

NEW MEXICO OIL CONSERVATION DIVISION

**Examiner Hearing
Santa Fe, New Mexico
June 24, 1999 -- 8:15 A.M.**

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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF CHESAPEAKE OPERATING,)
INC., FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO)

CASE NO. 12,186

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

June 24th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, June 24th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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OIL CONSERVATION DIV.
JUN 37 PM 7:38

OIL CONSERVATION DIV.
JUN 28 PM 7:39

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June 24th, 1999
 Examiner Hearing
 CASE NO. 12,186

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* * *

A P P E A R A N C E S

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By: ERNEST L. PADILLA

* * *

1 WHEREUPON, the following proceedings were had at
2 8:38 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,186.

4 MR. CARROLL: Application of Chesapeake
5 Operating, Inc., for compulsory pooling, Lea County, New
6 Mexico.

7 EXAMINER ASHLEY: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, Chesapeake Operating, Inc. I
11 have two witnesses to be sworn.

12 EXAMINER ASHLEY: Any additional appearances?

13 MR. CARR: May it please the Examiner, my name is
14 William F. Carr with the Santa Fe law firm Campbell, Carr,
15 Berge and Sheridan. We represent Ameristate Oil and Gas,
16 Inc.; Nearburg Exploration Company, L.L.C.; Thomas M.
17 Beall, B-e-a-l-l; and Fuel Products, Inc.

18 MR. PADILLA: Mr. Examiner, Ernest L. Padilla,
19 Santa Fe, New Mexico, for Patricia J. Cooper and S.P.
20 Johnson, III.

21 EXAMINER ASHLEY: Mr. Carr, you represent
22 Ameristate, Nearburg, Tom Beall and -- ?

23 MR. CARR: Fuel Products, Inc. I have no
24 witness.

25 MR. PADILLA: Mr. Examiner, I don't have any

1 witnesses either.

2 EXAMINER ASHLEY: Okay.

3 Mr. Kellahin?

4 MR. KELLAHIN: I have two witnesses to be sworn,
5 Mr. Examiner.

6 MR. CARROLL: Will the witnesses please stand to
7 be sworn?

8 (Thereupon, the witnesses were sworn.)

9 EXAMINER ASHLEY: Mr. Kellahin?

10 MR. KELLAHIN: Thank you, Mr. Examiner. We'd
11 call our first witness, Lynda Townsend.

12 LYNDA F. TOWNSEND,

13 the witness herein, after having been first duly sworn upon
14 her oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Ms. Townsend, for the record would you please
18 state your name and occupation?

19 A. My name is Lynda Townsend, I'm a landman for
20 Chesapeake Operating in Oklahoma City. I've handled the
21 New Mexico area for about the last year and a half.

22 Q. On prior occasions have you qualified as a
23 petroleum landman expert and testified before the Oil
24 Conservation Division on those occasions?

25 A. Yes, sir, I have.

1 Q. Pursuant to your employment, have you determined
2 the ownership in the proposed spacing unit for what we have
3 identified as the Boyce 15-1 well?

4 A. Yes, sir.

5 Q. The proposed spacing unit is the east half of
6 Section 15?

7 A. Yes.

8 Q. Have you satisfied yourself that you have
9 identified all the working interest owners that would be
10 afforded the opportunity to participate with Chesapeake in
11 this well?

12 A. Yes, sir.

13 Q. And to the best of your knowledge and belief,
14 have you accurately calculated what you believe to be their
15 participating interest in this well?

16 A. Yes, sir.

17 Q. In addition, are you also familiar with the
18 ownership in the west half of Section 15?

19 A. Yes, sir.

20 Q. In addition to the ownership information, has it
21 been your responsibility for Chesapeake to propose the
22 well, including an AFE, to all the appropriate interest
23 owners?

24 A. Yes, it has.

25 Q. In addition, has it been your responsibility to

1 contact and negotiate with those various interest owners?

2 A. Yes.

3 MR. KELLAHIN: We tender Ms. Townsend as an
4 expert petroleum landman.

5 EXAMINER ASHLEY: Ms. Townsend is so qualified.

6 Q. (By Mr. Kellahin) Let me direct your attention,
7 Ms. Townsend, to Exhibit 1. Let's take a moment and
8 identify the color code.

