. Can you give me well names
12 or any case numbers?

13 A. I don't have a case number. I believe the well
14 name is the Caprock 12 State Com Number 1.

15 Q. Has that well been commenced?

16 A. Yes.

17 Q. Do you have a JOA?

18 A. Yes.

19 Q. Okay. Who is the operator of that well?

20 A. It's Read and Stevens.

21 Q. Okay. And you signed a JOA with Read and
22 Stevens, and then a well was commenced?

23 A. Yes.

24 Q. Do you know when that well was commenced?

25 A. I can't give you an exact date. It's probably 30

1 days ago, I'm not real sure.

2 Q. Okay. When you're looking at your proposal
3 letters -- the March 9 letter to Samson, and there's one to
4 Kaiser-Francis, I believe -- I think in response to Mr.
5 Gallegos' question you said there is no well location given
6 in that proposal letter; is that correct?

7 A. That's correct.

8 Q. And there is no well location given on the AFE
9 either, is there?

10 A. No.

11 Q. Is a well location normally part and parcel of
12 making an informed decision of whether or not to join in a
13 well?

14 A. Yes.

15 Q. And you are seeking to force pool Samson in this
16 hearing, are you not?

17 A. Yes.

18 Q. So I would take it that you do consider their
19 revocation of that signed AFE valid?

20 MR. DEBRINE: Objection, asks for legal
21 conclusion.

22 MR. BROOKS: Okay, and I'll sustain that
23 objection, recommend that it be sustained.

24 Q. (By Mr. Bruce) Under a normal JOA, whether you
25 take the one that's in the exhibit book -- most of the

1 modern JOAs, is there an election period set forth when an
2 operator or a nonoperator sends a well proposal?

3 A. Yes.

4 Q. Okay. What is the usual time frame?

5 A. I believe it's 30 days.

6 Q. Now, who at this time is the working interest
7 owner, the operating rights owner of the southwest quarter
8 of Section 4?

9 A. Chesapeake Permian, L.P.

10 Q. 100 percent?

11 A. Yes.

12 Q. So it should have 50-percent operating rights in
13 a south-half unit if that is approved by the Division?

14 A. Yes, sir.

15 Q. I'm sorry, I only have one copy of this. I'm
16 handing you -- I just found this in my pile of stuff today.
17 This is a Chesapeake Operating daily drilling report. I'm
18 not going to submit it into evidence, but in that it lists
19 Chesapeake's gross working interest as 45 percent. Who
20 owns the other five percent -- or 10 percent, I should say,
21 in the southwest quarter?

22 A. Internal partners.

23 Q. Who are they?

24 A. They're CI and TLW. CI, Chesapeake Investments,
25 and TLW.

1 Q. Okay. And they own 10 percent in the southwest
2 quarter?

3 A. I believe -- Yes.

4 Q. So really it's not correct that Chesapeake
5 Permian, L.P., owns 100 percent in the southwest quarter?

6 A. Nothing is of record yet. This is an internal
7 document as far as engineering, et cetera, is concerned.
8 I'm not really sure exactly how it's used.

9 Q. Is Chesapeake Permian, L.P. -- is that the old
10 Concho Resources?

11 A. Yes.

12 Q. Now, at the beginning of your testimony you said
13 that Chesapeake Exploration Limited Partnership was the one
14 -- was the company that owned title to the working
15 interests?

16 A. It does.

17 Q. Why was it put into Chesapeake Permian, L.P.?

18 A. Because it's an acquisition company, and it's
19 left in the acquisition company for a year or so until all
20 the title is clean on it, and it is assigned over into
21 Chesapeake Exploration Limited Partnership.

22 Q. No, no. No, no, no, no. That's not what I'm
23 asking. Your Exhibit 1 shows that it was acquired by
24 Chesapeake Exploration Limited Partnership in December of
25 2004.

1 A. I did not make out this assignment. It was done
2 by Rubicon, and Rubicon assigned it into the incorrect
3 entity. That's why another assignment was made from
4 Chesapeake Exploration Limited Partnership into Chesapeake
5 Permian.

6 Q. Okay. They are separate entities, legal
7 entities? Chesapeake Exploration --

8 A. Yes.

9 Q. -- Limited Partnership is separate from
10 Chesapeake Permian, L.P.?

11 A. Yes.

12 Q. Okay. Who told you this was made out
13 incorrectly? Exhibit 1?

14 A. I'm sorry?

15 Q. Who told -- You said Exhibit 1 was made out
16 incorrectly. Who informed you of that?

17 A. Well, I mean, it's obvious.

18 Q. To whom? To whom?

19 A. Well, Chesapeake Exploration Limited Partnership
20 would not pick up title in this. The assignment from
21 Rubicon -- the assignment on the acquisition assignment is
22 from Rubicon into Chesapeake Permian, L.P.

23 Q. Well, both the assignments in Exhibit 1 are into
24 Chesapeake Exploration Limited Partnership, are they not?
25 Both the assignment filed with the land office and the

1 assignment for recording in the county records?

2 A. Yes.

3 Q. When Chesapeake acquires a lease, does it
4 generally prepare the lease assignment forms?

5 A. It's usually done through A&D if it's an
6 acquisition. Now, it sometimes --

7 Q. That's -- you're talking about an internal
8 Chesapeake --

9 A. Right.

10 Q. Okay. So it was Chesapeake that put Chesapeake
11 Exploration, L.P., in this, and not Rubicon?

12 A. Not on the assignment on the state -- on the New
13 Mexico State -- are you talking about the top assignment?

14 Q. Exhibit 1, top assignment.

15 A. Right. Now, this is signed by Rubicon. Rubicon
16 made out this state assignment.

17 Q. Okay. And then two pages back, there's a county
18 form assignment --

19 A. Right.

20 Q. -- that you said was prepared by a group within
21 Chesapeake, and it's also made out to Chesapeake
22 Exploration Limited --

23 A. Well, I think Rubicon prepared it, but it goes
24 into the acquisition group. I don't see it until they're
25 through with it.

1 Q. You don't know?

2 A. No. I'm assuming Rubicon made this second
3 assignment.

4 Q. Just a couple more questions. I believe -- and
5 correct me if I'm wrong -- I believe in response to some of
6 Mr. Gallegos's questions you couldn't say why Chesapeake
7 needed to move a rig onto the southeast quarter of Section
8 4 by the end of April; is that correct?

9 A. I could not tell you definitely, no.

10 Q. How many -- Whether it's Chesapeake Exploration
11 Limited Partnership or Chesapeake Permian, L.P., or any
12 other Chesapeake entity, how many acres of oil and gas
13 leasehold does Chesapeake own in west Texas and eastern New
14 Mexico?

15 A. I couldn't speak for west Texas, and I would have
16 to refer to something else to tell you exactly how many
17 acres we have in New Mexico, but it's quite a few.

18 Q. If you could refer to it, I'd appreciate that.
19 But if you could give me a ballpark figure, I'd appreciate
20 that too.

21 A. I think it's 300,000, something like that.

22 Q. Okay. And Chesapeake is busy at the State Land
23 Office and BLM land sales on an ongoing basis buying
24 leases, is it not?

25 A. Yes.

1 Q. I mean, I saw Bill Chalfant here today, and he
2 has a company that often bids for Chesapeake, does it not?

3 A. And he's at virtually every one of those sales,
4 or you have other representatives bidding on Chesapeake's
5 behalf; is that correct?

6 A. At times we do.

7 Q. With those 300,000 acres you have in -- Was the
8 sole reason because of rig availability? Was that why you
9 needed to move on to the location?

10 A. There again, you're going to have to ask the
11 technical people.

12 Q. Okay. Out of those 300,000 acres that you
13 mentioned, were there any other drill sites available that
14 you could have moved a rig onto in April or May or June?

15 A. Not at that very point in time.

16 Q. None whatsoever?

17 A. No. Sorry.

18 Q. You had no other approved APDs?

19 A. We probably had some other approved APDs, but
20 maybe not ready to drill them. So there's several
21 different decisions that have to go into that.

22 Q. None of these oil and gas leases were expiring,
23 were they?

24 A. I'm sorry, which oil and gas -- which ones are
25 you talking --

1 Q. In Section 4?

2 A. No.

3 Q. So there was no need to save an expiring lease?

4 A. No.

5 MR. BRUCE: That's all I have, Mr. Examiner.

6 EXAMINATION

7 BY EXAMINER JONES:

8 Q. Ms. Townsend --

9 A. Yes.

10 Q. -- this reminds me of a three-man firing squad.
11 You've held up pretty good --

12 A. A little, a little.

13 Q. -- for this afternoon. I guess I have a couple
14 of questions here.

15 Would you say this was one of your top prospects
16 for drilling?

17 A. Yes, sir.

18 Q. Okay. And you said earlier to Mr. Gallegos's
19 questions about your assignment from Rubicon --

20 A. Uh-huh.

21 Q. -- in the southeast -- or southwest quarter -- is
22 it -- Can you go over that again as to the dates on how you
23 made the deal with Rubicon and how it was consummated?

24 A. Well, the deal with Rubicon was made through
25 acquisitions and divestments, and I really don't have

1 anything to do with that deal or how it was consummated. I
2 don't get everything until after the fact, until the deals
3 were closed, et cetera. I don't even get copies of the
4 assignments until it's over with.

5 Q. But you knew -- How are you organized in your
6 company? Do you have teams that you work on --

7 A. Yes.

8 Q. -- the geologist, engineer, landman --

9 A. Yes, sir.

10 Q. -- and the geophysics person?

11 A. Yes.

12 Q. Okay, are you guys competing with other teams?

13 A. No.

14 Q. And is your team specifically the Permian Basin,
15 New Mexico-Texas?

16 A. Yes, we're in New Mexico. There's another
17 Permian Basin-Texas that's a different team.

18 Q. So your whole team works New Mexico?

19 A. Yes.

20 Q. You're focused?

21 A. Yes.

22 Q. Have you worked Oklahoma before, as a landman?

23 A. Quite a while ago, quite a while ago.

24 Q. Okay. Who in Chesapeake -- How far up did the
25 decision have to go to drill this well?

1 A. It went up to the COO --

2 Q. Oh, and he --

3 A. -- and the general counsel --

4 Q. Okay.

5 A. -- or the senior vice president of land and

6 legal.

7 Q. Okay. And they're located right there -- The

8 headquarters of Chesapeake is in --

9 A. Oklahoma City --

10 Q. Oklahoma City?

11 A. -- yes, sir.

12 Q. How about your -- this Osudo Number 9 well -- 9

13 Number 1 well --

14 A. Uh-huh.

15 Q. -- have you had any trouble with Mewbourne? You

16 guys are partners with them, right?

17 A. We're the majority interest owner in that well.

18 Q. Oh, really?

19 A. We own 40 percent of that well.

20 Q. Okay, and so Mewbourne doesn't own a total of 40

21 percent --

22 A. I don't --

23 Q. -- you don't --

24 A. -- believe so --

25 Q. -- in your opinion?

1 A. -- I believe it's the farmout with Apache, but I
2 could not tell you exactly what their interest is now.

3 Q. Well, have you had good working relations in that
4 well?

5 A. Yes and no.

6 Q. Have you -- How do you get the information? I
7 know you have a working agreement that says you get the
8 information?

9 A. Right.

10 Q. How do you get it in a timely manner?

11 A. I believe it's -- the reports were all e-mailed
12 to us electronically --

13 Q. Okay.

14 A. -- and I believe the logs are that way also,
15 followed up with hard copies.

16 Q. Okay. So you knew immediately when that well
17 turned out to have a good log -- you got the copy of the
18 log almost the same time that Mewbourne did?

19 A. I believe so. You can double-check that with...

20 Q. How about the well cost in this KF State well?
21 Is it real similar to the -- You said earlier it was
22 similar to the AFE.

23 A. Well, the AFE is similar. The actual well costs,
24 I really couldn't -- I would hate to try to testify to
25 that.

1 Q. Yeah, you would have to estimate that still --

2 A. Right.

3 Q. -- even at this juncture. But you don't have a
4 number on that yet?

5 A. No, I don't.

6 Q. I guess one thing that kind of bothers me is the
7 letter that went out to Samson and Kaiser-Francis did
8 specify the south half --

9 A. Uh-huh?

10 Q. -- before the -- and you say this is a standard
11 letter that you guys send out for -- well-election letter?

12 A. Yes, but we always -- we usually talk with the
13 people afterwards and let them know the exact footages.
14 Sometimes we don't have the exact footages. If a well has
15 been staked off of lat/longs or XYZ, it may vary some from
16 the footages --

17 Q. Right.

18 A. -- that we have estimated.

19 Q. I can understand it varying some, but to not even
20 know -- to put in your letter that it's going to be in --
21 what quarter section it's going to be in, that's --
22 especially when the orientation of the spacing unit could
23 have been a standup spacing unit, that was just business
24 practice that Chesapeake uses, then, to list the --

25 A. We normally don't put the footages in a letter.

1 Q. Okay. And is that, in your opinion, the practice
2 of other companies too?

3 A. Many other companies, yes.

4 Q. Okay, so it's not just Chesapeake?

5 A. No.

6 Q. And why did it take so long to apply for the
7 compulsory pooling, actually make the Application?

8 A. Because we waited the 30 days, and then we even
9 waited a little longer, hoping that we could come to some
10 voluntary agreement with the other parties.

11 Q. You had a hope that these people would
12 participate?

13 A. You always have a hope.

14 Q. I guess I can see you having a hope with Kaiser-
15 Francis, but --

16 A. Right.

17 Q. Are you aware of their AMI, with Kaiser-Francis,
18 Mewbourne and --

19 A. We weren't aware of any of that at that time.

20 Q. You weren't aware of the AMI they have in this
21 general area?

22 A. No, we were not.

23 EXAMINER JONES: Mr. Brooks?

24 MR. BROOKS: Well, you have the three-man firing
25 squad, so now you get the two-man firing squad.

EXAMINATION

BY MR. BROOKS:

Q. There was nothing with this March 11th letter to specify more closely than just the south half of Section 4 as to where Chesapeake proposed to drill this well?

A. Not in the letter, that's correct.

Q. Or in anything that was sent with the letter?

A. No.

Q. Now, contrary to what one might gather from looking at this letter, I gather from your testimony -- and correct me if I'm wrong -- that Chesapeake never thought that it had an operating agreement that covered this land?

A. No, there was not an operating agreement.

Q. And Chesapeake was at all times aware that there was not an operating agreement --

A. Right.

Q. -- correct?

Would Chesapeake respond to a -- or make an election on a well proposal without knowing very close to where that well was going to be drilled, or not closer than just the 320 acres?

A. No, we'd do the same thing that they did. Samson's geologist talked with our geologist, I talked with Jim Wakefield with Kaiser-Francis and gave them very voluntarily the footages.

1 Q. Okay, you talked with Jim Wakefield on --
2 according to his testimony, on April the 4th -- April the
3 5th. Now, was Samson made aware of the exact proposed
4 location of this well at any time before that April 5th
5 conversation?

6 A. Yes, sir, their geologist had spoken with our
7 geologist.

8 Q. And can you tell us -- well, you weren't a party
9 to that conversation --

10 A. No.

11 Q. -- so I guess you can't -- you would not be able
12 to --

13 A. I know there was --

14 Q. -- tell us when that --

15 A. -- a conversation.

16 Q. -- conversation took place?

17 A. Right.

18 Q. Okay. Now, the letter, the March 11th letter,
19 called for Samson to do several things. First of all, it
20 says, Please indicate the option of Samson Resource
21 Company's choice below, sign and return this letter by
22 facsimile, if available, to our office, followed by a hard
23 copy in the mail.

24 Did Samson sign and return the letter itself, or
25 only the AFE?

1 A. Both, the letter and the AFE.

2 Q. Now, there does not -- I don't believe we have a
3 copy of the signed letter in evidence, do we?

4 A. Let me see here.

5 MR. DEBRINE: We do, it's behind that one.

6 THE WITNESS: Yes.

7 MR. DEBRINE: They're both together.

8 THE WITNESS: It's toward the back. This is the
9 one I said that Marlin Garrett, vice president, had signed.

10 Q. (By Mr. Brooks) Oh, okay, yeah, I see it.
11 That's -- It's all part of Exhibit 9.

12 A. Right.

13 Q. Okay, very good. And they signed the AFE,
14 correct?

15 A. Yes.

16 Q. But I believe your testimony was that they did
17 not enclose a check in the amount of \$76,812.50, correct?

18 A. No, they did not.

19 Q. They did not send any payment, correct?

20 A. No. However, they said a check would be
21 forthcoming.

22 Q. Orally, or was there something in writing?

23 A. There was -- in writing.

24 Q. And is there a copy of that in evidence here?

25 A. I'm not sure, let's see.

1 Q. I don't see it in this exhibit, but...

2 A. I don't... I believe it was in the letter from
3 Thena Anderson that I had referred to earlier, and I don't
4 see it in here.

5 MR. BROOKS: Okay. Does Chesapeake plan on
6 offering such -- evidence to that effect?

7 MR. DEBRINE: I believe that may have been
8 offered by the Movants in theirs.

9 MR. BROOKS: Oh, it's in the other notebook?

10 MR. DEBRINE: Yes.

11 MR. BROOKS: Okay.

12 THE WITNESS: In this one.

13 MR. BROOKS: Well, if there's another copy in
14 that notebook too -- Well, if it's in there, I assume it's
15 in there.

16 Q. (By Mr. Brooks) Now I wanted to clarify a little
17 bit about these title instruments.

18 A. Uh-huh.

19 Q. Starting -- This is what's been identified as
20 Exhibit 2, and there are several documents, but they're all
21 Exhibit 2, apparently.

22 A. Right.

23 Q. The first one is a State Land Office assignment
24 from Rubicon Oil and Gas to Chesapeake Exploration Limited
25 Partnership, correct?

1 A. Yes.

2 Q. And that was executed on December 27th, 2004?

3 A. Uh-huh.

4 Q. And is the date of filing with the State Land
5 Office reflected on here?

6 A. Let's see. No...

7 Q. Okay, it looks like it was approved by the State
8 Land Office on January 11th --

9 A. -- 11th.

10 Q. -- 2005 --

11 A. Uh-huh.

12 Q. -- and it says it will be effective January
13 14th --

14 A. Right.

15 Q. -- 2005. It doesn't say when it was filed, but
16 -- It was stamped on there, but it's not legible.

17 Okay, then the next instrument behind it is a
18 partial assignment of oil and gas lease. This is the
19 county form, correct?

20 A. Right.

21 Q. From Rubicon, again, to Chesapeake Exploration
22 Limited Partnership?

23 A. Yes.

24 Q. And it's not dated but it look like it was
25 acknowledged on the 6th of December, 2004.

1 A. Right, and there's a stamp on the second page
2 with the exhibit, the lease exhibits, that says it was
3 filed of record on December the 16th, 2004.

4 Q. Okay. And this next document is the original
5 lease, correct?

6 A. Yes.

7 Q. Okay. Now, you said there was an assignment from
8 Chesapeake Exploration to Chesapeake Permian?

9 A. I believe so, but I don't see it in here.

10 Q. Is that -- That was going to be my next question.
11 Is that in evidence anywhere?

12 A. I -- Is it? I don't --

13 MR. DEBRINE: Yes, it's in evidence on the
14 Movant's Exhibit B; the various Chesapeake assignments are
15 in there.

16 MR. BROOKS: Can I see a copy of that? It's
17 Exhibit B?

18 MR. DEBRINE: Yes.

19 (Off the record)

20 Q. (By Mr. Brooks) Okay, I see the document in
21 question. It is -- Well, I don't know exactly where, but
22 it's somewhere behind Tab B in the Chesapeake -- in the
23 original Applicant's exhibit booklet, signed April 27th,
24 2005, correct?

25 A. Yes.

1 Q. And it appears to have been filed May the 10th,
2 2005, to be effective -- approved effective June 27th,
3 2005.

4 And then is there also a county form assignment?

5 A. The -- let's see, just a --

6 Q. Well, I don't see it in here, but of course --

7 A. Well, I think it was covered by this assignment
8 and bill of sale from Rubicon into Chesapeake Permian, L.P.

9 Q. Okay. And that was dated February 1, 2005?

10 A. Right.

11 Q. Actually, I believe the county's -- in my
12 understanding of New Mexico law, a county assignment is not
13 necessary anyway, so...

14 A. Right.

15 Q. Okay. Sorry for going over things you've already
16 been over, but --

17 A. Quite all right.

18 Q. -- they weren't clear in my mind, and I needed to
19 -- wanted to get clear what -- exactly what happened.

20 Now you said, I believe, also that this
21 assignment should have been into Chesapeake Permian. Is
22 that who you said it should have been into?

23 A. Yes.

24 Q. And that -- But you had no knowledge of this
25 specific deal, so that would not have been based on the

1 intent of this particular transaction, but rather on the
2 usual practice of Chesapeake?

3 A. Exactly.

4 Q. Okay. And the party that applied for the APD was
5 Chesapeake Operating, correct?

6 A. Operating, Inc., yes.

7 Q. And that is the standard procedure for
8 Chesapeake, is it not, that Chesapeake --

9 A. Yes, it is.

10 Q. -- Operating obtains the APDs?

11 A. Yes.

12 MR. BROOKS: I think that's all I have.

13 MR. GALLEGOS: Do you have some redirect?

14 MR. DEBRINE: Yes.

15 MR. GALLEGOS: Okay, I'll hold --

16 REDIRECT EXAMINATION

17 BY MR. DEBRINE:

18 Q. Mr. Gallegos was suggesting that the motivation
19 by Chesapeake to drill the well was that it had a rig
20 available. There was also, earlier in the hearing, e-mail
21 introduced that was talking about the concern that
22 Chesapeake had concerning drainage that might be caused by
23 the Osudo 9 well.

24 Given that, does that help refresh your
25 recollection as to what Chesapeake's motivation in applying

1 for the APD and seeking to have the well drilled as quickly
2 as possible was?

3 A. Well, my recollection is that it was because the
4 Osudo 9 was draining the acreage, yes. However, I can't
5 tell you exactly what was said about making that decision.
6 I just know that that was one of the reasons.

7 Q. Right, you didn't make the engineering judgment
8 as to whether there was potential drainage caused by the
9 Osudo 9, you just knew there had been a discussion and a
10 concern within Chesapeake about that possibility?

11 A. That's right.

12 Q. And your -- when you look at the chronology of
13 Exhibit 8, that's designed to reflect all the contacts you
14 had with both Samson and Kaiser-Francis to try and obtain
15 their voluntary agreement to participate in the spacing
16 unit that had been proposed by Chesapeake for the KF 4
17 State Number 1 well?

18 A. Yes, sir.

19 Q. And why was it your preference to try and first
20 reach voluntary agreement?

21 A. Well, it's always our preference to try to reach
22 a voluntary agreement first. A pooling is expensive, it's
23 time-consuming. It's just much easier if everyone can
24 agree to drill a well.

25 Q. And in your letter where you were asking them to

1 participate in the well, although you didn't specify the
2 well location, you weren't trying to mislead them in any
3 way as to what Chesapeake's intentions were with regard to
4 the location the well would be drilled?

5 A. Not in any way, no.

6 Q. Was it your expectation that would just initiate
7 a dialogue, and then they would inquire, and then there
8 would be a discussion of the full particulars as to the
9 proposal?

10 A. Yes, sir.

11 Q. And in fact, that occurred with respect to your
12 conversation with Mr. Wakefield, where you specifically
13 informed him where the well was going to be drilled?

14 A. Yes.

15 Q. And you didn't have any contact back by Samson
16 making a similar inquiry as to the location or the
17 particulars of the proposal that Chesapeake had made?

18 A. I didn't because that had been taken care of
19 between the geologists.

20 Q. And even after the force pooling Application was
21 filed, was there a continuing dialogue with Kaiser-Francis
22 and Samson, trying to reach an agreement with regard to the
23 location for the spacing unit for the KF 4 State Number 1
24 well?

25 A. Yes.

1 Q. And I believe there was testimony earlier as to
2 why you thought Kaiser-Francis might agree at some point in
3 time. What was the basis for that belief?

4 A. As Jim Wakefield has testified, they stood to
5 loose nothing either direction, if we could prove to them
6 that our two 160-acre units would provide the best well,
7 then possibly they would join.

8 Q. So their position was economically indifferent,
9 at least in theory, with respect to the competing spacing
10 units that had been proposed?

11 A. Yes.

12 Q. And if you look at Exhibit 8 with regard to your
13 chronology --

14 A. Uh-hun.

15 Q. -- was it your understanding that before
16 Chesapeake began drilling operations on the well, it had
17 obtained the consent of the surface owner to enter the
18 surface --

19 A. Yes.

20 Q. -- and conduct operations?

21 A. Yes.

22 Q. And was it also your understanding at that point
23 in time that a check had been tendered to the surface owner
24 for surface damages?

25 A. Yes.

1 Q. And the check had been negotiated at that point
2 in time?

3 A. Yes.

4 Q. Did you make an investigation to determine
5 whether the check that had been sent to the landowner had
6 been negotiated before a drilling rig was moved onto the
7 property?

8 A. Yes.

9 MR. DEBRINE: No further questions.

10 RECROSS-EXAMINATION

11 BY MR. GALLEGOS:

12 Q. Ms. Townsend, I take it that you're not aware
13 that the surface in the southeast quarter of Section 4 is
14 owned by the State of New Mexico rather than by this
15 rancher, Merchant Livestock?

16 A. No, I realize it's owned by the State of New
17 Mexico.

18 Q. Oh, because Mr. DeBrine's questions were asking
19 if you -- if Chesapeake got permission from the surface
20 owner, and that was incorrect, wasn't it?

21 A. Right.

22 Q. What it did was just get some kind of agreement
23 with the agricultural grazing lessee from the State of New
24 Mexico, which is the surface owner?

25 A. The surface lessee, yes.

1 Q. Okay, lessee for grazing purposes --

2 A. Yes.

3 Q. -- you understand that that's the nature of the
4 lease?

5 A. Yes.

6 Q. Are you aware that even the arrangement made with
7 that grazing lessee did not come about till June 3rd of
8 2005?

9 A. Well, that's not true. That's when the actual
10 agreement was signed. The agreement was made before that.

11 Q. Some sort of verbal agreement?

12 A. Yes.

13 Q. Okay. So the agreement was signed on June the
14 3rd, and Chesapeake had started drilling on April 27th;
15 that's the sequence, is it not?

16 A. We drilled on April the 27th. No, I believe that
17 was made beforehand. Here again, there's another witness
18 that will testify to all that --

19 Q. Okay.

20 A. -- who took care of it.

21 Q. All right, let's go back to one other thing in
22 terms of sequence here.

23 Let's look at your rather much-talked-about
24 letter that says Exhibit 9 of your exhibits. And just for
25 purposes of our shorthand communications, can we call that

1 the proposal letter?

2 A. Yes.

3 Q. Okay. And we know from your testimony that those
4 letters went out to Kaiser-Francis and to Samson on March
5 the 11th, although dated March the 9th?

6 A. Yes.

7 Q. Correct? All right. Now, if you would, please,
8 on the witness stand is that white notebook, and I'd like
9 for you to turn to Exhibit I. Do you recognize that as an
10 application for a permit to drill from Chesapeake Operating
11 for the well that's in question?

12 A. Yes, sir.

13 Q. And do you recognize that it is signed by Brenda
14 Coffman for Chesapeake on March the 10th, 2005?

15 A. Yes.

16 Q. And then do you recognize that it states that the
17 well will be located in Unit X of Section 4?

18 A. Yes.

19 Q. Okay. And then if you go to J, Exhibit J, do you
20 recognize that as a Form C-102 submitted by Chesapeake for
21 the well in question?

22 A. Yes.

23 Q. And do you recognize that that is signed by
24 Brenda Coffman for Chesapeake on March the 10th, 2005?

25 A. Yes.

1 Q. And it shows the exact location of the well, 990
2 from the east and -- what is that, 660 from the south or --

3 A. Yes, 660 from the south and 990 from the east.

4 Q. Okay. So March the 11th, when the proposal
5 letters were sent, Chesapeake knew exactly the well
6 location; isn't that true?

7 A. Yes.

8 Q. Okay. And Chesapeake knew on March the 11th that
9 that well location was on the southeast quarter which was
10 leased by Samson and Kaiser-Francis?

11 A. Well now, when you say Chesapeake, that doesn't
12 necessarily mean that I did. These are generated from our
13 Midland, Texas, office.

14 Q. I'm talking about your company --

15 A. Yes.

16 Q. -- talking about the knowledge of your company.

17 A. Yes.

18 Q. All right. And Chesapeake -- you or other
19 employees in Chesapeake, knew that an ATD had already been
20 applied for before the proposal letters were sent; isn't
21 that true?

22 A. Yes.

23 Q. And in fact, the APD was issued on the date that
24 the proposal letter was sent; isn't that true?

25 A. Well, on the date. But I don't know the time.

1 Q. Okay. But your proposal letter does not state to
2 Samson or to Kaiser-Francis the well location, even though
3 it was already exactly determined and applied for; isn't
4 that true?

5 A. I did not necessarily know it. It's generated
6 from the Midland, Texas, office. I am in Oklahoma City.

7 Q. Well, Chesapeake knew?

8 A. Chesapeake knew.

9 Q. Okay, and Chesapeake knew that it was in the
10 southeast quarter?

11 A. Yes.

12 Q. Okay. And Chesapeake knew that an APD had
13 already been applied for, for that well?

14 A. Yes.

15 Q. None of that was set forth in the proposal
16 letters, was it?

17 A. No.

18 MR. GALLEGOS: That's all.

19 RECROSS-EXAMINATION

20 BY MR. BRUCE:

21 Q. Ms. Townsend, I've handed you what's been marked
22 Mewbourne Exhibits 2 and 3, and I'd ask you to go to
23 Exhibit 3 first.

24 When you were answering some questions for me,
25 you referenced a Read and Stevens well --

1 A. Yes.

2 Q. -- where the proposed well was located on
3 Chesapeake's acreage.

4 A. Yes.

5 Q. Is this the well --

6 A. Yes.

7 Q. -- we're speaking about?

8 A. Uh-huh.

9 Q. And attached at the back of this, I represent to
10 you, is information from the State Land Office regarding
11 State oil and gas leases in this half-section of land, and
12 it lists Chesapeake Exploration basically as owning the --
13 what would that be, the southwest quarter?

14 A. Yes.

15 Q. And is Chesapeake Exploration the sole working
16 interest owner, to the best of your knowledge?

17 A. To the best of my knowledge, yes.

18 Q. Okay. So this well was located by Read and
19 Stevens on your lease.

20 Have you signed a JOA --

21 A. Yes.

22 Q. -- with Read and Stevens?

23 A. Yes.

24 Q. Has the well been commenced yet?

25 A. Yes, I believe so. But you can verify that.

1 Q. Okay. Was the well commenced after a JOA was
2 signed?

3 A. Yes.

4 Q. Okay. Now, that well is in Section 12 of 12
5 South, 31 East, in Chaves County.

6 And Exhibit 2 is an AFE, a Chesapeake AFE, for a
7 well immediately to the south -- or, excuse me, immediately
8 to the north?

9 A. Right.

10 MR. BROOKS: I believe you made the same mistake
11 I made earlier today, Mr. Bruce. That's an APD, not an
12 AFE.

13 Q. (By Mr. Bruce) APD, excuse me. Thank you, Mr.
14 Brooks. APD for a Chesapeake well. And in this instance
15 Chesapeake desires to drill on Read and Stevens; is that
16 correct?

17 A. No, we've agreed to let them operate this well.

18 Q. Oh, you have now?

19 A. Yes, we have.

20 Q. Okay. But the well location, when filed by
21 Chesapeake, was on Read and Stevens' -- is on Read and
22 Stevens' lease?

23 A. Was, yes.

24 Q. Okay. And why did you allow them to -- let them
25 drill the well?

1 A. Because we had the minority interest, and they
2 had a much bigger interest than we did.

3 Q. Okay. Has this well been commenced?

4 A. I don't believe so.

5 Q. Would have been possible to move the rig that was
6 going to be used on the KF State 4 Well Number 1 over to
7 this location?

8 A. No, we're talking about a much deeper well.

9 Q. Which one?

10 A. The KF State.

11 Q. Okay. But in neither event was a well drilled
12 before a JOA was signed; is that correct?

13 A. I don't believe we've signed a JOA on the Chavlea
14 1 State 1 yet.

15 Q. Well, just one final question. You said this is
16 a much deeper well. What is the depth of the KF State
17 well?

18 A. 13- -- I'm not sure, I'm not sure. Thirteen
19 thousand and something.

20 Q. Is it closer to 12,000, total vertical depth?

21 A. If that's what that says, yes.

22 Q. Well, isn't the Chesapeake APD on the 12 South,
23 31 East, proposed depth is 11,300? Is that a significant
24 difference from --

25 A. I don't have anything to do with assigning the

1 drilling rigs.

2 MR. BRUCE: Thank you, that's all I have.

3 RECROSS-EXAMINATION

4 BY MR. HALL:

5 Q. Ms. Townsend, if I heard the question and answer
6 correctly, I believe in response to one of Mr. DeBrine's
7 questions you said you had a continuing dialogue with Mr.
8 Wakefield after the compulsory pooling application was
9 filed, and the continuing dialogue -- those were the words
10 he used -- was about the well location; is that right? Do
11 I have that right?

12 A. Well, it wasn't necessarily just about the well
13 location; it was just about getting a voluntary agreement.

14 Q. Do I have the time frame right? You continued to
15 have a dialogue after the pooling application was filed?

16 A. We had some dialogue after that, yes.

17 Q. Okay. But at that point there would have been no
18 point in discussing the well location; it was a *fait*
19 *accompli* by then, correct?

20 A. Exactly.

21 Q. Why aren't these other conversations referenced
22 on your chronology?

23 A. Well, because they weren't bullet points like
24 these were.

25 Q. Other than the April 5th conversation and the

1 March 14th conversation, before you moved the well onto the
2 location, did you have any other conversations with Mr.
3 Wakefield about the well location?

4 A. We had several conversations that the well
5 location always came into play. We talked about delivering
6 the logs, about who we needed to contact. There were
7 several different conversations.

8 Q. How many?

9 A. I don't know.

10 Q. More than five?

11 A. Oh, probably four or five.

12 Q. Okay. You can't recall the dates?

13 A. Well no, not exactly.

14 Q. Just that they were before you moved the well
15 onto the location?

16 A. Yes.

17 Q. Follow up on one of the questions the Examiner
18 asked you. When did you and your team first discuss
19 locating the well on the southeast quarter of Section 4?

20 A. I really couldn't tell you the date. I don't
21 know.

22 Q. Who could?

23 A. Probably one of the technical people.

24 Q. Would it have been before you filed for the APD,
25 obviously?

1 A. I'm sure it probably was.

2 Q. And you participated in those conversations?

3 A. Not all of them, no.

4 Q. But at least one, correct?

5 A. Probably.

6 Q. Is there anything preventing you from referencing
7 a well location in your March 9th well proposal?

8 A. There's nothing preventing me. But like I said
9 before, I may not always know it by the time I do the
10 proposal letter. Those things are generated from the
11 Midland, Texas, office.

12 Q. So the answer to my question is no, correct?

13 A. Yes.

14 MR. HALL: Nothing further.

15 MR. DEBRINE: Just a couple follow-ups.

16 FURTHER EXAMINATION

17 BY MR. DEBRINE:

18 Q. With respect to the Caprock well with Read and
19 Stevens, was there a joint operating agreement in place
20 before they filed for their APD?

21 A. No, because we filed for an APD and found out
22 that they already had an APD.

23 Q. So that situation was very similar to the present
24 one where someone owning no interest in your lease filed
25 for an APD that was granted by the Division --

1 A. Exactly.

2 Q. -- and then you filed another one that was
3 rejected by the Division, like when Mewbourne's was?

4 A. Exactly.

5 Q. And that was part of the reasoning why you felt
6 that you were entitled to file for an APD with respect to
7 the KF 4 State Number 1 well, even though the acreage you
8 were proposing to drill the well on was owned by others but
9 would be included in the spacing unit with the lease that
10 was owned by Chesapeake?

11 A. Yes.

12 MR. DEBRINE: No further questions.

13 MR. HALL: Follow up on that.

14 FURTHER EXAMINATION

15 BY MR. HALL:

16 Q. Isn't one big difference that nobody moved a rig
17 on your location, on that Caprock well; isn't that right?

18 A. No, they did not.

19 MR. HALL: Okay, nothing further.

20 EXAMINER JONES: Okay, thank you very much, Ms.
21 Townsend.

22 THE WITNESS: You are welcome.

23 EXAMINER JONES: You did a good job.

24 Let's take a 15-minute break. Come back at 3:35.

25 (Thereupon, a recess was taken at 3:19 p.m.)

1 (The following proceedings had at 3:40 p.m.)

2 EXAMINER JONES: Okay, let's go back on the
3 record.

4 And Mr. DeBrine?

5 MR. DEBRINE: We call Cecil Gutierrez.

6 CECIL GUTIERREZ,

7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. DEBRINE:

11 Q. Mr. Gutierrez, who do you work for?

12 A. Chesapeake Energy.

13 Q. And what is your responsibility for Chesapeake?

14 A. I'm a senior landman. My primary goal is to
15 settle damages on surface locations.

16 Q. And what areas of operation, what states, what
17 basins do you operate in?

18 A. The Permian Basin, that includes Texas and New
19 Mexico.

20 Q. Did you negotiate with the surface lessee before
21 Chesapeake began operations with regard to the KF 4 State
22 Number 1 well?

23 A. Yes, I did.

24 Q. How did you determine who the surface lessee was
25 at the time?

1 A. The information from -- the broker's information
2 furnished to the land department, also State Land Offices.

3 Q. Now, there's an exhibit that's been introduced
4 that's a chronology, that's Exhibit 8 in that notebook, and
5 it has different dates. And it might be useful for you as
6 a -- no, in the black notebook --

7 A. The black --

8 Q. -- as a reference point, but I'm going to be
9 asking you questions with regard to your contact with the
10 surface owner and the dates, and that might help you
11 refresh your recollection as to different dates concerning
12 your interactions with the surface.

13 A. Okay, these have numbers. Is that what you said?

14 Q. Yes, Exhibit 8 --

15 A. Okay.

16 Q. -- is a chronology --

17 A. 8, yes.

18 Q. Do you remember when you first contacted the
19 surface owner to discuss obtaining -- or the surface
20 lessee, to discuss obtaining its consent to allow
21 Chesapeake to enter onto the surface and conduct operations
22 in connection with the drilling of the well?

23 A. March 9th.

24 Q. Who did you talk to at that time?

25 A. Clabe Pearson.

1 Q. What is Mr. Pearson's connection to the ownership
2 of the surface lease?

3 A. He's the grazing lessee on state land.

4 Q. Is he personally the lessee, or is the company
5 that he works for the lessee?

6 A. Merchant Livestock is the company. He's the
7 president of the company.

8 Q. Okay, so your -- so you initially determined that
9 it was Merchant Cattle Company that was the owner of the
10 surface lease?

11 A. Correct, yes.

12 Q. Had you ever had any prior dealings with Mr.
13 Pearson before you contacted him on March 9th?

14 A. Yes, I've dealt with Merchant Livestock, Clabe
15 Pearson, on other locations in that area.

16 Q. When you met with Mr. Pearson, what did you tell
17 him?

18 A. I called him to -- first called him to notify
19 that we were going to stake and survey the location and got
20 his consent to let the surveyors go in.

21 Q. So was that a face-to-face meeting or was it a
22 telephone --

23 A. It was a phone call.

24 Q. Did you at that time request that he enter into a
25 formal surface use and easement agreement --

1 A. That --

2 Q. -- on behalf of Merchant?

3 A. No, that happened on the -- March the 30th, when
4 I met at his ranch.

5 Q. Okay, I want you to turn to Exhibit Number 13,
6 which is the surface damage release and grant of surface
7 easement. Is that the agreement you presented to Mr.
8 Pearson when you met with him on March 30th?

9 A. Yes, it is.

10 Q. When you left it -- when you presented it to him,
11 had it already been signed by Chesapeake at that time?

12 A. No, it was not -- it was actually mailed to him,
13 along with a check, on April 4th.

14 Q. Okay. So when you met with him you didn't have
15 the agreement in hand to give to him to sign?

16 A. I did not, we just simply settled the damages,
17 settled the amount.

18 Q. So your purpose in meeting with Mr. Pearson at
19 that time was to negotiate the terms of the written
20 agreement that would eventually be executed by the parties?

21 A. Correct.

22 Q. And during those conversations you agreed on a
23 price for surface damages?

24 A. Yes.

25 Q. And he, in turn, gave his consent for Chesapeake

1 to enter upon the surface lease to conduct any operations
2 in connection with the drilling of the well?

3 A. Yes, sir, he did.

4 Q. And all that had been done on March 30th?

5 A. That's correct.

6 Q. Did you feel that was sufficient at that time to
7 notify Chesapeake that it was okay to conduct operations on
8 the surface?

9 A. Yes, I did.

10 Q. Were you concerned at all about the lack of a
11 written agreement at that time?

12 A. No, I've had a relationship with them, they're
13 good people, solid people, honest people, I've dealt with
14 them before, and I knew that I was getting a strong verbal
15 to go ahead and continue until the paperwork was signed.

16 Q. When was the actual paperwork and check for
17 surface damages sent to Mr. Pearson?

18 A. When were they sent?

19 Q. Yes.

20 A. On April 4th, from the Oklahoma City office.

21 Q. Did you deliver the agreement to anyone at
22 Merchant?

23 A. I did not, no.

24 Q. Okay. So that was just sent by the Oklahoma City
25 office?

1 A. Correct.

2 Q. And do you know what the instructions were with
3 respect to returning the executed document?

4 A. Yes, I called them -- I -- actually, when it was
5 signed, we made contact and I went in and picked it up from
6 them at their office --

7 Q. Okay, that --

8 A. -- and --

9 Q. Do you know what -- the date the actual agreement
10 was signed?

11 A. June 3rd.

12 Q. And is Exhibit 13 the agreement that you picked
13 up from Mr. Pearson?

14 A. Yes.

15 Q. And that agreement is signed by the surface
16 lessee, Merchant Livestock Company, Inc.?

17 A. Correct, yes.

18 Q. And do you recognize that as Mr. Pearson's
19 signature?

20 A. Yes, I do.

21 MR. DEBRINE: We move the admission of Exhibit
22 13.

23 MR. HALL: No objection.

24 EXAMINER JONES: Exhibit 13 will be admitted.

25 Q. (By Mr. DeBrine) Did you have any further

1 conversations with Mr. Pearson after you picked up the
2 surface damage and easement agreement?

3 A. No, I did not. I picked up the documents and of
4 course mailed them back to Oklahoma City.

5 Q. Okay. And maybe -- maybe you were confused by my
6 question --

7 A. I'm sorry. Yes.

8 Q. At one time -- Later in time, did you have
9 occasion to discuss with him executing an affidavit?

10 A. Yeah, I'm sorry, yes. Yes, I did.

11 Q. Okay, would you turn to Exhibit 14?

12 MR. HALL: At this point, Mr. Examiner, I'm going
13 to object to this -- to any questions about this on the
14 basis of hearsay.

15 MR. GALLEGOS: We join in the objection.

16 EXAMINER JONES: Questions about what?

17 MR. HALL: Conversations with Clay Pearson and
18 this affidavit, Exhibit 14.

19 EXAMINER JONES: So you object to the affidavit
20 and the --

21 MR. HALL: Object to any hearsay testimony.

22 MR. BROOKS: Well, I think the appropriate time
23 to rule on the objection to the affidavit would be after --
24 when it's offered in evidence.

25 I think we should -- we need to get the predicate

1 testimony, so I would recommend that we overrule the
2 objection subject to the motion to strike, if it proves
3 that it's prejudicial hearsay.

4 Q. (By Mr. DeBrine) If you look at Exhibit 14, is
5 that the affidavit that you presented to Mr. Pearson?

6 A. Yes, it is.

7 Q. Do you recall the date that you gave it to him?

8 A. It was early April, I believe.

9 Q. I notice it has an execution date of June 13th.
10 Does that refresh your recollection as to when you would
11 have discussed the affidavit with Mr. Pearson?

12 A. Yes, well, it would have been early April when I
13 first talked to him about it.

14 Q. And what -- what did you tell him the reason you
15 were presenting the affidavit to him?

16 A. Yes, I told him that --

17 (Electronic device sounded.)

18 MR. DEBRINE: Hopefully that will take care of
19 it.

20 THE WITNESS: Yeah, I told him I had an affidavit
21 that laid out sequence of events that took place between
22 us.

23 Prior to the drilling there was an affidavit from
24 him pertaining to the permitting process.

25 Q. (By Mr. DeBrine) Is it to say that your -- the

1 reason you were asking him to sign the affidavit was to --
2 for him to affirm that he had given his consent on behalf
3 of Merchant Cattle for Chesapeake to conduct operations at
4 all times, even though the formal agreement wasn't objected
5 until a later time?

6 MR. GALLEGOS: I object to that. That's a very
7 leading question. It also is calling for a conclusion.

8 MR. BROOKS: It does appear to be leading in
9 form.

10 MR. DEBRINE: What --

11 MR. BROOKS: You might want to rephrase.

12 MR. DEBRINE: I'll rephrase.

13 Q. (By Mr. DeBrine) What is your understanding as
14 to why you were presenting an affidavit to Mr. Pearson for
15 him to sign?

16 A. It was to reconfirm -- reiterate the consent that
17 we had from them all along.

18 Q. And did you deliver the affidavit to him that's
19 represented by Exhibit 14?

20 A. Yes.

21 Q. Did he give it back to you?

22 A. Yes, he did. I picked it up at their office,
23 actually, after he signed it.

24 Q. And do you recognize that as being his signature
25 on the affidavit?

1 A. I do, yes.

2 Q. Did he make any changes to the affidavit that you
3 presented to him?

4 A. Just on the front page where he said that he's
5 the president, not the owner, of Merchant Livestock.

6 Q. Okay, so when you presented the affidavit for him
7 to sign, it did not have the word "president" written in
8 and "owner" stricken out?

9 A. Correct, it had "owner" on it.

10 Q. And to the left of paragraph 2 it has the
11 initials "CP"?

12 A. Uh-huh.

13 Q. Do you recognize that as Mr. Pearson's
14 handwriting?

15 A. That's right, I do.

16 MR. DEBRINE: We would move the admission of
17 Exhibit 14.

18 MR. GALLEGOS: Objection, plainly hearsay, Mr.
19 Pearson not available for cross-examination. This is not
20 admissible.

21 MR. BROOKS: I would recommend the objection be
22 sustained.

23 MR. DEBRINE: We are not offering it to prove the
24 truth of the matters asserted in the affidavit but just to
25 prove that an affidavit was presented to him and returned

1 to Chesapeake with regard to the -- to reaffirm the
2 sequence of events.

3 MR. BROOKS: Well, what relevance does that have
4 independent of the truth of the matter stated in the
5 affidavit?

6 MR. DEBRINE: Well, it goes to the issue of
7 Chesapeake's good faith with regard to when it applied for
8 the APD, because if it had the consent of the surface
9 owner, that is -- and had a surface easement in place, even
10 if it was oral in form, that is a form of claim of title
11 with respect to the property that's going to be conducting
12 operations.

