

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

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

APPLICATION OF SAMSON RESOURCES)
COMPANY, KAISER-FRANCIS OIL COMPANY)
AND MEWBOURNE OIL COMPANY FOR)
CANCELLATION OF TWO DRILLING PERMITS)
AND APPROVAL OF A DRILLING PERMIT,)
LEA COUNTY, NEW MEXICO)

CASE NOS. 13,492

APPLICATION OF CHESAPEAKE PERMIAN, L.P.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

and 13,493

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: MARK E. FESMIRE, CHAIRMAN
JAMI BAILEY, COMMISSIONER
WILLIAM C. OLSON, COMMISSIONER

2007 MAY 31 PM 3:01

May 17th, 2007

Santa Fe, New Mexico

These matters came on for hearing before the Oil Conservation Commission, MARK E. FESMIRE, Chairman, on Thursday, May 17th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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May 17th, 2007
Commission Hearing
CASE NOS. 13,492 and 13,493

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(Continued...)

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:08 a.m.:

3 CHAIRMAN FESMIRE: At this time the Commission
4 will skip ahead in the docket. We're going to address
5 Cases Number 13,492, which is an application for re-hearing
6 of the Application of Samson Resources Company, Kaiser-
7 Francis Oil Company and Mewbourne Oil Company for
8 cancellation of two drilling permits and the approval of a
9 drilling permit in Lea County, New Mexico; and related Case
10 Number 13,493, which is a re-hearing of the Application of
11 Chesapeake Permian, L.P., for compulsory pooling in Lea
12 County, New Mexico.

13 At this time the Commission will entertain the
14 entrance of appearance of attorneys in that case.

15 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
16 the Santa Fe law firm of Kellahin and Kellahin. I'm
17 appearing today in association with Mr. John Cooney and Mr.
18 Earl DeBrine of the Modrall Law Firm. Together, we
19 represent the Chesapeake interests.

20 MR. GALLEGOS: Mr. Chairman, members of the
21 Commission, Gene Gallegos. I'm appearing on behalf of
22 Samson Resources in both cases.

23 CHAIRMAN FESMIRE: Okay, um --

24 MR. HALL: Mr. Chairman, Scott Hall --

25 CHAIRMAN FESMIRE: I'm sorry.

1 MR. HALL: -- Miller Stratvert law firm, Santa
2 Fe, appearing on behalf of Kaiser-Francis Oil Company.

3 MR. BRUCE: Mr. Chairman, Jim Bruce of Santa Fe,
4 representing Mewbourne Oil Company.

5 CHAIRMAN FESMIRE: Let me apologize to Mr. Hall
6 and Mr. Bruce. I had forgotten that there were other
7 people involved.

8 We're here today on Mr. Kellahin's application
9 for rehearing. At the request of Mr. Kellahin and Mr.
10 Gallegos, we've turned this into a prehearing conference.
11 There were basically two issues that the Commission -- that
12 the Chairman was concerned about and that -- felt needed to
13 be addressed in your motion, if you'd be so kind as to
14 explain your motion and where we need to start in today's
15 prehearing conference.

16 MR. KELLAHIN: Mr. Chairman, members of the
17 Commission, we filed an application for rehearing of the
18 decision by the Commission, based upon the January hearing.
19 This was the dispute between Chesapeake and Samson in which
20 there was a difference of opinion on how to orient a 320-
21 acre Morrow spacing unit.

22 The Commission in deciding that case chose a
23 unique solution of declaring a 640-acre spacing unit. In
24 response to that, we've filed our application for re-
25 hearing. Among the issues requested were those that Mr.

1 Fesmire alluded to. One was, who should operate the KF
2 State Number 4 well and who should operate any subsequent
3 wells in the 640-acre spacing unit if that, in fact, is
4 what the final spacing unit is to be.

5 In addition, it provided an opportunity to all
6 the parties to comment upon the 640 spacing unit decision,
7 to remove any doubt we'd all have a fair opportunity to
8 present that issue to you.

9 Our plan is not to re-litigate the geology and
10 talk about the 320s, but to focus on whether or not the
11 640-acre spacing unit is appropriate.

12 There are two issues in my mind with regard to
13 that choice. One is whether or not it is appropriate to
14 include 160 acres that also had a dry hole on it as part of
15 the participation in the spacing unit. To set the stage,
16 remember this is an odd section. We're talking about the
17 lower two-thirds. If you take the lower two-thirds, the
18 640, and presume the quarter sections, the disputed 160
19 would be the northwest quarter with the dry hole.

20 By including that, it is Chesapeake's contention
21 that Samson receives a windfall. Their interest from the
22 Examiner order went from 6-point-something percent all the
23 way up to 53 percent, and correspondingly the others were
24 reduced. So we want to focus on that -- those two things
25 and talk to you again about what is the appropriate

1 configuration, whether 640 is appropriate or something
2 less.