9 A. All right. The areas that are colored in yellow
10 are leasehold interests that Chesapeake have. Those are
11 areas in which we hold leases. The pink are the areas in
12 which Ameristate, TMBR/Sharp, Fuel Products, Louis Mazzullo
13 -- those are their leasehold.

14 Q. Mr. Carr entered an appearance for Nearburg
15 Exploration Company. Does Nearburg Exploration Company
16 have any interest in Section 15?

17 A. In the northwest quarter they do.

18 Q. When we look at the plat, there's an open circle
19 in the northeast quarter. It says Nearburg Regis.

20 A. Yes.

21 Q. Do you see that?

22 A. Yes.

23 Q. Do you know what that means?

24 A. It's Nearburg Producing has permitted that well
25 through the OCD for the Regis 1-15 as a north-half Atoka.

1 Q. Did Nearburg Producing ever propose that well to
2 any of the working interest owners in the north half?

3 A. Not to my knowledge.

4 Q. That would have included Chesapeake's interest in
5 the northeast quarter, had that well been proposed, would
6 that not be true?

7 A. Yes, sir.

8 Q. When we look in the southeast quarter, there is a
9 dryhole symbol, and then there is a producing well symbol.
10 What is the status of that producing well?

11 A. TMBR/Sharp operates that well. It was the
12 Carlisle 1-15. It was originally a south-half Atoka test.
13 It was a dryhole as an Atoka. They re-entered that well
14 and reconfigured the unit to the 40-acre Strawn unit.

15 Q. So we have a 40-acre Strawn oil well spacing unit
16 dedicated to the Carlisle 1-15?

17 A. Yes, sir.

18 Q. To your knowledge, then, the east half of 15 is
19 an available spacing unit for Chesapeake to drill a well to
20 test the Atoka-Morrow formations?

21 A. Yes, sir.

22 Q. Let's turn to the attachment to Exhibit 1. What
23 have you tabulated on the next two pages?

24 A. We have tabulated the four different tracts that
25 are involved in the east half and to the individual

1 ownership per tract.

2 Q. When you turn over to the last page and you see a
3 column that says "Total of East Half" and a series of names
4 and percentages --

5 A. Exactly.

6 Q. -- what does that represent?

7 A. Those are the culminations of the four tracts and
8 the exact interest in the east-half unit itself.

9 Q. At this point, Chesapeake has the majority
10 interest?

11 A. Yes, sir.

12 Q. When we look at the rest of the working interest
13 owners below the Chesapeake entry, have you been able to
14 reach a voluntary agreement with any of those individuals
15 or companies?

16 A. Gretchen Nearburg has sent a letter that she will
17 not participate in the well. We have talked with S.P.
18 Johnson family but have not reached an agreement with them
19 yet, and have not reached an agreement with the rest of the
20 owners.

21 Q. At this point in time for today's hearing, then,
22 it will be necessary to obtain a compulsory pooling order
23 against all the entities with the exception of Chesapeake?

24 A. Yes, sir.

25 Q. Okay. Let's turn to your efforts now. Let's set

1 aside the plat for a moment and keep it available as an
2 index, and let me turn your attention to what is marked as
3 Exhibit Number 2. Is this an exhibit that you tabulated
4 the attachments to and prepared the chronology?

5 A. Yes, sir.

6 Q. Let's start off with the first entry. What
7 occurred on September 15th of 1998?

8 A. We originally staked and surveyed the Boyce 1-15
9 well in the center of the northeast northeast in Section
10 15.

11 Q. That would have been at an unorthodox location
12 for any of the formations below the top of the Wolfcamp?
13 would that not be true?

14 A. Yes, sir.

15 Q. When we turn to the attachments behind the
16 chronology, the first attachment, then, is the C-102 for
17 the unorthodox location?

18 A. Yes, sir.

19 Q. Before Chesapeake proposed a well in the east
20 half of 15 and a location, Chesapeake decided to move the
21 location, did you not?