13 MR. BROOKS: And that appears to me to be the
14 truth of the matter stated, so I still believe we should
15 overrule the objection -- I mean sustain the objection.

16 EXAMINER JONES: I have to go with my legal
17 counsel on this one, sustain the objection.

18 Q. (By Mr. DeBrine) Irrespective of what Mr.
19 Pearson states in his affidavit, based on your negotiations
20 with him and the two conversations that you had with him,
21 was it your understanding at all times that Chesapeake had
22 Merchant Cattle Company's consent to conduct operations
23 before he returned the written surface damage and easement
24 agreement?

25 A. Totally, yes, I -- that's the way I look at it.

1 I -- Yes.

2 MR. DEBRINE: Pass the witness.

3 CROSS-EXAMINATION

4 BY MR. HALL:

5 Q. Mr. Gutierrez, how long have you worked New
6 Mexico?

7 A. About 26 years, sir.

8 Q. Yeah. And you've known Merchant for quite a long
9 time, it appears?

10 A. Yes, sir, I used to deal with their fathers.
11 They're both deceased now.

12 Q. Okay. And you have some familiarity with their
13 grazing lease with the State of New Mexico?

14 A. Yes, sir, I'm familiar with it.

15 Q. By the way, your Exhibit 13 here, your surface
16 damage release, who drafted this?

17 A. I did, sir.

18 Q. And Mr. Pearson executed it when?

19 A. June 3rd, sir.

20 Q. Okay. Mr. Gutierrez, let me provide you with
21 what we've marked as Exhibit Q. Is Exhibit Q a copy of the
22 Merchant Livestock Company grazing lease for state lands?

23 A. (Nods)

24 Q. You need to indicate verbally for the court
25 reporter.

1 A. Yes, it is.

2 Q. And attached to that is again a copy of your
3 surface damage release and grant of surface easement. Do
4 you see that there?

5 A. Yes, sir, I do.

6 Q. And attached behind that is a letter dated 4,
7 2005, from Chesapeake, as you say, Oklahoma City, to
8 Merchant, transmitting the check; is that right?

9 A. That's correct, sir, yes.

10 Q. And just so we're clear, if look behind that,
11 what's that next document behind that transmittal letter?
12 What do you call that? "Land Check Request Form"?

13 A. This one, sir?

14 Q. Yes -- No, I'm sorry --

15 A. The one before? Yes, sir, it is.

16 Q. And there are two boxes you can check there. One
17 says "Surface Damages" and one says "Right of Way". And in
18 this case "Surface Damages" is checked; is that right?

19 A. Yes.

20 Q. And so the purpose of the payment in April was
21 strictly for surface damages?

22 A. Surface damages and the -- there was a road that
23 we built into the location, yes.

24 Q. And for the road as well?

25 A. Yes, sir.

1 Q. And let me ask you about that. Did you attempt
2 to gain consent or authorization from the actual owner of
3 the surface, southeast quarter of Section 4, for access to
4 the well site?

5 A. Did I get access to the location?

6 Q. Let me start over. Actual owner of the southeast
7 quarter of Section 4 is the State of New Mexico, correct?

8 A. Yes, correct.

9 Q. Did you obtain any sort of authorization from the
10 State Land Office?

11 A. I did not.

12 Q. Okay. Did anyone at Chesapeake have
13 authorization --

14 A. Not to --

15 Q. -- from the State --

16 A. Not to my knowledge.

17 Q. -- Land Office? Wait till I'm finished with my
18 question, please, so the record is clear.

19 Did anyone from Chesapeake obtain authorization
20 from the State Land Office to utilize the surface on the
21 southeast quarter of Section 4?

22 A. No.

23 Q. Let's look at the face page of Exhibit Q, the
24 grazing lease there. If you look at numbered paragraph 4
25 there it says "Permitted Use". And then if you turn to the

1 Exhibit A there are several columns there, and over in the
2 right-hand side there is a column that says "Use". Do you
3 see that?

4 A. Yes, sir.

5 MR. DEBRINE: And I'll object to this line of
6 questioning, his lack of personal knowledge of the witness,
7 and the document itself is hearsay and it doesn't do any
8 good for the witness to read it. I don't know what the
9 purpose of eliciting his testimony with regard to reading
10 the document is.

11 MR. HALL: Mr. Brooks, he testified he was
12 familiar with the lease, and it's a public document. We're
13 charged with notice of it by statute.

14 MR. BROOKS: Well, I believe the document can be
15 presented in this way. Now, if there's an objection to the
16 document I don't think the document is hearsay. It would
17 be a question of authentication if there's any objection to
18 it. If it's properly authenticated, it would be
19 admissible.

20 EXAMINER JONES: He hasn't moved to admit it.

21 MR. BROOKS: No, he hasn't moved to admit it, so
22 objection to the document would be premature. I would
23 recommend that we go ahead and allow this line of
24 questioning, subject to it being stricken if the document
25 is not admitted.

1 Q. (By Mr. Hall) Again referring to the "Use" code,
2 and it indicates code G, do you see that?

3 A. Yes.

4 Q. You turn over to the last page of Exhibit A.
5 There is a legend at the bottom, about halfway down, and
6 does G indicate grazing?

7 A. Yes, it does.

8 Q. All right. Now, let's look at numbered paragraph
9 7 of the state grazing lease. Are you familiar with that,
10 that paragraph?

11 A. Number 7?

12 Q. Yes.

13 A. To answer your question, I'm not familiar with
14 it. I'm reading it right now, but --

15 Q. Okay. Well, does that indicate to you that the
16 grazing lessee is prohibited from making any sort of
17 assignment of sublease --

18 MR. DEBRINE: Object, it's calling for a legal
19 conclusion.

20 MR. BROOKS: Yeah, I would agree with that and
21 recommend the objection be sustained. The document, of
22 course, speaks for itself.

23 Q. (By Mr. Hall) And if you'll look down at
24 paragraph 11 of that same page it says "Reservations". It
25 says, "Lessor reserves the right to execute leases on the

1 land granted by this lease for mining purposes and for the
2 extraction of oil [and] gas..." Then skipping, omitting,
3 "...and grant such other rights-of-way and easements as
4 provided by law."

5 Does that indicate to you that it would be the
6 State of New Mexico that has the authority to issue rights
7 of way for access and for mineral development, not the
8 grazing lessee?

9 MR. DEBRINE: Again I'll object. It's calling
10 for a legal conclusion.

11 MR. BROOKS: Yeah, I believe the document speaks
12 for itself. I'll sustain -- I would recommend we sustain
13 the objection.

14 Q. (By Mr. Hall) Mr. Gutierrez, would you agree
15 with me that Chesapeake presently has no right to lay a
16 gathering line to the KF 4 well on the southeast quarter of
17 Section 4?

18 MR. DEBRINE: Again, beyond the scope of direct
19 examination and calling for a legal conclusion.

20 MR. BROOKS: I recommend we overrule that
21 objection.

22 Q. (By Mr. Hall) You may answer, then.

23 A. So would you repeat the question, please?

24 Q. Would you agree with me that Chesapeake has no
25 right to utilize the surface of the southeast quarter of

1 Section 4 to lay a gathering line to the KF 4 well?

2 A. No, I believe we have the right. I have to
3 negotiate and proceed with paperwork accordingly --

4 Q. All right --

5 A. -- to grant --

6 Q. -- and --

7 A. -- only at that time will I have the right.

8 Q. And with whom would you negotiate to acquire that
9 right?

10 A. With the state, sir.

11 Q. Okay.

12 A. State of New Mexico.

13 Q. And that's not been done; is that correct?

14 A. I'm sorry?

15 Q. That has not been done; is that --

16 A. That has not been done.

17 Q. -- correct?

18 MR. HALL: Pass the witness.

19 We would move the admission of Exhibit Q, Mr.
20 Brooks. It's a self-authenticating document. It's a
21 record from the Commissioner of Public Lands, the State
22 Land Office, and by statute -- I believe it's 19-10-51 --
23 Chesapeake, as well as everybody else, is charged with
24 notice of the document.

25 MR. DEBRINE: We would object in that this

1 particular copy hasn't been authenticated. It bears the
2 fax number of the Miller Stratvert law firm, and there's
3 been no testimony to authenticate the document, and it's --
4 on its face it's hearsay. It would be inadmissible.

5 MR. BROOKS: Well, technically that probably is a
6 valid objection. At the same time I'm wondering if
7 anything would be accomplished by necessitating the Miller
8 Stratvert law firm to obtain -- to run out and obtain a
9 certified copy if there's really no objection to -- if
10 there's really no doubt about the authenticity.

11 But, you know, I guess I have to leave that to
12 your judgment, because I -- if there's any doubt about the
13 authenticity, certainly a certified copy is required by the
14 Rules of Evidence.

15 MR. DEBRINE: Well, they had the opportunity to
16 present this to us in advance, and we can try and reach a
17 stipulation concerning it. But this is the first time
18 we've seen it, is today.

19 MR. HALL: Well, that's August -- I ask you to
20 stipulate now. Otherwise, we could get a witness from the
21 Land Office to authenticate it. Why go to the trouble?

22 MR. DEBRINE: We could bring Mr. Pearson here, if
23 we needed to.

24 MR. BROOKS: I believe that -- Actually, I
25 believe that it would be considered to be fairly customary

1 to admit documents of this kind in administrative
2 proceedings without certification, although in court I know
3 the certification would be required.

4 In the interests of practicality, I will
5 recommend to the Examiner that we overrule this objection,
6 with the understanding that if this were to be the only
7 evidence on the -- in point, it would probably not meet the
8 legal minimum requirement or whatever it's called. In the
9 interest of practicality, I suggest we overrule the
10 objection.

11 EXAMINER JONES: Okay, we'll overrule this
12 objection.

13 MR. BROOKS: And admit the exhibit.

14 EXAMINER JONES: And admit the exhibit, Number Q.

15 MR. HALL: Pass the witness.

16 MR. GALLEGOS: No questions.

17 EXAMINER JONES: No questions.

18 MR. BROOKS: I have no questions for this
19 witness.

20 EXAMINER JONES: Thank you very much, Mr.
21 Gutierrez.

22 THE WITNESS: Leave this here?

23 MR. BROOKS: Yes.

24 MR. DEBRINE: At this time we'd like to call Mr.
25 Hazlip, Mike Hazlip.

1 And the issue with respect to the State Land
2 Office letter would be ripe for a decision prior to his
3 testimony.

4 MR. BROOKS: Okay, does counsel wish to argue --
5 present argument on that issue?

6 MR. HALL: Mr. Brooks, I don't have much more to
7 add than what's been said in the prehearing briefing.
8 Obvious hearsay testimony.

9 I also believe it's without foundation, it's
10 opinion, it's conclusory. All of those rules bar its
11 admission.

12 In addition, I think it was improperly obtained.
13 There was at least a likelihood that the Land Commissioner
14 would end up sitting on the Commission to hear this case.
15 That is a possibility. And in view of that, I think that
16 brings Rule 1223 into play, which prohibits *ex parte*
17 contacts with -- it says expressly -- the Rule --
18 Examiner -- Division Examiners or Commissioners. That's --
19 That alone, I think it's improper to admit this or any
20 testimony about the meeting at the Land Office, which we
21 weren't notified -- we don't know what representations were
22 made to the Land Commissioner. He's not here for us to
23 cross-examine.

24 MR. GALLEGOS: And Mr. Examiner, joining that
25 objection, I'd like to point out that the letter purports

1 to have the Commissioner state a conclusion that is one --
2 that is a principal issue before you, Mr. Examiner, to be
3 based upon all the admissible evidence in this case.

4 And if we're going to have a hearsay letter
5 making that kind of a conclusion, not only is that improper
6 but, if it were to be admitted, then it makes it mandatory
7 that Commissioner Lyons would have to be available so that
8 we would be able to note what information was presented to
9 him, and being able to examine him on that basis. And I
10 suggest that that's a -- really an improper way to go about
11 this kind of a matter, and it's going to be injecting an
12 issue in here in the involvement of the Commissioner that I
13 do not think should occur in this case.

14 MR. DEBRINE: If I could respond, it was the
15 Movants who first rang this bell in prior proceedings and
16 tried to -- and introduced and argued and bandied about a
17 prior letter from the Assistant Commissioner of Public
18 Lands, and the -- we can't unring that bell.

19 But what they're trying to do is to prevent the
20 Hearing Examiner and the Division from having the complete
21 picture. The letter from the Commissioner of Public Lands
22 is clearly a public record.

23 Mewbourne chose not to bring any witnesses to
24 today's proceeding. We weren't allowed to inquire as to
25 the very suspicious circumstances in which they own no

1 interest in this particular leasehold at the time that
2 Chesapeake files for its APD, but suddenly they appear, an
3 interest -- a party that have no record interest, they
4 propose a com agreement with the Commissioner. Nobody
5 notified us that that was going on, nobody gave us an
6 opportunity to participate in those discussions with the
7 Commissioner.

8 Fundamental fairness requires -- All those
9 exhibits with regard to their com agreement, the letter to
10 the Commissioner, were admitted into evidence as public
11 records. There were various letters by the Commissioner of
12 Public Lands that have already been admitted into evidence
13 as public record.

14 And in anticipating further objection by the
15 Movants, we went to the step of obtaining a certified copy
16 of the letter from the Commissioner's Office.

17 So clearly under the Rules of Evidence, the
18 letter is -- We have a certified copy which I'd like to
19 present to the Hearing Examiner. And clearly on that basis
20 alone, the letter would admissible as a public record by
21 the Commissioner of Public Lands office. It would be
22 further admissible as obtained from the business records of
23 Chesapeake.

24 And so under either exception to the hearsay rule
25 it would be admissible, and I think it would be a

1 fundamental denial of due process to exclude that letter,
2 given what the other side injected into the issues in this
3 case by making accusations with respect to the conduct of
4 Chesapeake in prior proceedings.

5 MR. HALL: Mr. Brooks, Mr. Examiner, let me point
6 out that what goes on in prehearing motions is non-
7 evidentiary, it doesn't go into the transcript of record
8 for this case.

9 It is true that the Assistant Land Commissioner
10 wrote a letter to Chesapeake wanting to know the
11 justification for their actions, which to him appeared to
12 be in violation of the State's regulations. That was
13 submitted in the context of a prehearing motion. The
14 response to that was also submitted.

15 Let me suggest that Mr. DeBrine had offered an
16 acceptable compromise here, and we briefly touched on this
17 before the hearing. I indicated to Mr. DeBrine that I
18 would not seek to introduce the Assistant Land
19 Commissioner's letter, and so therefore there should be no
20 need for the Land Commissioner's letter, because it
21 obviously had severe hearsay problems.

22 I would just deny the admission of both. Let's
23 move on. I think that's an adequate, fair resolution.

24 MR. BRUCE: Mr. Examiner, if I might, Mr. DeBrine
25 referred to Mewbourne's obtaining a com agreement.

1 There was no personal meeting with the
2 Commissioner, it was done by correspondence, it was done
3 pursuant to regulations where you obtain signatures from
4 the record title owners, submit a com agreement with the
5 \$30 filing fee. That is a public record, it is noted in
6 the lease file at the Commissioner of Public Lands.
7 Everything was done properly and to the letter of the law,
8 without meeting with the Land Commissioner to try to
9 influence him about this matter. And I just wanted to set
10 the record straight on how a com agreement is obtained.

11 (Off the record)

12 MR. HALL: Mr. -- May we point out one more
13 thing? The letter was copied to Mr. Fesmire, who will
14 obviously --

15 MR. BROOKS: Mr. Fesmire, yes.

16 MR. HALL: -- have a hand in the decision that
17 issues from this hearing. I think that alone precludes its
18 admission, that alone is a violation of Rule 1223.

19 MR. BROOKS: Well, that may be. I think, though,
20 that that doesn't necessarily bear on the admissibility of
21 the document. My recommendation to the Examiner is going
22 to be that we admit the document and allow testimony
23 concerning the circumstances under which it was stated --
24 under which it was given.

25 Now, I do believe that it should be admitted, if

1 it is admitted, with the express stipulation that the Land
2 Commissioner's conclusions on the issue of whether or not
3 Chesapeake had acted in bad faith or good faith prior to
4 the time that the Land Commissioner executed this letter
5 would not be admissible in evidence for the purpose of
6 determining whether or not Chesapeake acted in good faith
7 or not, because that would just be the Land Commissioner's
8 opinion, and it would not be evidence, I wouldn't think, of
9 anything as far as this proceeding is concerned.

10 MR. HALL: Then there's no reason for it to come
11 in, I would say.

12 MR. BROOKS: Well, that's what I believe. I
13 believe it's perhaps more a matter of relevance. But the
14 problem is at this point, because it's not dated, we have
15 no way to know when it was admitted, and it could be
16 relevant in terms of anything that had happened after the
17 Land Commissioner delivered this letter.

18 So I believe we should go ahead and receive the
19 testimony as to its -- the background of this, and
20 presumably should admit it subject to the qualification
21 that I stated.

22 EXAMINER JONES: Do you have more testimony, Mr.
23 DeBrine --

24 MR. DEBRINE: Yes --

25 EXAMINER JONES: -- concerning this?

1 MR. GALLEGOS: Mr. Examiner -- And excuse me, Mr.
2 DeBrine, before you proceed.

3 If that is going to be the case and we're going
4 to have testimony concerning the circumstances surrounding
5 it, then we would ask that we be permitted to meet with the
6 Commissioner and discuss the matter with him. We've
7 avoided doing that because of the *ex parte* nature of that
8 communication. We have wanted to do that.

9 But I think given under the circumstances --
10 given the circumstances, that that rule should be relaxed
11 and that we have the opportunity, as did Chesapeake and its
12 representatives, to be face to face with Commissioner Lyons
13 and not be in the situation of having that regarded as
14 improper, *ex parte* communications. May we have that
15 understanding and that permission?

16 MR. DEBRINE: If I could respond briefly. Se
17 received a letter from Mr. Hall where he wrote to the
18 Commissioner complaining about the letter that Chesapeake
19 got, and they've had every opportunity to either meet with
20 the Commissioner or -- he asked them to withdraw or to
21 rescind the letter, similar to the way Samson rescinded
22 their election with regard to the KF 4 State well, and that
23 hasn't happened.

24 The opportunity for discussions with the
25 Commissioner's office are always present, he has an open-

1 door policy.

2 What happened here is that we got a letter from
3 the Commissioner, from the Assistant Commissioner, asking
4 for Chesapeake's authority for entering onto the state
5 lands.

6 There was -- We took that as an opportunity to
7 explain to the Commissioner because he had made specific
8 statements with regard to Chesapeake's conduct. We met
9 with him, and the letter resulted from that meeting.
10 There's nothing untoward, there was nothing *ex parte* with
11 regard to it, there was no merits of the discussion of this
12 proceeding discussed in that meeting, as the letter
13 reflects.

14 MR. GALLEGOS: We believe it was entirely
15 improper to *ex parte* the Commissioner, to have him make a
16 statement which goes to the very key issue in the case, and
17 we did not want to be guilty of that same kind of conduct.
18 And so we avoided it so that we would not.

19 But if now we're going to have testimony about
20 it, all we're saying is that we should be permitted to do
21 that.

22 MR. DEBRINE: If I could make one further
23 comment.

24 MR. BROOKS: Go ahead.

25 MR. DEBRINE: Mr. Hall actually asked us to -- a

1 couple weeks ago, or maybe a little longer than that -- to
2 agree not to admit the letter, otherwise they were going to
3 subpoena the Commissioner to testify. They made a
4 conscious decision not to do that.

5 Now they're trying to have it both ways. They've
6 moved in limine to exclude it. They didn't subpoena the
7 Commissioner to testify concerning it. Clearly the letter
8 is admissible. Having made a conscious choice, they need
9 to live with that choice. They shouldn't be allowed to
10 have it both ways and now suggest that they should be
11 allowed the opportunity to either meet with the
12 Commissioner or discuss matters or them testifying in this
13 proceeding.

14 MR. HALL: Well, here we go. Mr. Examiner, let
15 me represent to you on the record, I did not indicate to
16 Mr. DeBrine that I had any plans of subpoenaing the Land
17 Commissioner to this hearing. Why would I subpoena one of
18 the judges? Never crossed my mind. That's the whole
19 purpose of our motion.

20 EXAMINER JONES: Okay, you guys hold on just a
21 minute.

22 (Off the record)

23 EXAMINER JONES: Let's go ahead and have some
24 testimony on the background of this letter, and then we'll
25 reserve a ruling after we have some more testimony about

1 it.

2 MR. DEBRINE: Okay.

3 EXAMINER JONES: So go ahead.

4 MIKE HAZLIP,

5 the witness herein, after having been first duly sworn upon
6 his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. DEBRINE:

9 Q. Mr. Hazlip, who do you work for?

10 A. Chesapeake Energy Corporation.

11 Q. Could you describe for the Hearing Examiner your
12 responsibilities for Chesapeake Energy?

13 A. I'm land manager for the Permian Basin.

14 Q. Did you have occasion to meet with the
15 Commissioner of Public Lands to discuss a letter that had
16 previously been sent by the Assistant Commissioner of
17 Public Lands regarding an alleged trespass on state lands
18 by Chesapeake when it began drilling the KF 4 State Number
19 1 well?

20 A. Yes, I did.

21 Q. What was your purpose in meeting with the
22 Commissioner of Public Lands?

23 A. Well, the purpose was -- I wanted to make sure
24 that the Commissioner had all the facts regarding, because
25 what we had been -- what we had received was a letter, and

1 I believe there was something in that letter that indicated
2 that he was concerned about our procedure and concerned
3 about -- I believe there was even the use of verbiage of
4 bad-faith trespass in there, in the letter.

5 So I couldn't imagine how we could be accused of
6 bad-faith trespass, and I simply wanted to let him know
7 that we had done everything according to standard procedure
8 in this matter.

9 Q. Did the two of you discuss the merits of any of
10 the three pending cases before the Division when you met
11 with the Commissioner of Public Lands?

12 A. No, sir.

13 Q. Did you explain to him Chesapeake's position as
14 to why it believed it had proceeded in good faith when it
15 obtained its APD?

16 A. Yes, I told them that we -- everything we did was
17 -- I just -- I got the impression that the Commissioner had
18 been led to believe that we --

19 MR. GALLEGOS: I object, this is not responsive.
20 He didn't ask what he though the Commissioner thought.

21 MR. BROOKS: I've kind of lost track of what
22 exactly the question was. Would you restate it?

23 Q. (By Mr. DeBrine) Yes, I asked the witness if he
24 explained to the Commissioner Chesapeake's position as to
25 why it felt it had entered onto state lands in good faith.

1 MR. BROOKS: Okay, answer the question as asked.

2 THE WITNESS: So yes. Is that all you want from
3 me?

4 Q. (By Mr. DeBrine) So did you do that? Did you
5 explain to the Commissioner as to why you felt that
6 Chesapeake had entered onto state lands in good faith?

7 A. Yes.

8 Q. And did you explain and respond to the current
9 concerns that have been expressed in the Assistant
10 Commissioner's letter --

11 A. Yes.

12 Q. -- during your meeting?

13 As a result the information you conveyed, was the
14 Commissioner satisfied that the concerns that had been
15 expressed in the previous letter from the Assistant
16 Commissioner been satisfied?

17 MR. GALLEGOS: Objection as to the state of mind
18 of the Commissioner.

19 MR. BROOKS: Okay, to the extent it goes to the
20 state of mind of the Commissioner, I think that's a valid
21 objection.

22 Q. (By Mr. DeBrine) Well, was there any
23 dissatisfaction expressed by anyone at the meeting with
24 regard to Chesapeake's conduct in drilling the KF State
25 Number 1 well?

1 A. No, they explicitly made that clear to me.

2 Q. And was it your understanding after the meeting
3 that the Commissioner would send a letter with regard to
4 confirming his position with regard to Chesapeake's entry
5 and the resolution of the prior letter from the Assistant
6 Commissioner?

7 A. Yes, sir.

8 Q. And did the letter get sent to you following that
9 meeting?

10 A. Yes, it did.

11 Q. I want you turn to Exhibit 15. Is that the
12 letter you referred to?

13 A. Yes, sir.

14 Q. When did you receive that letter?

15 A. That was -- I believe the postmark on the
16 envelope is June 20th.

17 Q. And when did you meet with the Commissioner of
18 Public Lands?

19 A. June 14th.

20 MR. DEBRINE: We move the admission of Exhibit
21 15.

22 MR. GALLEGOS: Objection for the reasons
23 previously stated.

24 (Off the record)

25 EXAMINER JONES: We're going to deny the

1 admission of this exhibit.

2 MR. BROOKS: So we're -- that means we're
3 sustaining the objection, correct.

4 EXAMINER JONES: Sustaining the objection to the
5 exhibit.

6 MR. DEBRINE: If I could inquire as to the basis
7 for the denial?

8 MR. BROOKS: Well, it seems to me that all of the
9 events that are material to good faith occurred prior to
10 the date of this letter. So the letter could only be
11 relevant in terms of stating the Commissioner's
12 conclusions, which are not what the Commissioner thinks --
13 the Commissioner, general Land Office thinks that something
14 that occurred previously was in good faith or not in good
15 faith is not binding on this, or even evidentiary so far as
16 this agency is concerned.

17 If they had done -- To the extent that their
18 actions were subsequent to the Commissioner stating that
19 they, in fact -- giving them some sort of informal
20 permission to enter on the land, then it would have some
21 relevance. But it seems to me that all the relevant events
22 occurred prior to that.

23 MR. DEBRINE: If I could respond, even though the
24 letter occurs subsequent in time, the issue of good faith
25 really goes to -- actually, I'm not sure what the

1 Commission or the Division's concept is of good faith. We
2 have argued in connection with prior motion practice before
3 the Division that issues with respect to trespass, issues
4 with respect to title have -- are beyond the jurisdiction
5 of the Commission, and that's clearly stated both in the
6 TMBR and the Pride case, and that the only issue is -- with
7 respect to good faith is, do you have an interest in the
8 spacing unit that you're proposing for the well --

9 MR. HALL: Mr. Examiner --

10 MR. DEBRINE: -- and a lot of testimony --

11 MR. HALL: -- I'm going to object. You've ruled.
12 We need to move on here.

13 MR. DEBRINE: -- and a lot of testimony has been
14 admitted here today with respect to what happened after
15 Chesapeake obtained its APD, and questions about drilling
16 and why there was a need to drill the well and conduct with
17 regard to drilling the well and all of that, conduct in
18 drilling the well, has no relevance with respect to
19 Chesapeake's good faith when it applied for and received
20 approval of the Division to obtain the APD.

21 Now, all that testimony has come in, presumably
22 under the concept of relevance with respect to the issue of
23 good faith, because it has no other relevancy, even with
24 respect to the compulsory pooling case.

25 MR. BROOKS: As I recall, most of it has come in

1 without objection. I believe the Examiner the has made his
2 ruling --

3 EXAMINER JONES: Yeah.

4 MR. BROOKS: -- so I think we need to move on.

5 Q. (By Mr. DeBrine) Mr. Hazlip, are you aware of
6 any contention by the Commissioner presently that
7 Chesapeake's entry onto the State lease when it began
8 operations and conducted operations for drilling the KF
9 State well was unauthorized?

10 MR. GALLEGOS: Objection --

11 MR. HALL: Objection, hearsay.

12 MR. GALLEGOS: -- there's no foundation, no
13 foundation as he knows what the Commissioner's contentions
14 are.

15 MR. BROOKS: Well, I think the same relevance
16 objection applies, whether the Commissioner -- what the
17 Commissioner contends now is not relevant to what occurred
18 at the time the entry was made or at the time the APD was
19 applied for.

20 EXAMINER JONES: Any other questions for this
21 witness?

22 Q. (By Mr. DeBrine) Are you aware of any
23 outstanding complaint by the Commissioner of Public Lands
24 or the State Land Office with regard to Chesapeake's
25 conduct, either in applying for the APD?

1 A. No, I'm not.

2 Q. There was testimony earlier in this proceeding
3 with respect to the consent letter that was sent out to
4 Samson and Kaiser-Francis on March 9th, if you look at
5 Exhibit 9 in the black exhibit book. What is the normal
6 custom and practice when Chesapeake sends out a letter
7 asking for consent to participate in a well, either when a
8 JOA is in place or when a JOA is not in place?

9 A. Over the course of the last year or two, our
10 acquisitions and divestitures group and our upper
11 management has requested that on our proposals we add an
12 additional paragraph which gives everyone the opportunity
13 to sell their interest.

14 And so this paragraph here that has been referred
15 to over and over -- as a matter of -- at one time it was
16 referred to as something we're trying to fool somebody on
17 -- is standard language we send out with every proposal,
18 and it's just to give them the opportunity to sell their
19 interest if they don't want to participate.

20 And this is the standard language. I goes into
21 all of our letters, our proposal letters, whether there's a
22 JOA or not. It just makes it easy for us to do.

23 Q. And so there's no intent to deceive anybody by
24 not specifically describing a location that you're
25 proposing?

1 A. No, sir.

2 Q. And is it the contemplation that it will start a
3 dialogue with respect to the proposal and eventual
4 agreement will be reached or not?

5 A. Yes.

6 MR. DEBRINE: Pass the witness.

7 CROSS-EXAMINATION

8 BY MR. GALLEGOS:

9 Q. Just a few questions, Mr. Hazlip.
10 How was this meeting with the Commissioner
11 arranged?

12 A. Can we talk about the meeting with the
13 Commissioner?

14 Q. Would you answer the question.

15 MR. BROOKS: There's been no objection to this
16 question so far.

17 MR. DEBRINE: No objection.

18 THE WITNESS: In the letter that came from them,
19 we -- it left questions that they had of us, so we asked
20 our attorneys to set up a meeting, for me to meet with the
21 Commissioner.

22 Q. (By Mr. Gallegos) And so some attorneys set up
23 the meeting?

24 A. I believe -- I believe so.

25 Q. Who was in attendance at the meeting?

1 A. I don't remember all the staff. The Commissioner
2 and the -- Pat Lyons and Mr. Bemis, some of his other staff
3 was there.

4 Q. Who was in attendance at the meeting on behalf of
5 Chesapeake, other than yourself?

6 A. Mr. DeBrine and one of his colleagues.

7 Q. And -- ? Anyone else?

8 A. That's all I recall.

9 Q. You and Mr. DeBrine and another attorney from Mr.
10 DeBrine's office?

11 A. Yes, sir.

12 Q. Okay. In a 320-acre spacing unit, from one legal
13 location, let's say, on the far east of a 320-acre or on
14 the far north of a 320-acre spacing unit, what is the
15 distance to the legal location at the opposite end of a
16 320-acre unit?

17 MR. DEBRINE: Well --

18 Q. (By Mr. Gallegos) That is, from east to west or
19 north to south?

20 MR. DEBRINE: -- I'll object to the question as
21 beyond the scope of direct.

22 MR. BROOKS: Well, I used to sit in District
23 Court in Texas, and that's not a valid objection in Texas,
24 but I believe it is in New Mexico, so...

25 (Off the record)

1 MR. GALLEGOS: This goes to the proposal letter.
2 He was asked about the proposal, about how they make the
3 proposal, and that's what the question goes to, if we're
4 given the opportunity to develop it.

5 MR. BROOKS: Do you want to respond to that?
6 That's true, it was asked about the proposal letter.

7 MR. DEBRINE: I don't believe the question has
8 asked anything about the proposal letter. It goes beyond
9 the scope of direct. I just asked one question about
10 Chesapeake's practice when it sends out a proposal letter.

11 MR. BROOKS: Okay, what exactly was the question
12 again?

13 MR. GALLEGOS: The distance between legal
14 locations, north to south, east to west, in a 320-acre
15 spacing unit.

16 MR. BROOKS: Well, there's no particular magic to
17 that question. I think --

18 MR. DEBRINE: And it's not relevant to any of the
19 issues in this case either.

20 MR. BROOKS: I think I would --

21 MR. GALLEGOS: Mr. -- I'll withdraw the question.

22 MR. BROOKS: Mr. Examiner, are you ready to rule?
23 Go ahead.

24 MR. GALLEGOS: I'll withdraw the question.

25 MR. BROOKS: Okay.

1 Q. (By Mr. Gallegos) Mr. Hazlip, if another
2 operator is presenting to you a proposal, asking your
3 company to join in the drilling of a well, is it of
4 interest to you to know the location of the well?

5 A. Yes, sir.

6 MR. DEBRINE: And same objection.

7 EXAMINER JONES: Just hold on a second.

8 (Off the record)

9 EXAMINER JONES: Okay, Mr. Gallegos, where are
10 you going with this?

11 MR. GALLEGOS: Well, he was asked about the
12 proposal and what is their regular practice concerning
13 these proposal letters, and that's what the questions are
14 leading to, is to --

15 EXAMINER JONES: Okay --

16 MR. GALLEGOS: -- what they include in a proposal
17 letter.

18 EXAMINER JONES: Okay, go ahead. I think we need
19 to hear this.

20 MR. DEBRINE: And I believe the question has
21 already been asked and answered. He's --

22 MR. GALLEGOS: That question has.

23 MR. DEBRINE: -- testified as to what --

24 EXAMINER JONES: Okay.

25 MR. GALLEGOS: That question has been answered.

1 Q. (By Mr. Gallegos) You're the supervisor of Lynda
2 Townsend, are you not, Mr. Hazlip?

3 A. Yes, sir.

4 Q. So you do not disagree with her testimony, then,
5 that in order for a party to make an informed decision
6 concerning any proposal, to react to it, they would need to
7 know the proposed location of the well?

8 A. No, sir, I disagree with that, and in every
9 circumstance there are a lot of times we send out a letter
10 just like this and we get an affirmative response that
11 somebody either wants to participate or doesn't want to
12 participate, based only on us sending them the spaced unit
13 that this well was going to be drilled on.

14 And so if they ask about it and they want more
15 information on it, we always can provide that.

16 Q. So you disagree with Ms. Townsend's testimony?

17 A. No, I disagree with your assumption that every
18 company needs this information to make a decision --

19 Q. Your company --

20 A. -- it needs footages.

21 Q. Your company needs that information in order for
22 it to make a decision. Isn't that your testimony just
23 moments ago?

24 A. We generally will take -- will ask for the
25 information, yes.

1 Q. Okay. And the proposal letter in question which
2 you were directed to by your counsel just a few minutes
3 earlier does not state to Samson nor to Kaiser-Francis the
4 location of the well, does it?

5 A. No, sir.

6 MR. GALLEGOS: That's all the questions I have.

7 CROSS-EXAMINATION

8 BY MR. HALL:

9 Q. Mr. Hazlip, if you would, please, take our white
10 exhibit notebook before you there, and if you would turn to
11 Tab O-8. If I may approach, I want to make sure the
12 witness and I are looking at the same document.

13 Mr. Hazlip, if you'll look at the second page of
14 that exhibit, that's a copy of an e-mail to you to Tom
15 Ward, isn't it [?]?

16 A. From me to Tom Ward --

17 Q. Yeah.

18 A. -- yes, sir.

19 Q. Were there any more e-mails generated in-house
20 between you and Mr. Ward, and you and --

21 MR. DEBRINE: And I'll object to this question as
22 clearly beyond the scope of direct exam and irrelevant.

23 MR. HALL: Mr. Examiner, in response to a direct
24 question asked by Mr. DeBrine -- he asked him about well
25 locations, and this e-mail goes directly to well locations,

1 assemblies of units.

2 MR. GALLEGOS: Mr. Examiner, let me point out
3 that there -- this -- beyond the scope of the direct is not
4 a pertinent examination. It's not a recognized examination
5 in evidence. And it's simple to overcome it. We simply
6 can call Mr. Hazlip to stay on the stand, we call him as an
7 adverse witness and ask the question. So what do we gain
8 by these kind of objections?

9 EXAMINER JONES: Yeah, let's go ahead and -- go
10 ahead and answer your -- ask your question.

11 MR. HALL: This is very brief, Mr. Examiner.

12 Q. (By Mr. Hall) Mr. Hazlip -- am I saying your
13 name correctly? --

14 A. Yes, sir.

15 Q. -- Hazlip? Are there any more e-mails from you
16 to Ms. Townsend or Mr. Ward or anybody in-house at
17 Chesapeake about the KF 4 State well and your entry onto
18 the southeast quarter of Section 4?

19 A. Oh, I don't recall any. I didn't even recall
20 this ever getting back to me, once it had gone over to Mr.
21 Ward's contact there at Kaiser-Francis, so I didn't even
22 receive this back.

23 Q. Okay. Let me ask you, were you aware that we had
24 subpoenaed documents of this kind? Were you aware of that?

25 A. I knew you had subpoenaed documents.

1 Q. Okay. Did you see the subpoena itself?

2 A. I don't know that I saw the subpoena.

3 MR. DEBRINE: And I'll object --

4 Q. (By Mr. Hall) Okay, were you asked --

5 MR. DEBRINE: -- to this line of questioning as
6 inappropriate for this witness at this stage. I spoke to
7 Mr. Hall before the proceeding started today, and he said
8 he was not going to be pressing his motion to enforce
9 subpoena that had previously been filed, and it's unclear
10 to me as to why he's questioning this witness about e-mails
11 that may or may not have been produced in response to
12 subpoena. It has no relevance to this proceeding.

13 EXAMINER JONES: Mr. Hazlip was qualified -- was
14 he qualified as an expert?

15 MR. DEBRINE: No.

16 EXAMINER JONES: So you didn't offer him as an
17 expert witness?

18 MR. DEBRINE: No, it was just -- he was just
19 asked to testify with respect to the narrow issue with
20 regard to his meeting with the Land Office, and that's all
21 he testified to on direct exam. And then the further
22 follow-up question with regard to the standard procedure
23 when an offer letter is sent out.

24 (Off the record)

25 EXAMINER JONES: Yeah, let's -- I think we're

1 digressing a little bit, especially since he hasn't been
2 called directly by his counsel for these purposes and
3 qualified as an expert in anything except for purposes of
4 the land meeting testimony.

5 So when you guys come back on you can call him as
6 a witness.

7 MR. HALL: Yeah, I understand. And Mr. DeBrine
8 is correct, we do have the motion to enforce subpoena
9 pending. And I told Mr. DeBrine that we were willing to
10 stand on his representation that all the documents
11 responsive to the subpoena had been produced. I'm
12 satisfied with that.

13 I was a little concerned, though, that we didn't
14 get this e-mail from Chesapeake.

15 THE WITNESS: Kaiser had it, did they not?

16 EXAMINER JONES: Go ahead.

17 MR. HALL: We didn't get this e-mail from
18 Chesapeake. Led me to believe that there might be more
19 e-mail traffic out there that we didn't get, and that's why
20 -- that's the purpose of the question. I understand your
21 ruling.

22 EXAMINER JONES: Okay.

23 MR. DEBRINE: And this is a little upsetting to
24 me, because I've had an ongoing dialogue in connection with
25 the production of responsive documents to Mr. Hall and had

1 conversations, and I've been telling him -- and it seems
2 like he's been trying to set some trap. He never raised
3 with me the question of production of e-mails or lack of
4 production of e-mails.

5 I've asked him to raise with me if he feels
6 there's any documents that he thinks were out there, we'd
7 endeavor to get them for him. We've done nothing but try
8 and bend over backwards to get every single document
9 responding to that subpoena. We had a conversation about
10 that issue this morning, and he represented that he wasn't
11 going to press it, and then here we are talking about it.

12 EXAMINER JONES: I understand, Mr. DeBrine.
13 Let's go ahead and -- Do you guys have any more questions?

14 MR. HALL: Pass the witness.

15 EXAMINER JONES: Pass the witness? Any more
16 questions for this witness, Mr. DeBrine?

17 MR. DEBRINE: No.

18 EXAMINER JONES: And I don't have any.

19 MR. BROOKS: And I don't have any.

20 EXAMINER JONES: So you've been a good sport, Mr.
21 Hazlip, thank you very much.

22 Any more witnesses?

23 MR. KELLAHIN: Yes, sir, we have a geologic
24 presentation that will probably take the best part of two
25 hours. I'm not sure how long cross will take. I don't

1 know about you, but I'm pretty tired. If you want to break
2 and come back in the morning, we can start fresh with the
3 scientists and --

4 EXAMINER JONES: I'm fine with that, if you guys
5 are fine with that.

6 MR. GALLEGOS: Sure.

7 EXAMINER JONES: Think we can get it finished
8 tomorrow though?

9 MR. KELLAHIN: Yes, sir.

10 MR. GALLEGOS: I think so.

11 EXAMINER JONES: Is that all right with you, Mr.
12 Brooks?

13 MR. BROOKS: I would mention that --

14 MR. KELLAHIN: I'm going to put the engineers
15 together and give one witness --

16 MR. GALLEGOS: Great.

17 MR. KELLAHIN: -- so we'll have one geologist and
18 one engineer.

19 MR. GALLEGOS: You'll just have one, okay.

20 MR. BROOKS: Do the parties anticipate that we
21 will conclude the hearing tomorrow? Will we be able to
22 conclude the hearing tomorrow?

23 MR. KELLAHIN: That's my best effort.

24 MR. GALLEGOS: It looks like it.

25 MR. BROOKS: I, for one, am available to go late

1 tomorrow if necessary. I don't know about the Examiner --

2 EXAMINER JONES: I am.

3 MR. BROOKS: -- or the parties. Of course, I --
4 that's not a big concession for me, because my hours extend
5 till six o'clock every day anyway.

6 EXAMINER JONES: That's fine with me. We can try
7 to be expedient.

8 Okay, we'll break until 8:15 tomorrow morning.

9 (Thereupon, evening recess was taken at 4:43
10 p.m.)

11 * * *

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on 9/6/05.
[Signature], Examiner
Oil Conservation Division

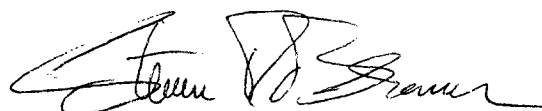
CERTIFICATE OF REPORTER

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 September 1st, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006

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 SAMSON RESOURCES COMPANY,)	CASE NOS. 13,492
KAISER-FRANCIS OIL COMPANY, AND)	
MEWBOURNE OIL COMPANY FOR CANCELLATION)	
OF TWO DRILLING PERMITS AND APPROVAL OF)	
A DRILLING PERMIT, LEA COUNTY,)	
NEW MEXICO)	
)	
APPLICATION OF CHESAPEAKE PERMIAN, L.P.,)	and 13,493
FOR COMPULSORY POOLING, LEA COUNTY,)	
NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

Volume II
August 23rd, 2005
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Tuesday, August 23rd, 2005, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

SEP 6 AM 9 11

C U M U L A T I V E I N D E X

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 CASE NOS. 13,492 and 13,493 (Consolidated)

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* * *

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505
and
CHERYL O'CONNOR
Assistant Counsel, NMOC
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR SAMSON RESOURCES COMPANY:

GALLEGOS LAW FIRM
460 St. Michael's Drive, #300
Santa Fe, New Mexico 87505
By: J.E. GALLEGOS

FOR KAISER-FRANCIS OIL COMPANY:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

FOR MEWBOURNE OIL COMPANY:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

(Continued...)

A P P E A R A N C E S (Continued)

FOR CHESAPEAKE PERMIAN, L.P.:

MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.

Bank of America Centre

500 Fourth Street NW, Suite 1000

P.O. Box 2168

Albuquerque, New Mexico 87103-2168

By: JOHN R. COONEY

and

EARL E. DEBRINE, JR.

and

KELLAHIN & KELLAHIN

117 N. Guadalupe

P.O. Box 2265

Santa Fe, New Mexico 87504-2265

By: W. THOMAS KELLAHIN

* * *

ALSO PRESENT:

MARK M. LAUER

Senior House Counsel

Samson Resources Company

CHARLES C. SMITH

Senior Attorney

Chesapeake Permian, L.P.

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER JONES: Okay, let's go back on the
4 record here in Docket Number 26-05, and continue where we
5 left off yesterday.

6 Mr. Kellahin?

7 MR. KELLAHIN: Mr. Examiner, as a preliminary
8 matter, this morning Lynda Townsend and Mike Hazlip, the
9 land-testimony individuals from yesterday's hearing, are
10 still here. I have one issue to raise with you about their
11 continuing presence, and once you make a decision on that
12 if they're required to testify further, then we'll do so
13 now. And if it's not necessary, I'd like to have them
14 excused.

15 My point is that we want to introduce as a
16 rebuttal exhibit to the com agreement that the Commissioner
17 of Public Lands has approved for the opponents -- it's in
18 the evidence now, and in order to rebut the inference from
19 that com agreement that a voluntary agreement approved by
20 the Commissioner of Public Lands in effect trumps our
21 ability to have you as an Examiner make the determination
22 of the ultimate orientation of the spacing unit, I think
23 it's important for the record to reflect the Land
24 Commissioner's letter where he specifically disavows the
25 fact that this agreement trumps your decision to ultimately

1 decide the orientation, notwithstanding the voluntary
2 agreement.

3 So at this time we would again move the
4 introduction of what we've marked as Chesapeake Exhibit A,
5 which is the Land Commissioner's letter.

6 MR. HALL: Again, Mr. Examiner, he's asking you
7 to revisit a matter you have already ruled on, and it was
8 argued at least 30 minutes yesterday. I don't think that's
9 appropriate.

10 MR. GALLEGOS: And let me add, we're talking
11 oranges and apples. The Land Commissioner's letter
12 supposedly is to go to the nature of the trespass by
13 Chesapeake, which is a completely separate matter from the
14 issuance of a communitization agreement in the ordinary
15 course of the Land Office's business, two totally different
16 matters.

17 (Off the record)

18 EXAMINER JONES: Mr. Kellahin, I don't think
19 we're going to -- I think we're going to stand by what we
20 decided yesterday on this.

21 MR. KELLAHIN: For purposes of the record, may we
22 have it attached and marked as refused, rather than
23 returning it to me?

24 MR. BROOKS: Yeah, I don't see any problem with
25 that. Of course, I'm not sure I see the purpose in it,

1 since an appellate court is not going to be reviewing the
2 record; rather, this proceeding will be reviewed *de novo* by
3 the Commission. But I have no problem with it.

4 MR. GALLEGOS: Samson has no objection to Ms.
5 Townsend and Mr. Hazlip being excused.

6 MR. KELLAHIN: Then in addition, Mr. Gutierrez
7 who testified yesterday --

8 MR. GALLEGOS: Yeah --

9 MR. KELLAHIN: -- all four [*sic*] of those people,
10 we'd like to release them and let them go home.

11 EXAMINER JONES: Okay, it's fine with this side,
12 it's fine with us. So -- Counsel has enough porcupines --
13 yesterday.

14 MR. KELLAHIN: Mr. Examiner, we'll proceed at
15 this time, with your permission, to call Mr. David Godsey.
16 Mr. Godsey is Chesapeake's petroleum geologist that is in
17 charge of this project.