3 In addition, I will represent to you the parties
4 are actively engaged in a settlement that hopefully can
5 resolve these things.

6 In response to the letter, I have prepared a
7 scheduling order shared with counsel. Mr. Gallegos has
8 some opposition to it and has prepared his own scheduling
9 order. So with your permission, we have scheduling orders
10 to present to counsel for discussion and a decision on how
11 it ought to be issued.

12 My belief is that a hearing on the July
13 Commission docket may be appropriate, and would be for my
14 client, to see if we can't finally resolve this.

15 CHAIRMAN FESMIRE: Okay. Mr. Gallegos?

16 MR. GALLEGOS: Mr. Chairman, members of the
17 Commission, as you might imagine, Samson has some different
18 views about this matter and the necessity of a re-hearing,
19 and we believe that the evidence supports the decision made
20 by the Commission.

21 But that being said, I think for purposes today
22 we simply need to have the Commission set some parameters
23 for the hearing, as far as exhibits. Certainly we don't
24 want to start at the bottom of this. I mean, the geology
25 and engineering was thoroughly heard. In fact, I would

1 suggest that probably limiting the parties to an hour and a
2 half or so apiece would be adequate. I think there
3 limitation, since there already was such a thorough
4 hearing. So we basically concur, though, with Chesapeake,
5 and I think the hearing date set in July would be
6 reasonable.

7 We also advise the Commission that the parties
8 are talking, attempting a resolution, and that may occur.

9 So with that, I think if the Commission would set
10 some dates that it wants exhibits, wants witnesses
11 disclosed and a hearing date, that's all that we'll need
12 from the Commission today, and thank you for that.

13 CHAIRMAN FESMIRE: Okay. Mr. Hall, do you have
14 anything to add?

15 MR. HALL: I would agree, I think the parties do
16 need some guidance in that regard, and I think limitations
17 on time, perhaps even number of witnesses might be
18 appropriate.

19 The proposed draft scheduling order brought to us
20 by Chesapeake suggested there might be a need for
21 additional fact witnesses. I don't see it. I think the
22 facts are well established. But I think if, in advance of
23 the hearing, the parties would identify the witnesses and
24 the scope of their respective testimonies so that we could
25 have a hearing where each party is limited to the

1 presentation of its case on direct and on cross-examination
2 to two hours each, I think that's sufficient for the
3 Commission to finally resolve this.

4 CHAIRMAN FESMIRE: Mr. Bruce?

5 MR. BRUCE: I would just concur with Mr. Hall.

6 CHAIRMAN FESMIRE: Okay. Mr. Gallegos, Mr.
7 Kellahin, what is the major difference in your proposed
8 scheduling orders? What are the differences in your
9 proposed scheduling orders? I don't have a copy of either
10 one of them before me.

11 MR. GALLEGOS: If I might approach, let me
12 provide -- Ours is just simpler and doesn't attempt to sort
13 of make an analysis of what the issues are.

14 MR. KELLAHIN: This is Chesapeake's --

15 CHAIRMAN FESMIRE: Mr. Hall, the Rules already
16 call for disclosure of witnesses and the subjects of their
17 testimony. Do we need to expand that for this hearing?
18 And if so, why?

19 MR. HALL: I don't think we do. I think we need
20 to have it understood that the parties will do that, so
21 they'll have plenty of advance notice and will be able to
22 prepare any sort of rebuttal testimony as they deem
23 necessary, but with the understanding they're going to be
24 limited in time to do that.

25 CHAIRMAN FESMIRE: Normally the witness

1 identification and the pretrial exhibits must be presented
2 on the Thursday before hearing, which generally allows five
3 business days, if I remember correctly.

4 If the Commission sets the hearing date at -- is
5 it July 19th? -- July 19th, is there any reason not to have
6 the witness disclosure and hearing -- and exhibits
7 disclosed on the Thursday before July 19th, which I believe
8 is another Thursday?

9 MR. KELLAHIN: In a complicated case like this,
10 Mr. Chairman, we have no objection on behalf of Chesapeake
11 to having a longer period of time, and it could be filed
12 two weeks before hearing, in our opinion.

13 In addition, I don't want to surprise counsel,
14 but we think there's additional information developed in
15 terms of the technical data, pressure and production
16 information that provides an opportunity for us to
17 reservoir-simulate the performance of the KF State Number 4
18 well to see its affected area and thereby help you
19 determine what is the appropriate size of the spacing unit.
20 So there may be a dispute over reservoir simulation, which
21 we'll want to present in terms of witnesses to support
22 that.