22 A. Yes, sir.

23 Q. The second entry refers to that. What are you
24 indicating here with the second entry?

25 A. We moved the location to an orthodox location to

1 test the Atoka-Morrow formation.

2 Q. And that location is described as 1650 from the
3 north, 660 from the east?

4 A. Yes, sir.

5 Q. What was the reason for the change?

6 A. When Nearburg had permitted the Regis well, and
7 in order to save our location, we had to get it proposed
8 and permitted.

9 Q. In addition, was there any concern about the
10 anticipated penalty on an unorthodox location --

11 A. Yes, sir.

12 Q. -- for Chesapeake?

13 A. Yes, sir.

14 Q. Who's in a position to object to that location?

15 A. Nearburg and Yates.

16 Q. Were there offset operators, then, to the north
17 of 15?

18 A. Yes.

19 Q. And that operator was whom?

20 A. Yates Petroleum.

21 Q. And so why was the location changed?

22 A. To move it to an orthodox location. We first
23 had --

24 Q. For what reasons?

25 A. To save the location, to not have to deal with

1 the objections on the unorthodox location.

2 Q. When we get to entry 3, this is March 22nd of
3 1999?

4 A. Yes.

5 Q. What's occurring here?

6 A. We proposed the Boyce 15-1 to S.P. Johnson;
7 Patricia Cooper; Louis Mazzullo, Inc.; Fuel Products;
8 TMBR/Sharp and Ameristate Oil and Gas. Those were the
9 owners of record at that time.

10 Q. Is this the first proposal among this group for a
11 well in the east half of 15?

12 A. Yes, sir.

13 Q. In response to the proposal to these individuals
14 and entities, did any of them respond?

15 A. No.

16 Q. Let's turn to Exhibit Number 3. Let's leave the
17 chronology for a moment and turn your attention to Exhibit
18 3. Would you identify what the series of photocopied
19 letters are, Mrs. Townsend?

20 A. Yes, these are the original proposal letters that
21 went out to the parties that I have just previously
22 mentioned, that were owners of record at that point.

23 Q. These letters follow the similar format to each
24 of the addressees?

25 A. Yes, sir.

1 Q. And what are you formally doing?

2 A. We are addressing the location of the Boyce, we
3 are giving them our AFE cost, giving them their percentages
4 at that time and their proportionate share of the dryhole
5 costs.

6 Q. Turn to Exhibit 4 for a moment.

7 A. Yes.

8 Q. What is Exhibit 4?

9 A. Exhibit 4 is the AFE for the Boyce 1-15.

10 Q. And is this the AFE that you submitted with
11 correspondence to each of the working interest owners on
12 March 26th?

13 A. Yes, sir.

14 Q. From this group of addressees, did any of them
15 respond as to any issue with regards to the well proposal?

16 A. S.P. Johnson had a representative that came to
17 our office and talked with us about participating in the
18 well, and that's the only response we had.

19 Q. Did you have any response directly from Mr.
20 Johnson?

21 A. No.

22 Q. Who was the representative that appeared on his
23 behalf?

24 A. He was Robert Hooper, their contract landman.

25 Q. And what did Mr. Hooper explain to you, if

1 anything?

2 A. He said that they would probably participate with
3 us, that they would like to see the JOA. I did send a copy
4 of the JOA to Mr. Johnson to look over, and then they would
5 get back to us.

6 Q. Have they gotten back to you yet with regards to
7 any issue in the joint operating agreement?

8 A. No.

9 Q. In your initial letter of March 22nd, you offered
10 to all of the proposed participants that you would forward
11 them a joint operating agreement if they requested it?

12 A. Yes, sir.

13 Q. And Mr. Johnson was the only party to make that
14 request?

15 A. Yes, sir.

16 Q. During this entire period of time, did you
17 receive any telephone calls or written communications from
18 Mr. Mazzullo?

19 A. No, sir.

20 Q. From Fuel Products?

21 A. No, sir.

22 Q. Do you know who the principal is for Fuel
23 Products?

24 A. Tom Beall.

25 Q. TMBR/Sharp Drilling, any communications either

1 over the phone, by fax or by correspondence?