18 MR. GALLEGOS: In the interests of time, Mr.
19 Examiner, we will stipulate Mr. Godsey is an expert
20 petroleum engineer --

21 MR. BRUCE: Geologist.

22 MR. GALLEGOS: -- petroleum geologist.

23 MR. GODSEY: I'm not --

24 EXAMINER JONES: Petroleum geologist --

25 MR. GODSEY: -- an engineer, sir.

1 EXAMINER JONES: -- petroleum geologist, yeah.

2 MR. GODSEY: Probably insulted several people in
3 the room, including me, you know, the engineers and the
4 geologists.

5 MR. KELLAHIN: We're ready to proceed, Mr.
6 Examiner.

7 EXAMINER JONES: Okay.

8 DAVID A. GODSEY,
9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Mr. Godsey, would you please state your name and
14 occupation?

15 A. David A. Godsey, I'm a senior geologist with
16 Chesapeake.

17 Q. When and where did you obtain your degree in
18 geology?

19 A. I received a BS in geology from Stephen F. Austin
20 State University in 1977.

21 Q. How many years have you worked in the industry as
22 a petroleum geologist?

23 A. A little over 27 years.

24 Q. Principally, what have been your responsibilities
25 and work as a petroleum geologist?

1 A. Approximately the last, as I said, 27 years,
2 doing all phases of exploration, exploitation, production
3 geology. I've been a prospect generator, prospect
4 evaluator, I've been a -- I started off doing core analysis
5 for Core Laboratories straight out of school. I moved from
6 there to a small independent threshold development company
7 doing development geology and exploration.

8 Went to work for Texas Oil and Gas, again in
9 Midland -- all this so far has been in Midland -- working
10 the Permian Basin and the Texas panhandle, working the
11 Morrow up there.

12 I went to Corpus Christi, spent four years there
13 with Texas Oil and Gas, was exploration manager supervising
14 a staff of around 40-some odd people.

15 Back to Midland, Texas, and again exploring and
16 exploiting various reservoirs, including the Morrow in
17 southeast New Mexico --

18 Q. What are your current responsibilities for
19 Chesapeake?

20 A. I'm really doing the same thing, I'm a
21 prospecting geologist for Chesapeake. I'm working
22 specifically -- pretty much just Lea County, New Mexico.

23 Q. And how long a period of time have you been doing
24 that, Mr. Godsey?

25 A. For Chesapeake or --

1 Q. For Chesapeake.

2 A. -- just -- specifically for Chesapeake? A little
3 --- almost two and a half years. Well --

4 Q. And --

5 A. -- two years, four months, about 12 days and a
6 smattering of hours.

7 Q. And for others in general, the total period of
8 time in the Permian Basin?

9 A. The better part of my 27 years, off and on. I'd
10 say the last ten years I've spent almost exclusively
11 working New Mexico, and I've spent a lot of time
12 prospecting in the Morrow. Overall experience, I've worked
13 the Morrow probably 15-plus years.

14 Q. So when we look at Chesapeake's KF State 4 well
15 in Section 4, the subject of the pooling Application, is
16 that your prospect?

17 A. Yes, it is.

18 Q. At the time the location for the KF State 4 well
19 was selected, was it based upon your geologic
20 recommendation?

21 A. Yes, it was.

22 Q. What was the primary objective of that well?

23 A. We were exploring for Morrow sands, we were --
24 and specifically with respect to the KF, we had the
25 Mewbourne well, which we were part of, produced --

1 Q. What role did the Mewbourne Osudo 9-1 well in the
2 north half of 9 play in your decision?

3 A. Oh, well, obviously when you've got a good well
4 like that making something over 20 million a day, it kind
5 of spurs your activity to move a little faster to get a
6 well out there as quickly as you can, and it makes you feel
7 a whole lot better about your geological interpretation of
8 where these Morrow sands are going to be.

9 Q. Tell us a little something about the Osudo 9-1
10 well, the Mewbourne well in the north half of Section 9, in
11 terms of what you recall at the time you're making the
12 decision about the KF State well in terms of that drilling
13 well's productivity.

14 A. The Osudo well is really -- it's a real Hoss of a
15 well. It has right at 54 net feet of middle Morrow sand.
16 It was making -- I think it came in natural, had a very
17 good flow rate. They very quickly -- I was really pleased
18 with how quickly Mewbourne completed the well and got it on
19 line, and they jacked it up to almost -- around 21 million
20 cubic feet a day, which is a pretty strong well for that
21 area.

22 Q. Did that event and those producing rates affect
23 your recommendation concerning how quickly you moved ahead
24 on behalf of Chesapeake --

25 A. Oh --

1 Q. -- to drill the offsetting well?

2 A. -- absolutely. Anytime you have a well making
3 that kind of gas, it's going to drain an area. And it is
4 my job, my responsibility as a geologist for Chesapeake, to
5 recognize that activity and to act upon it and to make
6 recommendations to the management. That's my job.

7 Q. And that's what you did here?

8 A. Exactly.

9 Q. The exhibits that we're about to see were
10 prepared by you?

11 A. Yes.

12 Q. And based upon these exhibits and your study and
13 involvement in this area, do you have certain geologic
14 opinions with regards to the orientation of the spacing
15 unit in Section 4?

16 A. Absolutely, yes, I do.

17 MR. KELLAHIN: We tender Mr. Godsey as an expert
18 petroleum geologist.

19 MR. GALLEGOS: We've already stipulated.

20 EXAMINER JONES: Mr. Godsey is qualified as an
21 expert petroleum geologist.

22 Can you spell your last name?

23 THE WITNESS: G-o-d-s-e-y.

24 Q. (By Mr. Kellahin) Mr. Godsey, if you'll turn
25 with me to what is marked as Chesapeake Exhibit Number 21,

1 take a moment to unfold that display. And let's start by
2 having you identify for the Examiner and the parties, what
3 is it that we're looking at?

4 A. Well, this is the log section from the Osudo 9
5 State Number 1 well. On the left side of the exhibit is
6 the neutron density/gamma-ray log. In red you would see
7 the perforated interval. Green would actually indicate the
8 overall producing interval.

9 On the right side of the display is the mud log
10 from there. They've been -- you know, the depth has been
11 adjusted, but I think they're pretty much accurately on
12 depth to each other, and the sand is highlighted in yellow
13 there.

14 Q. Is this information that was available to you
15 shortly after the completion of logging of the Osudo 9
16 well?

17 A. Yes, it was. As a matter of fact -- Of course,
18 we got the mud log before we got to TD, we were getting
19 daily updates on the mud log. And then within a reasonable
20 time frame I received logs on the -- the wireline logs,
21 yes.

22 Q. Did you have the wireline logs and the mud log at
23 the time that you were recommending to management to
24 proceed with the drilling of the KF State well?

25 A. Yes.

1 Q. Is there a particular portion of the Morrow
2 formation that's been accessed in the Osudo 9 well that we
3 might characterize as the sweet spot or the target
4 interval?

5 A. Well, these are middle Morrow sands, which is
6 what's producing throughout the area out here. And you can
7 see -- when you look at the log it's very obvious, this is
8 actually two sand units stacked on top of each other.

9 The uppermost lobe has the highest porosity,
10 probably the cleanest gamma-ray. The porosity gets out
11 over 19-percent crossplot porosity; it's averaging
12 something over 15 percent. So you know, that's some
13 awfully good rock in there.

14 The lower unit, which is a separate sand unit --
15 It's separated from the upper by a three-foot shale,
16 distinct, solid shale in there. And then when you get into
17 that lower unit you can see a different character to the
18 gamma-ray, the porosity profile is a little bit different.
19 It's still good rock and would make, in and of itself, a
20 very good contributor also. So I think the entire unit
21 here is producing, and these are sands known to be
22 producing in the area.

23 One other thing I would point out there, the
24 sands are also distinctly different when you look at the
25 rock description here. When they drilled into the top of

1 this, you can see by the description on the mud log here
2 that, you know, the upper sand is a little more coarser-
3 grained, it's more unconsolidated, it's more angular,
4 lighter in color. Of course we've already seen it has the
5 higher porosity.

6 In the lower sand, the rock is described as more
7 finer grained rock. It's more consolidated, more cemented,
8 and it's darker in color. So there's clearly a distinctive
9 change in the rock from the top unit to the bottom unit.

10 Q. Having the log data available from the Osudo 9
11 well and being prepared to offset it with the KF State 4
12 well, were you basing your decision on any geologic
13 evaluation of this target sand that you had generated prior
14 to drilling the KF State 4 well?

15 A. Oh, yes. Well, as we talked before, I've been
16 working New Mexico for a long time. I have looked at this
17 area in the past, and I've looked at it specifically since
18 I've been with Chesapeake, and I have done extensive
19 mapping in here before the drilling of this Osudo well.

20 Q. Did you bring with you an example of the mapped
21 interval for this key middle Morrow that's being produced
22 in the Osudo 9 well, so that we can see the state of your
23 work product prior to having the logs and drilling of the
24 KF State 4 well?

25 A. Yes, I did.

1 Q. Is that what is marked as Exhibit Number 22?

2 A. Yes, it is.

3 Q. Let's take a moment and unfold that display.

4 Without talking specifics for a moment, Mr.
5 Godsey, let's identify for the Examiner generally what it
6 is that he's seeing when he looks at Exhibit Number 22.

7 A. Okay, this map is -- it's really a composite map.
8 The green coloring you see here, that is a net middle
9 Morrow sand isopach, 10-foot contour interval.

10 Superimposed underneath that, you see the
11 structure on top of the Morrow, again at a 10-foot contour
12 interval.

13 In red I've identified known Morrow-producing
14 or -having-produced wells in the area. The net feet of
15 sand is shown on here in red.

16 We have the KF 4 State Number 1 location, surface
17 location, labeled there, and we see the laydown 320-acre
18 unit associated with that.

19 Q. Now, take a moment and look at the isopach
20 portion of Exhibit 22 and relate it back to the log section
21 on Exhibit 21 so that we can visualize the vertical limits
22 of the isopach zone that's being displayed on Exhibit 22.

23 A. Sure. If you -- you know, if you compare this to
24 Exhibit 21, of course, this is the exact log section of --
25 actually just a portion of the middle Morrow. There

1 weren't any sands above or below that, so this depicts all
2 of the sands that are present in the K- -- or in the Osudo
3 9 State Number 1.

4 And you'll see at the time I was picking 52 net
5 feet of sand for the Osudo well, and that would be
6 represented by the total amount of sand that I see
7 primarily on the neutron density log. I am influenced by
8 mud logs and stuff, but I primarily rely upon the neutron
9 density response.

10 That answers the question.

11 Q. Over in the caption area, you call this a pre-
12 drilling map. What does that mean to you?

13 A. Well, this was the map -- this is the state of my
14 mapping prior to spudding the KF 4 State Number 1.

15 Q. That well was spud on the 27th, I think, of
16 April, something like that?

17 A. I'll have to rely upon your memory. That's not
18 something -- I didn't --

19 Q. In any event, what I'm looking for is on the
20 legend down there. The date this particular version of
21 this map was generated is dated March 11th.

22 A. Right, we --

23 MR. GALLEGOS: Excuse me, our copy --

24 MR. KELLAHIN: I'm sorry.

25 MR. GALLEGOS: -- says May the 11th.

1 MR. KELLAHIN: I'm, sorry, May the 11th.

2 THE WITNESS: Yeah, mine does too.

3 Q. (By Mr. Kellahin) Yeah, May 11th.

4 A. Right, this is -- the dates that you see on there
5 will reflect the date of the last printing of this from our
6 program.

7 Now, obviously I took the mapping that I had --
8 and this was actually, I guess, in preparation for the
9 postponed hearing -- and obviously I had gone through
10 checking things, updating production numbers and making
11 sure I had everything on here, and then making sure
12 everything was right -- does that. It sticks the date that
13 you're doing that on there.

14 So that's -- that May 11th, yes, is the date that
15 this was printed.

16 Q. But you're satisfied that this reflects the
17 status of your interpretation before you have drilled the
18 KF State 4- --

19 A. Before we drilled the KF State, yes, sir, that's
20 my recollection.

21 Q. If you'll fold up your display, and let's turn it
22 towards the middle portion, it's hard to find some of these
23 well names, but you do have a tab in the south half of
24 Section 4, and it says KF State -- KF 4 State Number 1
25 well. And then there's a light-colored red line that

1 points over to a location in what we call the south half of
2 irregular Section 4. Do yo see that?

3 A. Yes, sir.

4 Q. Below that, then, in the north half of 9, there's
5 the number 52, and that appears to be associated with the
6 Mewbourne Osudo 9 State Com 1 well?

7 A. That's correct.

8 Q. At this point in time, then, can you look at
9 Section 4 and tell us among those 660-acre tracts in that
10 odd section, which are the best two 160-acre tracts that in
11 your opinion would contain the greatest potential reservoir
12 volume?

13 A. Well clearly, as indicated by the map, the two
14 160-acres that would comprise the most southerly 320 acres,
15 or the unit that we have proposed for the KF State,
16 contains the greatest thickness of sand and therefore the
17 most productive capability.

18 Q. How do those two quarter sections compare to the
19 160-acre potential value of the 160 acres where the
20 Cattleman 4 State 1 well is located?

21 A. Well, they look far superior to me than the 160
22 acres where the Cattleman 4 State Number 1 is located.

23 Q. If your objective is to orient the 320-acre
24 spacing unit within Section 4 to be consistent with what
25 you project to be the greatest reservoir volume and

1 therefore the greatest potential recovery, which
2 orientation would you recommend before drilling the KF
3 State 4 well?

4 A. Well, the laydown 320-acre which we have
5 proposed. It contains in my opinion, at that time and now,
6 it contains the greatest thickness of sand and therefore
7 the most productive capability. And that would match the
8 laydown orientation.

9 Q. Why did you propose to drill at this particular
10 location? What was your objective here?

11 A. Well, I've always liked the east-west trend of
12 these sands, and that will become clearer as we go further
13 through this. But I've been doing this for 27-some-odd
14 years, and we can do all the geology we want and believe it
15 as much as we do, but there's a lot to be said for
16 closeology.

17 So even though I really liked a location westerly
18 of there -- in fact, I think that entire laydown 320 has --
19 you know, is productive -- to best compete with the Osudo 9
20 well, we -- I slid the location further east than I
21 originally had contemplated. Not a whole lot, but a little
22 bit.

23 I still couldn't bring myself to move it due
24 north of it. It's still 660 from the south line and 990
25 from the east line, rather than 660 from the east line, but

1 we did move it in closer so we could best compete.

2 It's very similar to what Mr. Wakefield alluded
3 to in his location of the Hunger Buster Number 3 after they
4 changed their mind on the Hunger Buster 1 and then changed
5 their mind on the Hunger Buster 2 and moved it up to get as
6 close to the big producing well. That's commonly done in
7 industry.

8 Q. And then you drilled the KF State 4-1 well?

9 A. Yes.

10 Q. Do you have available for us a display of the log
11 section for that well, that we can discuss the results that
12 you obtained?

13 A. Yes, I do.

14 Q. Is that Exhibit Number 23?

15 A. That's Exhibit 23.

16 Q. Unfold that display for us, Mr. Godsey, and
17 before you talk about the details and your conclusions tell
18 us first of all, what are we specifically looking at?

19 A. Well, we're looking at, really, the same display
20 that we saw on Exhibit 21 of the Osudo well. This is the
21 KF well, the gamma-ray, neutron density log for that
22 section of the Morrow where the sands are contained on the
23 left side. Logs running under the same parameters, scales,
24 are the same. The mud log is attached on the right side,
25 and again it has been depth-shifted to coincide with the

1 wireline depth.

2 Q. Can you summarize for the Examiner the critical
3 points of information on this display that are important to
4 you as a geologist?

5 A. Sure. Several things stick out very clearly
6 here, that we really have three basic sand units here. We
7 have an uppermost unit, which is the thickest, with the
8 greatest crossover on the neutron density. Occur somewhere
9 around 11,850 or so.

10 Then we have two thin sand units right in the
11 middle there, around 11,900.

12 And then we have a third unit below that at
13 around 11,930 or so.

14 The characteristics of these sands are very
15 distinctive also. You'll not in the rock description here
16 on the mud log, that uppermost sand is very similar in
17 description to the uppermost sand unit of the Osudo 9.
18 It's the coarser-grained one, it's more unconsolidated,
19 more angular, lighter in color. And we'll see when we look
20 at some more cross-sections, it correlates very well in
21 there. In fact, just -- by just laying these two logs side
22 by side you get that inference very strongly.

23 The middle sands are more finer grained and more
24 consolidated, more cemented, with a color change. Very
25 similar to the rock description in the lower sand unit of

1 the Osudo 9.

2 And then the third unit, the lowest unit there
3 that we have in the KF, the rock description has changed
4 again.

5 So not only do we see some significant separation
6 between the sand units by these shales, the rock
7 description matches very well to what I see in the Osudo
8 Number 9.

9 We have not as high a porosity and not as thick
10 as the Osudo 9, but it looks like we've got a decent well.

11 Q. You indicated earlier that one of your concerns
12 about the Osudo 9 well was that there was a potential for
13 drainage of the south half of Section 4?

14 A. Yes.

15 Q. Do you find, now that you've got the logs for the
16 KF State well and have compared those with the logs from
17 the Osudo 9 well, that you have communication --
18 correlation of the log intervals between those two wells?

19 A. Yes, I do.

20 Q. In addition, has there been any information
21 generated from those logs on the KF State well that would
22 cause you to change your opinion about the orientation of
23 the spacing unit for the KF State 4 well?

24 A. Absolutely not. You'll see that my mapping has
25 changed slightly to reflect the current state of knowledge

1 in the area, but it actually confirms very strongly my
2 interpretation of the sands and the appropriate spacing
3 unit for the KF State.

4 Q. In addition to Chesapeake taking action to try to
5 offset and compete with the Osudo 9 well, were there other
6 operators in this immediate area that were doing the same
7 thing?

8 A. Absolutely.

9 Q. What other wells were being drilled?

10 A. Well, as we alluded to a while ago, the Hunger
11 Busters. Mewbourne, Kaiser-Francis and Samson have been
12 active in this area, in some type of cooperative effort,
13 apparently. They had, I think Mr. Wakefield had mentioned,
14 the Dilly Bar, which is in Section 8, Unit O. That's a
15 laydown 320 there that -- I think it was originally -- I
16 think it was originally permitted by Samson, but then
17 Mewbourne actually drilled the well.

18 Then Samson also, as Mr. Wakefield referred to,
19 staked the Hunger Buster State Number 1. Then they changed
20 their minds and staked -- and that was in Unit L. And then
21 they changed their mind and picked a location for the
22 Hunger Buster State Number 2 down in Unit P.

23 And then, of course, consequently after drilling
24 the Osudo 9, they changed their mind again and moved up,
25 and Kaiser-Francis spudded the Hunger Buster Number 3 in

1 Unit I, directly south of the Osudo 9.

2 Also at the same time, there's a lot of activity
3 over in Section 10 to the east of the Osudo well. Apache
4 operates the State WE L Com Number 1, which is in Section
5 10, Unit K, the one with 13 feet of sand in there. And
6 they were staking and spudding a well, the WE L Com Number
7 2, which would have been a -- it was a direct east offset
8 of the Osudo 9.

9 And also, you know, with state lease sales and
10 stuff in this general vicinity, as Mr. Wakefield had noted,
11 things are going at a pretty high price. So it is an
12 active area for the entire industry.

13 Q. Have you taken this information and generated a
14 stratigraphic cross-section of the key wells so that we can
15 see the geologic relationship of one to another?

16 A. Yes, I have.

17 Q. Let me turn to Exhibit 24. Is this the
18 stratigraphic cross-section that you have prepared?

19 A. Yes, it is.

20 Q. Let's take a moment and unfold that display.

21 Would you describe for us the marker points on
22 which the logs are correlated?

23 A. Yes, this is a stratigraphic cross-section, as
24 noted. It's hung on what I call the Morrow clastics,
25 indicated with a bold label right there. Above that in red

1 is the top of the Morrow, which I call, really, the top of
2 the Morrow Lime, that I correlate regionally throughout
3 southeast New Mexico.

4 Q. Are those marker points difficult to find?

5 A. Oh, sometimes I have to look at them two or three
6 times to convince myself I'm on the exact right spot.
7 Sometimes they can get a little bit iffy, and workers may
8 carry a different marker. Really, as long as you're really
9 consistent on what you're carrying, it's kind of an
10 insignificant difference. Most workers will carry very
11 similar markers, if not the exact same one.

12 Q. When we come back, then, to the isopach of the
13 middle Morrow and see that again -- You've got an updated
14 version, after drilling, right?

15 A. Yes.

16 Q. Again, define using this cross-section the
17 isopach interval that we will see again.

18 A. The isopach interval of the net middle Morrow
19 sand is the total amount of sand occurring between the
20 Morrow clastics and the lower Morrow marker you see below
21 that. Okay? And on this cross-section the yellow
22 highlighting would indicate the net sand I've picked in
23 each wellbore.

24 Q. Of the population of potential productive sand
25 zones within the Morrow, the key zone here to compete with

1 the Osudo 9 well is what, sir?

2 A. Are you speaking with respect to a specific sand
3 unit or --

4 Q. You talked about the combined sand units for the
5 Osudo 9 well.

6 A. Right.

7 Q. Are those the two primary producing sand
8 intervals in that well?

9 A. Yes.

10 Q. And was it your strategy, then, to see where
11 those sand intervals appear in other wells for which you
12 had logs in the area?

13 A. Yes.

14 Q. And is that what we see on this Exhibit Number
15 24?

16 A. Yes. You see here the specific correlation I'm
17 making of sand units within this area. And I'm really
18 picking out, for this gross area, three specific major
19 producing sand units. You can see the uppermost two, I've
20 labeled the "New" and then the "Upper", being green and
21 orange, are the two that I see occurring in the Osudo 9.

22 The KF 4 has both of those, it's best developed
23 in the green, the "New" one.

24 And then there's a third unit that is highlighted
25 in blue, I've called the "Lower". And these are just --

1 these are arbitrary names I've given them, you know, way
2 before this was drilled.

3 Q. Let's start, then, with the wellbore that has the
4 Mewbourne Osudo 9, which is marked as wellbore 3 on the
5 cross-section; it's the third one from the left. Do you
6 find that?

7 A. Yes.

8 Q. Do you see the perforated intervals that you've
9 outlined? They're shaded in the red?

10 A. Yes.

11 Q. Go over and find for us, then, the Chesapeake KF
12 State 4 well, which is, I guess, the next wellbore on the
13 left, the number 2 wellbore.

14 A. All right, the KF 4 well is well number 2 on the
15 cross-section, or left of the Osudo 9 well. And you can
16 see the correlation I make here of the new unit and the
17 upper unit, as well as the lower unit, which is not
18 developed in the Osudo 9.

19 Q. Can you satisfy yourself from this log
20 correlation that those two wellbores are going to be
21 correlative in the major zone of competition?

22 A. I think this is a pretty strong correlation.
23 There are other things that add to this correlation of the
24 individual sands in the area. This is part of the picture
25 in correlating them, by doing these detailed stratigraphic

1 correlations.

2 Q. I want you to draw in, now, the first well on the
3 cross-section. It's the Chesapeake CC 3. That, if you
4 look at a locator map, is the well in the far southwest
5 southwest of Section 3, correct?

6 A. Correct.

7 Q. And that's a well that Chesapeake drilled?

8 A. Yes, it is.

9 Q. How does this wellbore fit into your geologic
10 interpretation in terms of whether it's positioned to
11 compete with the primary sand in the Osudo 9 well?

12 A. Well, the -- we found two sand units in the CC 3
13 State Number 1. The lowermost of those two sands, I think,
14 is a correlative sand to that -- what I call the new unit,
15 which would be the uppermost lobe in the Osudo 9.

16 However, as Mr. Wakefield referred to yesterday
17 in his testimony, that well came in with essentially virgin
18 pressure. However, it declined rapidly -- I think it was
19 gone in about 30 days -- indicating it was in a limited
20 reservoir.

21 What that's telling me is that while, say, that
22 lowermost sand we have is correlative in the same
23 correlative unit to the new sand or the green one we see on
24 the cross-section here, there had to be some stratigraphic
25 separation, minor separation, of the individual sand lens

1 within that unit that just didn't carry very far.

2 So that CC 3 State Number 1, in and of itself,
3 won't be able to compete with this, because that individual
4 sand lens within that unit doesn't carry that far. It may
5 have gotten cut off by a flood chute of the fluvial system
6 and it backfilled with shale, so it just left a very small
7 lens. Or it could be actually an overbank sandstone of
8 that same fluvial unit.

9 Q. Yesterday Mr. Wakefield hypothesized that his
10 bias was to stand up the spacing unit in the south half of
11 Section 4 because he thought there was a north-south
12 orientation to the primary sand.

13 What is your opinion about that statement? And
14 is that statement supported by the results that you see
15 from the CC 3 well and the KF State 4 well?

16 A. Well, obviously I disagree with Mr. Wakefield's
17 contention of a north-south trending sands and the need for
18 a standup 320 in here.

19 I think that the detailed look at the well
20 control and sands present in the immediate vicinity, as
21 well as the regional geology, would indicate just the
22 opposite.

23 Not only that, Mr. Wakefield also referred to our
24 CC 3 State as a -- as if he had some problem reading the
25 log, it was very difficult to discern what was in that

1 wellbore. This is a shot-down version, it's 2-1/2-inch
2 scale, and I can pretty easily pick out the sand on that
3 well even at this scale, so I'm not sure what his problem
4 is with reading that log. Maybe he misspoke.

5 Q. Have you then taken all this additional log
6 information from these three new wells -- we've got the
7 Apache well, we've got the Hunger Buster well and we've got
8 the Chesapeake KF State 4 well -- have you taken that and
9 gone back and revised your pre-drilling isopach of this key
10 middle Morrow interval?

11 A. Yes, I have.

12 Q. Let's turn to that display, Mr. Godsey. It's
13 marked as Exhibit 25.

14 MR. KELLAHIN: Mr. Examiner, as an aid, and
15 hopefully not a confusion, we have imposed upon Mr.
16 Godsey's Exhibit 25 some white-lettered numbers, and I have
17 a later engineering display that's got these identified.
18 And my point in handing you Exhibit 36 is that you have a
19 way to locate these numbers in relationship to the well
20 names and hopefully not be confused.

21 EXAMINER JONES: Thank you.

22 Q. (By Mr. Kellahin) For shorthand, Mr. Godsey, I'm
23 going to refer to your map 25 as the post-drilling map.
24 And what I mean by that is, we're talking about the post
25 drilling of the KF State 4 well, the post drilling and

1 logging of the Hunger Buster 3, and then the Apache well
2 over in Section 10.

3 In addition to those three wells, are there new
4 wellbore log data that's depicted that I have not
5 identified? We've got three new wells.

6 A. Let me make sure which three you mentioned. I'm
7 sorry, I drifted away from you for a minute.

8 Q. The KF State Number 4 well --

9 A. Okay.

10 Q. -- which is marked as 9. We have the Number 8
11 well, which is the Apache well. And you've got the Hunger
12 Buster 3, which is marked as Number 7.

13 A. To the best of my knowledge, those are the wells
14 -- those are the new wells that have been drilled in this
15 vicinity for the generation of this updated map, yes.

16 Q. When you look at an area that contains the nine-
17 section area of study, what nine sections would be specific
18 to our concern about the -- an area of study?

19 A. Well, you can narrow it down to the nine
20 sections, Sections 3 and 4, which are the long, irregular
21 sections, 9 and 10, and then 15 and 16.

22 Q. So if we concentrate on those six sections, then
23 we would have an area that you could then study the log
24 data and make interpretations and reach conclusions about
25 the orientation of spacing units for the south half of

1 Section 4?

2 A. Yes.

3 Q. Let's start with the Apache well, which is marked
4 as Number 7, in the northeast quarter of Section 10. The
5 results of that well show you what, sir?

6 A. Excuse me, the Apache well is marked as 8 in the
7 northwest of 10; is that correct?

8 Q. Is that the right one?

9 A. The Apache well is marked as 8 in the northwest
10 of 10, yes.

11 Q. It's got the "0" in it?

12 A. It has the "0" in it.

13 Q. That's what I'm talking about.

14 A. Okay, all right. Make sure we're on the right
15 page.

16 Q. Taking the results of the log data from the
17 Apache well, did Apache attempt to complete and produce
18 that well?

19 A. No, they did not.

20 Q. And what's your understanding as to why that did
21 not occur?

22 A. They had no sands, no sands to complete in. They
23 did -- the talked about attempting a DST in the Strawn. I
24 think they did attempt one. I think it was -- tested a
25 little bit of mud, basically tight, and they plugged the

1 well. But they had no Morrow sands present.

2 Q. Let's take your Exhibit 23, put it over to one
3 side of your work table, and go back and unfold Exhibit 22.

4 A. Okay.

5 Q. Going back and looking at Exhibit 22 -- and I'm
6 focusing your attention on Section 10 -- in Section 10 you
7 have -- in the west half of 10 you've got 13 feet of net
8 sand in a well associated as -- I guess that's the EGL Com
9 Number 1 well?

10 A. Right. The State WE L Com Number 1, which is in
11 Section 10, Unit K --

12 Q. Okay.

13 A. -- that's labeled as well number 2 on the --
14 Exhibit 25.

15 Q. Okay. So as a result, then, of having well
16 number 8, the Apache well, drilled and not encountering
17 sand, what did you do to modify your isopach to account for
18 that specific control point?

19 A. Well, obviously there's no sand at that spot, so
20 I had to adjust my mapping to honor that point. I can
21 clearly see the east -- overall east-westerly orientation
22 of the sands in here and the correlation of the well in
23 Section -- the producing well in Section 10, with the Osudo
24 9 well. And what that did was skinny up, if you will, that
25 sandbody coming in through Section 10.

1 Q. If you'll look down in the south half of 9, with
2 the post-drilling map, Exhibit 23 -- 25, you've got the
3 Hunger Buster State 3 well, now, that has been drilled and
4 logged. You have that data. You integrate that data into
5 your work. Compare what you now know about that log with
6 your pre-drilling map and describe for us the change.

7 A. Well, I felt like, obviously all along, that they
8 would encounter some sand in the Hunger Buster Number 3
9 location. However, I didn't think it would be in the
10 thickest or sweet spot of the isopach. And they did find
11 -- I give them 11 feet -- net feet of middle Morrow sand in
12 their wellbore. I might be being generous by a foot or so.
13 But they did find some sand. It's a little bit edgy by my
14 estimation, and just a little more edgy even than I had
15 originally drawn.

16 And the performance of the well would indicate
17 that also. I think Mr. Wakefield alluded to it making
18 around 700 a day right now.

19 Q. What does that data from the Hunger Buster State
20 3 well tell you in terms of the orientation of the primary
21 producing sand you're trying to compete with as being
22 produced out of the Osudo 9?

23 A. Well, it makes it very difficult to justify some
24 major north-south-trending sand through here when they went
25 from the Osudo having around 54 feet of sand, down to the

1 Hunger Buster having only 11 and making only 700 a day.

2 Also, when you incorporate in the results of the
3 Apache well in Section 10, labeled as Number 8 there, with
4 zero feet of sand, it's obvious that that sand in the State
5 WE Com Number 1 in Section 10 -- the producing well,
6 labeled number 2 on Exhibit 25 -- it's obvious that sand is
7 not running north-south, or you would have expected sand in
8 that. Also, you would -- you really would have expected a
9 lot more sand in the Hunger Buster Number 3, if there were
10 truly a north-south orientation through here.

11 Q. When you talk about counting up the net sand pay
12 in this key interval, you're not using a porosity cutoff,
13 are you?

14 A. No, I'm not. That can be done, if you want to,
15 as a far later stage in mapping an area, but the -- first
16 and foremost you have to, obviously, understand the
17 regional geology, you have to do some interval isopaching,
18 and then you have to -- I like to come in and build this
19 map that you see as Exhibit 25 as my key map in mapping for
20 the Morrow, for several reasons.

21 What I'm doing is counting up the net feet of
22 sand without a cutoff, because I want to identify where the
23 sandbodies are. Within that you may come back in and pick
24 the net feet of porous sand, if you want to, if you have
25 enough control for it to be a meaningful map. But first

1 thing you have to do is figure out where these sands are
2 going, so that's what I like to do there.

3 Also, this is a key map for exploring in the
4 Morrow, because you have a multitude of sands that develop.
5 And while you like to try and correlate out and identify
6 some of the main individual sand units, you have to know
7 where your sand trends are to help you know where those go,
8 and this is the most accurate way of deciding what your
9 sand trends are.

10 As soon as you go to the step of correlating the
11 individual sandbodies you're introducing another error,
12 potentially, in your interpretation, because if you've got
13 that wrong your map is significantly wrong. Here, at
14 least, we're dealing specifically with the fact of what is
15 in the wellbore.

16 Q. When we look at Exhibit 25 there's marked on the
17 display over to the east, "Morrow subcrop"?

18 A. Yes.

19 Q. Describe for us what you mean by that indicator.

20 A. Well, this area, the KF area, is sitting on the
21 west flank of the Central Basin Platform. In fact, we're
22 literally walking distance, if you don't mind walking a few
23 miles, to the exposed highlands of the Central Basin
24 Platform. That's the primary local sediment source for the
25 Morrow in this area.

1 The other sediment source, major sediment source
2 for the Morrow, would be the Pedernales uplift, and that's
3 way over 50 miles away to the north and northwest.

4 So this Morrow subcrop depicts where the Morrow
5 is not present to the east of that line. Now, this is an
6 approximate line that I've picked in here, there's very
7 limited control. And we'll see a cross-section in a minute
8 illustrating the Central Basin Platform and stepping down
9 off into the Delaware Basin.

10 Q. Did you expand your work to see how your
11 conclusions for this specific area fit into a larger
12 geographic area?

13 A. Yes, I did.

14 Q. Do you have a map that will show us a larger
15 area, to see how this relates Morrow production?

16 A. Yes, I do.

17 Q. Let's take a look at Exhibit 26.

18 EXAMINER JONES: 26? Which map?

19 MR. KELLAHIN: 26, I hope. You have to check me.

20 Q. (By Mr. Kellahin) What is it that we're looking
21 at, Mr. Godsey?

22 A. This is a regional gross Morrow isopach for this
23 area. It covers about 720 square miles. By no stretch is
24 it the entire Morrow of southeast New Mexico; that starts
25 getting a little bit onerous to do in here. But it covers

1 a very large area. You can see the Morrow subcrop line
2 over there on the east side of the map again, and this is a
3 25-foot contour interval.

4 Now, I'm actually picking both the upper and the
5 middle Morrow in here; I'm not including the lower Morrow
6 section in it. The main reason I'm not there is, there's
7 enough wells out here that didn't quite go deep enough to
8 get that lower Morrow marker, or just deep enough to see
9 that, and you didn't see the Mississippian, so you wouldn't
10 know how much lower Morrow was really there. And since the
11 middle Morrow is the primary producing unit out here
12 anyway, this serves very well.

13 What it does, the significance of this is, it
14 shows in a little more regional context the presence and
15 lack of presence to the east of the Morrowan sediments in
16 the area. It's reflecting the influence of the Central
17 Basin Platform to the east, with sediments thickening to
18 the west, into what is really the -- kind of the northern
19 part of the Delaware Basin, which feeds further south into
20 Texas and deepens up down there.

21 Q. Have you also integrated the cross-sections into
22 a structural configuration?

23 A. Yes, I have.

24 Q. Let's turn, Mr. Godsey, to what is marked as
25 Exhibit 27. What are your major conclusions from looking

1 at the structural cross-section, Mr. Godsey?

2 A. Well, the first thing you look at -- keep in mind
3 that this thing is hung structurally. This is kind of a
4 complex area. There's a lot of things happening here.

5 On the right side of the cross-section, which
6 would be the east side, well number 8 is one that actually
7 goes off of the map area. It's about 5.3 miles east of the
8 WE L Com Number 1, which is well number 7 on the cross-
9 section. It's really my first point of good control,
10 moving up onto the Central Basin Platform.

11 And you can see the Central Basin Platform
12 influence there very strongly. You'll note that -- shoot,
13 the -- if you take this lowermost correlation line in the
14 Mississippian, which is in green on the cross-section, it
15 jumps from wells 1 through 7, it jumps up to well number 8
16 way, way high. There's a whole lot of section missing
17 there. In fact, all of the Morrow is missing on there,
18 it's not even present. This was exposed highlands during
19 the early Pennsylvanian time, and sediment source that's
20 feeding off here, infilling the Basin, and the source for
21 the sands.

22 So you can see that big structural component
23 there. You can see the Morrow, which the top of the Morrow
24 is shown here, labeled, and the correlation line is red.
25 You can see that Mississippian in green that I alluded to

1 earlier, you can see it developing, coming off, expanding
2 down to the west, into the upper reaches of the Delaware
3 Basin.

4 And this Central Basin Platform continued to be
5 present and have an influence on deposition all the way
6 through the Permian. You can see these three yellow units
7 on here. That's the Bone Springs sands that are coming up,
8 and they actually -- I didn't depict them on here, but
9 they're coming up and pinching out, they're not present up
10 on the platform also, they're basinal sediments also.

11 From what you see there in the Morrow -- As a
12 matter of fact, the first two wells in the cross-section,
13 wells 1 and 2, are very close offsets to each other, and
14 you can even see some of the complexity of the sand
15 development in direct offsets there, as well as the
16 complexity of the sand development that we see around the
17 KF State and the Osudo 9, around logs 5, 6 and 7, say, on
18 the cross-section.

19 So it should give you a good sense of the
20 structural configuration, what's happening in the
21 sedimentation here, and the complexity of correlating in
22 the Morrow.

23 Q. How would you characterize the geologic risk
24 associated with drilling a Morrow well in this area?

25 A. The Morrow is a very prolific play in southeast

1 New Mexico and in this area. It is not an extremely high-
2 success-probability play because of this complexity.

3 Now, I will say in this general area of the
4 Osudo, KF, you know, say about a two-township area in here,
5 there are a lot of good wells in here, and there's a very
6 high success probability of finding sand in the Morrow.
7 And most of them are in the middle Morrow. And --

8 Q. How do you compare that, then, with Apache's
9 results in Section 9?

10 A. Gosh, I almost would have thought I would have
11 had a working interest in that well, because it's very
12 unusual not to find any sand in there. But -- which was my
13 history.

14 But the -- I'd say it's very unusual to find zero
15 feet of sand. Usually, you find a few feet, and of course
16 sometimes that's almost worse, because then you run a pipe
17 on something that doesn't make a commercial well and you
18 lose even more money. But sometimes these thin sands will
19 actually stand up and make a pretty decent well.

20 Q. Having looked at your specific study of the study
21 area, the six sections, and with the new data that you had
22 available, what we call the post-drilling information --
23 you've looked and see how it fit into your regional
24 interpretation -- have you done a literature search to see
25 how your conclusions and your geologic opinions compare to

1 the published literature of other experts?

2 A. Yes, I have.

3 Q. Can you turn us to what is marked as Exhibit 28?
4 Identify for us, before we talk about this, what is the
5 source of this information.

6 A. Sure. Well, it's noted here on the display, but
7 this is a -- from the paper by Hill and the 1996
8 publication. It's called the "Geology of the Delaware
9 Basin Guadalupe, Apache, and Glass Mountains New Mexico and
10 West Texas". It's published by the Permian Basin Section
11 of the SEPM. Publication is noted on the...

12 This is the accepted paleogeographic picture at
13 the time of Pennsylvanian for west Texas, southeast New
14 Mexico. And a rather large red dot, you can see
15 approximately where the KF sits. It shows the Central
16 Basin Platform that I've spoken about already.

17 Q. Is this a type of work that's relied upon you and
18 other expert geologists to verify or disprove your general
19 hypothesis about the Morrow geology?

20 A. Absolutely, this is -- this figure, or figures
21 very, very similar to it, have been utilized in the
22 literature and accepted for years by numerous, numerous
23 authors.

24 Q. Tell us what your point is --

25 A. Okay, the --

1 Q. -- what I'm seeing.

2 A. -- the point of this is -- You can see the
3 Central Basin Platform there. You can see the arrows
4 indicating the general sediment source for deposition of
5 Morrowan sediments into the Delaware Basin. As a matter of
6 fact, in the caption there for Figure 13, which I quoted
7 directly out of the literature, it talks about the sediment
8 sources being the land masses that I've mentioned here,
9 being the Central Basin Platform, the Pedernal uplift,
10 Diablo Platform, and also from the extreme far south and
11 into Texas you get some from the Marathon.

12 Q. Do you have another exhibit from a recognized,
13 published authority?

14 A. Yes, I do.

15 Q. And let's turn to Exhibit 29. Identify for us
16 the source.

17 A. This is actually a companion exhibit out of the
18 same source as the previous exhibit.

19 Q. Summarize for us the reason we're seeing this.

20 A. Well, this is a series of diagrammatic cross-
21 sections showing basically what's happening through time in
22 this part of the Delaware Basin.

23 I draw your eyes particularly to cross-section C,
24 the middle one of all of those. In red would be
25 approximately where the KF would sit. You see the Central

1 Basin Platform right there to the east of it, and
2 highlighted in yellow is that sediment wedge of Morrowan
3 rocks coming off of the Central Basin Platform and
4 thickening into the Delaware Basin.

5 Q. Let's turn now to Exhibit 30. What are we seeing
6 here?

7 A. Exhibit 30 is from another source. This is
8 actually a publication by the State Bureau of Mines and
9 Mineral Resources, the New Mexico Institute of Mining and
10 Technology. It's a paper specifically by Richard F. Meyer
11 back in 1966. He was examining the Wolfcampian and
12 Pennsylvanian rocks in southeast New Mexico.

13 Now, if we want to talk about a regional map,
14 this is a regional map; you see a big part of New Mexico on
15 here. But what he's isopaching here is the Morrowan
16 sediments in southeast New Mexico. You can see the red
17 dot, which would depict approximately where the KF State
18 would fall. You see his zero line, which coincides very
19 well with the work I've shown you before on my Morrowan
20 subcrop. Anyway, that is depicting the Central Basin
21 Platform to the east and the thickening of Morrowan
22 sediments into the Delaware Basin.

23 At just a glance, you can see how similar that
24 looks to my regional Morrow isopach that covered only 720
25 square miles instead of the entire southeast New Mexico.

1 Q. Is there any indication in this display that
2 there's a particular bias in orientation?

3 A. Well, the inference here is that you have your
4 sediment source, your nearest land mass, is immediately to
5 the east of you. We all know what happens when it rains,
6 water flows downhill, sediments go downhill. Your nearest
7 source is immediately to the east, your Basin is to the
8 west. Sediments are going to flow from that direction.

9 Your next nearest sediment source is well over 50
10 miles away. That is not the primary sediment source for
11 the Morrow sands in this vicinity.

12 Q. Let's turn to Exhibit 31, please.

13 A. Exhibit 31 is another publication that has been
14 recognized and used by various authors for years. This is
15 one by Darrell James in 1984, where he was -- specifically,
16 the paper was titled, "Lower Pennsylvanian Reservoirs of
17 the Parkway Empire South Field, Eddy County, New Mexico",
18 and this is the Transactions from the Southwest Section of
19 the AAPG meeting of that time.

20 What's significant about this one is, it's
21 showing much of what we've seen before but with a little
22 bit more detail. He's showing the Central Basin Platform
23 over there. In fact, he's labeling on here, if you can
24 read it, "Ancient Pennsylvanian Mountains", just to the --
25 immediately east of our KF State. And you can see his kind

1 of sideboard arrows in here, indicating the sedimentation
2 pattern developed in the Morrow at that time.

3 This publication has been used and adapted by
4 numerous authors, including the Mazzullos. I think both
5 the brothers have used it. Mazzullo and Reid, Spear -- all
6 of them are, you know, well recognized experts in the
7 Basin. I know Mazzullo and Spear both have testified
8 numerous times in front of the OCD.

9 Q. Turn now, Mr. Godsey, to what you have marked --
10 or what we have marked as Exhibit 32.

11 A. Exhibit 32 is out of, really, the most recent
12 study that I know. This is from the -- This is a major
13 two-year-plus study undertaken of the Morrow by Integrated
14 Reservoir Solutions and Core Laboratories. It's
15 underwritten by numerous companies within the industry,
16 Chesapeake being one of them.

17 And what they -- They undertook a study of the
18 Morrow in southeast New Mexico, specifically Lea, Eddy,
19 through the Delaware Basin, all the way north up into --
20 north of Lovington, even, into the Tatum Basin, and
21 utilizing as much core data as they could get their hands
22 on, looked at it in great detail. And this publication --
23 this is from that study.

24 Now, what this specific map is showing is the
25 paleogeography of the southwestern United States during

1 early Pennsylvanian time. Now, early Pennsylvanian time,
2 that's Morrowan time.

3 In red you see depicted, again, the approximate
4 location -- the scale of this map, you know, it's obviously
5 covering a large area, but the approximate location of the
6 KF State.

7 In the browner color here, that's where the
8 exposed surface is at the time of deposition. So again,
9 it's showing in brown there immediately to the east of the
10 KF State area, the Central Basin Platform, or those -- that
11 highlands right there, and -- which would be the immediate
12 sediment source for the KF. It's to the east, KF is to the
13 west, Delaware Basin is further west than that. Sediment
14 is going to be going downhill.

15 The next nearest sediment source would be way up
16 to the northwest, being the Pedernales uplift.

17 Q. Exhibit 33, please, Mr. --

18 A. Okay, this is -- Don't worry, this is the final
19 one out of the literature. This is out of that same Morrow
20 study, and it's really kind of a snapshot in time of what
21 they call the middle middle Morrow lowstand, much more
22 detail than I can get in just normal log correlation.

23 But the significance of this, again, is showing
24 what they see to be the depositional pattern for the Morrow
25 -- the middle Morrow, specifically -- in the area of the KF

1 State. Again, it's coming generally from east to west,
2 feeding down into the northern parts of the Delaware Basin.

3 Q. When you take the published literature and
4 compare it to your end product shown for the middle Morrow
5 on Exhibit 25, is there anything that you've shown on
6 Exhibit 5 [sic] that is not supported by the published
7 literature?

8 A. Exhibit 25, which is the current state of my
9 mapping of the net middle Morrow sands. No, actually it's
10 in very close agreement to what I see in the literature, to
11 what most workers, most geologists I know, believe to be
12 the general trend of sands coming off of the Central Basin
13 Platform. It agrees with my regional mapping.

14 In fact, you can almost look at this as a semi-
15 regional map anyway. I mean, this covers about 84 square
16 miles, so it's -- I'm not just myopically looking at one
17 spot and trying to connect some sands in a most convenient
18 manner.

19 One thing you do get from looking at this net
20 middle Morrow sand isopach is -- what stands out from the
21 start, at first glance, even, is the east-west orientation
22 of sands. You can start from the south on the southeast
23 quadrant of the map and just start looking up to the north,
24 and you see thick, thin, thick, thin, thick, thin,
25 consecutively through the area, which is what my regional

1 mapping would lead me to believe should be the nature of
2 the sands, which is what the literature says should be the
3 nature of the sands.

4 Q. Are there other what I would call secondary sands
5 in the Morrow interval that would be targeted by operators?

6 A. Well, if I understand the question -- Could you
7 state that again? I'm not sure I understood what you're
8 asking.

9 Q. Is the middle Morrow portion of the sand
10 producing in the Osudo 9 well the only potential target in
11 the Morrow?