23 CHAIRMAN FESMIRE: Okay. Mr. Gallegos, would two
24 weeks be --

25 MR. GALLEGOS: I think two weeks would do it,

1 would be, at the minimum, adequate.

2 CHAIRMAN FESMIRE: Mr. Hall, would you object to
3 that?

4 MR. HALL: We would agree to that.

5 CHAIRMAN FESMIRE: Mr. Bruce? No objection?

6 MR. BRUCE: No objection.

7 CHAIRMAN FESMIRE: Okay, at this time we will go
8 ahead and set the hearing date for the regularly scheduled
9 Commission meeting on July 19th, with exhibits and witness
10 disclosure due on or before July 12th.

11 MS. DAVIDSON: Two weeks?

12 CHAIRMAN FESMIRE: Oh, I'm sorry, July 5th. I
13 said two weeks, and I subtracted seven.

14 Is there a need to disclose rebuttal witnesses
15 and exhibits?

16 MR. GALLEGOS: I think so. I think -- and we
17 provide -- I think both scheduling order forms provide for
18 that.

19 MR. KELLAHIN: Mr. Chairman, that was the
20 practice in the past hearing in this case, is that we made
21 full disclosure.

22 CHAIRMAN FESMIRE: Okay. Mr. Hall, Mr. Bruce?

23 MR. BRUCE: That's acceptable.

24 MR. HALL: We would agree to that.

25 CHAIRMAN FESMIRE: Is a week prior to hearing

1 adequate? That gives them a week to evaluate and respond.
2 Is that sufficient?

3 MR. HALL: Yes.

4 CHAIRMAN FESMIRE: Okay. So we will have
5 rebuttal witnesses and exhibits scheduled for -- Hey, I get
6 to use July 12th -- July 12th. Is that satisfactory to the
7 Commission members?

8 COMMISSIONER BAILEY: Uh-huh.

9 COMMISSIONER OLSON: Yes, it is.

10 CHAIRMAN FESMIRE: Okay. I will have Commission
11 secretary Davidson draft an order to that effect, and we
12 will post on the website -- I'll sign it and we'll post it
13 on the website either today or tomorrow.

14 Is there anything else in this case that we need
15 to take up?

16 MR. GALLEGOS: Mr. Chairman, does the Commission
17 care to indicate what amount of time will be allotted for
18 the hearing? Because I think that will help the parties
19 shape their exhibits and witnesses, if we know that.

20 (Off the record)

21 CHAIRMAN FESMIRE: Secretary Davidson advises me
22 right now that there's nothing else on that docket. I
23 think we should limit each side, each party, to two hours
24 total. Since this is such a lopsided -- I mean, since
25 there are so many more parties on one side than the other,

1 is there any suggestion from the attorneys how we deal with
2 that?

3 MR. KELLAHIN: Mr. Chairman, I would suggest that
4 the Chesapeake side be allotted three hours, and that all
5 the opponents to the Chesapeake position collectively, the
6 other parties, be allotted the same three hours to share
7 among themselves, and that would give us a full day in
8 which to have extra time for breaks and whatnot, and finish
9 it up in a single day, with each side getting three hours.

10 CHAIRMAN FESMIRE: Mr. Gallegos, does that seem
11 reasonable to your side?

12 MR. GALLEGOS: I was hoping we'd have less time
13 allotted, but that's all right.

14 (Laughter)

15 CHAIRMAN FESMIRE: I like the way you're
16 thinking, sir.

17 (Laughter)

18 CHAIRMAN FESMIRE: Mr. Hall, would that be
19 satisfactory to your --

20 MR. HALL: That's agreeable.

21 CHAIRMAN FESMIRE: Mr. Bruce?

22 MR. BRUCE: Yes.

23 CHAIRMAN FESMIRE: Okay. The order will also
24 indicate that the Chesapeake interest will have three hours
25 to present their case, and that the other three parties

1 will allocate the remaining three hours between them. If
2 you're unable to agree on that allocation you can contact
3 the Commission; we'll then issue a supplemental order.
4 Please do that within a week of posting of the order on the
5 website, which ought to be a week from, at worst, tomorrow,
6 right?

7 So we'll post the order by Friday. If you can't
8 agree on the split of the three hours, please contact us
9 and we'll issue a supplemental order.

10 Any other issues in this case we have to take up?
11 And that's satisfactory with the Commissioners?

12 COMMISSIONER BAILEY: Yes.

13 COMMISSIONER OLSON: (Nods)

14 CHAIRMAN FESMIRE: Okay. At this time we will
15 continue the cases Number 13,492 and 13,493 until the
16 regularly scheduled July 19th meeting of the Commission,
17 and continue on the docket.

18 Thank you all, very much.

19 (Thereupon, these proceedings were concluded at
20 9:23 a.m.)

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CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission 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 May 18th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010