2 A. No, sir.

3 Q. And as to Ameristate Oil and Gas, Inc?

4 A. No.

5 Q. No one's objected to the location of the well?

6 A. Not to my knowledge.

7 Q. No one's objected to the AFE?

8 A. No, sir.

9 Q. No one's objected to the Joint Operating
10 Agreement?

11 A. Mr. Johnson's representative said that they would
12 like to negotiate some of the terms. I said that was fine,
13 they could get it back to me and we could do that
14 internally.

15 Q. And they have not afforded themselves of that
16 opportunity at this point?

17 A. No.

18 Q. All right. Let's turn to the chronology, then,
19 back on Exhibit 2. Entry Number 4 is a March 25th, 1999,
20 entry. What does this represent, Mrs. Townsend?

21 A. March 25th, we had the permit issued to drill the
22 Boyce 1-15.

23 Q. The Oil Conservation Division, then, has approved
24 the spacing unit and the standard well location?

25 A. Right, and it was assigned an IPO.

1 Q. All right, entry 5 is what?

2 A. Entry 5 is the Application that was made to the
3 OCD for the compulsory pooling.

4 Q. And that's Chesapeake's Application?

5 A. Right.

6 Q. Entry 6 is what?

7 A. Ameristate Oil and Gas filed an application for
8 compulsory pooling on the Boyce 15-1 also.

9 Q. Prior to filing its compulsory pooling
10 application, did Ameristate make a formal well proposal to
11 Chesapeake?

12 A. No, sir.

13 Q. Did Ameristate's compulsory pooling application
14 propose the same spacing unit as Chesapeake?

15 A. Yes, sir.

16 Q. And did they also propose the location of the
17 well as proposed by Chesapeake?

18 A. Yes, sir.

19 Q. Same location?

20 A. (Nods)

21 Q. What interest, what percentage interest, do you
22 believe Ameristate has in the spacing unit?

23 A. Ameristate has 11.0162 percent. They have 35.25
24 acres of the unit.

25 Q. Okay. Let's go to entry 7. What's occurring on

1 this date?

2 A. After checking the records in the county, we
3 found that there were additional owners of record that had
4 been assigned out to them. We sent an additional well
5 proposal correcting the interest in the first well
6 proposal, plus including the new interest of owners, and
7 they were given the exact terms -- exact information that
8 the original owners were given in the first letter.

9 Q. You had contract landman or some employee under
10 your direction go back to the county?

11 A. Yes, I did.

12 Q. And the purpose was to determine if, after filing
13 the Application, public records showed that from the date
14 of the Application backwards, any additional change of
15 hands of interest, right?

16 A. Exactly.

17 Q. Okay. And as a result of that you have picked up
18 entities and individuals below the entry that says
19 Ameristate?

20 A. Right.

21 Q. All those are participants that occurred of
22 record prior to filing the Application but after the first
23 well proposal to the original parties?

24 A. Yes, sir.

25 Q. All right. In response to sending these

1 individuals a proposal, did any of them reply?

2 A. Gretchen Nearburg did send a letter that she did
3 not want to participate. That was the only communication
4 I've had.

5 Q. Let me direct your attention to Exhibit 5 and
6 have you identify this for us.

7 A. This is the second letter that was sent out to
8 the additional owners of record, plus a correction on the
9 interest to the original owners.

10 Q. So you renotified all the parties originally
11 notified?

12 A. Yes, sir.

13 Q. And then new parties that you are now aware of
14 had an interest?

15 A. Right.

16 Q. And the only party to respond to this
17 correspondence is Gretchen Nearburg?

18 A. (Nods)

19 Q. Were the new parties also afforded the same AFE
20 you afforded to the original parties?

21 A. Yes, sir.

22 Q. What's entry number 8?

23 A. Ameristate Oil and Gas dismissed their compulsory
24 pooling application with the OCD on the Boyce 1-15 well.

25 Q. Let's turn to the second page and look at entry

1 9. What's occurring on June 21st?