12 A. It is the -- by far the most common. The middle
13 Morrow is where -- I don't know the percentage, probably
14 somewhere over 90 percent of the production comes from.
15 There are a few scattered wells that produced out of what I
16 consider to be the lower Morrow.

17 Q. Have you generated maps of other portions of the
18 Morrow, so we can see what your interpretation is about
19 what I would call secondary zones in the Morrow?

20 A. I have not generated individual maps on the lower
21 Morrow or specifically the upper Morrow, because the upper
22 Morrow -- there are essentially no sands producing out of
23 it. I have generated individual sand maps on these middle
24 Morrow sands that are producing in here.

25 Q. Well, let's look at those.

1 A. Okay.

2 Q. Let's start with the middle Morrow, then, and
3 look at the individual sands to see how all those fit
4 together. And let's start, then, with Exhibit 34.

5 So we don't lose track of you're doing, Mr.
6 Godsey, if you'll take Exhibit 34, find one of the cross-
7 sections --

8 A. Yeah, if you'll find cross-section -- the
9 detailed Morrow stratigraphic cross-section, it's Exhibit
10 24, will be a good one to refer to.

11 Q. Let's pull out 24. And before you start, we're
12 going to take Exhibit 24 and look at 34, and figure out
13 from Exhibit 24 the isopach interval that you're now
14 showing us in Exhibit 34.

15 A. Okay.

16 MR. BROOKS: Okay, let's give me a minute to find
17 Exhibit 24 --

18 THE WITNESS: Did I get you covered up with paper
19 over there?

20 MR. BROOKS: -- stack here.

21 THE WITNESS: We're looking at what would be
22 these two.

23 MR. BROOKS: Yeah, the Examiner found it, but I
24 seem to have -- Oh, here it is, I believe. Is this it?
25 Yeah, got it. Thank you.

1 Q. (By Mr. Kellahin) All right, Mr. Godsey,
2 starting with Exhibit 24, show us the interval that's going
3 to be isopach'd and presented by display 34.

4 A. Okay, I tried to make it simple for me, and
5 hopefully for you too. I'm looking at what is labeled on
6 the cross-section, Exhibit 24, as the upper sand. It falls
7 within the orange interval on the cross-section. It would
8 be the lower of the two sand units present in the Osudo 9.

9 Q. If you go over on the cross-section, find the
10 Apache well, which is well number 5 -- See that?

11 A. Yes.

12 Q. Read down, and you read the printed word "Upper".

13 A. Yes.

14 Q. And then associated with "Upper" is this orange
15 area?

16 A. Yes.

17 Q. Is that the isopach'd interval?

18 A. I'm isopaching not that gross interval but the
19 net feet of sand within that interval.

20 Q. Got it.

21 A. Okay.

22 Q. Let's go over to Exhibit 34 and see how that sand
23 is distributed through the area.

24 A. Okay. Again, this is a net sand isopach of the
25 sand that occurs within that unit. I believe it is a

1 10-foot contour interval. Again, you see underneath that
2 the structure on top of the Morrow, same structure we've
3 seen on previous maps.

4 The cross-section, I believe, is indicated on
5 here as well. It starts on the left side with well number
6 1 up in Section 3, with the CC 3 State Number 1, continues
7 through the KF to the Osudo 9, down to the Hunger Buster
8 Number 3, which would be well number 4 on the cross-
9 section, jumps over to the Apache State WE L Com Number 2,
10 and then to the WE L Com State Number 1, and then south to
11 the WE K Number 1. Those are really -- those are the key
12 wells pertaining to this area.

13 And what I see here is, by my correlation, the WE
14 L Com Number 1 has 10 feet of net sand within it, and they
15 are currently producing out of that. The Osudo had 32 feet
16 and the KF State had 2.

17 You also see zeroes, giving you a sideboard feel,
18 if you will, in the Hunger Buster 3, the Apache well, as
19 well as an old well to the west of the Hunger Buster 3.
20 This -- Again, this agrees with my expected orientation of
21 sands, based on all of the work we've seen so far, and it
22 indicates that the greatest thickness of sands for this
23 unit fall within that laydown 320 that we requested for the
24 KF State.

25 Q. Let's turn now to Exhibit 35, Mr. Godsey, and in

1 order to understand 35, let's again go back to Exhibit 24.
2 Find on one of the cross-sections the isopach'd interval
3 for the isopach displayed on Exhibit 35.

4 A. Okay, you look again on the cross-section at well
5 number 5, the Apache State WE L Com Number 2, and if you
6 look down to where the box says, in parentheses, "New",
7 within that green-shaded is my correlative unit I'm
8 carrying through the cross-section. I am mapping the net
9 feet of sand within that unit, and I've very cleverly
10 colored it green on my isopach so it would correspond.

11 Again, this is a -- looking at the Exhibit 35,
12 the net sand isopach, again, this is a -- just a net sand
13 isopach, 10-foot contour interval, cross-section is shown
14 the same, all that is the same.

15 So what we see here is, the WE L Com Number 1
16 over in Section 10 has five feet, and that is one of the
17 producing sands in that wellbore. The Apache, of course,
18 had zero. They do have four feet of that in the Hunger
19 Buster Number 3. The Osudo 9 has 22 feet. We have nine
20 feet of it in our KF State.

21 Again, I'm seeing the expected east-to-westerly
22 orientation of sands that I would expect.

23 Now, of note is that three feet of sand in the CC
24 3 State Number 1, which we discussed earlier, there was a
25 thin three feet of sand in it. It was good rock, but

1 apparently there was some separation in that, so it was in
2 a very limited reservoir.

3 But again, this shows that with the data we have,
4 with the orientation of the sands given by the well control
5 we have, the east-west orientation of the unit that we
6 requested is appropriate for these sands.

7 Q. So as for this sand, you would continue to assert
8 to the Examiner the adoption of the south-half spacing
9 unit?

10 A. Yes, I would.

11 Q. Let's turn to Exhibit 36. Again, let's apply the
12 same method. If you'll go back to the cross-section 23
13 [sic], find us the sand that's being isopach'd on Exhibit
14 36 and draw the connection.

15 A. Sure. If you go again to well number 5 on the
16 cross-section, which is the Apache WE L Com Number 2, and
17 look down to where it says "Lower", which would be that
18 blue interval on the cross-section, again, within that blue
19 interval I'm mapping the net feet of sand within that unit.
20 And I've colored it blue on the isopach map of Exhibit 36.

21 Again, this is a 10-foot contour interval isopach
22 of the net feet of sand in this area. It's my contention
23 that this sand, specific sand unit, is not present in the
24 -- either well in Section 10, being the WE L Com 1 or 2. I
25 don't think it's present in the Osudo 9, I don't think it's

1 present in the CC 3 State Number 1. We do see six feet of
2 it, and it is producing -- or would be producing if it were
3 allowed to produce -- in the KF State Number 1.

4 So again, the bulk inference of sand for this
5 sand unit again falls within the laydown 320 that we've
6 requested for this proration unit.

7 Now, that is, I think, the correlative sand that
8 you see that three feet of up in, say, the middle part, in
9 the middle 320 of Section 4. That's one that Mr. Wakefield
10 did reference a couple of times in his testimony yesterday.
11 I think he said he thought maybe there was a couple of feet
12 in there. And he's right, but it's more like three feet,
13 but that's okay. And it was not a producing well; it had a
14 thin three feet of sand in it. But I believe it to be
15 correlative in here.

16 Q. Let's go back to the post-drilling display, which
17 is Exhibit 25. Based upon your study and revisions to this
18 display, including the new information that you've received
19 from the Apache well, the Hunger Buster 3, and the KF State
20 4 well, would you continue to recommend drilling the
21 Cattleman 4 State Number 1 well?

22 A. No, I do not.

23 Q. Come down at the location of the KF State well.
24 The original location, as I understood it, was 660 from the
25 south line, 990 from the east?

1 A. Correct.

2 Q. And during the drilling process there was a
3 deviation of that wellbore where it was moved in a westerly
4 direction?

5 A. Correct.

6 Q. What was the reason that was done?

7 A. Well, the -- Samson, Kaiser-Francis, Mewbourne,
8 et al., obviously have been -- Well, they were claiming
9 that they were going to be materially damaged by our
10 location being located -- our wellbore being located at 660
11 from the south and 990 from the east. They claimed that
12 the superior location would be to the west of that at 660
13 from the south and 1650 from the east, which is the
14 location they tried to obtain approval for from the OCD and
15 were turned down.

16 So if you follow the logic of what they were
17 trying to claim, it's like no matter what we found in our
18 vertical wellbore, if we continued to drill it on down --
19 we might have found a -- you know, I mean even if we found
20 a 300-million-a-day well, they were going to still try and
21 claim, Well, it would have been better over here, and
22 you've damaged us.

23 So in looking at my geology that I had at that
24 time, I looked at it with my manager and I said, Look,
25 there's not a significant difference, in my opinion,

1 between one location and the other.

2 So to alleviate the problem we're having with
3 Mewbourne, Kaiser-Francis and Samson, let's go and kick it
4 over there. That takes care of that problem, and I'm still
5 satisfied geologically with where we're drilling it, and
6 they should be satisfied, because we actually kicked it to
7 the location they purported to believe was the best spot.
8 So that's what happened.

9 Q. After Chesapeake proposed the well to Samson and
10 Kaiser, did you have any conversations with any geologist
11 at Samson or any of the technical people at Kaiser about
12 your well proposal?

13 A. The -- My only recollection of a discussion with
14 anyone would have been with a Samson geologist. I don't
15 recall ever discussing it with Mr. Wakefield of Kaiser-
16 Francis.

17 Q. What was the topic of discussion between you and
18 the geologist with Samson?

19 A. Well, the main topic was -- the geologist was
20 Ralph Worthington, and -- Actually, the main topic was, How
21 are you doing, Ralph? I haven't talked to you in a while,
22 and I understand you're leaving Samson, and this is about
23 the last thing you'll look at, and that he'll be replaced
24 by another geologist.

25 We did -- I mean, the only real discussion about

1 the location was what he had said also to my boss, Mike
2 Brown, was that, you know, Gee, boy, you beat us to the
3 punch on this one, it looks like a good spot, we ought to
4 be drilling a well out here, was essentially the gist of
5 the conversation. It was a very short conversation.

6 Q. Did he ask you for information?

7 A. Not that I recall, other than approximately where
8 we were going to drill, and I told him there in the
9 southeast part of the section, based on the results of the
10 Osudo 9.

11 Q. Let's come back, then, Mr. Godsey, and look at
12 Exhibit 25, and at this point summarize for me what you
13 believe to be the key control points that should cause this
14 Examiner to believe that your interpretation of the laydown
15 south-half spacing unit is the preference by which you'll
16 have the maximum potential productive acreage for this
17 wellbore.

18 A. Okay. Well really, to summarize everything that
19 we've looked at, the east-west orientation of the sands
20 sticks out on this map like a sore thumb. It's very
21 obvious. You see thick, thin, thick, thin, giving you an
22 east-west orientation coming off of the Central Basin
23 Platform.

24 My mapping agrees very well with the accepted
25 literature within the industry for the Morrow in this area.

1 Not only that, when you look at the specific well
2 control it's very difficult to draw some big thick north-
3 south trend through here, in light of the results of the
4 most recent wells drilled in here, being the Hunger Buster
5 3, the Apache well, the KF well, or CC.

6 I like -- as I stated before, I like this map as
7 my primary map to look at in the Morrow almost all the time
8 anyway. I do routinely go the step that we just went
9 through of these individual sand maps, but you can see just
10 by looking at the cross-section, you know, a different
11 geologist may have a slightly different correlation of one
12 sand to another. Now, I know they would be wrong if they
13 correlated differently than mine, but the point is that
14 when you go beyond this map you're introducing that little
15 bit more error.

16 There's one other thing on here that we really
17 haven't touched on that really supports this also. Mr.
18 Wakefield really actually brought it up yesterday, is the
19 pressure data that we have in this area. He mentioned the
20 well down in Section 15, which is labeled as 1 on this
21 map -- that's the WEK Number 1 -- and the well labeled as
22 number 2, the WE L Com Number 1 in Section 10.

23 He talked about the -- you know, good reserves,
24 6.4 BCF or so out of the well in Section 15, and the
25 pressure decline on it, as opposed to the well in Section

1 10 which has made 3 BCF. It was never quite as high rate a
2 well. They did -- that's the one they went in and re-
3 frac'd later in its life, but it had a lot of pressure
4 left. That pressure data would indicate that those two
5 wells should not be in communication, they're not in the
6 same reservoir, they're located virtually directly north-
7 south of each other.

8 He also brought up the PQ Osudo State in Section
9 16. It's labeled as number 4 on this map. It's due west
10 of well number 1. And he mentioned the apparent connection
11 of the pressure between those two wells. I agree with him,
12 because that's exactly what I expect, and that is what the
13 pressure data seems to indicate.

14 Also, when you look at the pressures found in the
15 Osudo and in the KF, they are not virgin pressure. They
16 have been drawn down somewhat by production somewhere. The
17 only place that could come from is the well in Section 10.

18 The well in Section 10, if you recall, I think he
19 mentioned, had pretty much virgin bottomhole pressure, and
20 it does. You can see the DST is shown on cross-section --
21 the detailed cross-section, Exhibit Number 24. Those final
22 shut-in pressures on that DST in the well in Section 15 is
23 7080, virgin pressure for the area.

24 The Osudo 9 and the KF are more in the 6300 to
25 6600 range. So they've been drawn down somewhat by

1 something.

2 And the performance of that well in Section 10,
3 he noted, indicated that there was more reservoir out there
4 to draw from than seemed to be present in that WE L Com
5 Number 1. Hence the high remaining pressure in the
6 wellbore and the reason for them to go re-frac it.

7 Well, that ties directly into the Osudo 9 and the
8 KF and my sand orientation, coming from it in a westerly
9 direction and going across the KF State 320-acre unit.

10 So I think all that ties together in a very good
11 picture.

12 MR. KELLAHIN: Mr. Examiner, that concludes my
13 examination of Mr. Godsey.

14 We would move the introduction of his Exhibits 21
15 through 36.

16 MR. GALLEGOS: No objection.

17 EXAMINER JONES: Exhibits 21 through 36,
18 Chesapeake shall be admitted.

19 CROSS-EXAMINATION

20 BY MR. GALLEGOS:

21 Q. Mr. Godsey, I'm interested in going back a little
22 bit at a time this year to around -- start looking at
23 things in February --

24 MR. BROOKS: Interrupt for a minute. I'm going
25 to recommend we take a break. I would like to.

1 (Thereupon, a recess was taken at 10:00 a.m.)

2 (The following proceedings had at 10:25 a.m.)

3 EXAMINER JONES: Okay, let's go back on the
4 record, and Mr. Gallegos?

5 Q. (By Mr. Gallegos) Mr. Godsey, let's start
6 somewhere back the early part of this year, and I believe
7 that your company, Chesapeake, shared acreage in the -- in
8 Section 9 with Mewbourne; is that correct?

9 A. Well, I -- actually, I think -- No, we had the
10 northwest quarter of Section 9, which I believe was a state
11 lease. We didn't share that with Mewbourne on that lease,
12 no.

13 Q. My question was worded badly. Shared acreage in
14 the spacing unit that eventually became dedicated to the
15 Osudo 9 well?

16 A. That's correct.

17 Q. Okay. So at some point did -- And Mewbourne is
18 the operator?

19 A. That's correct.

20 Q. So there was a 160 that Chesapeake held the lease
21 on, and a 160 that Mewbourne held the lease on, originally
22 as that well was being considered; is that accurate?

23 A. I think -- to the best of my knowledge, yes.
24 Well, I can't speak for the specifics of what Mewbourne had
25 as a leasehold. I can speak with -- My recollection is

1 that the Chesapeake acreage, the south -- or the northwest
2 quarter of Section 9, my recollection is that we picked it
3 up at a state lease sale, directly due to my
4 recommendation, and that was our leasehold, and that was
5 what was put into the laydown 320 for the Osudo 9 that
6 Mewbourne operated.

7 Q. What I was leading up to is, at some point
8 Mewbourne proposed to drill the Osudo 9 well; do you recall
9 that?

10 A. Yes.

11 Q. And you as geologist for Chesapeake were asked to
12 consider -- give your views on whether or not to
13 participate in that well; is that true?

14 A. Yes.

15 Q. So was there some geology provided by Mewbourne,
16 or did you work up some geology on your own in order that
17 you could advise your company as to what it might do?

18 A. To my knowledge, I never saw any geology from
19 Mewbourne.

20 Q. Okay, what did you do then? Because here was a
21 prospect being presented and it's, David Godsey, what do
22 you think about it from a location standpoint?

23 A. I reviewed the area with my manager, showed him
24 the mapping that we had done up to that time, showed him
25 the correlations that we see in the subsurface and agreed

1 to participate. Looked like a good place to drill a well.
2 Turned out it was.

3 Q. Okay. Did you have any role in the trade that
4 was made in which Chesapeake gave up shallow rights -- or
5 Chesapeake gained shallow rights and gave up Morrow rights,
6 so instead of being 50-50, Chesapeake was 40 in the well
7 and Mewbourne 60 in the Osudo 9?

8 Instead of --

9 A. I'm sorry, what interest did you say Mewbourne
10 was?

11 Q. By reason of a trade, Chesapeake gained shallow
12 rights from Mewbourne, gave up some interest in the deep
13 rights. So in the Osudo 9 well, Mewbourne is 60 percent
14 and Chesapeake is 40 percent?

15 A. Are you asking a question or making a statement?

16 Q. I'm asking you if you're aware of that.

17 A. Aware that we gained interest from Mewbourne?
18 No, I'm --

19 Q. I'm not that sure of the parties, but you gave up
20 interest in the deep rights and gained interest in the
21 shallow rights?

22 A. Yes, we did do that.

23 Q. Okay, and I may have the parties wrong as far as
24 who were leased parties.

25 Was that on your recommendation from your

1 geological assessment?

2 A. Yes.

3 Q. Okay. So I take it you were not particularly
4 enthusiastic about the Morrow rights at that point?

5 A. That's not a fair statement at all.

6 Q. But you did recommend that it would be prudent
7 for your company to give up, say, 10 percent of the deep
8 rights in return for some greater shallow rights?

9 A. That's correct.

10 Q. Did you -- What did you prepare as you considered
11 the geology on the Osudo 9 well? Did you have cross-
12 sections? I'm asking what paper you generated.

13 A. I have -- I couldn't begin to tell you
14 specifically what paper I prepared specifically for that,
15 that long ago. As I said, we looked at the geology of the
16 mapping I had in that area and at the cross-sections and
17 logs -- actually, I don't know if I had a printed-out
18 cross-section; we just compared logs and said, yes, this is
19 a good place to drill.

20 Q. So did you map the Morrow in that area --

21 A. I've --

22 Q. -- which would --

23 A. -- I have been mapping --

24 Q. -- Section 9?

25 A. Specifically with respect to Section 9?

1 Q. Yes.

2 A. Yes, I have mapped the Morrow in this area for
3 years.

4 Q. Do you have that map with you? I know that that
5 has not been an exhibit in your direct testimony.

6 A. You're saying a map as of that point in time?

7 Q. As of the time that you were asked to consider
8 for your company whether or not to participate in this
9 prospect, which was the Osudo 9 well in Section 9?

10 A. No, I don't.

11 Q. It does exist, but you don't have it here?

12 A. Actually, that's -- I don't think it does, and
13 the reason would be -- you know, this computer stuff is
14 great and we love using it, and we can do all kinds of
15 stuff on a computer. But when you're using that, as soon
16 as you go in and make changes, it is changed. So it would
17 have to exist by me having kept a copy in a file of an old
18 map.

19 It's much like in the old days, if you will,
20 before all this computer technology, we would be mapping on
21 a paper map with a pencil or maybe some Mylar or something.
22 You get a new well, you go in and erase your line and re-
23 draw it. So it's that kind of thing.

24 I don't -- If I have it somewhere, I don't know
25 it. But I can't say whether it exists or not.

1 Q. What did you conclude concerning a recommendation
2 to your company to participate with Mewbourne in the
3 drilling of that well?

4 A. Well, I thought I said that a while ago, that we
5 thought it was a good place to drill, and we participated
6 in the drilling of the well.

7 Q. All right. And in that particular location did
8 you -- was that location selected by Mewbourne?

9 A. It is my recollection, yes, that is the location
10 that they proposed to us and we accepted.

11 Q. It's in the northeast quarter of Section 9; is
12 that correct?

13 A. Yes.

14 Q. Okay. Did you have any different view as to an
15 appropriate location for the well in order to target the
16 Morrow sands?

17 A. I felt like that location was about as good as
18 any to put the well.

19 Q. And what was the basis for that view?

20 A. My understanding of the geology at that time.

21 Q. So as I understand it, then in February -- and
22 maybe it was February 27th, if I recall correctly -- the
23 Osudo 9 well had been drilled and had been logged, so that
24 you were able to know what was shown on those logs; is that
25 an accurate statement?

1 A. You mentioned two dates in there. If you're
2 asking me to affirm those dates, I would have to look
3 through stuff. It won't --

4 Q. I only mentioned one date, February 27th.

5 A. Okay, if you want me to look and confirm when --
6 Are you saying that that was when the well was logged or
7 TD'd or --

8 Q. That's when --

9 A. -- I mean, if it's critical that I affirm that
10 date, I'll have to look through here, if it's --

11 Q. Okay, well, a prior exhibit -- I think it was
12 Exhibit H in this case, the timeline -- indicated February
13 27th of 2005 the well was logged. Does that sound about
14 right, according to your recollection?

15 A. I will accept that that may be the date, since
16 that is what you all purported it to be, and I don't have
17 the data here in front of me to refute it, so I don't have
18 a reason to question the date that you say that was when it
19 was logged.

20 Q. And what was the thickness of the Morrow sand
21 that the log on the Osudo 9 indicated to you?

22 A. The thickness of the sand?

23 Q. Yes, sir.

24 A. I'm coming up now with right about 54 feet of
25 sand.

1 Q. And did that meet your expectation of what you
2 had -- as far as your study of the geology?

3 A. How do you define --

4 Q. Were you surprised that it -- that there was that
5 much Morrow sand in the Osudo 9 well?

6 A. I was pleasantly surprised.

7 Q. Okay. So that was a very good well, your company
8 was pleased with the result; is that a fair statement?

9 A. Yes.

10 Q. So did you take some steps, then, Mr. Godsey, to
11 study whether or not other wells should be drilled as a
12 result of what had been found to be the sand in the Osudo 9
13 well?

14 A. Absolutely, as I've testified earlier.

15 Q. All right. And if we look at your Exhibit Number
16 22, the next location that you selected --

17 A. Wait a minute. Let me find Exhibit 22 here. I
18 want to --

19 Q. I think you have --

20 A. -- have something to refer to.

21 Q. Those are your two big ones, 22 and 25.

22 A. Okay, which one did you want me to refer to?

23 Q. Well, let's just use 22 for the purpose of this
24 question.

25 A. Okay, let me clean a work area here. If you

1 don't me rustling papers while you ask a question, go right
2 ahead. Okay, 22.

3 Q. You know, it might be helpful if you go ahead and
4 lay your Exhibit 25 beside that. That's the -- what was
5 called the post-drilling isopach.

6 A. Okay.

7 Q. Okay? All right. So let's look at this. So
8 you've got the Osudo 9 in the northeast of Section 9, and
9 almost directly to the north of that is the location for
10 the KF 4 State well; is that correct?

11 A. Almost directly north. It's actually 330 feet
12 further west, but okay, northerly direction, yes.

13 Q. And an APD was applied for the drilling of that
14 well on March the 10th of 2005, about two weeks after the
15 Osudo 9 was logged; is that correct?

16 A. I don't know the date. I think that's been
17 testified to about 300 times in the last two days.

18 Q. Well --

19 A. Do you need me to confirm that? I'll go through
20 the material.

21 Q. No, the point is, within a short time you decided
22 that your company should locate a well, a Morrow target
23 well, in the southeast quarter of Section 4, roughly due
24 north of the Osudo 9 location; is that a fact?

25 A. Well, it had to be north of it, that's where the

1 acreage -- Yes, that's correct.

2 Q. But what did you do to determine the location of
3 that well?

4 A. Well, as I testified earlier, we saw the results
5 of the Osudo 9. It was obviously a good well. Mewbourne
6 was able to get it up to over 20 million a day. My
7 original thinking had been a little further west in the
8 section, but to attempt to snuggle up closer to that and to
9 play a little more closeology, we slid the location that I
10 had in my head -- which I didn't have an exact location; it
11 was this area -- a little further east than I originally
12 had been thinking, for reasons of closeology. I think
13 that's exactly what I had said earlier today.

14 Q. Closeology means what?

15 A. Being close to it.

16 Q. Close to the Osudo 9?

17 A. Yes.

18 Q. But you could have been close to the Osudo 9 in
19 the northwest quarter of Section 9 with a standup west
20 half, couldn't you? Going to the west rather than the
21 north of the Osudo 9?

22 A. Well, sure.

23 Q. Okay. But you selected to go north, to the
24 southeast quarter of Section 4. That was your
25 recommendation, was it not?

1 A. To propose a well in Section 4?

2 Q. That's the question.

3 A. Yes.

4 Q. Okay. And did I understand you to say that your
5 preferred location was the southeast of the southwest?

6 A. I don't think you understood me to say that.

7 Q. I thought on your direct testimony you had said
8 that you --

9 A. Well, let --

10 Q. -- preferred --

11 A. -- let me rephrase it. I can't testify to what
12 you understood me to say.

13 Q. Of course. But you were just saying moments
14 before that you preferred a location further to the west.
15 And my question is, did you testify earlier that your
16 preferred location was in the southeast of the southwest
17 quarter?

18 A. I don't know if I did. In fact, at that time I
19 had not discussed a location with anyone in Chesapeake, my
20 manager or anything. It was, we like this spot up here --

21 Q. Your "spot up here" is where?

22 A. Well, it basically would center in the -- you
23 know, somewhere in the south half or southeast of the
24 southwest, maybe the southwest of the southeast, but in
25 that general vicinity. I hadn't picked an exact location

1 there. There's a lot that goes into picking an exact
2 location.

3 Q. Was there an exact location picked by March the
4 10th of 2005 when the Application for permit was filed?

5 A. Yeah, there was a location on the permit, and
6 that was the exact location, yes.

7 Q. And that location was neither the southeast of
8 the southwest, or the southwest of the southeast, was it?

9 A. That's correct.

10 Q. But it was a location you selected, and I think
11 you said based on closeology?

12 A. Influenced by closeology, correct.

13 Q. At that point, Mr. Godsey, the fact that -- you
14 were regarding the trend of the Morrow sands to be north to
15 south or south to north?

16 A. No.

17 Q. Okay. The next thing in terms of your company
18 selecting a location in this particular area was the
19 Cattleman State well; isn't that true?

20 A. The next thing?

21 Q. As far as selecting the well location to target
22 the Morrow?

23 A. Yes, we selected that as a location, yes.

24 Q. The record shows that the APD was applied for on
25 the Cattleman State well on March the 18th, roughly just a

1 week after the Application for the KF 4 State well. Did
2 you select that location?

3 A. Yes, I did.

4 Q. Okay. So you then had the location of the Osudo
5 9 in the northeast of Section 9; to the north of it the KF
6 4 State in the southeast of Section 4; and the Cattleman
7 State well, if this were a regular section, would be in the
8 northeast quarter of Section 4, to the north of the KF 4
9 State. Isn't that the order of the locations and the
10 location that --

11 A. Yeah, that's of record, yes.

12 Q. So you basically marched from the Osudo 9 north
13 for these two well locations in Section 4?

14 A. That's correct.

15 Q. And that was on your geological recommendation --

16 A. Yes, it was.

17 Q. -- isn't that true?

18 Have you at any time proposed a well location in
19 Section 9 that would be to the west of the Osudo 9?

20 A. We have not --

21 Q. Have you suggested a west-half unit?

22 A. We have not made that proposal to Mewbourne.

23 Q. Okay.

24 A. Unless it's been done since I've been out of the
25 office. I can't speak for -- up until last Friday.

1 Q. Looking at Exhibit 22, would you interpret there
2 to be a north-south trend if you view the area that's
3 roughly in, oh, Sections 25 and 36 of the next township --
4 I guess that's Township 20 north -- trending on down into
5 Sections 1 and 6 of 21 South?

6 A. I'm sorry, I'm --

7 Q. Do you see the area --

8 A. -- I'm -- no --

9 Q. -- that I'm talking about?

10 A. No, I'm lost. Where are you speaking of?

11 Q. All right. Well, if you basically take what I
12 would call the left-hand side of your map, the west side of
13 your map --

14 A. Okay.

15 Q. -- your contour lines reflect, do they not, a
16 north-south trend?

17 A. On the far west side of the map?

18 Q. Yes, basically --

19 A. Yes, that's correct.

20 Q. Yes, what I was calling the left-hand side of the
21 map for east, and I was saying, just for example, in
22 Section 25 and 26 of the township -- and I guess that would
23 probably be 20 South and 34 East?

24 A. You're saying in Sections 25 and 24, that my sand
25 trend is drawn north-south? I disagree.

1 Q. 24 -- what I'm saying -- Sections 24, 25, 36, in
2 that township on down to Sections 1 and 6 of the lower
3 townships, your contour map is drawn north-south, is it
4 not?

5 A. No, it's drawn east-west.

6 Q. All right. Let me ask you this. In the area
7 of -- that we're interested in, Section 4 in particular,
8 and the section above it, 32, in that area, is there a
9 structural high?

10 A. In where? Section --

11 Q. In the vicinity of Section 4, the section which
12 is the focus of this case, is there a structural high?

13 A. With -- with regard -- with relationship to
14 where? I mean, it's -- it's high to something and it's low
15 to something, with -- with -- you know, what kind of
16 relationship are you speaking of? Is there a closed high
17 in Section 4? No, my map doesn't show one.

18 Q. Is there a closed high in Section 32 above
19 Section 4?

20 A. Let me look and see if it closes.

21 Q. Well, if it doesn't close, is there a high in
22 that vicinity?, is my question.

23 A. Oh, okay, that's a simple question, then. There
24 is a high up there, yes, in Section 32.

25 Q. Okay. Would you help the Examiner just by

1 delineating where you believe the structural high is in
2 that particular area? It's not concentrated just in
3 Section 32, is it, Mr. Godsey?

4 A. What do you want me to do, trace a contour for
5 him?

6 Q. If you --

7 A. -- is that --

8 Q. -- could, please.

9 A. Okay. It's easier to see, if you look at Exhibit
10 25, if we could look at that instead of 22 -- you had me
11 referring to 22 --

12 Q. That's just fine.

13 A. Okay. The contour lines are a little bit easier
14 to see.

15 You could take -- if you look there -- I guess
16 this is what you want. At the intersection, say, between
17 Sections 32 and 33, right at the mid part of the section,
18 you see the contour line minus 7300, and you can follow
19 that around and it shows that there is a structural nose
20 extending from -- basically from east to west across, I
21 guess, 32-31. Is that what you were asking me --

22 Q. Well, if you could describe it, without asking
23 you to draw it on here, necessarily, if you by words can
24 describe what you see is the areal extent of the high, and
25 that's what I'm asking.

1 A. The areal extent of the high. I'm not sure --

2 Q. The area --

3 A. I'm trying to cooperate, I'm just not sure what
4 you want me to do.

5 Q. The area covered by the structural high.

6 A. Well, the structural closure is above that 7300
7 contour, and it is centered in, say, the west half or the
8 southwest quarter of the northwest quarter of Section 32,
9 and that's -- looks like it covers -- the actual closure
10 would cover about the northwest quarter of 32, a little bit
11 of the southeast southeast of Section 30, a little bit of
12 the northeast quarter of 31, and a little bit of the, say,
13 northwest of the southwest of 32. Is that what you wanted?

14 Q. Okay, is that -- do you read that as -- what, you
15 might call a nose to the high in the southwest of 32, or am
16 I misinterpreting that?

17 A. I think what I just defined for you, I thought --
18 I'm sorry, maybe I wasn't making myself clear. My
19 understanding of what you wanted was to describe the closed
20 structure that this contour map indicates, and that's what
21 I was --

22 Q. That was my question.

23 A. Okay.

24 Q. Forgive me if the question isn't artful in
25 geology terms, I'm just trying to get an idea --

1 A. Right.

2 Q. -- where you see it as being located here and
3 whether or not it -- whether or not sort of the southern
4 end of this high is in the southwest quarter of Section 32,
5 roughly.

6 A. Well, I guess that depends on how far you want to
7 come down the structural contours and call it -- you're no
8 longer on that plunging structural high. I mean, where do
9 you want to call an end to it? You pick it --

10 Q. No, no --

11 A. -- and I'll tell you where it is on the map.

12 Q. -- no, I'd much rather you call an end to it.
13 I'm not capable of doing that. I'm asking for your
14 interpretation.

15 A. Okay, you want me to find where the end of the
16 structural high is?

17 Q. That's the question.

18 A. I'm at a loss to know exactly what I'm trying to
19 depict here. Maybe the high -- I mean, you could claim
20 that that high extends down into Section -- part of Section
21 4 and Section 5. It depends again, I mean, because you see
22 that high there in 32, you see a little bit of a -- kind of
23 a saddley area extending to the south, and then a little
24 nose extending a little further down. So do you want to
25 call that part of the high, or do you want to not call it

1 part of the high? That's -- however you want to describe
2 it.

3 Q. Well, I'd rather -- what you call part of the
4 high, is the question.

5 A. I really don't call it either. I mean, I don't
6 understand -- I'm trying to help, I don't understand what
7 he's really wanting, really.

8 Q. All right, so -- And then to east of this area,
9 where -- roughly where would be the dropoff? And again, my
10 terminology may not be what is common among geologists, but
11 the dropoff of the Central Basin Platform, the edge or the
12 foot of the Central Basin Platform.

13 A. You want me to define where the edge of the
14 Central Basin Platform is; is that correct?

15 Q. Yes.

16 A. At what point in geologic time do you want that
17 defined? And again, I'm not being difficult. That's a
18 simple question.

19 Q. At the time of the deposition, what you consider
20 to be the deposition time of the Morrow sand that's the
21 subject of your testimony.

22 A. Okay. If you define at Morrowan time -- if you
23 choose to define the edge of the Central Basin Platform as
24 the extent up to which the Morrowan sediments would extend,
25 then, my best guess of that is what's indicated by this

1 Morrow subcrop map. Is that what you're asking?

2 Q. That's what I'm asking.

3 A. Okay, thank you. Long way around, here.

4 Q. Was the deposition mechanism, then, the sediments
5 being deposited off the Central Basin Platform?

6 A. That's what I've been saying for a couple of
7 hours today, yes, sir.

8 Q. Well, I thought your testimony covered a few
9 other subjects, but I don't mean to --

10 A. Okay.

11 Q. -- irritate you about that.

12 A. I'm not irritated in the least.

13 Q. Do we understand, based on Section 25, that your
14 original -- yeah --

15 A. Section 25, of which --

16 Q. I'm sorry --

17 A. -- there's several of them.

18 Q. -- Exhibit 25.

19 A. Oh, okay. Okay. All right.

20 Q. Mr. Bruce corrected me. Exhibit 25, after you
21 had your post-drilling information, you changed your views
22 as to the thickness portrayal of the Morrow sands in the
23 region of Section 9 and Section 4?

24 A. Was that a question or a statement? I lost --

25 Q. That's a question.

1 A. -- track of the question.

2 Q. That's a question.

3 A. You're asking me did I --

4 Q. Well, let me --

5 A. -- did I change --

6 Q. -- start over, all right?

7 A. All right.

8 Q. With the post-drilling information that you had
9 from the KF 4 State well, does Exhibit 25 show that you
10 changed your views as to the location of the thickest
11 Morrow sands in the region of Section 4 and Section 9?

12 A. Yes. Again, I guess I'm testifying to what I've
13 already said. That's what we were saying before, yes.

14 Q. Okay. So it turns out as we look at Section --
15 as we look at Exhibit 25, that the south half of Section 4
16 does not have the thickest region of Morrow sands that you
17 thought was the situation as portrayed on Exhibit 22?

18 A. Was that a question?

19 Q. That's a question.

20 A. Oh, I thought it was a statement, I'm sorry. So
21 if you're asking me, is that what it shows --

22 Q. Yes, is that what it --

23 A. Yes.

24 Q. -- shows?

25 A. Okay.

1 Q. Okay, so the location of the KF 4 State Number
2 well [sic] turned out to not be a favorable location in
3 terms of capturing the thickest section of the Morrow
4 sands?

5 A. If you're asking me, did we penetrate with the KF
6 4 State Number 1 what I think may be the thickest sands in
7 that -- in Section 4, then that's -- yes, that's -- that's
8 -- that is a correct statement. That is what my map
9 implies, yes.

10 Q. Your map, Exhibit 22, implied that the location
11 of the KF 4 State well was penetrating the thickest sands;
12 isn't that true?

13 A. That's correct.

14 Q. So it turns out --

15 A. Let me -- let me -- let me look at the map. I
16 just agreed with you without even looking. Okay, I'll
17 agree with you.

18 Q. Well, I'm reading your map as the darker the
19 green is, to the point where it's very dark, almost black,
20 that that's your -- that's your --

21 A. And -- and that's correct --

22 Q. -- sand --

23 A. -- I just had answered you without looking. I
24 wanted to look. Okay?

25 Q. All right. So now with the information you have

1 as reflected on Exhibit 25, the favored location for
2 another Morrow well would be in the northwest quarter of
3 Section 9?

4 A. I think that would be a good spot, yes.

5 MR. GALLEGOS: That's all the questions I have --

6 THE WITNESS: Okay.

7 MR. GALLEGOS: -- Mr. Godsey. Thank you.

8 THE WITNESS: Thank you.

9 MR. GALLEGOS: I think maybe my co-counsel have a
10 few questions.

11 CROSS-EXAMINATION

12 BY MR. HALL:

13 Q. Mr. Godsey, I want to see where we are with
14 respect to one bit of your earlier testimony. On your
15 Exhibit 22, your pre-drill map --

16 A. Okay.

17 Q. -- let's clarify that a little bit. Let's
18 establish now, was there, in fact, a Morrow map that
19 precedes your pre-drill map that you generated?

20 A. That -- How far back do you want to go, 27 years?

21 Q. No, let's say -- let's say December, 2004.

22 A. December, 2004. Okay, I guess the only way I can
23 really answer that is, I have continuously mapped, updated
24 and mapped this area for over two years. So if you're
25 asking were there maps generated prior to whatever date you

1 said -- December, 2004, you said? -- sure. Yes, there
2 were.

3 Q. And the focus of your mapping was the Bone
4 Spring, wasn't it?

5 A. Are you asking, have I mapped the Bone Springs?

6 Q. Yes.

7 A. Yes, I've mapped the Bone Springs.

8 Q. And that was your original interest in developing
9 this area; you were looking at Bone Spring potential more
10 than you were Morrow potential; isn't that right?

11 A. No, that's not correct at all.

12 Q. When Mewbourne first proposed their Osudo 9-1
13 well, weren't you pushing them to do a Bone Springs
14 completion?

15 A. Bone Springs completion? No, we hadn't even
16 drilled the well. I wouldn't have anything to complete in.
17 I'm not -- Say it again, maybe I'm not -- didn't
18 understand.

19 Q. Do you know whether Chesapeake was advocating to
20 Mewbourne, when it was proposing the Osudo 9-1 well, that
21 they do a Bone Spring completion?

22 A. Completion, no.

23 Q. A test? Did you want the Bone Springs evaluated
24 in that well?

25 A. Yes, we wanted the Bone Springs evaluated.

1 Q. That's what I'm driving at.

2 A. Okay.

3 Q. And in fact, in the Mewbourne compulsory pooling
4 proceeding for the 9-1 well, you opposed Mewbourne, didn't
5 you? Or Chesapeake, I should say.

6 A. I'm trying to bring up my recollection of that.
7 I mean, if the record shows that we were in opposition at
8 the force pooling, then I can't contradict that. I don't
9 have any direct recollection of what went on at any force
10 pool hearing regarding the Osudo 9.

11 Q. And in fact, eventually you gave up 10 percent of
12 your Morrow rights to Finley Resources; isn't that right?

13 A. That is correct.

14 Q. Isn't that a trade you wish you could take back
15 now?

16 A. (Laughs) Was that a statement or a question?

17 Q. Question. You don't have to answer that, I think
18 we know the answer to that one.

19 Let me go on --

20 A. Well, it's awfully easy to have 20-20
21 hindsight --

22 Q. Sure.

23 A. -- though sometimes I don't even seem to have
24 that.

25 Q. Now, in your -- eventually entered into an

1 operating agreement with Mewbourne for the north half of 9,
2 correct?

3 A. I'm sorry, say that -- I wasn't listening, I'm
4 sorry. I was --

5 Q. Was Chesapeake party to an operating agreement
6 for the north half of Section 9, with Mewbourne as
7 operator?

8 A. I assume we signed a JOA. I don't read that
9 stuff.

10 Q. You have 40 percent of that well in the Morrow?

11 A. That's what I understand, yes.

12 Q. Isn't it true that Chesapeake was threatening to
13 invoke the subsequent well provisions under that operating
14 agreement, so Chesapeake could start a Bone Springs well in
15 the northwest quarter of Section 9?

16 A. That is correct.

17 Q. And what happened? Why didn't you do that?

18 A. We haven't convinced ourselves it's a good place
19 yet to drill for the Bone Springs.

20 Q. But yet you were threatening to drill that well
21 on your own as recently as when, February?

22 A. I can't verify that date. I don't recall that
23 timeline. But yes, we -- I think we staked and permitted a
24 location there, I think.

25 Q. So would it be safe to -- would it be a fair

1 characterization that your interest in the Morrow out here
2 in Sections 4 and 9 is not a long-held interest?

3 A. That's not a fair statement at all.

4 Q. Is it a fair characterization that your primary
5 interest was, early part of 2005, the Bone Spring, rather
6 than the Morrow?

7 A. That's not correct at all. Would you care for me
8 to elaborate?

9 Q. Mr. Godsey, would you explain to the Hearing
10 Examiner why none of your cross-sections incorporate the --
11 Let me back up and -- Strike that.

12 What is the closest Morrow penetration to your --
13 to Chesapeake's acreage, in the southwest quarter of
14 Section 4?

15 A. The KF 4 State Number 1.

16 Q. How about the Jake Hammon well in lot 13, Section
17 4? Didn't that penetrate the Morrow?

18 A. Yes.

19 Q. And would you explain to the Hearing Examiner why
20 you didn't include that well on any of your cross-sections?

21 A. We've already alluded to the pile of paperwork
22 brought in here. You always -- you know, you pick what you
23 think is most pertinent and you try not to bring in just
24 way too much data.

25 Now, I did bring in an 84-square-mile map, I did

1 bring in another 720-square-mile map, I was bringing in a
2 lot of stuff. I can't put every well on a cross-section;
3 we'd be here for weeks.

4 Q. Well, you'll agree with me --

5 A. So I chose not -- The answer is, I just not to
6 use it, I -- That's all there is to it.

7 Q. All right. Did you not regard that well to be an
8 important well for your evaluation of the acreage?

9 A. All the wells around the area have some
10 importance to the evaluation of the acreage.

11 Q. Well, it's fair to say, I think -- and I think
12 you'd agree -- that your cross-sections tend to work their
13 way towards the east, rather than the west. Do you think
14 the inclusion of the well log from the Jake Hammon well on
15 lot 13 of Section 4 would have changed your opinion at all?
16 The location of the Morrow sands in the southwest quarter
17 of 4?

18 A. You're asking me, would the information from that
19 well you're speaking of in Section 4 have an influence on
20 my evaluation? It's used in my evaluation.

21 Q. Why did you choose not to present it to the
22 Hearing Examiner?, is my question.

23 A. I've answered that once already. Do you want me
24 to answer it again?

25 Q. Did you not think it would be of any value to his

1 analysis?

2 A. I didn't bring it in because it was so far away.
3 The pertinent wells are the ones that are right around
4 here, that everyone's arguing about are right here on my
5 cross-section. I just felt like the ones I brought in were
6 the relevant wells.

7 Q. Well, the reason you didn't include it is because
8 it was a dry hole in the Morrow; isn't that right?

9 A. No.

10 EXAMINER JONES: I'm sorry, which well are you
11 guys talking about?

12 MR. HALL: The Jake Hammon well. It's not
13 referred to on any cross-section. It's in lot 13 of
14 Section 4. It's immediately to the north of the Chesapeake
15 acreage in the southwest quarter of 4.

16 EXAMINER JONES: The one with three feet of --
17 mapped?

18 MR. HALL: Yes.

19 EXAMINER JONES: Okay, I'm sorry.

20 THE WITNESS: Okay --

21 MR. HALL: Actually, it's to the south of that;
22 isn't that right? It's closer to Chesapeake's acreage than
23 that one.

24 EXAMINER JONES: There's a dryhole marker there.

25 MR. HALL: Yes, that one.

1 MR. BROOKS: Okay, then the one with the three
2 feet, is that the British American Oil New Mexico State F
3 Number 1?

4 Q. (By Mr. Hall) Mr. Godsey?

5 MR. BROOKS: I'm looking at Exhibit P here.

6 THE WITNESS: I don't have Exhibit P.

7 MR. HALL: That's correct --

8 MR. KELLAHIN: May I give the witness a copy of
9 Exhibit P?

10 MR. BROOKS: You may.

11 THE WITNESS: Thank you. Okay.

12 MR. BROOKS: And then the one that penetrated the
13 Morrow that's a dry hole was the Jake Hammon State E.

14 THE WITNESS: Okay, if I'm understanding you
15 right -- I think I've got several pending questions in
16 front of me here, but right now we're trying to clarify
17 which well we're talking about.

18 MR. BROOKS: Exactly, that's what I was trying to
19 clarify.

20 THE WITNESS: Okay, me too. Okay, you are
21 speaking of the well identified on Exhibit P, then, I take
22 it, the Jake L. Hammon State F-8321 1; is that what that
23 says?

24 Q. (By Mr. Hall) Yes, sir, in lot 13.

25 A. I don't know which -- Do you have something to

1 show me what lot 13 is? I mean, if you want me to specify
2 it's in lot 13, I don't know the lots.

3 Q. Well, let's just stipulate that it's immediately
4 to the north of the Chesapeake acreage in the southwest
5 quarter of Section 4.

6 A. I don't think I can stipulate to that. That's
7 not where it falls. According to Exhibit P, it's in the
8 north half of Section 4, isn't it?

9 MR. KELLAHIN: Let's use Exhibit P.

10 MR. BROOKS: That's why I was confused. I was
11 thinking it was that one that has the three-foot marker by
12 it.

13 THE WITNESS: And that's the one, I think, that
14 he's referring to, but I think he keeps trying to think
15 it's the -- See that little double symbol below that?

16 MR. KELLAHIN: Hold on David, stop for a minute.

17 THE WITNESS: Okay.

18 MR. KELLAHIN: Let's straighten it out.

19 THE WITNESS: All right. So we are talking about
20 the same well.

21 MR. HALL: Mr. Brooks, I think if you'll refer to
22 the APDs that have the lots, it's in lot 13 -- I'm sorry,
23 lot 12.

24 MR. BROOKS: Now, lot 12 is -- because -- you'll
25 have to tolerate a Texas land examiner. Lot 12 is the

1 northwest quarter of the west half of the middle half of
2 Section 4; is that correct?

3 MR. BRUCE: The northwest quarter quarter
4 section --

5 MR. BROOKS: Right, the northwest --

6 MR. BRUCE: -- of the middle --

7 MR. BROOKS: -- quarter quarter section --

8 MR. BRUCE: -- third, of the middle third.

9 MR. BROOKS: Right, the middle third, okay.

10 MR. HALL: It might be helpful if I show you the
11 C-102.

12 MR. BROOKS: So it is the one that has the three-
13 foot marker by it on Exhibit 25; is that correct?

14 MR. KELLAHIN: It appears to me to be correct,
15 Mr. Brooks. If you look at Exhibit P for the opponent and
16 match it with Mr. Godsey's exhibit, I think you're talking
17 about the well with the three feet.

18 MR. BROOKS: Okay, so I was right all along.

19 MR. KELLAHIN: Yes, you were.

20 (Laughter)

21 THE WITNESS: I was getting confused.

22 MR. BROOKS: Thank you. I'm going to shut up now
23 and let Mr. Bruce do the examining.

24 THE WITNESS: Were we at a question?

25 MR. KELLAHIN: No, just wait for Mr. Hall.

1 MR. BROOKS: Mr. Hall, I'm sorry.

2 Q. (By Mr. Hall) Yeah, let's step back a minute --

3 A. All right.

4 Q. -- reorient ourselves. I believe one of the last
5 questions I asked you was whether the reason you didn't
6 include the Jake Hammon well in your cross-sections was
7 because it was a dry hole in the Morrow?

8 A. That's not correct at all.

9 Q. Was it a dry hole in the Morrow?

10 A. That is my recollection, and I think that's what
11 the testimony was yesterday, but I can't...

12 Q. When you started your testimony this morning, Mr.
13 Godsey, set me straight if I mischaracterize what you said,
14 but I thought I meant you to say that there was some
15 urgency to drill the KF 4 well because there was concern
16 about drainage from the Osudo 9-1; is that right?

17 A. That was one of the reasons, yes.

18 Q. I think you said that's what spurred you to move
19 faster. All of a sudden you had the results from the Osudo
20 9-1 well.

21 A. Okay.

22 Q. And then later on in your testimony, you
23 discussed the fact that Chesapeake had deviated the
24 wellbore. And by the way, if we look at your Exhibit 25 --
25 do you have that in front of you there? --

1 A. Yes.

2 Q. -- the location for the KF 4 State Well Number 1
3 shown on there is the current bottomhole location, correct?

4 A. Well, it's actually showing the surface hole
5 location and the bottomhole location.

6 Q. Okay, so the surface -- the originally permitted
7 surface location is indicated by the black line to the
8 right; is that right?

9 A. No. The surface hole location is a circle that's
10 colored -- that's darkened in by virtue of the wellbore
11 path, which is the dark line going over to the bottomhole
12 location that I've highlighted with a white infilled circle
13 around it.

14 Q. Yeah, okay. I think we're saying the same thing.

15 A. Okay.

16 Q. Now again, was it you who made the decision to
17 deviate the wellbore?

18 A. No, that is not my authority.

19 Q. Who made that decision?

20 A. Someone above me.

21 Q. Who was it?

22 A. I was not in the meeting. I just heard that the
23 decision was made to go ahead and deviate the wellbore. I
24 don't have direct knowledge of who said, Go do this.

25 Q. Tell us what you know, tell us what your indirect

1 knowledge is. Who made that decision?

2 A. I said I don't know, I wasn't in there. I didn't
3 ask who said it, was it this person or that person? I was
4 just told we were going to deviate a --

5 Q. Who told you that?

6 A. Mike Brown.

7 Q. Okay, and --

8 A. He's my supervisor, Permian Basin.

9 Q. Now, I also understood you to say that in your
10 opinion there was no material difference geologically
11 between the original permitted bottomhole location and the
12 final deviated bottomhole location; is that right?

13 A. I think I said no significant difference.

14 Q. Okay. Well, let me ask you this way: Was there
15 any geological reason to deviate this wellbore?

16 A. There was no geological reason not to, is a
17 better way to --

18 Q. So the answer to my question is no; is that
19 right?

20 A. I mean, the question was, there was no geologic
21 reason to deviate the wellbore?

22 Q. Correct.

23 A. Not based on my map.

24 Q. Okay.

25 A. That's correct.

1 Q. So someone higher up made the decision to deviate
2 the wellbore; you don't know why. Is it your belief that
3 it was based on some reason other than geology?

4 A. Well, I testified earlier as to my understanding
5 of the circumstances around us deviating the wellbore, and
6 I'll be glad to go through that again, which is what you're
7 asking.

8 Q. Well, why don't you just answer my question?

9 A. That's what I'm trying to do.

10 My understanding -- Well, I'll tell you --
11 rephrase your question -- or state your question again so I
12 make sure I'm answering it. Okay? I'm trying to answer
13 it. What was the exact question.

14 Q. Did you not understand my question?

15 A. Well, I thought I did, and when I started
16 answering you told me just answer your question, so --
17 Maybe I didn't understand the question. What was the
18 question?

19 MR. KELLAHIN: Mr. Examiner, can we take a deep
20 breath and start over with that? The witness has responded
21 to his understanding of the reasons for the deviation. If
22 Mr. Hall can't understand or won't accept it, I think he's
23 got his answer. We would object to the form of the
24 question.

25 MR. HALL: I'll move on, Mr. Examiner. I think

1 we've covered that.

2 Q. (By Mr. Hall) When you were told that the
3 wellbore would be deviated, did you object?

4 A. No.

5 Q. Now, earlier you indicated that the reason you
6 were spurred on -- your words -- to drill the KF well was
7 to offset the drainage, right? If that's the --

8 A. Let's see, did I say specifically drainage?
9 Because I think what I was saying was because there was a
10 very good well there, and there could be some drainage. So
11 I think that was my answer.

12 Q. All right. And by deviating the wellbore, how
13 much more time did Chesapeake spend drilling the well?

14 A. I don't know, I don't have those reports in front
15 of me.

16 Q. Do you have a view on whether or not that delay
17 in drilling caused any loss of reserves to the Mewbourne
18 well?

19 A. I don't have an opinion on that. I have not done
20 that calculation.

21 Q. Now, earlier you indicated that someone at
22 Kaiser-Francis and/or Samson claimed that they would be
23 materially damaged by locating the well 990 from the east.
24 What I want to know is, who said that and when did they say
25 it?

1 A. I don't know.

2 Q. How do you know it was said?

3 A. I was told that through, I guess, discussions of
4 this entire proceeding.

5 Q. So you don't have any direct knowledge of that,
6 then?

7 A. I haven't dealt directly with Kaiser-Francis,
8 Samson or Mewbourne or their attorneys in any form or
9 fashion, no.

10 MR. HALL: Pass the witness.

11 CROSS-EXAMINATION

12 BY MR. BRUCE:

13 Q. Follow-up on what Mr. Hall was asking you, Mr.
14 Godsey, about the need to drill this well quickly. Don't
15 you think that if Mewbourne or Samson had been left to
16 their own devices, they could have drilled the well as
17 quickly, if not more quickly, than Chesapeake?

18 A. I have no idea of what you all's drilling plans
19 are. You'd have to speak to them.

20 Q. You don't know that Chesapeake prevented
21 Mewbourne and Samson from drilling that well? Is that what
22 you're saying?

23 A. No, that's not what I said at all.

24 Q. This whole procedure hasn't prevented them from
25 drilling their own well, this whole pooling case?

1 A. Is -- What is the question?

2 Q. That Chesapeake's pooling case --

3 MR. KELLAHIN: Objection, he wants to argue with
4 the witness.

5 Q. (By Mr. Bruce) I'm simply asking a question.
6 Don't you think this whole pooling case and Chesapeake
7 drilling this well on their lease has prevented them from
8 drilling their own well?

9 MR. KELLAHIN: Argumentative, Mr. Examiner.

10 MR. BROOKS: Well, it's undoubtedly
11 argumentative. I'll leave it to the Examiner to decide. I
12 think it's within his discretion to decide whether --

13 EXAMINER JONES: Rephrase it just a little bit.

14 Q. (By Mr. Bruce) Well, Mr. Godsey, in your opinion
15 is Chesapeake's actions in commencing this well, proceeding
16 with this pooling case and not releasing their APD so
17 Mewbourne or Chesapeake could drill this well --

18 MR. KELLAHIN: Object to the form of the
19 question. The Division has specifically --

20 MR. BRUCE: Mewbourne --

21 MR. KELLAHIN: -- specifically allowed us to
22 drill this well.

23 MR. BROOKS: Well, once again, I think this is
24 totally discretionary whether -- I don't see that the
25 question is getting anywhere, but that's just my opinion.

1 MR. BRUCE: That's fine. I think the answer is
2 clear.

3 MR. BROOKS: Okay, so you're withdrawing your
4 question?

5 MR. BRUCE: I will withdraw the question.

6 MR. BROOKS: Okay.

7 Q. (By Mr. Bruce) Next, Mr. Godsey, let's -- Just
8 so we can save time, Mr. Examiner, I'm going to ask Mr.
9 Godsey some questions on his Exhibit 25 and then his
10 Exhibits 34, 35 and 36, which are...

11 EXAMINER JONES: Okay. Now Mr. Godsey, just
12 relax and try to answer the questions. Don't worry, these
13 guys are not geologists, and I think you're qualified as an
14 expert geologist here. You're going to -- You can defend
15 yourself very well, so just relax and answer his questions.

16 THE WITNESS: And actually, if I can respond, my
17 only concern is making sure I'm answering the question
18 that's being asked and there's not a misunderstanding
19 about --

20 EXAMINER JONES: I understand.

21 THE WITNESS: Okay.

22 Q. (By Mr. Bruce) Mr. Godsey, you have these -- and
23 I'm just -- not concerned about the structure -- isopach
24 data.

25 A. All right.

1 Q. You have -- Exhibit 25 is an isopach of the
2 middle Morrow, correct?

3 A. Correct.

4 Q. And then 34 is the isopach -- 34 and 35 are
5 isopachs of the upper Morrow; is that correct?

6 A. Of a sand within the middle Morrow that I termed
7 an upper Morrow sand.

8 Q. Okay, okay. And then Exhibit 36 is the lower
9 Morrow, correct?

10 A. If we're getting away from the convention of
11 upper, middle, lower Morrows, of the sand I labeled "lower"
12 in the exhibit.

13 Q. Okay. Those are the sands that -- sands within
14 the upper, middle and Morrow [sic] that you consider the
15 most important; is that a fair -- I'm just asking.

16 A. At this point, yes.

17 Q. What are the main producing sands out here in
18 this township?

19 A. The main producing sands out here in this
20 township.

21 Q. In the Morrow, of what you've mapped. Of these
22 three, four exhibits, what are the main producing sands?

23 A. Well, these are three of them. There are other
24 sands that produce in this township that are within the
25 middle Morrow but I do not believe are the same sand unit.

1 Q. Okay, okay. But I mean, of these four, which in
2 your opinion has contributed most to the production in the
3 wells in Sections 9, 10, 15, 16, et cetera?

4 A. Of the four? Well, then, I have to go to the net
5 middle Morrow sand isopach, which includes all the sands.

6 Q. Is the middle Morrow productive?

7 A. Yes.

8 Q. Is the upper Morrow productive?

9 A. Okay, we've gotten into a terminology problem
10 that I was concerned about. This upper Morrow sand --

11 Q. Okay.

12 A. -- is called upper. It is a sand within the
13 middle Morrow.

14 Q. I understand.

15 A. Okay. Because when you ask me, Is the upper
16 Morrow productive?, the upper Morrow is a unit recognized
17 in and of itself that sits above the middle Morrow, so I
18 want to make sure we're talking about apple and apples.

19 Q. That's fine.

20 A. Okay.

21 Q. I guess what I'm getting at is looking at --
22 let's just take your Exhibit 36. It appears out here that,
23 say, in Sections 3, 4, 9 and 10, the lower Morrow -- you
24 show that as not producing from the wells in those
25 sections; am I correct?

1 A. With the exception of -- if I can refer to a
2 cross-section to make sure my memory is correct --

3 Q. Go right ahead.

4 A. That is called the Blue unit --

5 Q. Sure.

6 A. -- is part of what has been perforated in the
7 Hunger Buster Number 3.

8 Q. Okay, okay.

9 A. And --

10 Q. Go ahead.

11 A. And is part of what we have perforated in the KF
12 4 State Number 1.

13 Q. Okay.

14 A. And we were just speaking of Section 4 and 9; is
15 that correct? Or 3, 4, 9 and 10 --

16 Q. Sure, that would be --

17 A. -- something like that?

18 Q. -- that's fine.

19 A. Well, I think that's what you were --

20 Q. Yeah, and 3 isn't productive, but 4, 9 and 10 --

21 A. Okay --

22 Q. -- that's fine, let's --

23 A. -- all right.

24 Q. -- look at that at this point.

25 A. Okay.

1 Q. Well, actually I'm going to take you a little
2 afield from that.

3 Also on these maps, sometimes it's kind of hard
4 to tell because there are so many colors, but the yellow
5 designates Chesapeake leasehold; is that correct?

6 A. Well -- Oh, I'm sorry, I should have defined that
7 early in my testimony. What's in our system, the yellow
8 designates -- Chesapeake has acreage within that section.
9 The green diagonal that you see overlaying on that is to
10 depict where Chesapeake's acreage falls within that
11 section.

12 Q. Okay.

13 A. Okay? That's the convention Chesapeake has
14 had --

15 Q. Okay.

16 A. -- for years and what I inherited when I --

17 Q. Sure.

18 A. Okay.

19 Q. Okay, my questions are, then, these. If you look
20 at your maps all together, it appears that really the best
21 location in the middle Morrow and in the upper Morrow is in
22 the northwest quarter of Section 9 in there. Has
23 Chesapeake proposed a well under its JOA to Mewbourne in
24 the northwest quarter of Section 9?

25 A. For the third time, I think, no, we have not

1 proposed a well to Mewbourne in the west -- in the
2 northwest quarter of Section 9 --

3 Q. Okay.

4 A. -- as of when I left the office on Friday, okay?
5 To my knowledge.

6 Q. Okay. Now, when you were talking -- I believe,
7 and correct me if I'm wrong, but in Section 10 the recently
8 drilled Apache well, which is a dry hole, correct?

9 A. That's my understanding, yes.

10 Q. Okay. And I think you said something that --
11 now, I don't want to put words in your mouth, but that if
12 you had had the opportunity, you would have participated in
13 that well?

14 EXAMINER JONES: Which well are we talking about?

15 MR. BRUCE: The northwest quarter of Section 10,
16 Mr. Examiner.

17 THE WITNESS: I don't think those were my exact
18 words. I think -- I thought --

19 Q. (By Mr. Bruce) It looked like --

20 A. -- it had --

21 Q. -- a good prospect?

22 A. Yes, it did. A lot of people thought so too,
23 yes.

24 Q. Okay. And that was based on your east-west
25 mapping of the reservoir?

1 A. Yeah, the mapping as you've seen here, yes.

2 Q. Okay. And then if you go up to Section 3, were
3 you the geologist who selected the location for the
4 Chesapeake well in the southwest quarter of Section 3?

5 A. Yes.

6 Q. And that was based on your east-west mapping of
7 the reservoir?

8 A. Yes.

9 Q. And what is the status of that well in the
10 Morrow?

11 A. That's plugged out of the upper Morrow.

12 Q. So it was dry in the Morrow?

13 A. No, it produced out of the Morrow. It is
14 depleted in coming up the hole.

15 Q. How much did it produce?

16 A. I have a number on here of 50 million. I don't
17 know if that's exactly accurate. Didn't make a whole lot.

18 Q. Okay.

19 A. As we've said, it depleted very rapidly, like a
20 limited reservoir.

21 Q. Strictly noncommercial?

22 A. Okay.

23 Q. Now, if you believe this east-west trend that
24 you've been talking about now for several hours, then why
25 didn't you place the Cattleman 4 State well over in the

1 west half of the middle third, rather than directly north
2 of the Osudo 9 well?

3 A. Just didn't. I mean, that's -- I picked the spot
4 because it felt like a good spot.

5 Q. Uh-huh. And there have been four wells drilled
6 or proposed in Sections 4 and 9 in the last few months, and
7 they've all been in a north-south orientation; isn't that
8 correct?

9 A. That's where the various operators have drilled,
10 yes.

11 Q. Including Chesapeake?

12 A. Correct.

13 Q. Finally, Mr. Godsey, let's move on to your
14 Exhibits 29 through 31, the literature.

15 A. 29 through 31, okay.

16 Q. First exhibit, 29, which shows an east-west
17 diagrammatic cross-section -- so basically what you're
18 doing is, when we're looking into this picture we're
19 looking north or south -- north and south, aren't we?

20 A. Well, yeah, it's an east-west cross-section, so
21 your --

22 Q. Okay.

23 A. -- view is normal to that.

24 Q. So isn't the deposition coming from the north?

25 A. No.

1 Q. Okay. Then move on to Exhibit 30, the isopach of
2 the Morrow. Doesn't that show a north-south deposition
3 trend?

4 A. No.

5 Q. Especially over by where the red dot is?

6 A. No.

7 Q. Finally Exhibit 31, are you aware that in a
8 recent Commission case this very same study was -- Well,
9 take a step back.

10 You mentioned Lou Mazzullo. Who is Lou?

11 A. Well let's see, Lou, I guess, now is a consulting
12 geologist. Still -- Well, he may have some affiliation
13 with a couple companies. I think Lou still lives in
14 Albuquerque. He had left Midland -- God, 10 years ago?
15 Moved to Albuquerque? But he's a consulting geologist,
16 prospecting geologist --

17 Q. And he's --

18 A. -- a lot of southeast New Mexico.

19 Q. -- he's done a lot of -- He's done a lot of
20 Morrow studies in southeast New Mexico?

21 A. Uh-huh.

22 Q. Competent geologist?

23 A. I think Lou is a good geologist, yes, I do.

24 Q. Are you aware that in a case, recent Commission
25 case, 13,351, this very same study was the subject of

1 geologic testimony?

2 A. I've never seen the case, no.

3 Q. You don't know that in that study Mr. Mazzullo
4 said the study showed that deposition was north-south or
5 northeast-southwest?

6 A. I'm not familiar with that case, so I don't know
7 what Lou may or may not have said.

8 MR. BRUCE: Mr. Examiner, I'd ask that you take
9 administrative notice of the record of the geologic
10 testimony in Case Number 13,351 *de novo*, which discusses
11 this very study.

12 EXAMINER JONES: Was there an order issued?

13 MR. BRUCE: There was an order issued. I don't
14 have the order number.

15 EXAMINER JONES: Case 13,351?

16 MR. BRUCE: Yes, sir. The order was --

17 EXAMINER JONES: Any objection?

18 MR. BRUCE: -- issued in, I believe, May of this
19 year.

20 MR. KELLAHIN: It's only within your discretion,
21 Mr. Examiner, to take administrative notice of other cases.

22 MR. BROOKS: Is this the Pride case?

23 MR. BRUCE: This was the Edge Petroleum case, Mr.
24 Brooks.

25 MR. BROOKS: Well, if the Commission adopts the

1 new Rules that were proposed, the subject of hearing last
2 week, you'll no longer be allowed to do that unless you
3 present us with a transcript -- with a copy of the
4 transcript. But as of now, those new rules do not apply,
5 so I suppose --

6 MR. KELLAHIN: Here's the difficulty, Mr. Brooks.
7 And perhaps we may have an opportunity to file something
8 formally. I was not involved in that case, I don't
9 remember Mr. Mazzullo's testimony. I'd like to review
10 that, and we might comment. We certainly didn't
11 participate, I can't cross-examine Mr. Mazzullo.

12 MR. BRUCE: I don't have any objection to Mr.
13 Kellahin commenting on that, but I think it is relevant,
14 since it's this very same study.

15 EXAMINER JONES: Can you specify -- Is there a
16 township and range associated with that?

17 MR. BRUCE: 20 South, 30 East.

18 MR. BROOKS: I was present in that case, and I do
19 remember the testimony slightly, but not in detail,
20 obviously.

21 MR. KELLAHIN: I think just for the record, to
22 keep it clean, we'll object to doing this. Sort of a
23 backdoor way to discredit a witness that's not even here to
24 testify.

25 MR. BRUCE: Mr. Examiner, I didn't see this

1 particular exhibit until two hours ago.

2 MR. BROOKS: Well, I would tend to recommend that
3 we utilize the procedure that's going to be required under
4 the new Rules, even though the new Rules -- proposed new
5 Rules, even though --

6 MR. BRUCE: I will --

7 MR. BROOKS: -- the fact is that --

8 MR. BRUCE: -- obtain a transcript --

9 MR. BROOKS: -- you can get the transcript --

10 MR. BRUCE: -- and provide it to --

11 MR. BROOKS: -- from the file --

12 MR. BRUCE: -- all parties concerned.

13 MR. BROOKS: -- and make copies for opposing
14 counsel and for the Examiner.

15 MR. BRUCE: That's acceptable.

16 MR. BROOKS: Okay.

17 MR. BRUCE: I have no further questions of Mr.
18 Godsey.

19 EXAMINATION

20 BY EXAMINER JONES:

21 Q. Okay, Mr. Godsey, the -- Are you going to have a
22 -- is your case -- is Chesapeake going to have an engineer
23 that will testify?

24 MR. KELLAHIN: I have -- yes, a reservoir
25 engineer, yes.

1 EXAMINER JONES: But not a drilling engineer?

2 MR. KELLAHIN: I'm taking the position that if
3 there's objection about the actual costs when they're
4 final, that if you enter a typical compulsory pooling
5 order, there is a special provision in there for having a
6 hearing as to actual appropriate well costs. And so I did
7 not propose to call and put into the record the drilling
8 costs -- the actual drilling costs in the drilling
9 process --

10 EXAMINER JONES: Okay, but you have --

11 MR. KELLAHIN: -- but we will have a reservoir
12 engineer.

13 EXAMINER JONES: That sounds good.

14 Q. (By Examiner Jones) Mr. Godsey, do you remember
15 the mud weight that was used on the Osudo 9 State Com
16 Number 1 while they were drilling through the middle
17 Morrow?

18 A. I think I may have that here, because -- Let me
19 try to look back here and see if I --

20 Q. Well, I guess just -- how does it compare to the
21 mud weight and the type of mud that was used on the KF 4
22 State Number 1?

23 A. Okay, my recollection of the mud weight -- as I
24 -- my recollection is -- and I don't have the exact mud
25 weight in front of me. My recollection is that the

1 hydrostatic pressure of the mud weight was approximately
2 6300 pounds.

3 And you can see, referring to Exhibit 21, their
4 mud log and wireline log, they had about a 2100 -- up to
5 2700 maximum gas show. They stopped and checked for flow.
6 No flow, and they did not have a flare.

7 So I felt like that's a pretty close --

8 Q. Yeah.

9 A. -- guess of what their bottomhole pressure was.

10 Q. Okay. And how do you know what the original
11 reservoir pressure is in the Morrow. You said that -- I
12 think you said that these wells were not totally what you
13 consider original reservoir pressure.

14 A. Right, and again there will be further testimony,
15 but --

16 Q. Okay.

17 A. -- my understanding of it is this. The two --
18 really kind of the original earlier producers out there are
19 the two that are on the right-hand side, wells 6 and 7, of
20 the detailed stratigraphic cross-section, Exhibit 24.
21 Okay?

22 Q. Okay.

23 A. And those two wells both ran drill stem tests in
24 the Morrow. Okay? So they're the earliest producer out
25 there, and they ran drill stem tests, so that's about the

1 best source for a bottomhole pressure you're going to get.

2 Q. Okay.

3 A. Now -- and one of them -- and it was a multi-flow
4 test, so it should have taken care of any, you know --

5 Q. Cleanup.

6 A. -- yeah, any cleanup, any supercharging that
7 there was. The final shut-in on one of them was 7354, and
8 the other one was 7080. The 7354 would refer to the
9 producer down in Section 15, and the 7080 would refer to
10 the well in Section 10.

11 So that's where -- and if you scatter around,
12 look in a few places, occasionally you'll find some DSTs,
13 and that seems to be what the pressure is originally out
14 here, virgin.

15 Q. Okay, I should have waited and just asked the
16 reservoir engineer.

17 A. Well, that's --

18 Q. Do you see any water in the lower part of the
19 productive formation on your logs?

20 A. Actually, that's one of the sweet things about
21 this little area right here. There has -- there hasn't
22 been much water found in the Morrow right in this area.
23 Now, you do get into some wet Morrow sands as you go
24 further to the west, downdip. But right in here, I don't
25 off the top of my head recall any of these having a water

1 -- no.

2 Q. Is this Morrow a -- some kind of a -- It's a
3 strat reservoir, obviously, stratigraphic reservoir, but
4 does it pinch out kind of updip? Is that why you're
5 getting kind of close to the --

6 A. Correct, I see these as -- predominantly these
7 are fluvial sands that have been shed off of the Central
8 Basin Platform, you know, and going in an overall east-
9 westerly direction.

10 Now somewhere updip, yes, they're going to pinch
11 out. And that will probably happen, obviously, before you
12 get to the subcrop lime where there's no Morrow present at
13 all.

14 Q. And they're charged by the Mississippian and
15 Pennsylvanian sediments?

16 A. You know, I'm not certain what is considered the
17 source rock for the Morrow in this area. I don't know, I'm
18 sorry.

19 Q. But could that updip pinchout have had anything
20 to do with you wanting to locate the KF 4 State Number 1 at
21 originally 660-660? It has nothing to do with that?

22 A. Well, the KF 4 State 1 was at 660 and 990 --

23 Q. Yeah, okay.

24 A. -- and really, the location was -- from my
25 original thinking, was slid -- is that a right word? We

1 moved it easterly to get ourselves closer to the Osudo 9.
2 I know that there's Morrow sediments in the CC 3 State
3 Number 1, which is in the southwest southwest of Section 3,
4 and there were some sands there that were in a limited
5 reservoir. So I was very comfortable I was going to have
6 Morrow present.

7 Q. That CC 3 State Number 1, have you guys
8 considered re-frac'ing it, frac'ing it --

9 A. Well --

10 Q. -- maybe stem into a little more of the reservoir
11 there? Or you don't think -- does this build up to the
12 reservoir pressure?

13 A. It -- what we -- my recollection is -- I don't
14 remember the exact dates, but it started out at over 7000
15 pounds, and it was disheartening. We would -- every
16 morning at our report we would watch that rate just -- and
17 pressure, flowing tubing pressure, just come straight on
18 down. And at some point -- Because we were discussing, Do
19 we frac it?

20 And at some point when it got down low enough we
21 said, Let's go do a pressure buildup. And that -- I don't
22 remember the exact number. I could be way off, but it was
23 somewhere around 2200 pounds already, and this was in, I
24 think, less than a month --

25 Q. Okay.

1 A. -- so we decided that you'd be hoping for an
2 awful lot to go for that, because you'd have to say, Well,
3 I've got to get past whatever shale barrier there is and
4 get into something else.

5 Q. Okay --

6 MR. BROOKS: Excuse me, which well was this
7 you're --

8 THE WITNESS: This was the CC 3 State Number 1 in
9 the southwest southwest of Section 3.

10 Q. (By Examiner Jones) I should wait for the
11 reservoir engineer on that. But these contours, 10-foot
12 contours -- every contour on this map is drawn by a
13 computer, right?

14 A. No, the structure map is drawn by a computer.
15 The isopach is my hand-drawn isopach.

16 Q. Okay.

17 A. All right. Okay.

18 Q. Do you use Autocad?

19 A. No, we're using Geographics --

20 Q. Geographics.

21 A. -- and like I showed, the -- the -- the structure
22 -- I'm using the default algorithm, and I'm using -- I
23 think on this I used a 500-foot minimum radius, which would
24 be a 1000-foot minimum cell that it would look at in its
25 gridding algorithm, which I thought would more than

1 adequately cover the control.

2 The -- All the isopachs, though, are hand-drawn.

3 Q. Okay. Was that necessary? Could you have let
4 the machine draw the isopachs also?

5 A. I've tried that and you get weird stuff going
6 everywhere. It's -- it's -- I just -- I routinely don't do
7 that, because you get -- when you let the computer draw it,
8 what happens is, particularly when we have well control
9 that's not consistently spaced, as soon as you get away
10 from well control the algorithm starts giving it
11 thicknesses that are not real. So therefore I don't like
12 to do that. I like to hand-draw my isopachs.

13 Q. But -- Okay. But -- so there is -- some
14 interpretation is necessary out here --

15 A. Yes, it is.

16 Q. -- in the net-pay isopach?

17 A. That's right.

18 Q. Can you see these -- can you see 56 feet of -- or
19 52 feet of high-porosity Morrow on the Geo- -- on the
20 seismic at this depth?

21 A. Theoretically, that's probably approaching the
22 thickness you might be able to see with very high quality
23 data. My experience in the Morrow has been that these
24 sands are typically too thin to actually image.

25 Now -- But also in this area, the seismic data

1 that I have seen in this general vicinity is not extremely
2 high -- not high enough quality to image that.

3 When I was working for EOG in Midland, we had
4 some 3-D data that really kind of started south of this and
5 went south of us, shot by Western Geophysical. We
6 struggled with the structural interpretation. Our
7 geophysicist that I worked with, who does a lot of seismic
8 stratigraphy, could not see sands at all on that.

9 So my answer is, yeah, you're starting to get to
10 that thickness at this -- remember, you're below 11,000
11 feet, you've got surface problems out here. In fact, there
12 are even some little -- in places there are little --
13 they're like little collapsed structures up in the Rustler,
14 in the anhydrites and stuff, where you can see -- at least
15 on the data to the south. where you're going along all of a
16 sudden for about -- I don't know, about a quarter-mile
17 circle, just -- everything just disappears on you because
18 it looks like there's a little collapse.

19 Q. Yeah.

20 A. Makes the data pretty tough.

21 Q. Yeah. Do you run sonic logs out here? On any of
22 these has a sonic log been run?

23 A. I think we ran a sonic on our KF.

24 Q. Okay, so you --

25 A. We ran it, I think, on the shallower part due to

1 hole conditions. I might not have run it on this deeper
2 part.

3 Q. Okay. But do you -- Are you a team leader now,
4 with Chesapeake? You said you were a supervisor before,
5 down in --

6 A. I had been a supervisor, exploration manager, for
7 Texas Oil and Gas in Corpus Christi and in Midland for a
8 number of years, yes, I -- then I was independent for about
9 eight years. And I made a conscious decision. I like
10 doing geology, I don't like -- I mean, I like working with
11 my stuff and doing geology. Managing is actually a major
12 headache.

13 Q. Okay, do you work with a geophysics person?

14 A. Yes, I do.

15 Q. So there's one on your team or --

16 A. Yes.

17 Q. -- assigned to you --

18 A. Right, I'm paired with a geophysicist that works
19 the same -- well, he works the same gross area I do, and I
20 think he does some stuff for a couple other geologists
21 also.

22 Q. And these dryhole costs are what, \$2 million out
23 here or something like that?

24 A. The dryhole cost --

25 Q. Anyway --

1 A. -- ballpark, yeah --

2 Q. It's very high?

3 A. \$2 million, right.

4 Q. And do you plan on doing any 3-D seismic out here
5 to --

6 A. We -- we've --

7 Q. -- look for Bone Spring or Morrow --

8 A. As a matter of fact, we've discussed that and
9 haven't made the decision to do that yet. To my knowledge,
10 I'm not aware of any existing 3-D right over this area. I
11 think -- my recollection is that Western's data that they
12 shot starts and goes south right about at the -- You see
13 the north section lines of Sections 19, 20, 21 and 22,
14 which is about three miles south of the KF?

15 Q. Okay.

16 A. I think their data starts about there and goes
17 south.

18 Q. Okay.

19 A. We've discussed possibly shooting some seismic in
20 here. We haven't made the decision to do that yet.

21 Q. Okay. Your net pay map specifically for the
22 middle of the middle Morrow --

23 A. Uh-huh.

24 Q. -- is -- shows a really good -- some -- shows --
25 to me it looks like the best wells. Is that your testimony

1 also, that the best wells in the Morrow are going to be in
2 that middle -- middle sand of the middle Morrow?

3 A. The orangey -- the orange-colored one, is that --

4 Q. Yeah, well, is this dark green on the --

5 A. Oh, dark green.

6 Q. -- Exhibit 35.

7 A. Well, that contains -- there's some good wells in
8 it. In fact, up in Section 5, you may have already
9 noticed, that's an over-28-BCF well.

10 Q. That's what I noticed.

11 A. I'd like to find one of those.

12 Q. But that sand was the middle -- the "New", that's
13 the upper "New" part of the middle --

14 A. Right --

15 Q. -- Morrow?

16 A. -- and where the "New" came in from an earlier
17 mapping point where you start naming sands and I call this
18 a number, I go, Oh, no, I've got a new upper one, so I
19 started naming them that. So yes.

20 MR. BROOKS: May I interject just for
21 clarification? So the Exhibit 35 is the upper middle,
22 Exhibit 34 is the middle middle, and Exhibit 36 is the
23 lower middle, correct?

24 THE WITNESS: Let me make sure I've got -- Right,
25 and that's why -- to help me, I -- that's why I color-coded

1 it.

2 The blue isopach would correspond to the blue on
3 the cross-section, which is the lower -- south Osudo lower
4 zone.

5 The orange one is what I've labeled the south
6 Osudo upper zone. It's the middle of the three on the
7 cross-section, okay?

8 And then the one that is -- the green isopach
9 would correspond to the green on the cross-section, and I
10 call that the south Osudo upper "New".

11 MR. BROOKS: Okay.

12 THE WITNESS: I'm sorry about the terminology,
13 it's -- it's killing me too.

14 MR. BROOKS: Yeah, I'm just trying to get it
15 straight --

16 THE WITNESS: I know.

17 MR. BROOKS: -- in my mind.

18 Q. (By Examiner Jones) Is there any other deep 320-
19 spaced gas target that you have in this area?

20 A. That I have?

21 Q. In Sec- -- specifically Section 4, I should say.

22 A. Well, you know, as -- Let me find the right map.
23 Excuse me. In Section 4 we had obtained drilling permits
24 for the Cattleman 4 State Number 1 and the 4 State Number
25 2. In light of what we see the results of the most recent

1 wells drilled, we're no longer interested in drilling the
2 Cattleman 4 State Number 1. We are still interested in
3 what we had called the Cattleman 4 State Number 2.

4 Q. Okay. What spacing is the Bone Springs out here?
5 That's oil, isn't it?

6 A. The Bone Springs would be oil. My recollection
7 is, it's 40-acre spacing.

8 Q. Okay. Let's see here. Okay, you always TD your
9 wells out here, or most operators do, once the penetrate
10 that middle Morrow --

11 A. Well --

12 Q. -- all the sands in the middle Morrow?

13 A. -- most of them try to get actually through the
14 middle Morrow. You'll note on the Hunger Buster, that's
15 the shallowest TD here. But most of them will get through
16 that, and they pretty much get down and see that lower
17 Morrow package and say -- when they -- a lot of them, when
18 they're sure they get into the Mississippian, they stop.
19 But many of them stop a little bit earlier --

20 Q. So nobody's looking at the Austin that exists
21 over to the west?

22 A. Right, the well -- that Austin series, like I
23 say, is such a hot play -- it has been up around Lovington
24 and stuff like that -- that sequence doesn't seem to exist
25 here. In fact, you may be going more into a Barnett shale

1 here.

2 Q. But they know that, even because of existing
3 wells that have penetrated it?

4 A. And there have been a few wells out here that
5 went all the way to the Devonian.

6 Q. Okay. Mewbourne got this Osudo 9 well on line in
7 record time --

8 A. I was impressed.

9 EXAMINER JONES: Yeah, I was impressed looking at
10 that also. And I can talk to the reservoir engineer about
11 the completion of it, I guess.

12 Mr. Brooks?

13 EXAMINATION

14 BY MR. BROOKS:

15 Q. Okay, just for clarification of my terminology,
16 which may be as confusing as the geologist's, because I
17 want to be able to refer to these various tracts, I will
18 refer to the 160-acre tract north of the southwest quarter
19 of Section 4 as the west half of the middle half. And I
20 will refer to the quarter section where the location for
21 the Cattleman 4 State Number 1 was proposed as the east
22 half of the middle half.

23 A. Okay.

24 Q. The other quarter sections, I don't think we'll
25 have any trouble with.

1 A. Okay.

2 Q. Okay. Well, first of all, based on your
3 testimony in response to the Examiner's questions, I gather
4 that you -- that your mapping is based -- that your
5 detailed mapping is based really on well control, not on
6 seismic?

7 A. Yes, sir, it is.

8 Q. Okay. And is it based to any extent on the
9 reservoir thickness and pressure and all these things that
10 reservoir engineers talk about, or...

11 A. To some extent, and you'll see that detailed
12 testimony in a minute.

13 Q. Okay, I would assume that would come from the
14 reservoir engineer, but --

15 A. Right, I can summarize for you what I utilized
16 out of it if you want, or you can wait and hear from him.

17 Q. Well, what I have heard in other cases and what
18 I'm assuming is the case, if you know the size the
19 reservoir has to be, then -- if you know where some of it
20 is, the balance of it has to be somewhere, so --

21 A. Yes.

22 Q. -- it's going to influence your mapping to some
23 extent --

24 A. Yes, sir.

25 Q. -- I would think.

1 The thing I notice particularly about your
2 mapping, that catches my attention, is that you have
3 projected this sweet spot rather aggressively toward the
4 west into -- over into Section 8, which is -- there's been
5 very little activity in Section 8, but the wells that
6 surround it that have been drilled to date don't look very
7 good. In other words, if there's a sweet spot in the
8 middle there, it's kind of flanked by pretty sorry stuff
9 from just looking at this map.

10 And what I would just ask is, what was your
11 reasoning in projecting this reservoir to the west to the
12 extent that you have?

13 A. Okay, well I mean -- obviously, as you're
14 pointing out, it's interpretive. Now, the reason I
15 interpreted it that way is, in keeping line with the trend
16 of the sands that I've identified where I have more
17 control, if you look down through, say, Sections 15, 16,
18 I've got 36 and 30 feet in an east-west alignment.

19 Q. Right.

20 A. South of that they get thinner, north of that
21 they get thinner. And I see sands following that same type
22 of pattern in a westerly direction, all the way off onto
23 the west edge of the map. I see that also even up to the
24 north. So while I don't have a point of control to prove
25 that it is thick out there, I'm interpreting that it does

1 extend that far. It may not, I agree with that.

2 Q. Okay. When you revised your mapping from Exhibit
3 22 to Exhibit 25 --

4 A. Uh-huh.

5 Q. -- that was done primarily in the light of the
6 logs from the KF 4 State; is that correct?

7 A. Well, that actually used the KF 4 State, the
8 Hunger Buster 3 and the Apache dry hole in Section 10.

9 Q. Okay.

10 A. Those were the three new points of control.

11 Q. None of those was available to you at the time
12 that you did Exhibit 22?

13 A. No, sir.

14 Q. Okay. When you revised your projections, you had
15 previously shown the south half of Section 4 as all looking
16 pretty good, it looks like, from your -- from Exhibit 22,
17 correct?

18 A. Yes, sir.

19 Q. And so it would seem that perhaps the KF 4 State
20 Number 1 was a disappointing result?

21 A. Well -- (laughs) -- in light -- if the Osudo 9
22 State well wasn't sitting there with 54 feet of sand and
23 having had produced as high as 21 million a day, and we had
24 just drilled that well and tested at the rate we did with
25 the logs we had, we said, Man, we've got a really good

1 well. It's kind of like -- in a comparison sense, man,
2 it's not as good as the Osudo.

3 Q. Yeah.

4 A. I agree with that.

5 Q. Does Chesapeake have a total production
6 projection on the KF 4 State at this point?

7 A. All we've been able to do by order of the OCD or
8 suggestion of the OCD was to perforate it and test it,
9 which we did for a 24-hour test, and then shut it in. So
10 it's awfully hard to really project any concrete reserves
11 out of it. But again, that's not me to testify to.

12 Q. That would be the engineer?

13 A. Yes, sir.

14 Q. But Chesapeake does feel like this is undoubtedly
15 a commercial well, correct?

16 A. That's my feeling, yes, sir.

17 Q. Okay. Now your mapping would indicate that your
18 opinion at this point is that the southwest quarter of
19 Section 4 would likely be a better -- even a better
20 prospect than the southeast quarter, the way -- as it now
21 appears; is that correct?

22 A. Our long-range plans would be to take advantage
23 of what OCD has allowed for us to do, which is to drill a
24 subsequent well in the paired 160 of the 320-acre unit.

25 Q. And you can do that regardless of how the units

1 are designed. Whether the OCD ends up giving you a laydown
2 unit as you have requested, or whether the OCD were to
3 assign a standup unit --

4 A. That's correct.

5 Q. -- including that quarter section and the quarter
6 section to the north, you could still drill in that
7 southwest quarter, correct?

8 A. Right, if we're allowed to have a standup 320
9 over there, that would include that, yes, sir.

10 Q. And either way, you would have to share the
11 production of that well with Samson, et al., because they
12 would own the other quarter section, whichever one it was?

13 A. Yes, sir.

14 Q. Well, let's go north of there into the west half
15 of the middle half --

16 A. Okay.

17 Q. -- of Section 4. Your mapping -- Well, first of
18 all, I go back to the Exhibit P to get the well, and I
19 think with some difficulty we established that the well
20 that has the three-foot marker by it was the Jake Hammon
21 State.

22 A. Yes, sir, I believe so.

23 Q. Okay. Now, the black dot that has nothing by it
24 -- that was his dryhole marker, apparently -- south of
25 that, I assume, is the Hegwer Thomas State Number 1 that is

1 shown on Exhibit P?

2 A. Yes, sir.

3 Q. And I'm also assuming from the fact that there's
4 been no reference to that well in these proceedings, that
5 that probably did not penetrate the Morrow; is that
6 correct?

7 A. That's -- to the best of my knowledge it did not.
8 I think on his Exhibit P he has -- I think that is a TD on
9 here of 10,697. I'm assuming -- I don't know if that's a
10 TD. My recollection is, and my study of the area is that
11 that's right, it did not penetrate.

12 Q. Okay. But the Jake L. Hammon, while it did
13 encounter a Morrow sand, it was not productive; is that
14 correct?

15 A. Yes, sir.

16 Q. Okay. Now, I notice you -- your mapping shows
17 the somewhat thicker Morrow sands nosing up into that
18 quarter section. On what did you base that?

19 A. The individual sand map, which would be the blue,
20 Exhibit 36, that's the unit I correlate to the have that
21 three net feet of sand in it. And it's present there, and
22 I've interpreted -- and again, this is interpretive -- that
23 that sand is coming down off of the northwest quarter,
24 through that quarter, into the southwest and then further
25 down into Section 8. That's -- and that's my

1 interpretation of it.

2 Q. So it was primarily because that Jake L. Hammon
3 well had that three feet of this lower middle Morrow --

4 A. Yes, sir.

5 Q. -- that you projected that nose going up there?

6 A. Yes, sir. Well I mean, I have to honor the three
7 feet and draw it somehow or another, right.

8 Q. So based on looking at this map, I would assume
9 that at this point you would probably not recommend
10 drilling a well in the west half of the middle half of
11 Section 4; would that be correct?

12 A. Given the well control I have right now, that's
13 correct. I think there are lower-risk places to drill
14 rather than that quarter right now.

15 Q. On the other hand, you do not that quarter
16 section as condemned?

17 A. No, sir.

18 Q. Despite the dryhole up there in the northwest
19 part of it?

20 A. No, sir.

21 Q. Okay. But you do regard the east half of the
22 middle half as virtually condemned at this point; is that
23 correct?

24 A. At this point, yes, sir.

25 Q. So your -- And of course, your ownership is in

1 the north half, not the middle half? You have no ownership
2 -- Chesapeake has no ownership in the middle half; is that
3 right?

4 A. That's correct.

5 Q. You have ownership in the north half. And the
6 projected location for the Cattleman 4 State Number 2, you
7 still consider that a viable location --

8 A. Yes, sir.

9 Q. -- correct? And just based on your mapping, it
10 doesn't seem that it would -- just eyeballing it, it
11 doesn't seem that you would necessarily have a particular
12 preference as to whether that -- from a geologic
13 standpoint, you don't as to whether that would be -- well,
14 I'm saying the wrong word. I'm all wound up, so I'm going
15 to unwind and --

16 A. Okay.

17 Q. -- start over.

18 The west half of the middle half --

19 A. Okay.

20 Q. -- and the northeast quarter both look like --
21 just eyeballing your map, like there may be some prospects
22 there but they're not real good. And do you have a
23 definite preference -- and I realize Chesapeake owns one
24 and not the other --

25 A. Uh-huh.

1 Q. -- but just looking at them from a geologic
2 standpoint, how would you evaluate those two comparatively?

3 A. We would be -- well, okay, the west half of the
4 -- the west 160 of the middle 320 --

5 Q. Right.

6 A. -- I'd say it has at this point less probability
7 of -- less success probability than the northwest quarter
8 of Section 4, and I would say it would be similar in
9 today's value to the northeast quarter of Section 4.

10 Q. That was --

11 A. Okay.

12 Q. -- kind of what I had assumed from looking at
13 your map --

14 A. Right.

15 Q. -- and I wanted to confirm that. And if you're
16 curious about the reasons why I'm asking these questions,
17 if we accept your proposal -- if the OCD accepts your
18 proposal and establishes a laydown in the south half, then
19 we don't do anything with the rest of the section. But if,
20 on the other hand, we establish a spacing unit as Samson,
21 et al., want, a standup spacing unit, then our decision
22 dictates the configuration of the rest of the spacing units
23 in the --

24 A. Yes, sir.

25 Q. -- in the section.

1 A. Right.

2 Q. Let's see if there's anything else I need to ask
3 you. I'm not going to ask you about drainage, because you
4 didn't testify to it, and I assume that the engineer will
5 cover that?

6 A. Yes, sir.

7 MR. BROOKS: I think that's all the questions,
8 all my questions.

9 EXAMINER JONES: Any other questions?

10 MR. KELLAHIN: No.

11 MR. BRUCE: I have one.

12 EXAMINER JONES: Mr. Bruce?

13 FURTHER EXAMINATION

14 BY MR. BRUCE:

15 Q. Looking at your blue map, Mr. Godsey --

16 A. Okay.

17 Q. -- if you look in the northern third of Section
18 4, in lot 2, which would normally be the northwest quarter
19 of the northeast quarter, is that a proposed Chesapeake
20 well location?