2 A. June 21st, we sent a notice of amended depth to
3 all the owners of record.

4 Q. What was the reason to do this?

5 A. In order to cover the complete -- or in order to
6 be able to evaluate the complete formation, the Atoka-
7 Morrow formation, we increased the depth from 12,100 feet
8 to 12,500 feet.

9 Q. The original proposal is an attempt to penetrate
10 through the entire Morrow formation or formations?

11 A. Right.

12 Q. And subsequently, you -- the technical people
13 determined that you may be a few hundred feet short of what
14 may be the full formation in the Morrow sequences?

15 A. Right, I think they had acquired some additional
16 information.

17 Q. Has there been any objection to any of this from
18 any of the parties?

19 A. No.

20 Q. Exhibit Number 9, identify this for us. I'm
21 sorry, Exhibit Number 7.

22 A. Exhibit 7 is the letter that I had received from
23 Gretchen Nearburg. It was received, I believe, in our
24 office just June the 4th or something, that she did not
25 want to participate.

1 Q. Okay, and Exhibit 8?

2 A. Exhibit 8 is the certificate that you made out,
3 the certificate of mailing in compliance with the order,
4 from your -- generated from your office.

5 Q. When you go back to Exhibit 2, the chronology,
6 let's look at the last entry on the second page, which is
7 entry number 10. When you review this tabulation, there is
8 an addition to make --

9 A. Uh-huh.

10 Q. -- to this page, is there not?

11 A. Yes.

12 Q. Would you make that correction for the Examiner
13 so that this will be correctly tabulated?

14 A. All right, I had inadvertently left off S.P.
15 Johnson, III. He owns 15 acres, and he has an interest of
16 4.6875 percent, as does Patricia Cooper. She also owns 15
17 acres, has a 4.6875 percent.

18 Q. And with those corrections, then, the percentages
19 will total 100 and --

20 A. Yes, and the acreage is 320.

21 Q. All right. Let me turn to the topic of the joint
22 operating agreement. What do you propose as overhead rates
23 for a drilling well on a monthly basis and for a producing
24 well on a monthly basis?

25 A. Okay, we tabulate our figures from the Council of

1 Petroleum Accountants Society. At this point we are at
2 \$702 for monthly rates and \$7027 for a drilling well rate.

3 Q. Is that the standard accounting procedure used by
4 your company?

5 A. Yes.

6 Q. It's pursuant to the COPAS accounting procedures
7 for escalating these costs over time?

8 A. Yes, sir.

9 Q. And the last escalation was done when?

10 A. April the 1st, it's done April 1st of every year.

11 Q. How do those costs compare to what *Ernst and*
12 *Young* has tabulated in their inventory of well costs when
13 you read across and find the mean for those items?

14 A. It's in line with the monthly producing well
15 cost. Their average is \$710, their median is \$749.

16 Our monthly rate or our drilling well rate is a
17 little higher. We're at \$7027, and their average is \$5495,
18 with their median at \$6000.

19 Q. What is your recommendation to the Examiner for
20 overhead rates?

21 A. I believe the \$702 is completely in line, and at
22 least \$6000 --

23 Q. All right.

24 A. -- on the drilling overhead.

25 MR. KELLAHIN: That concludes my examination of

1 Ms. Townsend, Mr. Examiner.

2 We move the introduction of Exhibits 1 through 8.

3 EXAMINER ASHLEY: Exhibits 1 through 8 will be
4 admitted as evidence at this time.

5 Mr. Carr?

6 CROSS-EXAMINATION

7 BY MR. CARR:

8 Q. Ms. Townsend, were you the land person involved
9 in this area for your company at the time the Carlisle 1-15
10 was drilled?

11 A. Yes, sir.

12 Q. That was the south-half unit, was it not?

13 A. Yes.

14 Q. Did Chesapeake participate in that well?

15 A. No, they did not.

16 Q. Were they force-pooled?

17 A. No, they were not.

18 Q. Was there an agreement by Chesapeake to
19 participate in that well at any time?

20 A. No. Chesapeake did not find out about that well
21 till it was almost completed.

22 Q. Now, you initially contacted the other interest
23 owners in your east half unit by your letter dated March
24 22nd?

25 A. Yes, sir.

1 Q. And you received no response to that letter
2 except for Mr. Johnson --

3 A. Right.

4 Q. -- for Cooper; is that your testimony?

5 Is it typical when you propose a well to other
6 interest owners that you don't provide the joint operating
7 agreement until they've paid?

8 A. If they call me and ask for it, we certainly send
9 it; we don't necessarily send it out with the initial
10 proposal letter.

11 Q. And you've received no request or any response
12 from any of the parties but Johnson?

13 A. Other than Johnson.

14 Q. Following that March 22nd letter, were there any
15 telephone contacts or anything made by Chesapeake to any of
16 the interest owners?

17 A. No, because of pending litigation there was not,
18 other than S.P. Johnson.

19 Q. And that's litigation between Ameristate and
20 Chesapeake?

21 A. Right, TMBR/Sharp, et cetera.

22 Q. And TMBR/Sharp?

23 A. Uh-huh.

24 Q. You were -- When you testified, you talked about
25 the Regis Nearburg location in the north half of the

1 section?

2 A. Uh-huh.

3 Q. When Chesapeake proposed the well, you were aware
4 of the approved APD that Nearburg had obtained for a north-
5 half unit, were you not?

6 A. Yes, sir.

7 Q. And you elected not to contact them concerning
8 this overlap in the two spacing units; is that correct?

9 A. No, sir, because our Boyce had already been
10 staked, and they did not contact me.

11 Q. They hadn't contacted you --

12 A. No.

13 Q. -- so you didn't contact them?

14 I believe you testified that the location was
15 moved in part to prevent or avoid potential objections from
16 Yates to the north; is that right?

17 A. Right.

18 Q. Is Ameristate offsetting you to the north?

19 A. I'm not real sure. I'd have to look.

20 Q. Do they offset you to the east?

21 A. They offset us to -- I'd have to look.

22 Q. So you don't know who the offset operators are?

23 A. No. But Yates would have been offset to the
24 north; that was the lease line.

25 Q. Okay. And as you looked at this area you weren't

1 concerned with any of your offsetting operators; is that
2 right? You don't know who they are?

3 A. Well, no, other than Yates, and Yates was the
4 party that we would have had to deal with.

5 Q. Okay, and you don't know who offset you to the
6 east?

7 A. I believe to the east it is Five States, is the
8 operator in the east.

9 Q. And you wouldn't know who the other interest
10 owners might be? I'm not trying -- I'm just trying to find
11 out what you --

12 A. I understand.

13 Q. Okay. Do you know who's northeast of you?

14 A. Northeast is Yates, is northeast also.

15 Q. All right. You have set out the interests of
16 Fuel Products, Inc., in various places in the exhibits. We
17 don't have to go to those.

18 Fuel Products, Inc., is concerned that they may
19 be acquiring some additional interests, or the interests
20 may not be correctly stated. When they do participate
21 under this order, you do agree that they would participate
22 to whatever level they actually own in the spacing unit, if
23 they elect to do so; isn't that right?

24 A. Certainly.

25 MR. CARR: That's all I have.

1 EXAMINER ASHLEY: Mr. Padilla?

2 MR. PADILLA: Let me move over here.

3 CROSS-EXAMINATION

4 BY MR. PADILLA:

5 Q. Ms. Townsend, is the March 22nd, 1999, offer the
6 only offer you've ever made to S.P. Johnson and Patricia
7 Johnson?

8 A. Well, they're interested in that change. I have
9 talked with Robert Hooper on several occasions, and I
10 believe Mr. Jennings, I had talked to him at one time. So
11 there has been telephone communications with them.

12 But their interest was not affected by the
13 assignment and the new -- the new assignment of record.

14 Q. But is the only proposal you have made to them is
15 they either to join the well -- Is that the only proposal
16 you've -- or the only option you've given them?

17 A. Yes, just what's in the letter.

18 Q. Did you ever offer to lease the mineral interests
19 from either Ms. Cooper or Mr. Johnson?

20 A. That was done before the proposal letter, yes.
21 We tried to lease them. Our representative in that area
22 did try to take a lease from Mr. Johnson and Ms. Cooper.
23 And they said they would not lease, they would prefer to
24 participate in the well.