21 A. Yes.

22 Q. To test the Morrow?

23 A. Yes.

24 MR. BRUCE: Thank you.

25 MR. BROOKS: Everybody through with this witness?

1 MR. GALLEGOS: I hope so.

2 MR. KELLAHIN: We're done.

3 EXAMINER JONES: Okay, let's go to lunch, and
4 let's come back at 1:30 this afternoon.

5 (Thereupon, a recess was taken at 12:15 p.m.)

6 (The following proceedings had at 1:37 p.m.)

7 EXAMINER JONES: Okay, let's go back on the clock
8 here and continue with Mr. Kellahin and Mr. DeBrine.

9 MR. KELLAHIN: Thank you, Mr. Examiner.

10 (Off the record)

11 MR. KELLAHIN: Mr. Examiner, at this time we'll
12 call Chesapeake's reservoir engineer, Rodney Johnson.

13 EXAMINER JONES: I think I can spell that one.

14 MR. JOHNSON: That's easy.

15 MR. KELLAHIN: In addition, Mr. Examiner, there's
16 two potential locator maps that will assist you in keeping
17 track of the engineering presentation concerning the key
18 wells. I'm going to put up an extra copy on the display
19 board of our Exhibit 25, and then Mr. Hall's Exhibit P is
20 also a good locator map.

21 MR. BROOKS: I was going to ask if we should fold
22 up Mr. Godsey's exhibits. Well, I think I will anyway,
23 because I've got so much paper on this table I can't find
24 anything.

25 MR. KELLAHIN: One of Mr. Johnson's displays is a

1 color copy of a pressure plot diagram, and he also has that
2 on PowerPoint. We'll try to use that. Sometimes it's
3 easier to keep track of where he's talking if he can locate
4 it on the PowerPoint with the pointer.

5 RODNEY JOHNSON,

6 the witness herein, after having been first duly sworn upon
7 his oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. KELLAHIN:

10 Q. All right, Mr. Johnson, for the record, sir,
11 would you please state your name and occupation?

12 A. Rodney Johnson, and I'm the reservoir manager for
13 the non-midcontinent Chesapeake properties.

14 Q. And where do you reside, sir?

15 A. Edmond, Oklahoma.

16 Q. Summarize for us your education. When and where
17 did you obtain your engineering degree?

18 A. Yeah, I got a bachelor's degree in mechanical
19 engineering from Wichita State in 1980. I then took a job
20 with Texaco and went through about a year of extensive
21 training with Texaco's internal training program. I then
22 went to two major independents in Oklahoma and worked the
23 deep Anadarko Basin for about 10 years, ending as a
24 reservoir manager for Dyco Petroleum.

25 Following that, I went to Snyder Petroleum in the

1 D-J Basin up in Denver, worked as a reservoir manager for
2 them in the D-J Basin for about five years.

3 I then went out to California and worked
4 Diatomite Coastal Asset for Exxon and Shell, combination of
5 their group, and I left there as the manager of technology
6 for their coastal asset.

7 Q. This is all within the petroleum engineering
8 disciplines?

9 A. Yes, sir.

10 Q. Are you certified or registered as a petroleum
11 engineer?

12 A. Yes, for about -- approximately 20 years as a
13 registered professional engineer in the State of Oklahoma.

14 Q. Describe for us what you currently do for
15 Chesapeake.

16 A. Yeah, I manage approximately 20 people, primarily
17 reservoir engineers and technicians, and my area is south
18 Texas, Permian -- essentially, it's everything Chesapeake
19 has in Louisiana, south Texas, the Barnett shale, Permian,
20 Kansas, up into Wyoming and the Rockies. The other
21 reservoir engineering managers handle the bulk of the
22 properties in Oklahoma and Arkansas.

23 Q. As part of your responsibilities for your
24 company, have you and under your direction other engineers
25 for your company reviewed the available engineering

1 information so that you could come to a professional
2 conclusion about the extent to which you believe the
3 engineering evidence supports Mr. Godsey's geologic
4 opinion?

5 A. Yes, I have.

6 Q. And have you done that?

7 A. Yes.

8 Q. As part of your presentation today, are we going
9 to look at exhibits that either you have prepared or that
10 have been prepared under your jurisdiction and supervision
11 and you're satisfied are true and correct?

12 A. Yes.

13 MR. KELLAHIN: We tender Mr. Johnson as an expert
14 petroleum engineer.

15 MR. GALLEGOS: No objection.

16 MR. BRUCE: No objection.

17 EXAMINER JONES: Mr. Johnson is qualified as an
18 expert petroleum engineer.

19 Q. (By Mr. Kellahin) Mr. Johnson, let's start with
20 the information available to Chesapeake and that
21 information that has been filed with the Division and
22 shared with the opponents concerning the completion of the
23 KF State 4 Number 1 well that is the subject of one of the
24 hearings today.

25 A. Yes, sir.

1 Q. Let's start with that. If you'll turn to what is
2 stapled together as a composite exhibit, I've marked it as
3 Exhibit 37, and let's have you simply start with the first
4 page of the form and walk us through the principal points
5 that are important to you as an engineer.

6 A. Yeah, primarily we -- the only data we really
7 have on the KF State concerning flow or pressure was the
8 completion information obtained during the 24-hour test.
9 We thought we'd start with that.

10 The 24-hour test recorded an ending flow rate at
11 2.2 million cubic feet a day and a flowing tubing pressure
12 of 2000 pounds. No oil or water was recorded during that
13 test. It was completed 8-9 of '05, and the flow test was
14 8-11 of '05.

15 Morrow producer. It's been testified here today
16 that the bottomhole location is in Section 4, 21 South, 35
17 East, 688 feet from the south and 1947 feet from the east.
18 I believe we have also attached -- there is attached the
19 bottomhole location plat and the deviation report.

20 We also -- subsequent to drilling the well we
21 also did a dip-in pressure test and recorded a bottomhole
22 pressure on 8-17 of '05 of 6595 pounds, bottomhole
23 pressure.

24 Q. The current status of the well is that it's a
25 shut-in, pursuant to the Division's hearing motion, and

1 we're not producing it for sales?

2 A. That's correct.

3 Q. Let's put that information that you have from the
4 KF State 4 well into perspective. Starting chronologically
5 so that we can help keep this well information straight, if
6 you'll turn to the tabulation of information shown on
7 Exhibit 38. And this display, if you will, Mr. Johnson, is
8 numbered on the far left with a number. And that numbering
9 code corresponds to the numbering system we used on Mr.
10 Godsey's Exhibit 25, and if you know the well names well
11 enough, you may refer to those, and we can find them on
12 Kaiser's Exhibit P.

13 So in analyzing the information that you have,
14 review for us the type of reservoir-engineering process
15 that you went through to study this information.

16 A. Yes, I kind of wanted to talk just briefly about
17 all the data we reviewed and what we tried to do here.
18 Obviously, this area, you know, initial well in the six
19 sections that we talked about, you know, the initial well
20 was 1967. What we lack in this area is a lot of
21 granularity on detailed information. I'm going to talk
22 about that in a little bit.

23 What we did do is, we reviewed the pressure
24 information that was available publicly and any private
25 information we could get off of completion reports for any

1 of the public data from *Dwight's*. We also looked at any
2 gas analysis data that was available, any completion
3 histories, scout reports and any of the other relevant data
4 that we could find, the purpose of which was to understand
5 the reservoir, you know. Try and find out the flow
6 characteristics of the individual wells and see if there
7 were any correlations between data of the individual wells
8 in a combined flow capacity.

9 Along those lines, typical types of analysis we
10 looked at, we looked at decline analysis, bottomhole
11 pressure versus time. We also -- we have available now
12 some advanced decline analysis, a program called RTA, which
13 uses some of the advanced Blasingame-Agarwal decline-curve
14 analysis things. We did all of that in an attempt to
15 figure out what data was the most pertinent to
16 understanding the reservoir and flow characteristics.

17 Q. Having understood the purpose of your study, Mr.
18 Johnson, from that information are you able to form a
19 professional engineering opinion about the likely
20 probability that the KF State Number 4 well is in
21 communication with the Osudo 9 well to the south?

22 A. Yes.

23 Q. Are you able to also reach a professional
24 engineering opinion with regards to the geologic
25 orientation that Mr. Godsey has placed on his displays,

1 showing that the highest quality productive acreage is to
2 be the two 160 acres that form the south-half spacing unit
3 for the southern portion of Section 4?

4 A. Yes, what we really found -- and primarily --
5 again, we looked at volumetrics and all the different
6 parameters, but the most telling piece of information we
7 looked at was the bottomhole-pressure-versus-time
8 information. And we found that to be consistent with Mr.
9 Godsey's map.

10 Q. At this point do you have the necessary available
11 engineering information by which you can estimate an
12 ultimate recovery from the KF State Number 4 well?

13 A. No, no. We did look at -- we -- While the
14 estimates of a reservoir engineer are always wrong until
15 the point at which the production stops, usually, what we
16 found in the Osudo case and also in the KF State well is
17 that the volumetrics, depending upon your geological
18 mapping and your thickness, could say a wide range of
19 outcomes. And it's a fairly substantial range of outcomes.

20 And what we found from the decline analysis of
21 the Osudo and also the RTA analysis of the Osudo is that
22 there's still a fairly wide range of outcomes from that
23 individual performance curve. You're looking at a fairly
24 new performance. While we have production data on a daily
25 type information, it still yields a wide range of possible

1 outcomes.

2 MR. KELLAHIN: If the Examiner chooses to grant
3 the Chesapeake compulsory pooling application and provides
4 an election period for Samson, Kaiser-Francis and Mewbourne
5 to make elections, then they'll be making that based upon
6 information that you'll continue to provide to them about
7 this well?

8 A. Yes.

9 Q. Let's turn now to the chronological order of
10 events and have you direct your attention to Exhibit 38,
11 and I believe that is our information sheet by which we can
12 keep track of the wells.

13 Is there any specific information you want to
14 look at on Exhibit 37 to further inform the Examiner of the
15 status of the data? You started off talking about the well
16 in Section 15.

17 A. Yes, sir.

18 Q. Let's do that, then.

19 A. Yeah, I think we just start with -- if I can --
20 apologize -- my technical support.

21 MR. KELLAHIN: David, would you help him?

22 (Off the record)

23 THE WITNESS: Thank you.

24 What we found helpful was to go through the
25 chronological events of how these wells were drilled, what

1 was found, the pressure that was obtained at the initial
2 completion. And also we tried to list on this sheet, you
3 know, the cumulative gas, since it's the known variable.

4 What we're looking at is, in Section 15,
5 identified on our map as well number 1, was what -- for
6 this section, six-section area we called the discovery
7 well, we show a DST taken of 7354 pounds bottomhole
8 pressure. Unfortunately, it's May, 1967, so the initial
9 flow-rate -- some of the initial flow-rate data wasn't
10 available from *Dwight's*. But what we were able to
11 determine was that -- I believe like 80 percent of that 6.4
12 BCF was cum'd in the first seven years. So it was a very
13 prolific producer.

14 And what we found also was, you know, that 7300
15 pounds appears to be, you know, an establishment of virgin
16 reservoir pressure in the area, again DST-tested.

17 Then the second well to be drilled in the area
18 was in Section 10. That is the WE L Com Number 1. This is
19 the well that I believe was discussed earlier, that had the
20 frac done on it later in its life. Initially it was a
21 marginal completion. DST on that well showed a bottomhole
22 pressure of 7080 pounds, identified on our chart, and that
23 was completed in -- first production in January of 1970.

24 Unlike the WEK Number 1, this well produced for
25 quite an amount of time at very marginal rates and showed

1 -- as Mr. Wainwright [sic] talked about, showed continued
2 pressure through that entire time, and we'll get to that in
3 a minute. We'll show you a pressure plot of what's
4 different about that well.

5 Then following that, in Section 15 well number 3
6 was drilled in April -- first production date in April of
7 1976. That's the State 15-1. The well was what we
8 consider an edge well, showed virgin reservoir pressure of
9 7636 pounds. Now, this data came from *Dwight's*, public
10 data from *Dwight's*, so we don't have a DST on that.

11 While it showed good original bottomhole
12 pressure, it dropped rapidly -- and we'll show that plot to
13 you here in a minute -- to well number 1's range, and has
14 cum'd .41 BCF. Classically not the same type of well as
15 the WEK Number 1.

16 Then we move to Section 16 where well number 4 is
17 identified, straight west of the number 1 well. This well
18 was drilled in 1991, has cum'd .65 BCF, and the reported
19 initial reservoir pressure on it, from *Dwight's* data, was
20 5326 bottomhole pressure. Again, not the same type of well
21 as well number 1. It has only cum'd .65 BCF since 1991.
22 Marginal producer.

23 Then we move to well number 5, which has been
24 discussed quite a bit. This is the CC State 3-1, drilled
25 in 1994 [sic]. It showed, again, reservoir pressure of

1 approximately 7300 pounds. That is calculated from a mud
2 weight of 12.2 pounds per gallon. And it was a natural
3 completion.

4 This is the one that has been discussed quite a
5 bit. Thirty days after production, this well was put on
6 production, the rate had dropped off and they ran in with a
7 bottomhole pressure bomb after 150 hours, and P^* was
8 calculated to be approximately 1270 pounds of bottomhole
9 pressure.

10 Going back, Mr. Examiner, to your earlier
11 question, why wasn't it frac'd?, it showed severe signs of
12 depletion. And even if we were wrong by a factor of two,
13 it still showed severe -- on the P^* it still showed severe
14 signs of depletion.

15 We showed a cum of .002. I think Mr. Godsey said
16 50 million or something or other.

17 Followed by well number 6, which of course has
18 been discussed. It's the Osudo State 9-1, 2005, March,
19 with a calculated bottomhole pressure of 6300 pounds from
20 mud weight again. We showed the mud weight on that well to
21 be about 10.3, and to your question of completions we show
22 that well as completed naturally. Outstanding natural
23 completion, that's been talked about, upwards of 21 million
24 cubic feet a day. But we do show that -- that 6300 pounds
25 shows some slight depletion, and I believe that was

1 testified to earlier.

2 We also looked at -- we played a little bit with,
3 you know, mud weights, et cetera, you know, how precise is
4 the mud weight calculation on that well? What we found
5 was, you know, it would take perhaps another pound per
6 gallon of mud weight to control virgin reservoir pressure.
7 One would expect a natural completed well that could flow
8 up to 21 million a day, to be able to control it with a
9 pound under balance. So we feel like that that did show
10 signs of depletion on that well.

11 Then the next well was well number 7, which is
12 the Hunger Buster Number 3, drilled south of the Osudo
13 State. From data again, we found that the mud weight was
14 10.8, and we calculated a bottomhole pressure of about 6600
15 pounds on that one. Again, shows some signs of pressure-
16 depletion in that well. We -- you know, we believe that's
17 below virgin reservoir pressure in that well.

18 I understand they did frac that well but have had
19 casing problems, and we don't have extended production
20 data, public data on that well. I believe it was testified
21 it's making 700 MCF a day now.

22 The next well to be drilled was the State WE L
23 Com Number 2. This is identified as the dry hole, number
24 8. Had a lot more to say about -- that was July of '05.

25 And finally, the ninth well to be drilled was the

1 KF State Number 1, drilled in August of '05, calculated its
2 first production. Mud weight calculation on this well was
3 6600 pounds, which matched very closely with our dip-in at
4 6595. So we believe our mud-weight calculations are fairly
5 consistent with what we're finding in bottomhole pressure.

6 Q. As part of your study, Mr. Johnson, have you
7 prepared a pressure-versus-time display of the various
8 points that are important to you as a reservoir engineer?

9 A. Yes.

10 Q. And do you have hard copies of that for
11 everybody --

12 A. I believe so.

13 Q. -- color copies?

14 A. Yes, sir.

15 Q. And then do you have that as a PowerPoint display
16 too?

17 A. Yes, sir.

18 Q. Let's turn to that now. Before you describe the
19 details of Exhibit 39, describe for us what data you've set
20 up on this display.

21 A. All right. Essentially what we attempted to do
22 with this display was to take all the public data available
23 from *Dwight's*, from the public calculated program, and look
24 at bottomhole pressure versus time, and put all the wells
25 on one plot so you could see the correlation between the

1 different pressure points.

2 Given that, we realized that not all of *Dwight's*
3 information is inclusive of all the data that was
4 available. So we also included, identified in the boxes,
5 any pressure points calculated from other sources. So what
6 you'll see here are DST, the two initial points on well 1
7 and 2 calculated from DST, and then mud-weight calculations
8 over there to the right, and also the measured bottomhole
9 pressure on the KF State Number 4.

10 Q. In putting all this information together, Mr.
11 Johnson, are you able to come to an engineering judgment
12 about what you anticipate was the original virgin pressure
13 in the reservoir?

14 A. Yes, we believe the original virgin pressure in
15 this particular area in the Morrow was in the 7000-plus
16 range, bottomhole pressure, identified by the State WEK DST
17 and also by the WE L Com 1 DST.

18 Q. How does the original virgin pressure established
19 compare to the reported pressure in the number 2 well on
20 your display?

21 A. It's consistent with the number 2 well.

22 Q. When you compare the pressures in well number 3
23 and well number 4, how do they relate to the number 1 well?

24 A. The number 3 well showed virgin reservoir
25 pressure, but the number 4 well, you can identify at least

1 from -- you know, given the data source that is public
2 data, that it was considerably less than the number 3 well.
3 What we identified primarily on this chart was the
4 difference in the number 2 well. I think it has already
5 been testified to. The number 2 well shows a complete
6 different characteristic. Identified in orange you see the
7 amount of data. Most of the wells drop down after the
8 initial 5 or so BCF cum'd out of the number 1 well. Most
9 of the wells are performing down here in the sub-thousand.
10 But the number 2 well consistently was higher pressure
11 regime than the rest of the wells in the area.

12 And what that led us to believe is that the
13 number 1 well and the number 2 well were not in
14 communication with each other, consistent with Mr. Godsey's
15 map.

16 Q. If there's a geologic orientation north-south,
17 would it be logical to expect that that pressure
18 information would be such that there would be a pressure
19 link between the well number 1 and number 2?

20 A. Yes.

21 Q. And you don't see that?

22 A. No. Given the amount of cum that was cum'd out
23 of the number 1 well -- Like I said, by 1974 I believe 5
24 BCF had been cum'd out of the number 1 well, which should
25 by this chart -- I know it's kind of hard to read, but you

1 wouldn't expect to see these following points, if you were
2 in strong communication, to be this high as compared to the
3 number 1 well.

4 Q. When we look at Exhibit 25, next to you there --

5 A. Uh-huh.

6 Q. -- and we're looking at the relationship in that
7 southern pod where you have wells number 1, 3 and 4 --

8 A. Right.

9 Q. -- what is the pressure relationship between
10 those three wells?

11 A. What we saw is that both 3 and 4 dropped fairly
12 rapidly to the same relationship as the number 1 well,
13 identified here as the green wells and the yellow wells --
14 yellow dots -- followed right down into that trend, which
15 led us to believe that definitely the number 1, 3 and 4 had
16 some form of communication possible, especially given the
17 small amount of reserves that were drawn out of number 3
18 and 4 wells.

19 Q. When you look at Mr. Godsey's map and see the
20 isopach relationship between the 4, the 1 and the 3, does
21 that pressure relationship make sense to you as an
22 engineer?

23 A. Yeah, that's consistent with his mapping.

24 Q. When we look at that southern pod, have you
25 concluded then that it is separated from what I will call

1 the pod associated with the Osudo 9 Number 1 well?

2 A. Yes, we believe that the pressure data does
3 support that.

4 Q. You're relying principally on the pressure data
5 from the number 2 well?

6 A. Yes, yes.

7 Q. As you look at the area in Section 3, 4, 9 and
8 10, there's the Apache dry hole, which has got zero feet of
9 sand, and it's the number 8 well on our display.

10 A. Uh-huh.

11 Q. How do the 4 and 6 wells relate to each other?

12 A. Four -- I'm sorry.

13 Q. I'm looking at the Osudo 9 Number 1, which is the
14 number 6 well.

15 A. Yes, sir.

16 Q. How does that well relate to the number 2 well,
17 which is the well in the southeast quarter of -- the
18 southwest quarter of 10?

19 A. Yeah, I believe it was testified earlier that --
20 you know, that the Osudo 9 and the KF State well saw some
21 signs of depletion, and we agree with that. We believe
22 that that depletion probably came from the number 2 well,
23 the 2.9 BCF that was cum'd out of the number 2 well.

24 Now, with that said, the number 2 well also shows
25 -- that pressure relationship shows exactly what they went

1 out there and did is frac the well. It showed
2 communication to a higher reserve source than they were
3 able to tap with their producibility of their well. And we
4 believe that's consistent with the mapping.

5 Q. How do you fit the Hunger Buster State 3 well,
6 the number 7 well, into the pressure regime developed out
7 of your study for the number 6, 2 and the 9 well?

8 A. Right, those wells, wells 6, 7 and 9, all showed
9 -- and maybe I -- make sure I got my names right. The
10 Osudo 9, the Hunger Buster and the KF State well all showed
11 subvirgin pressure, in the 6300 to 6000 pounds of pressure,
12 which is, we believe, subvirgin reservoir pressure, which
13 fits with the concept that the Number 2 well has had some
14 drainage of that are, while not direct and not a large
15 amount, has influenced the drainage in that area.

16 Q. Is there further information on the Exhibit 39
17 that you'd like to direct our attention to as you move
18 through the pressure study?

19 A. No, I believe that's it.

20 MR. KELLAHIN: All right. Let's turn to Exhibit
21 40. There are hard copies of Exhibit 40 distributed to the
22 participants, Mr. Examiner. Did you get one, Mr. Brooks?

23 MR. BROOKS: I'm not finding one.

24 EXAMINER JONES: It's behind those.

25 MR. KELLAHIN: There it is.

1 MR. BROOKS: Oh, okay. I've got it then, thanks.
2 Okay.

3 Q. (By Mr. Kellahin) Mr. Johnson, did you prepare
4 this summary display?

5 A. Yes, sir.

6 Q. Take us through your major conclusions with
7 regards to the pressure study.

8 A. Yes, sir. What we saw that -- you know, again we
9 talked about the initial well, established the virgin
10 reservoir pressure in the 7300-pound range.

11 What we did -- one of the key points is the
12 relationship of well 1 to well 2, which is, given the fact
13 that we have cum'd over 6.4 BCF out of the WEK Number 1,
14 which is well number 1, we would have expected to see more
15 direct pressure communication with the number 2. Therefore
16 we concluded that there was not a north-south relationship
17 between the number 1 and the number 2 well, identified on
18 the plots earlier.

19 The production characteristics were considerably
20 different, and we found that we couldn't connect those two
21 up, which was consistent with the mapping that Mr. Godsey
22 put forth.

23 The second thing we looked at was the pod
24 identified by wells 1, 4 and 3, and it did appear that even
25 though those wells were also marginal producers, they

1 linked up in pressure relationship with each other. The
2 number 1 well -- when the number 3 and 4 were drilled, they
3 showed some form of pressure depletion and also dropped
4 rapidly to the same pressure regime as the number 1 well,
5 which linked up with the east-west concept of
6 communication.

7 We then moved on and looked at the Osudo Number
8 9, the Hunger Buster, which we talked about, and the KF
9 State 4, and what we saw there was, they came in lower than
10 virgin reservoir pressure. And we believe that links up
11 with the map that shows that the number 2 well has had an
12 influence on that reservoir regime up in that area.

13 One of the interesting things in the whole
14 discussion is the CC State Number 1 well. You know, that
15 well came in at virgin reservoir pressure. We looked at
16 this in relationship to the north-south also. Well, the
17 Apache well pretty well explains that, a dry hole in the
18 middle explains that.

19 But also what we're looking at there is the
20 isolation of that CC State in relationship to a north-south
21 trend. What we're looking at there is a well that seems to
22 have complete isolated reservoir characteristics. It
23 appears to have depleted very quickly, we show very little
24 cum, and the well came in at -- initial reservoir pressure
25 in the 7300-pound range, but depleted within 30 days, which

1 shows no connectivity to reservoir anywhere, which is
2 consistent with his mapping.

3 The only difference is, you almost have to put a
4 barrier in there, in between it and the KF State well to
5 explain its performance, which would be consistent with a
6 limited reservoir, but that makes it more difficult to move
7 reservoir to the west of that well, in between the KF State
8 -- substantial reservoir, I should say.

9 So, you know, following this line of thinking, we
10 found that the pressure data was consistent with the
11 geological interpretation in the published literature.

12 Q. Have you also looked at gas analysis to see what
13 the gas analysis would show you for various wells, to see
14 if you're dealing with the same gas?

15 A. Yes, sir.

16 Q. Do you have displays that illustrate that
17 information?

18 A. Yes, sir. Oh, wait, I'm sorry, the Examiner
19 should have copies, we didn't put that up on the --

20 Q. They should be handed out. I'm looking at
21 Exhibits 41, 42 and 43, Mr. Johnson.

22 A. Yes, sir.

23 Q. If you'll start with 41, let's -- in fact, you
24 can lay all three of them out in front of you, and let's go
25 through these.

1 41 is the CC 3, 42 is the KF State 4-1, and then
2 last 43 is the Osudo 9 well?

3 A. Yes. What we found, looking at the gas analysis,
4 which is no big surprise -- again, these are data points.
5 What we're trying to do is understand the total picture, if
6 it makes sense.

7 And what we found is that, lo and behold, the KF
8 State 4-1 and the Osudo 9 show comparable gas analysis,
9 almost identical, both in individual components and in
10 total specific gravity. You can see they're very tightly
11 together.

12 What's interesting was, the CC State well, again,
13 we've drawn the conclusion that the CC State well is an
14 isolated reservoir of some type, shows a different
15 calculated gas analysis of .64, with different -- slightly
16 different components, methane of 89 percent, versus the
17 methane of 92 on both the KF State 4-1 and the Osudo 9.

18 We believe that supports the concept that the KF
19 State is separate than the Osudo well and the KF State
20 well.

21 MR. GALLEGOS: I think you --

22 THE WITNESS: Did I say that correctly?

23 MR. GALLEGOS: -- misspoke.

24 THE WITNESS: The CC State.

25 MR. GALLEGOS: Yeah.

1 THE WITNESS: The CC State well, thank you, is
2 different than the KF State and the Osudo well.

3 Q. (By Mr. Kellahin) Mr. Johnson, if the Osudo 9
4 Number 1 well had its sand orientation north-south, would
5 you expect the gas analysis for the CC 3 well in Section 3
6 to be different?

7 A. No, if it's in the same reservoir, I wouldn't.
8 The issue here is, something seems to be different,
9 isolated, separate about the CC State, and what that leads
10 me to conclude is, there's some risk in between the KF
11 State and the CC State of reservoir quality.

12 Q. Mr. Johnson, have you completed summarizing your
13 conclusions about your pressure study?

14 A. Yes, sir.

15 Q. Summarize, then, for us your ultimate conclusions
16 about what you recommend as an engineer to the Examiner
17 concerning the orientation of the spacing unit to be
18 assigned to the KF State 4 Number 1 well.

19 A. Yes, we believe that the pressure data supports
20 Mr. Godsey's mapping and that the laydown 320 would be
21 consistent with that mapping.

22 MR. KELLAHIN: That concludes my examination of
23 Mr. Johnson, Mr. Examiner. We would move the introduction
24 of his Exhibits 37 through 42 -- or 43.

25 MR. HALL: No objection.

1 MR. GALLEGOS: No objection.

2 MR. BRUCE: No objection.

3 EXAMINER JONES: Chesapeake Exhibits 37 through
4 43 will be admitted to evidence.

5 CROSS-EXAMINATION

6 BY MR. GALLEGOS:

7 Q. Mr. Johnson, what have you calculated to be the
8 ultimate recovery projected for the Osudo 9 well?

9 A. We calculated a range of outcomes. We calculated
10 from the RTA analysis, the Fetkovitch, Blasingame-Agarwal
11 analysis, that the range of outcomes kind of sets a low
12 boundary of possibly 7 BCF ultimate recovery, up to -- we
13 used decline analysis to set an upper limit of potentially
14 17 BCF out of that well.

15 Q. And on the KF State you said you have a range of
16 outcomes there. Would you provide us with what you project
17 in that case?

18 A. Actually, maybe I misspoke. I didn't -- we have
19 not calculated a range of outcomes on the KF State.

20 Q. Okay. I took a note, you said there was a wide
21 range of outcomes, but I --

22 A. That -- I'm sorry, that was related to the Osudo
23 well.

24 Q. And you have done nothing to make any attempt,
25 volumetrics or by any other method, to come up with just a

1 -- again, a wide range --

2 A. A general range.

3 Q. -- a general range?

4 A. We have looked at varying numbers, but given the
5 limited amount of data, volumetrics are very suspect on a
6 well like that. And given one day of flow information, no,
7 we have not actually calculated a range of outcomes on that
8 well.

9 Q. Can you -- Are you able to give the Examiner some
10 at least general idea what would be the reserves in the
11 Morrow that underlie the north half of Section 9 and the
12 south half of Section 4, or I should say the south one-
13 third of Section 4.

14 A. Broken out like that -- We looked at volumetrics
15 based on Mr. Godsey's map. And as I said, the range of
16 outcomes is fairly extensive. We looked at -- you know,
17 based on his mapping you could put, you know, upwards of 27
18 BCF in Sections 4, 9 and 10, and another 20-plus BCF in
19 Sections 5 and 8.

20 MR. BROOKS: I'm sorry, could you repeat those
21 numbers?

22 THE WITNESS: Yes, sir. In Sections 4, 9 and 10,
23 we calculated from -- and that was primarily from two zones
24 of interest identified on Mr. Godsey's mapping as green and
25 orange, if we want to get more specific, and we calculated

1 that number to be 27 BCF.

2 Q. (By Mr. Gallegos) Mr. Johnson, the testimony of
3 Mr. Godsey is that -- or one of these maps was sort of the
4 before KF State map, and one the after. So which map would
5 you draw the conclusion from?

6 A. The after.

7 Q. Is it Exhibit 25?

8 A. Yes, sir.

9 Q. Exhibit 25?

10 A. Yes, sir, Exhibit 25, the after.

11 Q. And just so we're clear on the record, for
12 Sections 4, 9 and 10 the estimate would be 27 BCF?

13 A. Yes, sir.

14 Q. And a range of 7 to 17 BCF for the Osudo 9?

15 A. Yes, sir.

16 Q. Okay. And there is no producing well in Section
17 10, is there, sir?

18 A. No, sir. I'm sorry, I answered that too fast.
19 Yes, there is. I'm sorry. Yes, the number 2 well,
20 identified on our map as number 2.

21 Q. Oh, the 1970-completed well, which is the WE L
22 Com 1?

23 A. Yes, sir.

24 Q. Okay. Wasn't the -- Am I mistaken? Wasn't the
25 Apache State well drilled in that section?

1 A. The dry hole?

2 Q. Yes, sir.

3 A. Yes, sir. That's not producing.

4 Q. Okay. All right. And you did not -- you did not
5 compile the data on that Apache well as to pressure?

6 A. For a zone they didn't -- no. No, sir, for a
7 zone they didn't find --

8 Q. Well, I thought they -- I thought they just --
9 they completed it, but it was dry?

10 A. No, I believe they found zero feet in that.

11 Q. Okay.

12 A. I believe that was Mr. Godsey's testimony.

13 MR. BROOKS: That was the well in Section 8?

14 THE WITNESS: In Section 10.

15 MR. GALLEGOS: Section 10.

16 MR. BROOKS: Okay.

17 THE WITNESS: The Apache State WE Com Number 2.

18 Q. (By Mr. Gallegos) Let me just ask one sort of
19 aside question and then we'll come back to your main topic.
20 In Exhibit 37, there's a deviation report that appears at
21 the last page of this exhibit.

22 A. Yes, sir.

23 Q. Can you tell us what information that provides
24 for us concerning the deviation on this well, on the KF
25 State Number 4?

1 A. You know, I am not an expert on reading
2 deviation, State of New Mexico deviation reports.

3 Q. All right. Then what was your criteria for
4 selection of the nine wells that you studied that are
5 labeled on Exhibit 25?

6 A. Criteria was to try and limit the number of wells
7 studied to a reasonable number that would represent the
8 area of interest.

9 Q. When I look at Section -- the Section 15 and 16
10 wells, which are labeled 1, 3 and 4, it appears that
11 there's a group of wells to the west of that in Section 17
12 and even in Section 18. Is there any reason that you did
13 not make a similar study to determine whether there was
14 communication on that east-west alignment?

15 A. No, just simply a function of time and ability to
16 present the data.

17 Q. So basically what you did was work from the south
18 end, representing wells in the west half of Section 15 and
19 the east half of 16, going north to the east side of
20 Section 4 and the west side of Section 3?

21 A. Yes, sir.

22 Q. And from a standpoint of the arrangement of those
23 wells, is it fair to say they are all approximately within
24 one mile of each other on an east-west basis?

25 A. That's correct.

1 Q. Okay, and about -- oh, I'd say about two and a
2 half miles on a north-south basis?

3 A. That's correct, yes.

4 Q. All right. Let's take a look at your Exhibit 38,
5 and I'll have to ask you some questions just to be able to
6 understand the process.

7 A. Uh-huh.

8 Q. As I understand it, some of your bottomhole
9 pressures are actually measured pressures; is that true?

10 A. Actually, by "measured", are you --

11 Q. Test the shut-in --

12 A. With an actual measured -- measurement comes from
13 various sources --

14 Q. Well, I'm probably using the wrong -- I mean as
15 opposed to being calculated by, for example, mud weight or
16 other means?

17 A. That's correct. There's a variation of data
18 here. There are calculated mud-weight bottomhole pressures
19 that are listed here, there are measured DST pressures that
20 are measured at the formation depth, and the final one was
21 the measured bottomhole pressure of the KF State, which is
22 a bomb in the hole, and the other data came from public
23 pressure shut-in information at the surface.

24 Q. All right. Now, describe for us the difference
25 between bottomhole pressure that's obtained by the bomb or

1 tool that's lowered into the hole and the DST means of
2 measuring the bottomhole pressure.

3 A. Right, a DST is taken at the time of drilling. A
4 bottomhole pressure bomb is lowered in after completion to
5 actually get a physical measurement of the pressure. DST
6 is also a physical measurement of the pressure, but taken
7 at the time of drilling.

8 Q. Is that standard drill stem --

9 A. Drill stem testing.

10 Q. -- testing?

11 A. Yes. Yes, sir.

12 Q. Okay. And in the business, is one considered to
13 be more reliable than the other?

14 A. Absolutely, the bottomhole pressure information
15 is considered to be probably as reliable as it gets. DST
16 is still considered very reliable. Mud-weight
17 calculations, of course, you know, are suspect. But at the
18 same time, what we found is that the mud-weight
19 calculations in this area were calculating very closely to
20 the bottomhole pressure that we looked at.

21 Q. Okay. And in the case of the KF State Well, the
22 Osudo 9 and the Hunger Buster, in each instance your
23 pressures are based on mud-weight calculations; is that
24 correct?

25 A. No, it's not. The KF State 4 was actually a

1 measured bottomhole pressure. There is a reported mud-
2 weight pressure calculated at 6600 pounds, but the
3 bottomhole pressure was 6595, reported on this sheet.

4 Q. I see, and --

5 A. But in the -- I'm sorry.

6 Q. I'm sorry, go ahead.

7 A. In the other two cases, you are correct, those
8 were mud-weight calculated pressures.

9 Q. I see now that you have those two pressures. And
10 the measured pressure was acquired by what method?

11 A. A dip-in at the end of shut in. We have that
12 here.

13 Q. I'm not familiar with that term, a dip-in.
14 What --

15 A. Lowering a bottomhole pressure bomb into the
16 wellbore following a period of shut-in.

17 Q. All right. Now, as I read your chart, Exhibit
18 39, it appears that well 1, well 3 and well 5 demonstrated
19 virtually the same bottomhole pressure. Do you agree?

20 A. Can I -- Sorry.

21 Q. It's -- I'm using this sort of -- it's a table
22 rather than a chart. Whichever one you want to refer to,
23 but --

24 A. Okay.

25 Q. Do you want me to start over?

1 A. Please.

2 Q. Well number 1, which is the WEK 1, showed a
3 bottomhole pressure of 7354?

4 A. Correct.

5 Q. Well number 3, which is the State 15-1, showed a
6 bottomhole pressure of 7636?

7 A. Yes, sir.

8 Q. And well number 5, the CC State, showed a
9 bottomhole pressure of 7300?

10 A. Yes, sir.

11 Q. All very close in pressures, correct?

12 A. Yes, sir.

13 Q. Okay. And well number 1 is situated -- and if we
14 look at Exhibit 25 -- directly north of well number 3; is
15 that true?

16 A. Yes, sir.

17 Q. And is it true that well number 5, although some
18 mile and a half distance, is basically north of wells 1 and
19 3?

20 A. Yes, sir.

21 Q. Now, I thought your testimony was that you
22 thought that well number 4 also linked closely to wells 1
23 and 3, in terms of pressure. Was that your testimony?

24 A. My testimony was, I believe they were in
25 communication with each other.

1 Q. Although there is quite a difference in the
2 bottomhole pressure in the case of well number 4, is there
3 not?

4 A. The initial bottomhole pressure, that's correct.
5 But after that, I believe I pointed out that the bottomhole
6 pressure fell to the same region of the other wells fairly
7 quickly.

8 Q. Okay. In terms of orientation, of course, it is
9 a fact, is it not, that the Osudo 9 and the KF State are
10 aligned on a north-and-south axis?

11 A. Again, I believe it's been testified that they
12 are not directly north-south but northwest of the -- one is
13 northwest of the other well.

14 Q. Well, the Osudo 9 is in the northeast quarter of
15 Section 9 and the KF State is in the adjacent southeast
16 quarter of Section 4?

17 A. Okay.

18 Q. And of the two chromatographic samples you have
19 here, it shows an almost identical gas analysis that
20 reflects the samples taken on those two wells, being
21 Exhibit 42 and 43?

22 A. Uh-huh, yes, sir.

23 MR. GALLEGOS: Thank you, that completes my
24 questions of Mr. Johnson.

25 MR. HALL: No questions.

1 MR. BRUCE: I don't think I have any either.

2 EXAMINER JONES: Okay, that leaves me and you.

3 MR. BROOKS: Well, the Examiner is another
4 reservoir engineer, and he's sitting up there smiling like
5 the cat that swallowed the canary, so...

6 THE WITNESS: I was afraid of that.

7 EXAMINER JONES: Oh, no, I -- actually, I think
8 you did a lot of good work here.

9 EXAMINATION

10 BY EXAMINER JONES:

11 Q. And I'm not going to ask you to testify about any
12 geology, but did you look at these exhibits that your
13 geologist did, Exhibits 36 and 35 and 34, I guess it is?
14 This shows a different -- connection of the different
15 layers in the middle Morrow.

16 A. Yes, sir.

17 MR. KELLAHIN: May I approach the witness with
18 these?

19 THE WITNESS: Yes, our volumetrics were actually
20 calculated based on these individual --

21 EXAMINER JONES: Okay.

22 THE WITNESS: -- maps, versus the combined map.

23 Q. (By Examiner Jones) Versus the combined map?

24 A. Yes, sir.

25 Q. Okay, that was the big question. But -- So

1 basically, these -- the two gas analyses that were almost
2 identical, is that supported by these maps also?

3 A. Yes, sir.

4 Q. And the one that is not identical to the others,
5 is that supported by these maps also? Does the map show
6 that there's no --

7 A. Let me --

8 Q. I'm sure you went through this --

9 A. Yes, sir.

10 Q. -- already. Basically, the one that was
11 different was your CC 3 State Number 1; it was totally
12 different.

13 A. Yes, sir.

14 Q. So that was the -- Basically, that was kind of a
15 dryhole, basically, wasn't it?

16 A. Yes, sir. The only exception I have, as I think
17 I testified to, is this finger that comes out here. I
18 believe that that has to be isolated some way from the
19 Osudo and the KF State Number 1, based on the gas analysis
20 and also the pressure information that we have. And
21 whether that's an erosion or a thinning of that reservoir
22 that happened somewhere in there, I'm not sure.

23 Q. Okay. So that is one slight point of
24 disagreement of the data versus the interpreted map on the
25 "New" Morrow map?

1 A. Yes, sir.

2 Q. Okay. Did you do any boundary work, or has any
3 boundary work been done to look for boundaries? Is there
4 any pressure-transient work done?

5 A. The RTA analysis that we worked on does look at
6 boundary effects using the daily production information.
7 We attempted to do that, but with the range of possible
8 outcomes and the limited amount of data that we had, we
9 didn't find anything conclusive with that.

10 We also looked at the possibility of simulating
11 this area and looking at it. Once you start to get into
12 the details of three individual sand packages that are in
13 existence, plus the limited amount of pressure data on a
14 gross basis, as we've already testified to, as a reservoir
15 engineer, we would love to have bottomhole pressure
16 information on every well. In this particular case, we're
17 forced to rely on fairly gross data. On the individual
18 sand packages, we found that simulation wouldn't be very
19 productive in this area.

20 Q. The Osudo State 9 Number 1, that well is not
21 going to be shut in --

22 A. No.

23 Q. -- for no reason?

24 A. No, that's correct.

25 Q. Okay, otherwise you could probably see a

1 boundary, couldn't you?

2 A. Yes, sir. Yes. We could do an extended buildup
3 or some interference testing. There are a number of things
4 that we could potentially look at doing, but given a 20-
5 million-a-day flow rate, at least high flow rate at one
6 time, that -- yes, sir.

7 Q. And this software you're talking about, is it
8 similar to the Crafton's RPI method of --

9 A. No, this is using Fetkovitch and Blasingame
10 curves, if you're familiar with --

11 Q. Type curves.

12 A. Type curves. And it attempts to go through -- it
13 actually lines up several of the papers that have been
14 written by the individuals, and it attempts to line those
15 up to see if you can see boundary effects from flowing
16 pressure information on a daily basis. We did look at
17 that, and we didn't see boundary effects, yet. And part of
18 that is, it's early time data.

19 Q. Still early time data on the Osudo 9, even
20 considering there's no -- there's no Morrow in that well to
21 the --

22 A. I believe it was -- by "early time data" I mean
23 it was -- it's right there on the -- whether it's
24 conclusive or not.

25 Q. Oh, I see.

1 A. Okay? It's not that it's early time data. It's
2 just that you have to get to a certain point on these plots
3 before -- I can give -- I can show you an example of these
4 plots. This is the Agarwal-Gardner method. And the
5 problem is, you're right at that point, you've bent over
6 and you're in that range. But what we've found by doing
7 this analysis on 50 of 100 wells, that that is a dangerous
8 time to try and draw conclusions from that data.

9 Q. Okay. You did some normalized plots of the
10 production data also?

11 A. Yes, we looked at -- we did attempt some
12 normalized plots to see -- obviously, the strongest
13 evidence of interference is a normalized plot to see any
14 type of interference between the wells. You've got one or
15 two strong producers, which is the -- you know, the number
16 1 and the number 2 well, and then the Osudo well, which is
17 early, and we did not see any inflections in the normalized
18 plot to be conclusive.

19 Q. Okay. That drill stem test on the second well,
20 can you do any kind of -- what kind of -- does it show you
21 a permeability? They crank out a permeability on those, or
22 are you just reading the actual final pressure?

23 A. I believe -- I don't believe we actually --

24 Q. -- have the data?

25 A. I'm not aware that we actually have the specific

1 data, other than the reported outcome. I'm unaware of
2 that.

3 Q. So you've got the two flow periods and the two
4 shut-in periods?

5 A. Right.

6 Q. That's it. What about any kind of -- Did you do
7 any kind of four-point test on the KF State well?

8 A. No, we did not.

9 Q. What about your final reservoir pressure for
10 abandonment in one of these Morrow zones? What would that
11 be?

12 A. At this depth, you know, I haven't really looked
13 at that that much, but I'm assuming 1500, in that ballpark,
14 right?

15 It's fairly -- it depends on the amount of
16 condensate and water production. The KF State has shown no
17 condensate, while the Osudo did show some condensate, so
18 very -- depending upon the condensate and water production.

19 Q. So you can use a -- but you can -- with an
20 initial pressure and an assumed final pressure you can use
21 a BGI difference and come up with a reserve number, right?

22 A. Yes.

23 Q. And -- Is that not a very good way to do it?

24 A. No.

25 Q. No. Especially, if you've got some other wells

1 to do a type-curve --

2 A. Yes, sir.

3 Q. -- analysis on?

4 What would be your most important pressure point
5 on these wells? It would be the first pressure point that
6 was -- the initial pressure? If you had your choice of a
7 pressure point on any of these wells, which one --

8 A. I believe the initial pressure point. But
9 without the -- I believe -- It's just like anything else,
10 we have limited data and it's painting a picture of
11 pressure information as opposed to trying to say this is
12 the most valid and this is invalid.

13 What we try to do is look at the entire picture
14 of the pressure in the area and see if we can see anything
15 from that, since it is very limited data from a gross
16 perspective.

17 Q. This Exhibit Number 39, you've got -- This is all
18 the wells, right --

19 A. Yes, sir.

20 Q. -- the 1 through 9 well?

21 A. Uh-huh.

22 Q. And this doesn't break out the different little
23 pods that are mapped, does it? I mean, you could do that
24 if --

25 A. Yes, we could.

1 Q. -- you wanted to?

2 A. Yeah.

3 Q. But you can actually kind of see it from looking
4 at this; is that your --

5 A. That's my contention, yes.

6 Q. Okay. Did you planimeter these -- does your
7 computer come up with the area in these --

8 A. Yes, to do the volumetrics based on this, that's
9 what was -- that's exactly what was done.

10 Q. Geographics will do that --

11 A. Yes.

12 Q. -- it will come up with the area?

13 A. Yeah.

14 Q. And then you can plug it in and see if it matches
15 your --

16 A. Yeah, well, we found -- again, what we found was,
17 the Osudo could be a range of 7 to 17, and depending upon
18 how you connected this up, we mapped out the areas that we
19 talked about. And the range was, you know, 20 to 50 BCF.

20 So the pertinence of trying to draw a
21 conclusion -- and I assume our opponents will come up with
22 a similar map going different -- that -- to draw a
23 conclusion that it definitely concludes from volumetrics
24 that our way is right or their way is right was too wide a
25 range of outcomes from that data.

1 Q. What kind of -- What is the thinnest Morrow you
2 would use to include inside your volume for any of these
3 pods?

4 A. For any of these pods? Obviously the CC State at
5 three feet and also the well that's been much debated in --
6 at three feet in the northwest of 4, somewhere greater than
7 that, I would say, yes, sir.

8 Q. Okay. I realize that -- well, you've been in the
9 oil patch a long time. Could you deepen one of those wells
10 in the middle part of Section 4, the well to the west in
11 the southwest --

12 A. Uh-huh.

13 Q. -- that's -- wasn't drilled deep enough? Could
14 you deepen it to the Morrow and complete it --

15 A. I'd have to look at the casing program that they
16 drilled that well with, to see if it was potentially
17 possible.