25 Q. Now, let me go to the amendment that you have

1 with regard to the depth of the well. Was that amendment
2 ever given to Johnson or Mr. Johnson and Ms. Cooper?

3 A. It should have been sent -- A letter should have
4 been sent to them on June the 21st by certified mail.

5 Q. That's not shown on your exhibits --

6 A. That was inadvertently left off, but they were
7 included in the mailing on the depth.

8 Q. That was what, four days ago?

9 A. Yes.

10 Q. Are there additional costs because of the change
11 in drilling depth?

12 A. Yes, there will be additional footage costs, but
13 those will be covered in the five-percent contingency in
14 our AFE. It will not go over that amount.

15 Q. Have you ever spoken with Ms. Cooper?

16 A. No, I have not.

17 Q. Did you make an effort to lease from Ms. Cooper?

18 A. Our representative did, yes.

19 Q. Are you still willing to make some deal short of
20 compulsory pooling with Mr. Johnson and Ms. Cooper?

21 A. I'd be more than happy to talk to them.

22 Q. Was the mailing on the 21st sent by regular mail
23 or some kind of -- other than just regular mail?

24 A. It was sent certified mail.

25 Q. So to this date, they may or may not -- You don't

1 know whether they have received it yet?

2 A. I don't know whether they have received it yet or
3 not, no.

4 MR. PADILLA: No further questions, Mr. Examiner.

5 EXAMINER ASHLEY: Mr. Kellahin?

6 MR. KELLAHIN: Nothing.

7 EXAMINATION

8 BY EXAMINER ASHLEY:

9 Q. Ms. Townsend, Mr. Padilla just made reference to
10 a letter that was mailed about four days ago --

11 A. Right.

12 Q. -- to the Coopers.

13 A. Right.

14 Q. Could you explain that again?

15 A. That was the amended depth, I believe, that we
16 had gotten additional information, and in order to cover
17 all of the formation or to evaluate all of that formation,
18 we deepened the well by 400 feet. However, the AFE will
19 still cover. There won't be an increase in the dryhole
20 costs or anything, because we do keep a five-percent
21 contingency cost in our AFE for those purposes.

22 Q. And you sent that -- Is that the letter of the
23 21st here, Number 9 [sic]?

24 A. Right, that was the amended depth letter.

25 Q. Okay, and you sent all those certified mail?

1 A. Yes.

2 MR. CARROLL: I don't see a copy of the letters
3 to Johnson or Cooper --

4 THE WITNESS: Well, and that's what I said, I
5 don't think they got in there either. When my secretary
6 put them together, they were obviously left out. I can get
7 you copies of that.

8 Q. (By Examiner Ashley) Could we get a copy of
9 those?

10 A. Yes, sir.

11 Q. Could you get those by -- get it to us Monday?

12 A. Sure.

13 Q. By Monday?

14 A. Uh-huh.

15 Q. Okay.

16 A. Certainly.

17 Q. Looking at Exhibit 1, I had some questions about
18 the leasehold status of the different leases here and also
19 the well locations.

20 A. Uh-huh.

21 Q. To start with, the Nearburg Regis in the
22 northeast quarter --

23 A. Right.

24 Q. -- is that a well that is just proposed at this
25 time?

1 A. It hasn't been proposed. It's only been
2 permitted.

3 Q. It's only been permitted --

4 A. Yes.

5 Q. -- and what dedication do they have for that
6 well?

7 A. It's an Atoka-Morrow test, and it's the north
8 half.

9 Q. And does Chesapeake have an APD for the Boyce
10 1-15?

11 A. Yes, we do.

12 Q. When were those two APDs approved?

13 A. I believe the Regis APD was approved September
14 the 25th, 1998. Ours was approved March the 25th, 1999.

15 Q. And Nearburg has a north-half dedication for
16 this?

17 A. Right.

18 Q. And Chesapeake has an --

19 A. It's --

20 Q. -- interest?

21 A. Yes.

22 Q. Excuse me?

23 A. I'm sorry, go ahead.

24 Q. No, and Chesapeake has an interest in this lease
25 as well?

1 A. Yes.

2 Q. And what again has the status of that been? The
3 north half seems to be overlapping with the east half.

4 A. It does. Both locations include the northeast
5 quarter. And in that northeast quarter we own -- in the
6 south half northeast and the northwest northeast we own
7 almost 60 percent, and in the northeast northeast we own
8 100 percent.