18 Q. But you haven't done that yet?

19 A. No, sir.

20 Q. Did Apache set pipe on their well with zero feet
21 of pay?

22 A. I believe they did not, but I'm not -- I'm not --
23 I don't know. The better answer is, I don't know.

24 EXAMINER JONES: Okay. Mr. Brooks?

25 MR. BROOKS: Thank you.

EXAMINATION

BY MR. BROOKS:

Q. Well, Mr. Kellahin did not ask you one of the questions that I was expecting him to ask, and unless I -- my mind wandered, which is not unlikely. But do you believe that the granting of this compulsory pooling Application for the south half of Section 4 laydown spacing unit would prevent waste and/or protect correlative rights?

A. Yes, I do.

Q. Okay, can you explain why that would be true?

A. Well, as a reservoir engineer, I would say I'm fairly skeptic of geological interpretations, especially in a high-risk area such as this, to begin with.

Q. You have that in common with lawyers.

A. Okay. Obviously there's been a couple dry holes drilled out here. One of the most telling facts to me in this entire analysis is the CC State. To take the CC State limited reservoir or no producibility over there to the west of Section 3 and then take a limited 17 feet in the KF State 4 Number 1 and draw in a significant package of sand going north-south that would extend up past the Cattleman, in my opinion, would be risky. I believe to prevent waste, the highest probability is that it does extend west.

Q. You gave us an estimate of the total amount of -- the total reservoir -- what you believe to be the total

1 reserves in this pod that you believe Section 4, 9 and 10
2 is somewhat of an isolated area that's all in communication
3 internally, correct?

4 A. Yes, sir.

5 Q. And probably not in communication, or not in very
6 much communication, with other areas?

7 A. That's what we believe, yes, sir.

8 Q. And you estimated that the total reserves in that
9 area, in the vicinity of 27 BCF?

10 A. Yes, sir.

11 Q. Now, would it be practicable, based on the
12 information presently available, to determine -- or to get
13 any kind of estimate of the amount of reserves under any
14 one of the quarter sections, the six quarter sections in
15 Section 4?

16 A. Yes, we could calculate that. We didn't
17 specifically calculate the individual quarter sections,
18 based on Mr. Godsey's mapping. We did the entire volume to
19 see if it was consistent with the recovery potential of the
20 Osudo well and...

21 Q. Well, do you believe that you have enough
22 information to make those kinds of estimates at this time?

23 A. We could do it based on Mr. Godsey's map.

24 Q. But you haven't done it?

25 A. No, sir, not -- Well, we have done the

1 planimetering of the entire map. It's just a function of
2 overlaying the quarter sections and letting the computer
3 calculate the individual components.

4 Q. Okay. Then since you would be basing it on Mr.
5 Godsey's map, I assume that your conclusions would be
6 rather similar in terms of comparative evaluation of the
7 various quarter sections the answers Mr. Godsey gave --

8 A. Yes, sir.

9 Q. -- to the questions earlier?

10 A. Yes, sir.

11 Q. And that would be that -- probably of the
12 sections that -- of the quarter sections that have not been
13 drilled to date, the southwest quarter would probably be
14 the best prospect; is that --

15 A. Yes.

16 Q. And the next would be the northwest quarter?

17 A. Yes, sir.

18 Q. And perhaps somewhere in between would be the
19 west quarter of the middle half and the northeast quarter?

20 A. Okay. Took me a little beyond on that question,
21 I'm sorry. We then went to the middle half of the north --

22 Q. To the west half of the middle half and the
23 northeast quarter, were the ones that I believe Mr. Godsey
24 testified that he didn't know for sure which one he would
25 pick as better?

1 A. Yes, sir.

2 Q. And would you agree with that?

3 A. Yes, sir.

4 Q. And then he said he didn't think much of the east
5 half of the middle half?

6 A. Yes, sir.

7 Q. Okay. Let's see if I have anything else.

8 Well, this is more a curiosity point than a
9 relevant point, because I believe that you testified that
10 the number 1 -- the well we've been calling the number 1
11 and the number 3 down in Section 15 were in communication.
12 You thought that they were, and I assume that the
13 opposition thinks they are too, since they think the
14 orientation is north-south.

15 But what I was curious about, as a person fairly
16 unsophisticated in these things, the number 4 well had a
17 substantially lower pressure indication than did the number
18 1 and the number 3, but that seemed to me as a lay person
19 somewhat reasonable, given the 14-year time difference
20 there.

21 I wondered if you had an explanation of why the
22 number 3 well, after seven years -- or nine years from the
23 number 1 well, showed such a high pressure?

24 A. Yeah, it's -- again, the complexity of the
25 reservoir, the individual components -- it's not unusual in

1 these types of formations to see an initial bottomhole
2 pressure come in fairly high but within a matter of days,
3 weeks, months, drop fairly rapidly, especially if the well
4 is out on the fringe of a reservoir.

5 You can get -- you can find many reservoirs that
6 will give up an initial reservoir pressure that's pretty
7 high, but what you find is, within three months you see
8 that direct communication and you see that drop in
9 reservoir pressure to the other well.

10 Q. Is that what happened in the number 3 well?

11 A. I believe that's what happened in the number 3
12 well.

13 MR. BROOKS: Okay. I believe that's all my
14 questions.

15 FURTHER EXAMINATION

16 BY EXAMINER JONES:

17 Q. Mr. Johnson, when you analyzed the flowing
18 period, I forget whether I asked you this on the Hunger
19 Bus- -- or, not the Hunger Buster but the Osudo 9 State
20 Number 1 --

21 A. Uh-huh.

22 Q. -- can you analyze that and get a permeability
23 off the well?

24 A. We have a range of estimates from that, yes.
25 Again, it's --

1 Q. Is that based on the type curve that you --

2 A. It's based on these type-curve matches, yes. And
3 it's -- you know, it comes up with a range of, you know,
4 half a millidarcy to four millidarcies to five
5 millidarcies, right? Right.

6 But again, the further the data, the better the
7 match that we've found with this information.

8 Q. Does that match with your other Morrow
9 permeability numbers?

10 A. We've seen --

11 Q. It's a range, I realize that.

12 A. We've seen a range. The actual -- One of the
13 most interesting things about the CC State was, it actually
14 showed a very high permeability, but limited reservoir. It
15 showed a tenfold greater permeability on that buildup than
16 these numbers. So there's a large range of permeability
17 numbers that are out here on these different wells, which
18 is indicated by the vastly varying performance of the wells
19 in the same apparent reservoirs.

20 Q. When you -- how did you complete the KF State
21 well? Did you perforate it under balance?

22 A. I believe so, yes, sir. Again, I don't -- I
23 haven't reviewed that close enough to actually say. We do
24 have a drilling engineer in the audience.

25 Q. Do you have to swab any of these Morrows to get

1 them going? I guess not if you complete them with no fluid
2 in the hole.

3 A. Right, right.

4 Q. But a lot of times during completion operations
5 -- You only operate during the day, right, on completion
6 operations?

7 A. I've been in the corporate office a long time.
8 Sorry, I don't know the answer to that question. I believe
9 that's correct.

10 Q. So when they go out there the next morning, first
11 thing they do is read a pressure on that wellhead, right?
12 And they put that down in their drilling report, their
13 completion report?

14 A. Again, it's been a long time.

15 EXAMINER JONES: Do you guys have some more
16 questions?

17 MR. BROOKS: I have one more. We'll get through
18 the Examiner's questions before we go back to the
19 attorneys. I knew I was forgetting something, and I
20 thought of it while the Examiner was questioning.

21 FURTHER EXAMINATION

22 BY MR. BROOKS:

23 Q. Do you have an estimate of the drainage radius on
24 any of these wells in this area?

25 A. Again, that estimate comes from the RTA analysis,

1 which is fairly -- the RTA analysis is the low end of the
2 spectrum, and we calculate somewhere in the range of 60
3 acres drainage if that 7 BCF is correct.

4 Q. Okay, and that's for the Osudo?

5 A. Yes, sir.

6 Q. And you just wouldn't have enough information,
7 I'm guessing from what you said, to make a drainage-radius
8 estimate for the KF State?

9 A. No, sir.

10 MR. BROOKS: That's all.

11 EXAMINATION

12 BY MR. HALL:

13 Q. Mr. Johnson, very briefly. Your reserve
14 estimates of 27 B in Sections 4, 9 and 10 are based on Mr.
15 Godsey's post-drill structure map; is that correct?

16 A. That's correct.

17 Q. Can you take his pre-drill structure map, his
18 Exhibit 22, and give us your estimate of reserves? Is that
19 possible?

20 A. No. No, I could give you -- No, I couldn't.

21 Q. Is that something you can provide to us after the
22 hearing?

23 A. Yes, sir.

24 Q. Would you do that, please, sir?

25 A. Yes --

1 MR. KELLAHIN: What's the relevance, Mr.
2 Examiner? He's got the maps, he can do his own
3 calculation.

4 EXAMINER JONES: Now, say that one more time?

5 MR. HALL: We'd like for him to do his estimates
6 of reserves based on the pre-drill map before they had the
7 information from the KF 4 Number 1 well.

8 EXAMINER JONES: Would that be within a pod or
9 within a --

10 MR. HALL: Within the same area, Sections 4, 9
11 and 10. So it relates directly to Exhibit 25.

12 EXAMINER JONES: Maybe for each 160 acres?

13 MR. HALL: Yeah, compare those.

14 EXAMINER JONES: Can you --

15 MR. KELLAHIN: We've objected, Mr. Examiner.

16 MR. BROOKS: I would like to have him run these
17 computer numbers, these estimates, on the post-drill map
18 for each quarter section, I will mention in the suggestion,
19 if we're going to have him doing the work.

20 MR. KELLAHIN: Well, if Mr. Brooks wants it,
21 we'll do it for both maps.

22 MR. BROOKS: Yeah.

23 MR. KELLAHIN: And then everybody's happy.

24 EXAMINER JONES: Can you do it for each 160
25 acres? Is that what you're talking about?

1 THE WITNESS: That's what you would like to see,
2 each --

3 MR. BROOKS: Well --

4 THE WITNESS: -- 160-acre --

5 MR. BROOKS: -- I don't really care about the
6 pre-drill map, because that would have been erased except
7 for the fact that you needed it for litigation. It's the
8 post-drill map that's what you all think is right now --

9 THE WITNESS: Right.

10 MR. BROOKS: -- till you get another set of logs.

11 THE WITNESS: Yes, sir.

12 EXAMINER JONES: But you're saying for every 160
13 acres?

14 MR. BROOKS: For each 160 acres in Section 4.

15 EXAMINER JONES: Section 4.

16 MR. BROOKS: I don't think we need to be
17 concerned -- As far as I'm concerned, I don't know why we
18 would need to be concerned about the subdivisions of the
19 other sections.

20 MR. HALL: So we're going to get it for both pre-
21 drill and post-drill maps, correct?

22 MR. KELLAHIN: We will accommodate Mr. Hall.

23 MR. HALL: Okay.

24 MR. BROOKS: Very good.

25 Q. (By Mr. Hall) And if you would, briefly, Mr.

1 Johnson, refer back to your Exhibits 42 and 43, your gas
2 analyses. Do you have those handy there?

3 A. Give me just a second. Here, I've got them.
4 Unfortunately, mine weren't labeled. Can you help me label
5 them --

6 Q. The -- 42 is the KF State 4 Number 1.

7 A. Okay.

8 Q. And 43 is the Osudo 9-1.

9 A. Okay.

10 Q. Let me just ask you, the data point that caught
11 my eye are the relatively close BTU values there. Is that
12 meaningful to you?

13 A. Yes, sir.

14 Q. And what does that tell you about reservoir
15 alignment?

16 A. That would indicate that those two are probably
17 in the same -- well, let me qualify that. With the
18 additional data that we have on the area, both from a
19 pressure perspective and geological mapping, I would
20 conclude that those are probably in the same reservoir.

21 Q. Okay.

22 A. Standing alone, a BTU factor comparable out of
23 two wells could be from a hundred miles apart and still
24 show somewhat of the same values. But when you get the
25 combination of all that data, I would say it shows to be in

1 the same reservoir.

2 Q. Okay. And the Osudo 9-1 is reporting oil
3 production; isn't that right?

4 A. Yes, sir.

5 Q. And I understand there's no oil, no condensates,
6 being reported for the KF Number 1?

7 A. It was a 24-hour test.

8 Q. Do we not have enough flow data to tell why it's
9 not producing liquids?

10 A. I -- Yes, I would say that's correct.

11 Q. You just don't know why --

12 A. Right, right.

13 MR. HALL: Nothing further.

14 MR. GALLEGOS: Mr. Examiner, if I may.

15 FURTHER EXAMINATION

16 BY MR. GALLEGOS:

17 Q. Mr. Johnson, if you'll give your attention to
18 Exhibit 25 again and Section 15 --

19 A. Yes, sir.

20 Q. -- right down in the -- what might be the
21 southwest of the southwest, there's a circle drawn in
22 there. Do you see that?

23 A. The six feet?

24 Q. No, I'm sorry, there's a circle -- Do you find
25 that? Right in the southwest of the southwest.

1 A. Of 15?

2 Q. Of 15.

3 A. Oh, the little tiny circle that's drawn down
4 there?

5 Q. Yes, sir.

6 A. Yes, sir.

7 Q. Are you aware that that's an APD to drill a
8 Morrow well held by Chesapeake?

9 A. No, sir, I'm not aware of that.

10 Q. Okay. Now let's go up the map a ways, to this
11 unusual 960-acre Section 4, and if we can just -- if I can
12 just ask you to look at potential spacing units as follows:
13 One spacing unit would consist of the east -- what I call
14 the east two-thirds. All right? It would be the southeast
15 quarter and then I think that's lots 9, 10, 15 and 16.
16 We'll just, for ease, call it the east two-thirds standup.

17 A. Okay.

18 Q. The other spacing unit would consist of the west
19 two-thirds spacing unit.

20 A. Standup again?

21 Q. Standup again.

22 A. Okay.

23 Q. And the final spacing unit, the third, would be
24 the laydown north third. So we would have the 960 acres
25 covered by three different spacing units. All right?

1 A. Yes, sir.

2 Q. Are you with me?

3 A. I believe so.

4 Q. Now, the management of your company says, Mr.
5 Johnson, we can only develop two out of three of these
6 spacing units. Which two do you recommend that they
7 develop?

8 A. Given that you can only configure them that way?

9 Q. Given that they're configured this way?

10 A. And based purely on this map?

11 Q. Based on Mr. Godsey's work here, which I think
12 you've indicated you'd adopt.

13 A. I'm not sure I can visually calculate it in my
14 head. I'm assuming you're looking at the difference to the
15 north versus the standup to the east.

16 Q. We're looking at two standups --

17 A. -- and a laydown at the top.

18 Q. -- which would -- and a laydown at the top --

19 A. Right.

20 Q. -- the 320-acre -- the upper third.

21 A. Right. I couldn't calculate the difference
22 between the standup to the east and the top in my head,
23 looking at it.

24 Q. Well, so the number 1, without any question, you
25 would tell your management, we want the standup two-thirds

1 to the west?

2 A. Based --

3 Q. What --

4 A. -- purely on the map, that -- yes --

5 Q. Okay.

6 A. -- based purely on the map.

7 Q. Okay. And then are you telling us you have a
8 little trouble as to which you consider best between the
9 north one-third and the standup two-thirds on the east, or
10 do I --

11 A. Let me qualify that. My qualification to that
12 would be based purely on the mapping of just looking at --
13 not producing characteristics of the area or a 20-million-
14 a-day Osudo well, then you're looking at just trying to
15 qualify the amount of sand underneath a given quarter
16 section? Then given that data, it's difficult to eyeball
17 the difference between those.

18 I mean, you can't do that in exclusion of the
19 producibility of the wells in the area, I don't believe,
20 and make a valid recommendation to your management.

21 Q. Between those two, it's difficult for you to make
22 a -- that kind of a recommendation that I asked you about?

23 A. Right. All you're asking -- All I'm able to do
24 is look at the visualization of a map without taking into
25 account the producibility of the wells in the area.

1 Q. No, I was asking you on the basis of Mr. Godsey's
2 geology reflected on Exhibit 25.

3 A. (Nods)

4 MR. GALLEGOS: Okay, thank you.

5 MR. BROOKS: I have another question if nobody
6 else has.

7 FURTHER EXAMINATION

8 BY MR. BROOKS:

9 Q. The same qualification you just gave to Mr.
10 Gallegos's question, would not that same qualification also
11 apply to my question about estimating the amount of
12 reserves underlying each of these quarter sections, that it
13 would be based solely on the supposed thickness of the
14 reservoir and would not take into account other
15 characteristics that might determine whether those reserves
16 were as a practical matter producible --

17 A. Yes, sir.

18 Q. -- is that correct?

19 A. That's correct.

20 MR. BROOKS: Thank you.

21 EXAMINER JONES: Okay, any more questions?

22 MR. KELLAHIN: No, sir, may Mr. --

23 EXAMINER JONES: Thank you.

24 MR. KELLAHIN: -- Johnson be excused?

25 EXAMINER JONES: Thank you very much, Mr.

1 Johnson.

2 MR. KELLAHIN: That concludes our presentation on
3 direct, Mr. Jones.

4 EXAMINER JONES: You're representing your
5 witnesses for both cases, right?

6 MR. KELLAHIN: Yes, sir.

7 EXAMINER JONES: -492, -493.

8 MR. GALLEGOS: We're ready to call a witness, but
9 would it be a good time for a short break?

10 MR. BROOKS: But first off, you haven't asked him
11 how long your case will take to present?

12 MR. GALLEGOS: I would estimate that my direct --
13 We're calling Ron Johnson, geologist. My direct will be
14 about 45 minutes, roughly.

15 MR. BROOKS: Is he your only witness?

16 MR. GALLEGOS: We may have a little brief
17 testimony by Mr. Wakefield, but it would be brief.

18 MR. BROOKS: So still looking possible to
19 complete this afternoon?

20 MR. GALLEGOS: Yes, I should think that --

21 MR. BROOKS: The reason I ask that is, we
22 ascertained at lunch that this room is not available
23 tomorrow, so we're going to have to try to find another
24 place, if we have to --

25 MR. GALLEGOS: Well, I think we'll finish.

1 MR. BROOKS: Okay. How long do you want to take?

2 EXAMINER JONES: Let's take 10 minutes.

3 (Thereupon, a recess was taken at 3:08 p.m.)

4 (The following proceedings had at 3:24 p.m.)

5 EXAMINER JONES: Let's go back on the record.

6 Mr. Gallegos and Bruce and Hall?

7 MR. GALLEGOS: Okay, and Mr. Examiner and
8 Counsel, I wanted to point out that on the exhibits that
9 we've passed out, we'll be having an Exhibit A again,
10 because these are marked in Case 13,493, where our prior
11 Exhibits A through, I believe, Q were marked in Case
12 13,492, just so -- to add to the confusion.

13 We call Ron Johnson.

14 RONALD JOHNSON,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. GALLEGOS:

19 Q. Would you state your name, Mr. Johnson?

20 A. Ronald Johnson.

21 Q. Where do you live?

22 A. Midland, Texas.

23 Q. Are you employed?

24 A. I am.

25 Q. Who do you work for?

1 A. Samson Resources.

2 Q. In what capacity?

3 A. Senior geologist.

4 Q. Would you give the Examiner some information
5 about your training and your experience as a geologist?

6 A. I received a bachelor of science degree in
7 geology from the University of Texas, Arlington, in 1971.
8 I went to work for Sun Oil Company in Colorado City, Texas,
9 after a few grad courses, and they were kind enough to
10 allow me time off and help pay for my graduate work. And I
11 finished that up and defended New Year's Eve, 1973, so I
12 started working for Sun Oil Company in 1974 as a geologist.

13 Q. What do you mean you defended? What are you
14 referring to?

15 A. My orals for a master of science degree in
16 geology.

17 Q. Okay, and what institution --

18 A. Also at UT Arlington.

19 Q. Okay, and that you've obtained what -- in 1973,
20 did you say?

21 A. 1973, yes.

22 Q. Okay. And what was your work experience, or if
23 there was any further training, would you describe that for
24 us, after 1973?

25 A. Well, after 1973 I went to work for Sun Oil

1 Company, and yes, there was training courses for all of the
2 young geologists then. I worked for Sun in several
3 different capacities, different districts, and back in the
4 regional office, several different areas. Ended up working
5 west Texas/southeast New Mexico before eventually moving to
6 Midland in 1976, where I went to work for Texas Oil and
7 Gas.

8 After working for Texas Oil and Gas, I went to
9 work for an independent, Moranco Drilling Company out of
10 Hobbs, New Mexico. Him and his partner Dick Beveridge had
11 a small company called Western Reserves Oil Company. I
12 worked for them for approximately five years and then
13 partnered with them after that for the next 10 or 12 years
14 till both of them passed away and was on my own as a
15 consultant for several years --

16 Q. Based where? Where were you based out of at
17 that --

18 A. Midland, still in Midland. I've been in Midland
19 ever since. And was a consultant there for several years.
20 I went to work for a Bright and Company in the late 1990s,
21 went to work for Southwest Royalties in, I believe, 2001.
22 Southwest Royalties was bought out by Clayton Williams, and
23 I ended up going to work for Samson Resources in November
24 of 1974 -- or of 2004.

25 In that time, being in Midland, I'm past

1 president of the West Texas Geological Society, past
2 president of the Southwest Section of the American
3 Association of Petroleum Geologists. I have chaired
4 several conventions and symposiums concerning geology of
5 west Texas and southeast New Mexico and received a few
6 honors and awards along the way.

7 Q. In your present capacity, what are your duties
8 and responsibilities for Samson Resources?

9 A. I am a senior geologist. I have responsibilities
10 in southeast New Mexico and also west Texas.

11 MR. GALLEGOS: We submit Mr. Johnson to testify
12 as expert witness in the subject of petroleum geology.

13 EXAMINER JONES: Objections?

14 MR. KELLAHIN: No objection.

15 EXAMINER JONES: Mr. Johnson is qualified as an
16 expert petroleum geologist.

17 Q. (By Mr. Gallegos) Sir, in this case you are
18 aware, are you not, that the particular focus has been the
19 Morrow formation in Lea County, New Mexico, in an area
20 generally in certain townships that have been referred to
21 previously in the testimony?

22 A. Yes.

23 Q. What is your experience with that particular area
24 of southeast New Mexico?

25 A. I've been the senior geologist there since Mr.

1 Ralph Worthington, the previous geologist, left back around
2 the 1st of April. I've taken over his duties and handled
3 the geology and development of this area since he left.

4 Q. But what I meant to refer to is, in all of your
5 prior employment, what has been your experience with --

6 A. Oh --

7 Q. -- this area?

8 A. -- with this area?

9 Q. Yes.

10 A. I've worked the Morrow in west Texas and also
11 southeast New Mexico over the years, off and on, along with
12 other projects and stuff, so it's been an ongoing study.

13 Q. For how many years?

14 A. Well, since I went to work for -- well, since --
15 well, if you want to know the truth, I think we probably
16 studied this back when I was in grad school, we studied the
17 geology of west Texas and southeast New Mexico. But
18 professionally since -- probably since 1976.

19 Q. Have you addressed any of the literature that has
20 studied this particular area, and in particular I'm talking
21 about the Morrow in the area -- what I'd call west along
22 the Central Basin Platform?

23 A. Yes, I have.

24 Q. Is there any particular study or studies that
25 have been of influence on your thinking concerning this

1 area?

2 A. Yes, sir, there's been two or three. There's
3 been a study of the Osudo area by a young lady from UTPV.
4 It was published in the West Texas 2003 Symposium,
5 Geological Society Symposium, 2003. And also there was an
6 article by Lou Mazzullo in the 1999, I believe it was, West
7 Texas Geological Society Symposium, covering this area.
8 Along with several others.

9 Q. If it will be of assistance to you in responding
10 to the next question, I'd address you to our Exhibit A, and
11 my question is if you could give the Examiner and his
12 counsel a general description of the deposition system that
13 laid down the Morrow sands in this region.

14 A. Sure. May I approach the screen?

15 EXAMINER JONES: Sure.

16 THE WITNESS: Just to locate you here, you're at
17 the very northwest end of the Central Basin Platform here.
18 You're at the northeast end of the Delaware Basin, and
19 north of you up here would be the little sub-basin, the
20 Tatum Basin area, up here.

21 The blue here is Pennsylvanian production, Morrow
22 and other associated Pennsylvanian reservoirs in there that
23 produce. From the studies that I've read and looked at and
24 the work I've done out here, I've -- most of the studies
25 describe the Central Basin Platform as a very low-relief

1 positive feature at this time. It had an influence on
2 deposition, but not much in the way of sedimentation.

3 Most of the Morrow sediments were derived from
4 the Pedernal massif to the north, northwest here, and I
5 think you can see a general trend of north-south here on
6 the Midland Basin production map here.

7 Q. (By Mr. Gallegos) At the depositional time when
8 you referenced the Central Basin Platform, was it a
9 prominent feature above water level, or what was --

10 A. No, it was a very low-relief feature, probably
11 more swamp than a positive influence. Like I said, it more
12 or less probably directed the sediments, but probably did
13 not shed any sediments out there to speak of, only minor
14 amounts.

15 Q. All right. I would like to next refer you to
16 Samson Exhibit B and ask you to describe what that shows.

17 A. This is a structure map that I made on top of the
18 Morrow clastics. Again, the Central Basin Platform would
19 be to the east. Just northwest of the acreage here in
20 question -- and by the way, the Samson acreage is in
21 yellow, the Chesapeake acreage is in gray. The Chesapeake
22 well in question right here is where the red arrow is, to
23 locate you on there.

24 You can see to the north and a little west of us
25 here is a closed structure plunging to the south. To the

1 west here are a couple of faults down to the west, down to
2 the Basin. The general trend here, the general strike and
3 structure, is dipping to the southwest into the Delaware
4 Basin.

5 Q. Why did you select the top of the Morrow clastics
6 in order to construct this particular --

7 A. That was the best regional marker in the area to
8 map on.

9 Q. And is that a pick that is generally agreed upon
10 by geologists studying this area?

11 A. Yes.

12 Q. Let's, if you would, turn to Exhibit C and
13 describe what that shows.

14 A. This is an isopach map of Morrow sands greater
15 than 6-percent porosity cutoff. What we try to use -- Of
16 course, the discovery well was drilled in here back, I
17 believe, in 1963. So you've had development for over 40
18 years now.

19 But what we try to use, especially on the new
20 wells, is a density neutron crossplot porosity equal to or
21 greater than 6-percent porosity. Now, we didn't always
22 have that luxury with the old well logs in here, so we did
23 the best we could with what we had and came up here with a
24 net porosity map.

25 And generally you can see that the porosity -- or

1 the isopach, here, of the sands more or less trend north to
2 south, which very well coincides with your structural
3 grain. Your faulting is north to south, your positive
4 features, structure to the northwest, the Central Basin
5 Platform, also is more or less north to south in here.

6 Q. Are there topographical features that were in
7 effect at the time of this deposition, such as highs in the
8 platform and so forth, that you would point out, that may
9 have had an influence on the trend of deposition?

10 A. Yes, very much, that's -- faulting, structures,
11 all pretty much set the stage for your depositional
12 environments and depositional trends in there.

13 Q. What are the features that are showing what I
14 would call sort of the north central part of that
15 particular exhibit?

16 A. This area here?

17 Q. Yes, sir.

18 A. That is an isopach thick of the Morrow sands.

19 Q. And in the -- running through the area in
20 question, in particular along the east half of Section 4,
21 what is shown on Exhibit C?

22 A. There's a zero net sand contour here on the far
23 east side that limits sand to the east on top of the
24 Central Basin Platform. It's the pinchout.

25 Q. And the other sand thicknesses that are shown

1 there, because it's difficult to see just as it's
2 projected?

3 A. Well, you can see that the sand here is not very
4 wide, but the well right here, the thickest well in here is
5 the Mewbourne Number 9 Osudo well, and I believe it's got
6 something over 40 foot net pay in it.

7 Q. Okay. How was this isopach constructed?

8 A. Going through the Morrow penetrations, picking
9 the net porosity off of the logs in the area.

10 Q. And for all of your isopach lines --

11 A. Yes.

12 Q. -- is that the case?

13 Was this something that was new or unique to you
14 when you addressed this particular area, or were you
15 familiar with this particular orientation of the Morrow
16 sands?

17 A. Oh, I think it's -- it was pretty well known by
18 that time. Previous geologists had it mapped this way, and
19 from the stuff I've seen in the literature, it was pretty
20 much --

21 Q. What particular or mapping by others who you
22 consider to be reputable in the field correspond to your
23 mapping?

24 A. Well, actually the previous geologist had it
25 mapped that-a-way, and we spent some time in there.

1 Q. Well, are you -- You're basically reflecting, are
2 you not, a north-south orientation of those sands?

3 A. Yes.

4 Q. My question maybe wasn't clear. Was it -- For
5 instance, the literature that you referred to, the Mazzullo
6 study, what was his conclusion in that regard?

7 A. I think that was his conclusion, basically, was
8 that again the Central Basin Platform is pretty low relief.
9 It didn't shed any sediments to speak of, only minor
10 amounts through here. It more or less -- the Central Basin
11 Platform more or less had a guiding or directing influence
12 of the sedimentation in here or direction of it, and he had
13 -- most of the stuff that he had worked, I believe, in here
14 had a north-south orientation to it.

15 Q. Was the area that's shown that runs through the
16 east half of Section 4 at the time of deposition, what was
17 that feature?

18 A. I'm sorry, I can't see the section numbers up
19 here.

20 Q. Okay. Well, where you have the color code for
21 the --

22 A. Right here?

23 Q. Yes, in that area. What was the feature at the
24 time of deposition?

25 A. Well, you have the Central Basin Platform to the

1 east over here, and you have a small structural closure
2 here to the northwest. And I believe between these two
3 features -- and also when you get back over here and you
4 have some faulting, I believe the strike of it, basically
5 north-south, guided your deposition of the sands, and
6 basically the deposition is north-south through here.

7 Q. Okay.

8 A. We have an overlay if you'd like to see it --

9 Q. Okay, let's --

10 A. -- Gene --

11 Q. -- yes, let's --

12 A. -- it's the isopach -- this is what you get when
13 you lay the isopach, superimpose it, over the structure map
14 down here. I think you can see the general grain trend on
15 the seismic -- that seismic. You've got the faults over
16 here, pretty much trend with the deposition there. High
17 here, high back over here, north-south deposition here.

18 Q. And for the record can you -- instead of "high
19 here" and "high there", can you point out on that
20 particular exhibit where the highs were with some reference
21 to the --

22 A. Yes, the high --

23 Q. -- the section?

24 A. -- the high was located here in the northwest
25 part of 4 and the west part of Section 32 here to the

1 north.

2 Q. All right. And the Central Basin Platform would
3 be probably slightly off of that plat to the east?

4 A. Back to the east, yes.

5 Q. What is the significance of the difference in
6 colors?

7 A. The yellow, or the centered yellow colors in
8 here, are the thicker sand zone.

9 Q. Does that -- Once you've done that overlay, did
10 that have any influence on your conclusion concerning the
11 orientation of the Morrow sands?

12 A. No, it's pretty much as shown earlier, pretty
13 much the structure guides the deposition of the sands,
14 north-south.

15 Q. All right. Have you prepared some cross-sections
16 based on --

17 A. I have.

18 Q. -- various well availabilities?

19 A. I have.

20 Q. Could we turn to Exhibit D?

21 A. Which one do you have?

22 Q. This is the south -- Let's see. This is the
23 north-south cross-section, Osudo area.

24 A. Could we --

25 Q. Maybe you're going to need to just use the paper

1 on this one.

2 A. Okay.

3 Q. Probably easier on these cross-sections, they're
4 so big.

5 A. Well, it takes a minute for them to --

6 Q. Okay. Why don't you just go ahead, Mr. Johnson,
7 because the Examiner and counsel all have copies of it?

8 A. Okay.

9 Q. Let me ask you a couple of preliminary questions,
10 and that is, what was the criteria for the selection of the
11 wells that are shown on the cross-section marked Exhibit D?

12 A. Basically, I used -- the key well in here would
13 be the Mewbourne Osudo 9 well, seeing as how it's probably
14 the key to what's happening in here. And then I tried to
15 pick out the closest wells along a north-south line in
16 here, to give you the correlation of that Osudo 9 sand.
17 You're pretty much limited to the north for control. The
18 only control you have is there in the northwest of Section
19 4. So that was the closest well.

20 And so at the very north end is the Jake L.
21 Hammon State well, which would be -- well, we're talking
22 about that little structure to the northwest of the area
23 here, the little closure, structure closure, up there.

24 And pick up the Chesapeake Operating KF 4 well,
25 which was just completed, the Mewbourne well in the center

1 of the cross-section, the Kaiser-Francis well which was
2 drilled almost due south of the Mewbourne well, and then
3 the closest thing back to the south down there was the
4 Santa Fe Operating well.

5 Q. Do you have a plat that shows the cross-section
6 on the --

7 A. Yes, the line of cross-section is in the
8 southwest corner of the cross-section itself here.

9 Q. Okay, down in that far left-hand corner?

10 A. Yes.

11 Q. All right. And what of significance did this
12 cross-section show?

13 A. Well, first of all you can see the top of the
14 Morrow clastics there, or the "B" zone that I'm calling it.
15 That's where the Morrow sands are located. The structure
16 map was mapped on that top of Morrow "B" clastics there.

17 And I lettered -- the top of the lower Morrow I
18 called "A", the middle Morrow or clastic zone in there I
19 called "B", and then you can see the "C" zone there, the
20 Morrow limestone.

21 And what I tried to show here is that the
22 correlation between the wells of the Osudo sand.

23 Q. And what conclusion did you draw in regard to
24 correlation or lack of correlation from the wells that are
25 in this cross-section?

1 A. Well, I just -- as I believe Mr. Godsey said this
2 morning -- stated that there are probably several different
3 sand lenses in here. But basically, this is the sand zone
4 that I correlated in here and tried to pick up the sands in
5 the wells there.

6 And anyway, the Chesapeake KF well that's been
7 completed is this well here. And correlated into the
8 Mewbourne well, also the Kaiser-Francis well here, and then
9 the Santa Fe well to the south down there.

10 One thing you will notice, that the Morrow
11 section thins as you move to the northwest, toward that
12 little structural closure to the northwest up there, and I
13 think that had an influence on the deposition of the sands
14 in there.

15 Q. Okay. Does this cross-section play any role in
16 terms of your conclusions regarding the depositional
17 pattern of the Morrow sands?

18 A. Yes, I think you can correlate these sands, or
19 the sand zone, north-south through here. It as some
20 continuity north-south.

21 Q. And would you explain why this exhibit supports
22 that observation?

23 A. Well, the wells you can see here -- picking up
24 the Santa Fe well to the south down here, which is, oh, a
25 mile-plus away, has this Morrow middle sand in it. The

1 Kaiser-Francis has a Morrow middle sand in it. The
2 Mewbourne has a great middle Morrow sand in it. And by the
3 time you move to the north and the west, that section
4 thins, you're beginning to lose the Morrow "B" sands, and
5 you've only got two small units left here in the Chesapeake
6 well.

7 Q. All right. And this basically reflects wells
8 that are on a north-south alignment?

9 A. Yes.

10 Q. Did you also do a cross-section that -- west-east
11 cross-section?

12 A. Yes, sir, I did, I think, three or four west-to-
13 east cross-sections.

14 Q. Okay. Let's start with Exhibit E if we might,
15 the first one of those.

16 A. Which one is E, Gene?

17 Q. Exhibit E is west-east cross-section -- I don't
18 know how else to --

19 A. I've got it.

20 Q. Okay.

21 A. The west-to-east cross-section is down here at
22 the very southern end of the acreage in question, well in
23 question, and it is a three-well cross-section.

24 The most westerly well, right here, is the C&K
25 Petroleum well, here. And then you pick up the Kaiser-

1 Francis well here in the middle, and then the Amerada well
2 back to the east here, and I can't make out what section
3 that is in, but that's a three-well cross-section there.

4 Q. When you say the Kaiser-Francis, that's the
5 Hunger Buster well --

6 A. Yes --

7 Q. -- we're worried about?

8 A. -- that's the Kaiser-Francis Hunger Buster 3
9 well.

10 Q. Yeah, and we need to have the well names as you
11 describe them. So the C&K Petroleum was the Wilson State
12 Number 1 --

13 A. Yes, the Wilson State Number 1, the Kaiser-
14 Francis Hunger Buster 3, and the Amerada State WE, I
15 believe.

16 Q. It's the Apache -- I guess it's the State WE Com
17 L.

18 A. Yes, all right, it was the -- I guess the
19 original operator was Apache.

20 Q. Okay, and the C&K Petroleum well in Section 9,
21 what did you find there as far as the occurrence of the
22 Morrow sands?

23 A. Well, it was almost non-existent. If you were
24 really pressed, you could take a couple of these really
25 fine nonproductive sands, probably, and trace them over to

1 the C&K well. It was drilled as a Morrow test, I believe,
2 or deeper, and was a dry hole.

3 Q. Okay. What I'd like for you to do, because I
4 think it would help orient, if you look at Mr. Godsey's map
5 that's Exhibit 25, that a lot of testimony has been about,
6 and help the Examiner with this particular cross-section,
7 to point out where those wells are, the first one is in
8 Section 9?

9 A. It's 1980 from the south and east of Section 9.

10 Q. Okay.

11 A. The Kaiser-Francis Hunger Buster 3 well is also
12 in Section 9, it's 1880 from the south, 660 from the east.

13 Q. And that is -- ?

14 A. That is the middle well --

15 Q. Okay.

16 A. -- here. And then the farthest east well, the
17 Apache well, and I guess it was taken over by Amerada, is
18 in the Section 10, 1980 from the south and west.

19 So those three wells are fairly close together in
20 there, a quarter of a mile or so apart. And you can see
21 that there is -- the only lateral continuity you have is
22 between the Apache Amerada well in Section 10 and the
23 Kaiser-Francis well. As you move to the west here, the
24 sands basically pinch out.

25 Q. Okay. Let's keep -- so -- I think it will help

1 orient if -- as we go through these, if you'll refer to
2 that Section 25 -- or I mean Exhibit 25 map that was Mr.
3 Godsey's map.

4 A. Okay.

5 Q. We've got another cross-section that I believe
6 you prepared that's Exhibit F, a northwest-southeast cross-
7 section. It should be in your notebook there under that
8 tab, Exhibit F.

9 A. Okay.

10 Q. Okay, why don't we start with the CC State 3
11 well, Chesapeake's well? We've heard about that, and is
12 that the log that's shown on the far right-hand portion?

13 A. Could we get Lezlye to put the structure map up
14 there? Maybe if you look at the structure map along with
15 the cross-sections, it would help.

16 MR. GALLEGOS: That would help.

17 THE WITNESS: You can't do it?

18 MS. RICKEY: Only one at a time on the screen.

19 THE WITNESS: Well, I mean take that off and just
20 put the --

21 MR. GALLEGOS: Yeah, take that one off.

22 THE WITNESS: No, back. No, you had the
23 structure -- There you go.

24 The northwest-southeast cross-section on here, I
25 believe is the one in green that you see right here. That

1 takes in pretty much the closest well I have to the west
2 northwest here, picks up the only deep test, I think, up
3 here in the northwest part of 4, the control I have to the
4 north and the west, picks up the Chesapeake well that
5 they've just drilled, and then also picks up the Chesapeake
6 CC well, which was drilled here a few months ago, last
7 year, maybe.

8 And to the southeast, the Chesapeake CC State
9 well, which shows a September, '04, logging date on it. So
10 I assume it's about a year old. You can see it did have
11 some sands in it. I believe Mr. Godsey described these as
12 overbank or crevasse-splay-type sands. They were real
13 happy with the well to begin with; it tested and flowed
14 really good and then ended up being noncommercial. But it
15 did have some probably discontinuous sands in there.

16 As you come back to the west in there, you pick
17 up the Chesapeake KF State 4 well. And again , it's got a
18 couple of sand zones in there. The sands have been
19 perforated here, I guess, in the last week or two, and
20 tested, and they seem to be pretty happy with that well in
21 there.

22 And as you move again to the north and to the
23 west, you will see that the section thins, and most of
24 those sands pinch out as you move toward the south end of
25 that closure to the north and west of you up there.

1 So I believe that structure to the north up there
2 was probably positive at this time, because you've got such
3 a thinning section in there. If it had not been positive,
4 you'd probably have the same thickness of section in there
5 and maybe have some Morrow sands draped across that
6 structure, and it would have been really good.

7 Q. (By Mr. Gallegos) And by "positive", you
8 mean -- ?

9 A. High, structurally high.

10 Q. Is that also -- When you refer to "closure", what
11 do you mean by that?

12 A. Yeah, structural closure. Usually I mean it's a
13 closed high.

14 Q. Okay. And did you have one other cross-section
15 that you worked up in this area, a southwest-northeast
16 cross-section?

17 A. I believe I did.

18 Q. Okay. Can you orient the Examiner on the
19 structure map as to what area is being shown here?

20 A. Yes, I believe this is the purple cross-section
21 right here. Again, it's just those three wells south of
22 the acreage down here. And the reason I put this cross-
23 section together, it was a layer, addition there, was to
24 tie in the Apache well, which has just been drilled and, I
25 guess the testimony here, has been plugged or in the

1 process of being plugged here in the last few weeks.

2 Again, the center well here, the middle well in
3 the cross-section is Mewbourne well, showing what a great
4 sand it has in it. But as you move east-west across there,
5 you can see that there's little or no continuity of sands.

6 Q. Based on all of these cross-sections, Mr.
7 Johnson, do you have a conclusion as to the continent --
8 cont- --

9 A. Continuity?

10 Q. Continuity, thank you. -- continuity of the
11 sands as you move from north to south?

12 A. Yes, from the north-south cross-section there you
13 can see that you can trace those middle Morrow sands a few
14 miles from south to north through the area. And if you
15 look at the east-west cross-sections, you can see -- you
16 can barely trace that sand a quarter mile, maybe, between
17 wells before it pinches out.

18 So what I think you're looking at is a very
19 narrow -- and you can throw that isopach up again. Yes. I
20 think you're looking at a very narrow channel down through
21 here. It has very little east-to-west continuity to it,
22 but yet you can trace the sands somewhat continuous, north
23 to south through here. And it's probably pretty much
24 controlled by the Central Basin Platform to the east, and
25 this structural high that sits back up here to the north.

1 Q. I want to call your attention to Exhibit I. It's
2 called "Osudo Area Geomap Structure", and we might be able
3 to -- She has it up there.

4 A. There we go.

5 Q. And what role did this work play in your study of
6 this area?

7 A. Well, I just threw this in as an after-the-fact
8 -- Geomap is a commercial map service. They have an office
9 there in Midland. They map -- well, I guess all over the
10 United States and all, but this map is out of the southeast
11 New Mexico edition.

12 It is a deep -- what they call deep-horizon map.
13 I think it's on top of the Devonian formation here. They
14 usually have about three maps, they'll do a shallow map, a
15 medium map and a deep map, and I believe this is the deep
16 map. It's been contoured on top of the Devonian formation,
17 which is somewhat deeper than the Morrow, which we're
18 dealing with here.

19 Q. This was a map not prepared by you but available
20 from a service?

21 A. Yes, it is.

22 Q. Okay, does it play any role in assisting you in
23 making your investigation?

24 A. Yes, I believe they're showing the same
25 structural closure, same high, in the northwest up there of

1 -- from the section in question. They also -- They didn't
2 contour it with the closure they also have there in Section
3 5, but I think you could join those two. Those are both
4 minus-9000-foot contours, and that structure would continue
5 from 2932 on down into Section 5 there.

6 And also you'll notice back to the west, they
7 have some down-to-the-Basin faulting in there, also at the
8 Devonian level.

9 Q. Now -- and I think you'll find on the witness
10 stand, Mr. Johnson, some of the exhibits that were
11 presented by Chesapeake, and I'd like for you to see if you
12 can locate first of all Exhibit 26. Looks like this,
13 multiple-colored.

14 A. I have it.

15 Q. Okay. Are you able to understand what is shown
16 by this map, which is said to be an isopach gross Morrow of
17 a rather wide area involving several townships in this
18 region?

19 A. I think so.

20 Q. Okay, and what does this indicate to you in terms
21 of the occurrence of the Morrow sands, particularly in the
22 area of Township 21 South, 35 East?

23 A. Well, it shows basically your Morrow sands
24 pinching out back to the east, probably on the Central
25 Basin Platform. You've got a strike -- depositional strike

1 in here of somewhat northwest-southeast, in through here,
2 and show the sediments thickening as you move southwest
3 into the Basin.

4 Q. Okay. Is there anything here that supports an
5 east-west -- in your opinion, supports an east-west
6 depositional pattern of these sands?

7 A. No, sir.

8 Q. Do you have -- find on the witness stand a series
9 of 8-1/2-by-11 exhibits -- it's Exhibit 28 through Exhibit
10 33 -- that are excerpts of literature concerning this
11 Central Basin Platform area?

12 A. I do.

13 Q. Okay, have you had an opportunity to examine some
14 of these?

15 A. Yes, I have.

16 Q. And even before you saw these, were you familiar
17 with some of the studies that are reflected in these
18 particular exhibits?

19 A. I am.

20 Q. Do you have some observations concerning any of
21 these exhibits that you believe are significant to your
22 investigation?

23 A. Yes, I do. I believe Exhibit Number 31 -- I've
24 seen this diagrammed in several papers, and -- showing
25 basically the ancient highlands, the Pedernal massif to the

1 north northwest, deposition of channels through the south.
2 And in the latest paper I've seen from Mazzullo, he makes
3 mention of the Central Basin Platform back to the east as
4 being a very low-stand area with very minor depositional --
5 or very minor deposition being eroded and deposited off it
6 back to the west there, and --

7 Q. Meaning little influence insofar as being a
8 source for --

9 A. Right --

10 Q. -- sediment?

11 A. -- it was not -- it was a very minor source of
12 sediments for the Morrow in here.

13 And one other thing I just mention and show on
14 here is the -- right there, just west of the red dot, is
15 the Grama Ridge field in there, and you can see it's pretty
16 much oriented north-south, it does not have an east-west
17 orientation to it either.

18 So even if the sediments were -- or some of the
19 sediments were derived off of that, it was probably
20 reoriented by streams or offshore currents or something in
21 there.

22 Q. Okay. Are there some of the others of these
23 literature sources that you found of significance in your
24 investigation?

25 A. Also Exhibit Number 33, I think if you look at

1 the stream pattern they're showing on it, you will also see
2 more or less north-south deposition on it.

3 Q. And do you recognize the placement of the red
4 dot?

5 A. Not really, I'll take their word for it there.

6 Q. Okay, all right. Any of these other exhibits
7 that you have comment on?

8 A. No, basically they're...

9 Q. Okay. I do want to ask you about Exhibit 29.

10 A. Okay.

11 Q. Do you understand that that's an east-west cross-
12 section --

13 A. I do.

14 Q. -- of the Morrow?

15 A. It's got the Delaware Basin to the west, the
16 Midland Basin to the east, so it is definitely a west-to-
17 east cross-section.

18 Q. So would an east-to-west cross-section support
19 that the sand's pattern is east-west?

20 A. I don't think so.

21 Q. Would be the opposite, that the --

22 A. I think so, north to south there, filling the
23 Basin, you would see it as a cross-section of that sand.

24 Q. Okay. Can we have the -- that area map again,
25 the isopach map that shows Section 4, please?

1 Given the conclusions you've drawn concerning the
2 Morrow sands' deposition pattern, do you have an opinion as
3 to the best orientation for the location of a well
4 targeting the Morrow sands in irregular Section 4?

5 A. Oh, yes, it would definitely be in the southeast
6 quarter there.

7 Q. Okay. And if a well is drilled there, would that
8 be the location most likely to recover Morrow reserves that
9 are within that section?

10 A. Yes.

11 Q. Do you have an opinion whether or not development
12 of a standup two-thirds east half, including the southeast
13 quarter, would serve to prevent waste and protect rights?

14 A. Yes.

15 Q. Do you have an opinion whether or not a single
16 well will probably be sufficient for development of the
17 reserves in that section?

18 A. Yes.

19 Q. What is that opinion?

20 A. That it would -- there's a very -- Well, for the
21 most part the west half and maybe the north two-thirds west
22 part up there of that has no sand in it at all. So
23 basically the only sand you see is over there in the
24 southeast two-thirds of that section. So a well in there
25 would definitely drain that sand.

1 MR. GALLEGOS: All right. We pass the witness
2 for cross-examination and move the admission of Exhibits,
3 in Case 13,493, A through I.

4 MR. KELLAHIN: No objection.

5 EXAMINER JONES: Exhibits A through I will be
6 admitted in Case 13,493.

7 Okay, Mr. Kellahin?

8 CROSS-EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Johnson, would you please pull out Exhibit C
11 that you've introduced? It appears to be the isopach of
12 the Morrow "B" sand.

13 A. Yes, sir.

14 Q. In addition, would you help me find the cross-
15 section that runs through the -- I'm trying to pick out one
16 that will get the Osudo 9 and the KF State 4 well. Is
17 that --

18 A. That would probably be the north-south cross-
19 section.

20 Q. Let's get that one out, please.

21 MR. BROOKS: Which exhibit is that?

22 Q. (By Mr. Kellahin) Got an exhibit number
23 associated with it?

24 MR. BRUCE: Should be Exhibit D.

25 MR. GALLEGOS: That's Exhibit D.

1 MR. KELLAHIN: D?

2 Q. (By Mr. Kellahin) Mr. Johnson, on Samson Exhibit
3 D --

4 A. Yes.

5 Q. -- would you find on the cross-section the
6 display that shows the Mewbourne Osudo 9 well for me?

7 A. Okay.

8 Q. If you'll take that as our well of conversation
9 and then pull out your Exhibit C, which is the Morrow "B"
10 isopach --

11 A. Got it.

12 Q. -- I want to know when I look at the Morrow "B"
13 isopach, referring back to the Osudo 9 log, what is the
14 isopach interval being displayed on the isopach?

15 A. On the isopach map here?

16 Q. If you go back to the cross-section and --

17 A. It is the Morrow sand zone that's perforated
18 there, the -- and I believe -- and I can't see what the --
19 42 foot of net porosity greater than 6 percent.

20 Q. Okay, so if I count the footage using the area
21 shaded in yellow on this log on the cross-section, that is
22 going to be the value that you use for that well spot --

23 A. No, it's not. I used the -- Now, that is the
24 sand zone.

25 Q. Okay.

1 A. The net would be better than or equal to
2 6-percent porosity.

3 Q. So when I look at the isopach, how do I find on
4 the cross-section what vertical limits of the isopach'd
5 interval you're using? And then we'll apply the cutoff to
6 it.

7 A. Well, I can sketch them off for you. The numbers
8 for the isopach map here were taken off of the large-scale
9 logs, and I just used the 2-1/2-inch scale here. It's just
10 more or less a sand zone to show the thickness of the --
11 and correlation of the sands.

12 Q. So I can understand your methodology for getting
13 the 40 feet of -- I guess it's net clean sand -- above the
14 6-percent porosity cutoff, I can go back to your cross-
15 section and count up those components and find it that way?

16 A. You should be able to.

17 Q. And by your calculation, then, you get the 40
18 feet that's shown on the isopach?

19 A. Yeah, I think it's 42 feet.

20 Q. Forty-two feet.

21 When we go over to Section 10 and we look at the
22 Apache -- what we've been calling the Apache dry hole --

23 A. Well, let's see, that's going to be on the
24 southwest-northeast cross-section.

25 Q. Would you mind pulling that out for me and

1 showing me how you got the four feet for that one?

2 MR. BROOKS: That is which exhibit?

3 MR. GALLEGOS: Exhibit G.

4 THE WITNESS: Yes, there's a four-foot zone at --
5 right at 11,750, I believe. There's a clean gamma-ray of a
6 little over four foot in there and some porosity that's a
7 little greater than 6 percent.

8 Q. Now, if you'll come back to Exhibit D again,
9 let's go down to the Hunger Buster Number 3 well.

10 A. The Kaiser-Francis Hunger Buster 3?

11 Q. Uh-huh.

12 A. Yes, sir.

13 Q. And looking at the Hunger Buster 3, when you
14 count the net clean sands above the 6-percent porosity
15 cutoff, then you're getting 32 feet?

16 A. That is correct.

17 Q. It appears to me -- and correct me if I'm wrong,
18 Mr. Johnson -- that when Mr. Godsey prepared his analysis
19 of that log section and reduced it to his isopach, rather
20 than using a porosity cutoff, he got 11 feet of clean sand.
21 Right?

22 A. I don't remember what he came up with.

23 Q. Let me show you the map.

24 A. All right.

25 Q. I'm going to show you a copy of Chesapeake's

1 Exhibit --

2 A. Do you have the log of his cross-section?

3 Q. I'll do that.

4 A. All right.

5 Q. In addition, Mr. Johnson, I'm showing you a copy
6 of Chesapeake Exhibit 24, which has the Hunger Buster log
7 on it.

8 A. All right, he's talking about this well right
9 here, the 11 foot?

10 Q. Yes, sir.

11 A. And it's which one? This one right here?

12 Q. This one.

13 A. Okay.

14 Q. How are you able, Mr. Johnson, to get 33 feet of
15 net clean sand above a 6-percent porosity cutoff in that
16 well, compared to what Mr. Godsey shows to be only 11 feet?
17 What did you do that's different than what he did?

18 A. Well, I see Mr. Godsey has only colored in just a
19 few foot of that very bottom sand down there, probably the
20 best porosity in there. And it looks like if you looked at
21 the crossplot on it you're looking at maybe 12- to 14-
22 percent porosity in that four-foot interval.

23 Q. Do you believe that's the difference, then?

24 A. Well, he certainly hasn't colored or showed any
25 of the sand there that I have. It looks like he's picked

1 out the two upper sands, maybe, that I've picked there.

2 Q. When we go back to your isopach, Mr. Johnson, was
3 this -- what type of isopach was available to you from Mr.
4 Worthington when he was doing this project?

5 A. I believe it was similar, the 6-percent or
6 greater.

7 Q. Did he have one that looked like this in terms of
8 how it distributed the sand thicknesses across what I will
9 call the standup east half of Section 4?

10 A. Yes, sir, he did. He left me -- When he left, he
11 left two maps --

12 Q. Uh-huh.

13 A. -- a top-of-Morrow structure map and an isopach
14 map.

15 Q. So both his map and your map, if you look at it,
16 it would appear that the optimum location for a well in the
17 southeast quarter of Section 4 would be at the original
18 surface location proposed by Chesapeake, would it not?

19 A. It sure would.

20 Q. That would be within the 40-foot contour line as
21 you've isopach'd it?

22 A. Yes.

23 Q. Do you have an explanation as to why Mewbourne's
24 proposed permit placed that well so far to the west?

25 A. I do. I actually like this location to begin

1 with.

2 Q. Which one?

3 A. The original location by Chesapeake. But
4 Mewbourne and -- I believe, was worried about the poor-
5 quality, limited reservoir, uneconomic well that Chesapeake
6 had drilled in the southwest quarter of 3 there -- I
7 believe the CC State --

8 Q. CC 3.

9 A. -- so they were wanting to stay as far away from
10 it as possible.

11 Q. So that explains why the Mewbourne well, the well
12 proposal for the southeast quarter, was not positioned at
13 what would be the thickest portion of that sandbody?

14 A. Yes.

15 Q. When we look at your isopach, and going north of
16 the KF State Number 4 well --

17 A. The what now?

18 Q. -- no, we're going to go north of the location of
19 the KF State Number 4 well. Do you see that, you've got 18
20 feet of pay?

21 A. Sixteen feet?

22 Q. I'm sorry, 16 feet of pay.

23 A. Uh-huh.

24 Q. As we move north through that contour line for
25 that isopach, how far north of that location do we have to

1 go before we get our next control point?

2 A. To the north?

3 Q. Yes, sir.

4 A. There is a well in Section 32 that appears to be
5 660 from the south, 1980 from the east. Other than that,
6 you have no control to the north or east.

7 Q. You said there was two maps that Mr. Worthington
8 had for you. It was an isopach not unlike this, and what
9 was the other map he had?

10 A. A top-of-Morrow structure map.

11 Q. Had he prepared any cross-sections that you could
12 utilize?

13 A. He did like Mr. Godsey. He had them on the
14 computer, and they were gone with the wind.

15 Q. Well, your structure map makes reference to what
16 appears to be some seismic data off to the west. At least
17 there were some fault lines shown on there.

18 A. Yes, there's faults on there, but no seismic
19 data.

20 Q. It wasn't seismic information, it was log data
21 that was used to construct the --

22 A. It was strictly subsurface, yes.

23 Q. So none of your work includes any 2-D or 3-D
24 seismic information?

25 A. No, sir. And that's one of the reasons I threw

1 in the Geomap. It pretty much concurred with the
2 subsurface or structure map that I have for the top of the
3 Morrow.

4 Q. On the isopach, I want to start, then, with the
5 Hunger Buster 3 well that you've got with a value of 32
6 feet and move south of that location. As we move south,
7 what's our next control point for the configuration of the
8 sand deposition that you've displayed on this exhibit?

9 A. Well, the one that I'm showing on the cross-
10 section is the well that's in the northeast corner of
11 Section 16. I believe it would be close to a mile south.

12 Q. Is there a name associated with that, that you
13 could tell us on the record? I have forgotten those names.

14 A. It's an API number on there. Well, no, I can't.

15 Q. I believe it's on your cross-section, Exhibit D.
16 Let's see if it's not.

17 A. Oh, okay.

18 Q. It will be this Santa Fe Energy Partnership --

19 A. On the north-south cross-section?

20 Q. Yes, sir.

21 A. The Santa Fe Samson well?

22 Q. Yes, sir, on the far right of the cross-section
23 for Exhibit D.

24 A. Right.

25 MR. BROOKS: It looks like on Exhibit P it's the

1 Samson Osudo PQ State Com Number 1, if I'm reading this
2 exhibit correctly.

3 THE WITNESS: Yes, sir, that's --

4 Q. (By Mr. Kellahin) Is this a well that Samson
5 drilled, Mr. Johnson?

6 A. No, sir, I don't believe so. I believe if you
7 look at the log heading there you'll see that Santa Fe
8 Energy drilled that.

9 Q. Again, when we're looking at the cross-section
10 and determining where you got your 14 feet of value for the
11 isopach, you've applied the same methodology for this log
12 as you've done for the others?

13 A. Well, this was a sonic log. The other logs that
14 I tried to work off of was the density neutron crossplot
15 porosity. This sonic log here is different.

16 Q. I understand that. How did you then make the
17 calculation for the 14 feet?

18 A. I took the best looking porosity right there in
19 the middle of the rock, the cleanest gamma-ray, the best
20 looking porosity, and it looks like it's about 13 foot. I
21 was being generous here and gave it 14.

22 Q. With the status of the well control that we have
23 in here, Mr. Johnson, can we take Exhibit C, your isopach,
24 honor the values that you've placed on the isopach, and
25 change the rotation of the sandbody so that we can still

1 honor these data points and position the sandbody so that
2 it is oriented more northeast-southwest?

3 A. Northeast-southwest?

4 Q. I'm sorry, northwest-southeast.

5 A. Change this to what?

6 Q. For example, if we take the KF State Number 4
7 well with the 18 feet, and rather than putting it on the
8 western edge of the channel, what if that is located on the
9 eastern edge of the channel and this whole -- this whole
10 pod, if you will, is rotated counterclockwise so that it's
11 pivoted in such a way that there's a northeast-southwest
12 orientation? You can still match up all the data points if
13 you did that?

14 A. You've confused me. You said northeast-southeast
15 again, correct?

16 Q. I'm sorry, northwest-southeast.

17 A. Yeah, you can change the data points and probably
18 make it go any way you want to in here. But I don't think
19 it would be good science.

20 Q. But I can take this map and I can look at the
21 existing data points in Section 4, 3, 9 and 10, and with
22 the values you've given me, if my opinion is the
23 orientation of these sands has a deposition that justifies
24 a northwest-southeast orientation, I can shift this pod and
25 still match up all these data points?

1 A. Oh, you probably could.

2 How would you explain the positive feature there
3 in the northwest of 4, though, as far as your trend goes?
4 Because on both maps you're showing a structural high all
5 the way from 2932 down into the northwest of 4, but yet
6 you're going to have your depositional trends T-boning
7 right into that high.

8 Q. Is it your opinion that there is a structural
9 component to the productivity of these wells?

10 A. To the productivity?

11 Q. Yes, sir, uh-huh.

12 A. When you say "productivity", you mean the --

13 Q. Do you gain an advantage in the pod if you're
14 upstructure?

15 A. No, not necessarily. But there -- If you look at
16 that, there is zero sand up there.

17 And yet you're going to trend your channel or
18 your isopach thick right into a structural positive or a
19 high with zero sand in it.

20 Q. I'm suggesting to you, sir, that we can take the
21 same data that you have, honor this data, and rotate the
22 pod so it's got a northwest-southeast orientation.

23 A. Okay.

24 MR. KELLAHIN: No further questions, Mr.
25 Examiner.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Johnson, how high do you think the Central Basin Platform was at that time, compared to the high of the Pedernal uplift?

A. It was just barely above sea level. It was probably swamp, from what I've read and correspondence and people I've talked to, it's more or less just a swampy zone, not very high at all. Not anything compared to the Pedernal.

Q. And did it grow with time, the Central Basin Platform, after that, or was it --

A. Not really. There were several different episodes in here. I think the next episode, the literature I've read that had some influence structurally in here, was Atokan time.

Q. Which was later on.

A. Right, it was --

Q. -- several million years afterward?

A. Yeah.

Q. Speaking of that, the time for this Morrow sand, is that consistent time all the way across?

A. Yes, I think so. When you say "time", you know, I don't know what range you're talking about in there, but yes, it would be --

1 Q. Geologically speaking?

2 A. Yeah, geologically speaking, it would be pretty
3 close.

4 Q. So this Morrow sand, middle -- Do you call this
5 the middle Morrow sand?

6 A. I do.

7 Q. Okay. And that would be deposited with the same
8 stream channel or with a series of stream channels over
9 millions of years?

10 A. It was probably the same channel, and it's
11 probably a very narrow channel. Of course, that stream
12 migrated and meandered back and forth through that channel,
13 so you're looking at several different sand zones -- well,
14 not sand zones, but sand pods or lenses, and they're
15 probably stacked. And from drilling and completion
16 techniques they're communicating now.

17 Q. That little shale that's on this Osudo well on --
18 Mr. Godsey called that -- above that, the "New" -- the
19 "New" sand. Do you agree that that was kind of new, at
20 that well, discovered that sand?

21 A. Well, no, that's a -- probably a lower sand or an
22 older sand down there, and that's deposited on it. You
23 probably had a sand zone in there, maybe a point bar or
24 something like that, and then you just stacked another one
25 on top of it.

1 Q. Okay, and that new sand could not have been
2 coming from the Central Basin Platform?

3 A. No, sir.

4 Q. So how do you explain the increased thickness at
5 that point? I can understand the stream flow going south,
6 but the different -- you yourself mapped areas of thicker
7 stream deposits. Now, why would they be thicker at
8 different points on their way south?

9 A. Because in this stream channel, this system here,
10 you're going to have a series of bars, and some of these
11 are going to be stacked on top of one another.

12 And this may be the case here. You've got a thin
13 shale zone there, but then you've got one superimposed on
14 top of the other one.

15 Q. Could it have been cross-streams going across
16 maybe even --

17 A. Well, if you had a very broad fluvial plain, you
18 could have some braided-stream-type action in there, but --
19 and maybe you did have some of this. Like I said, the
20 stream probably meandered down through there. But from
21 what I see structure- and isopachwise, it wasn't a very
22 wide -- I wouldn't think it would be a very wide stream.

23 Q. That platform, was that granite platform, Central
24 Basin Platform? Is that a granite?

25 A. In some places.

1 Q. It was an uplift?

2 A. Yes. In some places it's granite. You've got
3 Pennsylvanian sediment sitting on top of granite. But in
4 other places you do have Devonian and younger strata,
5 Mississippian and stuff on it, so...

6 Q. Was it a faulted feature, or was it a uplifted --

7 A. It was a faulted feature.

8 Q. Okay, faulted.

9 A. I believe Mr. Godsey's cross-section this morning
10 from the Central Basin Platform to the west showed some
11 Mississippian on top of it there, on his far eastern well.

12 Q. As far as the deposits of gas in these Morrow
13 sands, is it your experience that they're a little bit more
14 likely to have deposits of natural gas close to the Central
15 Basin Platform like this or -- In other words, you move
16 further out into the Basin, less Morrow sands with gas in
17 them?

18 In other words, as this Morrow pinches out, you
19 say, and the streams go north-south --

20 A. Right.

21 Q. -- but you also said it pinched out to the east
22 on the Platform.

23 A. Well, on the Morrow here you had a couple of
24 different transgressions and regressions. What you have
25 was a fluvial-deltaic marine system that moved back and

1 forth across this. And of course up by the Pedernal you
2 have your coarser deposits and stuff up there. Then you
3 get into the transition zone where you have your fluvial
4 channels and stuff, and then you eventually get to the
5 delta and then into the marine, and that oscillated back
6 and forth.

7 Q. That explains that shale between the "New" and
8 the --

9 A. No, that's probably just some shale in the
10 stream, just some mud.

11 Q. Okay.

12 A. You know, if you look at the Rio Grande down
13 there, I believe around Albuquerque and all, you'll see
14 different -- if you fly over it, you'll see different bars,
15 and they will coalesce and stack, and then you'll have --
16 separated, you'll have some muds in between.

17 Q. So when you have a thicker zone like this Osudo
18 well, it's just different bars that happen to stack across
19 each other?

20 A. Yes, I --

21 Q. So they would be going in --

22 A. I think they would be --

23 Q. -- different --

24 A. -- they would be pretty much parallel in there.

25 Q. So you say they will be parallel?

1 A. I think pretty much so, they'll be pretty much
2 oriented north-south. But it depends on the angle of the
3 stream as it meandered at that time.

4 Q. Yeah. You didn't map -- break this up, this
5 general Morrow sand zone up into three components like Mr.
6 Godsey did, did you?

7 A. No.

8 Q. Okay, is that -- Well, even he testified that
9 it --

10 A. That would be pretty tough.

11 Q. -- it raises your level of potential error. But
12 he did show some interesting things when he did that.

13 A. You could go in there and subdivide that and we
14 could sit here all day and all night trying to figure it
15 out, talking about it.

16 Q. That east-west cross-section you showed, the one
17 that's -- you showed a potential real thick Morrow sand
18 right in the middle between two wells?

19 A. That's right, it was between Chesapeake's CC
20 state, which was probably -- it came on really good,
21 looking good, and all. It's probably a limited reservoir.
22 And then their KF 4 well over there, I believe that KF 4
23 well is on the west side, and those sands are pinching out
24 as you move to the north and to the west, up on that high.
25 But in between, along the stream channel in there, you

1 would find thicker sands at the original location they had
2 picked.

3 Q. So there could potentially be a well drilled
4 between the KF State and this CC well, over in Section 3?

5 A. You're probably going to drain that with the KF
6 well.

7 Q. Or with the Osudo well --

8 A. Maybe.

9 Q. -- drainage relations, but -- So with the control
10 that you have, you can't map a decent Morrow channel over
11 on the west side of Section 4? Could you possibly --

12 A. On the isopach map?

13 Q. Yes.

14 A. Which exhibit was --

15 Q. Well, just your general --

16 MR. BROOKS: C, Exhibit C.

17 THE WITNESS: Oh, here it is, I've got it.

18 Q. (By Examiner Jones) That southwest quarter of
19 Section 4 --

20 A. No, sir, you can't -- you couldn't map a channel
21 through there. As a matter of fact, if you go back and
22 look at the original field study done by the Roswell
23 Geological Society on this Osudo area, they show a zero
24 isopach coming down through that northwest quarter of 4 up
25 there.

1 Q. Oh, really? well, if -- This yellow in this
2 section is Samson; is that correct? If Samson went in and
3 deepened that well that wasn't drilled deep enough, to the
4 Morrow and mudlogged it and logged it --

5 A. Which well are you talking about?

6 Q. In the central portion -- central one-third of
7 Section 4, southwest --

8 A. 21027, is that the API --

9 Q. That's the one I'm --

10 A. Okay.

11 Q. -- thinking about. That would show you for sure,
12 wouldn't it, at a pretty cheap price, whether you were --

13 A. It would be too expensive for me.

14 Q. Too expensive?

15 (Laughter)

16 THE WITNESS: Too expensive for me. I don't
17 believe that there would be anything there. If you look at
18 the wells that are in there, the well to the north up there
19 in Section 32, those two wells, zero feet of porosity, I
20 was being generous there in giving that well two foot. And
21 then you've got two foot back over there where I've tied it
22 in in Section 5. I just -- That would be a horrible place
23 to drill.

24 Q. (By Examiner Jones) What about in the --
25 offsetting the Osudo well over to the west?

1 A. To the west --

2 Q. You wouldn't do that?

3 A. No, sir. If you look at that cross-section --
4 and like I say, as you move to the west northwest, you're
5 moving up on structure. That whole section is thinning, if
6 you'll refer to that cross-section there. Your whole
7 Morrow -- upper Morrow cross-section is thinning in through
8 there as you approach that structure and those sands are
9 pinching out.

10 Q. And mainly because of that uplift to the north
11 and west?

12 A. Right, that structural closure to the north
13 there.

14 Q. And that was there at the same time as that
15 Central Basin Platform?

16 A. Yes, it was.

17 Q. Is it the same correlated depth? As far as
18 verifying it was there at the same time, how do you do
19 that?

20 A. Well, all these structures were there at the
21 beginning of the Mississippian. That's about when all you
22 had the tectonic activity. But the reason I think the
23 structure is there is because that Morrow section thins.
24 If that structure wasn't there, then you would have had a
25 nice thick Morrow section in there.

1 Q. What about if you had the Bone Springs as a
2 bailout zone? Would you still try it?

3 A. I'd have to look at the Bone Springs in there and
4 see. I know a couple of those wells up there were Bone
5 Springs producers, but...

6 EXAMINER JONES: Okay, Mr. Brooks?

7 MR. BROOKS: It's late in the afternoon, so I'll
8 be brief.

9 EXAMINATION

10 BY MR. BROOKS:

11 Q. First question I want to ask was kind of tongue
12 in cheek. I wondered if it was Mr. Bruce that suggested
13 that you use the Geomap?

14 A. No, sir, it wasn't.

15 Q. I thought maybe he had so much success with it in
16 a former case --

17 A. Let me tell you, you're right about that, though.
18 I have shown some prospects in the past. When you're
19 independent and you're out showing deals, everybody wants
20 to see what the Geomap looks like. So I've always thrown
21 one in.

22 Q. Well, I think that basically your opinion is that
23 the west half of Section 4, there's no Morrow out there
24 that you'd give a buck for; is that an accurate statement?

25 A. That's very accurate.

1 Q. So if as Mr. Godsey testified, and probably was
2 likely the case, Samson proposes a well in the southwest
3 quarter of 4, which you're going to be in a unit with one
4 way or another, regardless of the outcome of this case,
5 that you would recommend to your company they go nonconsent
6 in that well?

7 A. I think so. I'm afraid they'd run me off if I --

8 Q. Okay. Getting back -- Basically your opinion as
9 to the lack of value -- lack of productive Morrow potential
10 in the west half of 4 is based on your -- well, I guess
11 it's based in part, certainly, on the dry hole in the west
12 -- the only well that apparently has penetrated the Morrow
13 in that half section is the dry hole in the north half of
14 the west half of the middle half?

15 A. Yes, sir, that well and the surrounding wells.

16 Q. And also, then, on your general view of how these
17 sands trend?

18 A. Yes.

19 Q. Now, you do not disagree, I gather -- and I was
20 getting a little bit uncertain about that when you were
21 talking about the Central Basin Platform being just about
22 sea level -- you don't disagree with Mr. Godsey's testimony
23 that this was a fluvial environment deposition, do you?

24 A. No, I do not. From most of the literature I've
25 seen, it's probably a distributary channel.

1 Q. Yeah, you wouldn't consider it to be a shoreline
2 deposit?

3 A. No.

4 Q. And with a fluvial deposit there's always the
5 possibility that the local trend of direction is going to
6 be very different from the secular trend, is there not?

7 A. Well, it could be. But if this was marine, I
8 would expect it to be somewhat -- the sands also would be
9 somewhat parallel to the structure there. You'd have
10 currents working along that positive.

11 Q. Well, I would have assumed that that would be
12 more true if it was marine or --

13 A. Yeah, if it was marine --

14 Q. -- but if --

15 A. -- that's what I was saying.

16 A. -- it was fluvial, I would think the local trend
17 could be almost any direction within a half mile, say.

18 A. Maybe, but you had some very definite structural
19 grain to this. You've had the faulting, the north-south-
20 striking faults that are down to the west. They probably
21 have --

22 Q. Those are what, about two miles or three miles to
23 the west?

24 A. Yes, that's right.

25 Q. Okay.

1 A. Yeah.

2 Q. And then you have the Central Basin Platform,
3 which is about a mile to the east?

4 A. Correct.

5 Q. Okay. And your theory is that those structures
6 channel the streams in a particular --

7 A. Yes.

8 Q. -- direction?

9 A. Very much what you see nowadays.

10 Q. Okay. What did you -- There's a fairly
11 substantial discrepancy between the amount of sand that
12 you've interpreted and -- Well, I should state where I'm
13 moving.

14 The Hunger Buster Number 3, there's a fairly
15 considerable discrepancy between the amount of sand you
16 attribute to that well and the amount that Chesapeake has
17 attributed to that well, I believe. Is that --

18 A. There is.

19 Q. Is that just a difference in log interpretation?

20 A. Well, I looked at the log here, I also looked at
21 the sample log that --

22 Q. And you give it 32 feet of pay?

23 A. And I gave it 32 foot of pay.

24 Q. And Mr. Godsey gives it 11.

25 A. Eleven, but he's showing -- If you look at his

1 map, he's showing the whole interval has been perforated.
2 Maybe Kaiser-Francis was just slinging some shots in there,
3 but I'd hate to think they were just wasting their time.

4 Q. That makes a fairly big difference in how you --
5 the significance you give to that control point, doesn't
6 it?

7 A. It would.

8 Q. I'm just curious, that's all. I mean, I don't
9 -- obviously the Examiner is a specialist in log
10 interpretation and I'm not, so I'm just listening to what's
11 being said. But I have one other question about the
12 significance of a point.

13 You testified that there were no control points
14 to the north. Looking at Mr. Godsey's map, I see a 10-foot
15 marker up in Section 32, and I wondered if you had
16 considered that well?

17 A. Which well is this?

18 Q. Well, going to Exhibit P, it would appear to be
19 the Warrior State --

20 A. Oh --

21 Q. -- WE 1-32.

22 A. -- 660 from the south, 1980 from the east?

23 Q. That looks like about right.

24 A. Yes, sir, I've given it zero.

25 Q. Okay, so that's another fairly significant

1 difference in log interpretation.

2 A. It is. I have the log in my briefcase, if you
3 would like to see it.

4 MR. BROOKS: No, I don't think it would mean that
5 much to me, I'm afraid --

6 THE WITNESS: Okay.

7 MR. BROOKS: -- but I'm just curious about that,
8 because that appears -- well, for the reasons I stated.

9 I believe that's all I have.

10 EXAMINER JONES: Further questions of Mr.
11 Johnson?

12 MR. KELLAHIN: (Shakes head)

13 EXAMINER JONES: Okay, thanks a lot, Mr. Johnson.

14 MR. GALLEGOS: Nothing further. That completes
15 our case in 13,493, Mr. Examiner.

16 EXAMINER JONES: So you guys are through with
17 cases also?

18 MR. KELLAHIN: I'd like to call a rebuttal
19 witness to Mr. Johnson, recall Mr. Godsey so that he can
20 comment of some of the differences, have an opportunity to
21 at least synthesis the differences.

22 MR. BROOKS: Okay, which exhibits can we fold up
23 and which ones do we have to keep out?

24 MR. GODSEY: No one complains about the size of
25 my exhibits.

1 I'll be referring to Chesapeake's Exhibit 25 --

2 MR. BROOKS: Got that one.

3 MR. GODSEY: -- and I'll be looking at Chesapeake
4 Exhibit 24.

5 MR. BROOKS: Chesapeake exhibits have gotten
6 completely buried, so I'm going to have to find them,
7 except for 25.

8 MR. GODSEY: That one has been out for a while.
9 I'll also --

10 MR. BROOKS: I'm going to keep Exhibit P out,
11 because that one has been very helpful.

12 MR. GODSEY: I will be referring to --

13 MR. KELLAHIN: Let's get you back on the record,
14 Mr. Godsey.

15 With your permission, Mr. Jones, we'll recall Mr.
16 David Godsey. May the record reflect that he continues
17 oath?

18 EXAMINER JONES: Yes.

19 DAVID A. GODSEY (Recalled),
20 the witness herein, having been previously duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q. Mr. Godsey, in order to expedite the rebuttal of
25 our presentation to Mr. Johnson, would you simply begin

1 with your list of points of differences that you have with
2 his conclusions?

3 A. Do you want me to just read the list or --

4 Q. No, just describe --

5 A. Okay, it's a long list, and I'll try to get
6 through it very quickly.

7 First of all, let's clear up a little bit of
8 confusion about the regional geology, and I won't spend
9 very long on that.

10 If you look at Chesapeake Exhibit 26, which they
11 referred to a minute ago, which would be the regional gross
12 Morrow isopach, and just look at the area mapped there
13 versus the area mapped by Mr. Johnson, there's a lot of
14 problems with saying the entire sediment source for the
15 Morrow is from the north.

16 First of all, the Pedernales uplift, yes, was the
17 primary source for the Morrow throughout southeast New
18 Mexico. That is undisputed.

19 But you also have to look at locally where you
20 are situated within the Basin. As we've discussed, as is
21 not in dispute, we are on the west flank of the Central
22 Basin Platform. So local influences, the more minor
23 sediment sources come into play. The Central Basin
24 Platform is a sediment source, not the major one for the
25 bulk of the deposition of the Morrow coming down from 50

1 miles away and feeding all the way down into the Delaware
2 Basin, but it's a local source, and we're right up on the
3 flanks of it.

4 Also, if you look at -- if he would have mapped a
5 little further north, you can see where the Central
6 Platform on my map, up towards the very northern part of
7 the map, extends out further west. Further west than the
8 KF State, the Osudo, et cetera. You can see where my
9 subcrop line is, and there is no Morrow sediment present up
10 there. There's well control to prove that.

11 So it's very difficult, then, to get that Morrow
12 sediment running due north-south as the only sediment
13 source for this. That's my comment about that, to clarify
14 some of that, okay?

15 Now, if you look at their map very quickly, which
16 would be Samson Exhibit K -- it's the composite map that
17 has the structure and the isopach on it -- a couple of
18 things that Ron related was that -- he says the structure
19 guided deposits of sands throughout this area, and he keeps
20 mentioning this high located up, oh, in the northern parts
21 of Sections 4, 5, on up into 32, 31, et cetera. As he's
22 mapped in here, a closed high up there around the 7600-foot
23 contour. Okay?

24 And on his cross-section he keeps relating how
25 the sediments are thinning because they're going up on that

1 high, and that precluded sand from going over the high.

2 If you go just north of that, to the northernmost
3 producer in Section 5, it's higher than the last well on
4 his cross-section that he kept referring to, by quite a
5 bit. He gives it -- if I can read this -- something on the
6 order of 26 feet of sand. It made over 28 1/2 BCF of gas.
7 So there's a little bit of a problem with his assertion
8 that, well, these sands aren't going up there because
9 there's a high up there. The higher well is actually the
10 most prolific producer on the map.

11 Also, he referred to the highs as controlling
12 this and referred to a saddle, being a structural low,
13 that's east of that closure. The structure kind of saddles
14 and then starts going up again towards the Central Basin
15 Platform. If that's important, then why is his sand
16 isopach not drawn through that low, rather than up along
17 the flanks.

18 And another thing that bothers me about his
19 isopaching is, as I think Mr. Kellahin was alluding to, he
20 has absolutely no point of well control to carry that map,
21 that isopach, from the KF Osudo CC area, on north. He has
22 no point there at all, it doesn't exist. There's not a
23 well there that gives him any sand. So he's -- You know,
24 he's really just drawing something in.

25 Now, enough of kind of his stuff, let's look at

1 ours. And he referenced wanting to do good science. And
2 boy, I do too. And as you all have noted, there's a
3 significant difference in what he's picking for sand and --

4 MR. GALLEGOS: Excuse me, Mr. Godsey. At some
5 point could we get a little bit of a question and answer?
6 I think the first question was, what were his observations
7 about Mr. Johnson, and I think he's finished with that.

8 MR. KELLAHIN: I'll be happy to do it question-
9 and-answer, if you like.

10 EXAMINER JONES: Sure.

11 Q. (By Mr. Kellahin) Mr. Godsey, let's look at the
12 log valuations. You have Mr. Johnson's cross-section, you
13 have your cross-section. And as Mr. Brooks has alluded to,
14 when we're looking at log values that you've isopach'd
15 there is a substantial difference in some of these numbers.

16 A. Yes, there is.

17 Q. Would you look at the Hunger Buster Number 3?
18 Mr. Johnson has got 33 feet of net clean pay over a
19 6-percent porosity cutoff, and you have got a zero cutoff,
20 and you've got only 11 feet.

21 A. That's correct.

22 Q. What is the difference, and what does it matter?

23 A. Okay, there's -- admittedly, there are lots of
24 ways to try and pick your net feet of sand. But I'm
25 mystified by Ron's method. We have the luxury on most of

1 these wells, not all of them in the area, but most of these
2 wells we have a triple combo, meaning, you know, they run a
3 neutron density and a gamma-ray log.

4 Now, when you look at the neutron density
5 relationship, the neutron density log is run on a limestone
6 matrix out here. Which means that if you're in a clean
7 limestone, those two curves are going to stack on top of
8 each other. If you're in a sandstone, even a 100-percent
9 water-filled sandstone, a clean sandstone will give you
10 four to six units of crossover, "crossover" meaning the
11 density is higher than the neutron, okay?

12 Now, you can have greater crossover as you add
13 gas. Gas will exaggerate that crossover.

14 When you don't have clean sand, that 4 to 6 units
15 of -- and I want to say units, porosity units, P.U. -- of
16 crossover diminishes and diminishes and diminishes, until
17 at some point you have to say, I don't have clean sand. If
18 you go and plot that on any log analysis chart book, it
19 won't chart on there as a sandstone.

20 So the best way to pick your net feet of sand,
21 when you have a neutron density and a gamma-ray log, is to
22 utilize that neutron density log. That is the best thing
23 you can do.

24 You can also look at the PE curve, if it's one of
25 the more recent ones, and you can look at the gamma ray.

1 And then you also consider what the mud log is showing.

2 So -- another difference in here -- which is what
3 I've utilized. If you look at my cross-sections and my
4 logs in here, you can see that what I picked for net feet
5 of sand is corresponding to what the neutron density and
6 perhaps the PE and perhaps the gamma-ray, but primarily the
7 neutron density is telling me is a sandstone. And my
8 number should actually be more optimistic than his, in
9 theory, because he's then assigning a 6-percent porosity
10 cutoff to it. There is no way, using proper techniques to
11 count up feet of sand, to get to his number in the Hunger
12 Buster.

13 I would also submit that the production from that
14 would pretty much agree with my assessment. There's not
15 much sand down in that part. After -- That well had to be
16 frac-treated, and after frac-treatment it's only doing 700
17 MCF a day.

18 So gee, are there perfs there? Yes, there are
19 perfs there. Did they waste their time with some of those
20 perfs? Yeah, apparently they did.

21 Now --

22 Q. When we look at the other values of difference
23 between the thicknesses that you've used and Mr. Johnson
24 has used, is there any other well that's materially
25 different that you want to comment on?

1 A. Yes, there are several.

2 Q. Find one for us.

3 A. Okay. A very quick one and easy one to look at
4 would -- we can just go straight to the Osudo 9 State
5 Number 1. If you want to look at it in detail with me, you
6 can look at the Exhibit Number 21 of Chesapeake's, where
7 you have a good detailed look at the logs there.

8 Ron portrayed that he used a 6-percent porosity
9 cutoff on that, and he came up with 42 feet of sand. I
10 think I'm reading that right, 42 feet.

11 The entire sandbody there, with the exception of
12 two spots, is reading 10, 12-plus, on their crossplot,
13 which is what he says he's using. So I don't see how he
14 can get to that number either.

15 I can even point down to one we don't have the
16 log on, but in 16 P, further south down there, he has zero
17 feet of sand for that well. That's a commercial producer
18 out of the Morrow, so I guess -- I don't know what -- you
19 know, I don't know how he came up with that number either.

20 So you know, when we talk about good science and
21 what you're trying to do, I think what Ron has done is the
22 best job he could of trying to make the numbers easier to
23 map.

24 Now, he also gave four feet of sand to the Apache
25 well, which again, if you look at that log, by Apache's own

1 assessment and by just looking at the log, you cannot find
2 any feet of sand based on neutron density relationship.
3 Okay? So -- You just can't give it any net sand, much less
4 any four feet of sand with 6-percent porosity. If there
5 was truly four feet of sand over 6-percent porosity, they
6 probably would have run pipe and perforated it. But it
7 doesn't exist. Okay?

8 Those are the specific wells that I would
9 address.

10 Q. Mr. Godsey, did Mr. Johnson tell you anything,
11 either in his exhibits or in his verbal testimony, to cause
12 you to believe that you should change any of your work?

13 A. Absolutely not. As a matter of fact, I feel like
14 his map is by far such an unlikely event as he's drawn it,
15 to begin with, that I pretty much discount it. Plus, you
16 can't take his work and regenerate his numbers that he used
17 to make his map.

18 MR. GALLEGOS: Mr. Examiner --

19 MR. KELLAHIN: No further questions.

20 MR. GALLEGOS: -- I move that the answer be
21 stricken. It's unresponsive and argumentative. He
22 answered the question then began to argue that, and I think
23 that should be disregarded.

24 THE WITNESS: Okay.

25 EXAMINER JONES: I think I agree with that.

1 THE WITNESS: Okay.

2 MR. KELLAHIN: I've concluded, then.

3 EXAMINER JONES: All right.

4 THE WITNESS: We're done?

5 MR. KELLAHIN: Wait.

6 CROSS-EXAMINATION

7 BY MR. GALLEGOS:

8 Q. Very briefly. Mr. Godsey, with your services as
9 the guy for the geology to select well locations for
10 Chesapeake, after it was learned that the Osudo 9 was a
11 very good well, was there a location selected and an APD
12 sought to the west of that well in the west half of Section
13 9?

14 A. No.

15 Q. After it was found that the Osudo well was a good
16 well, was there a well selection location made directly to
17 the north of that well in the southeast quarter of Section
18 4 and an APD sought for it?

19 A. No, sir.

20 Q. There was not an APD filed for a well called the
21 KF State directly north of the Osudo Number 9?

22 A. We would be quibbling. Let me go ahead and make
23 it easier. The well is not directly north, it is slightly
24 west of it. So yes, we did file --

25 Q. We don't need to quibble, right.

1 A. All right.

2 Q. And was there shortly after that, with your
3 services as a geologist for Chesapeake, another well
4 location selected and an APD filed for the Cattleman State
5 well, basically to the north and in the east half of
6 Section 4, to the north of the KF State well?

7 A. Yes, sir, that would be the Cattleman 4 State
8 Number 1.

9 Q. And there has never been, has there, Mr. Godfrey
10 -- Mr. Godsey -- a well location selected and APD sought
11 for a well in the west half of Section 4?

12 A. Yes, sir, we filed and received an APD for the
13 Cattleman 4 State Number 2.

14 Q. Okay, and that was filed when? Remind us?

15 A. I don't know the date, I'm sorry.

16 Q. Okay, after this proceeding was initiated?
17 After --

18 A. At approximately the same time as the Number 1.
19 I don't know the exact date.

20 MR. GALLEGOS: All right, thank you.

21 EXAMINER JONES: Okay.

22 MR. BROOKS: Nothing.

23 EXAMINER JONES: Thank you.

24 MR. KELLAHIN: Had enough?

25 EXAMINER JONES: Close.

1 MR. BROOKS: Well, I would be interested in each
2 side's leading theories. I don't know how the Examiner
3 feels about it, if you want to listen to argument tonight,
4 or how counsel feel about it, if we want to do oral
5 argument tonight, or have written argument.

6 MR. KELLAHIN: I'm kind of worn out, but I'll do
7 whatever you'd like. My --

8 MR. BROOKS: Well, either is acceptable to me,
9 I --

10 MR. KELLAHIN: -- my preference would be to
11 submit a draft order and written comment after we have a
12 chance to think about the information and give you a clear
13 response to our positions.

14 MR. HALL: Mr. Examiner, Chesapeake's counsel had
15 submitted a hearing memorandum on both of their cases. We
16 submitted one on the APD case. I'm prepared to submit one
17 to you on the issues precipitated by the compulsory pooling
18 Application, so I'd offer that to you as well.

19 MR. BRUCE: Mr. Examiner, because we have been
20 going eight hours a day for two days, maybe a written
21 closing, as suggested by -- a proposed order and perhaps a
22 written closing, as suggested by Mr. Kellahin, might save
23 us a little grief.

24 EXAMINER JONES: Are you guys in agreement on
25 that, then?

1 MR. GALLEGOS: Yes, that would be satisfactory,
2 Mr. Examiner, if you'll just set a time when you want that
3 submitted, we will abide.

4 (Off the record)

5 EXAMINER JONES: I realize that you guys are
6 trying to get the well on as soon as possible, but we don't
7 have a transcript --

8 MR. BROOKS: I just arranged a three-week
9 vacation starting on October the 17th, and I would hope to
10 get an order out on this case before that. That's a fairly
11 long way off.

12 EXAMINER JONES: About three weeks then, three
13 weeks from tomorrow, which would be -- I don't know.

14 MR. BROOKS: Well, today is the 23rd, so...

15 EXAMINER JONES: That would be a Wednesday.

16 MR. BRUCE: The 14th of September.

17 MR. HALL: That's for orders and statements?

18 EXAMINER JONES: Statements, definitely closing
19 statements, written closing statements. Draft orders --

20 MR. BROOKS: If you choose to submit draft
21 orders, then I think so. I don't know, do you want to
22 require draft orders or just if they choose to submit --

23 EXAMINER JONES: Just if you choose to on that.

24 And I guess before we quit here, Paul Kautz, do
25 you --

1 MR. KAUTZ: I was hoping you'd --

2 MR. BROOKS: Do you want to call Paul back to the
3 stand?

4 EXAMINER JONES: I think I'd like to ask him one
5 quick question. Thanks a lot, Paul.

6 Yeah, that would be September the 14th.

7 MR. BROOKS: September the 14th. I know that's a
8 Wednesday, because the next Commission meeting is on the
9 15th.

10 PAUL KAUTZ (Recalled),
11 the witness herein, having been previously duly sworn upon
12 his oath, was examined and testified as follows:

13 EXAMINATION

14 BY EXAMINER JONES:

15 Q. Paul, we asked -- you were on the stand
16 yesterday, and we asked you about APDs that are approved
17 before the operator -- Anyway, the questions that we asked
18 you yesterday, have you thought about any of those? Do you
19 want to elaborate on any of those questions?

20 Specifically what I'm thinking about is the order
21 in which APDs are issued and whether -- I guess the one
22 that concerns me the most is, before the operators start
23 producing a well, they have to verify to the Division that
24 they have the spacing unit in place and -- or com agreement
25 finished, and -- exactly how they do that, that's something

1 that --

2 A. It's no concern of us in the District.

3 Q. But you do sign the right to transport, right?

4 Somebody in the District does?

5 A. Yes, sir, I do the final approval on that, after
6 it's checked by Donna. But that's -- she doesn't send it
7 to me until she has everything in on that.

8 EXAMINER JONES: Okay. Well, we asked you all
9 this yesterday, so I think -- unless anybody else wants
10 to --

11 MR. GALLEGOS: No, no questions.

12 EXAMINER JONES: Thanks for staying an extra day.
13 I hope you enjoyed the geology.

14 THE WITNESS: I guess it's payback for not coming
15 to Santa Fe.

16 (Laughter)

17 MR. GALLEGOS: Mr. Examiner, I just wanted to
18 inquire with counsel for Chesapeake. Their Mr. Johnson was
19 going to do some volumetrics, remember? I think Mr. Brooks
20 asked for that, and if we might just have some idea of when
21 would be a reasonable time to --

22 MR. KELLAHIN: Let me communicate that to you. I
23 need to get back and see how long those calculations take,
24 but we will voluntarily present those calculations for you.

25 MR. GALLEGOS: Thank you.

1 MR. KELLAHIN: Thank you.

2 EXAMINER JONES: Okay, with that, Cases 13,492
3 and 13,493 will be taken under advisement.

4 And Case 13505 is --

5 MR. BROOKS: What did we decide to do? We're
6 going to continue --

7 MR. KELLAHIN: We're withdrawing -505.

8 MR. BROOKS: -- we're going to dismiss?

9 MR. KELLAHIN: We'll just dismiss it.

10 MR. BROOKS: I would have assumed from what your
11 witness has said about the Cattleman location that that
12 might be --

13 MR. KELLAHIN: I will file a formal letter for
14 you in the record so that that case has been withdrawn.

15 MR. BROOKS: Okay.

16 EXAMINER JONES: This proceeding is closed.

17 (Thereupon, these proceedings were concluded at
18 5:14 p.m.)

19 * * *

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. _____,
24 heard by me on 9/6/59,
25 [Signature], Examiner
Oil Conservation Division

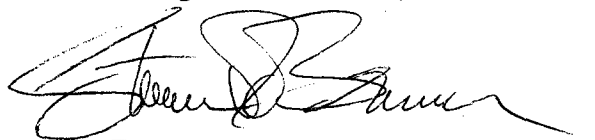
CERTIFICATE OF REPORTER

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 September 4th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006