9 Q. I got the last part of that. The northeast
10 northeast you have a hundred percent?

11 A. Yes, sir.

12 Q. Could you state the other percentages that you
13 have?

14 Q. Okay, the other tract in the northeast quarter
15 will be the south half northeast and the northwest
16 northeast. That's one tract. And we own 59.89 percent in
17 that tract.

18 MR. KELLAHIN: Mr. Examiner, all those are broken
19 out and tabulated for you on the spreadsheet behind the
20 plat.

21 EXAMINER ASHLEY: Okay.

22 Q. (By Examiner Ashley) What is Nearburg's position
23 in drilling their Regis well? Have they tried to -- Well,
24 do they have any kind of compulsory pooling order or
25 anything, or are they --

1 A. Not that I know of.

2 Q. -- have they started pooling?

3 A. I haven't heard a word.

4 Q. So all you know is that that well is --

5 A. -- is permitted.

6 Q. -- is permitted?

7 A. That's all I know.

8 Q. And have they asked you or talked to you about
9 participation in that or --

10 A. No, sir.

11 Q. -- anything at all?

12 A. No, sir.

13 EXAMINATION

14 BY MR. CARROLL:

15 Q. Is Ms. Cooper a member of the Johnson family?

16 A. Yes, I believe it's Mr. Johnson's sister, is it
17 not?

18 MR. PADILLA: (Nods)

19 MR. CARROLL: And Mr. Padilla, we've had some
20 telephone conversations with Mr. Jim Jennings, where an
21 allegation was made that Johnson and Cooper were never
22 properly served. Is that issue put to rest now?

23 MR. PADILLA: I don't have any of that
24 information, and I don't know whether the 20-day rule
25 was --

1 MR. CARROLL: Well, you're here, so they must
2 have got notice of the hearing somehow.

3 MR. PADILLA: Yes, they did. From that
4 standpoint, they did get notice of the hearing. I do have
5 a notice from Mr. Kellahin dated April 29th, 199 [sic].

6 MR. CARROLL: You have what from Mr. Kellahin
7 dated April 29th?

8 MR. PADILLA: A notice from Mr. Kellahin, dated
9 April 29th, 199 -- I'm sure that means 1999 -- indicating
10 that the Boyce 15 Well Number 1 was going to be drilled and
11 that on May 27th there would be a hearing. I assume it's
12 been continued.

13 MR. KELLAHIN: That's why you're here today, Mr.
14 Padilla.

15 Mr. Examiner, if you'll look at Exhibit Number 8,
16 the notice letter that Mr. Jennings and Mr. Padilla's
17 clients received is the second attachment.

18 In addition, it is my practice not only to send
19 them this notice letter, but they get the Application. Mr.
20 Jennings' complaint is that he inadvertently didn't get
21 Exhibit A to the Application, which listed all the parties
22 to be pooled. I've faxed that to him, he's got it, I've
23 never heard anything more about it.

24 As you know, the Division notice rules don't
25 require me to send the Application. He got more than the

1 rule requires.

2 MR. CARROLL: Which has changed now.

3 MR. KELLAHIN: Yes, sir.

4 EXAMINER ASHLEY: But not for this case.

5 MR. KELLAHIN: But that's -- We call that the
6 Bill Carr rule, remember?

7 MR. CARROLL: That's correct.

8 MR. PADILLA: I'm not instructed to make an
9 argument on this. I didn't --

10 MR. CARROLL: Okay.

11 MR. PADILLA: I don't see any --

12 MR. CARROLL: And I'm a little confused. Mr.
13 Carr, you mentioned one of your clients was -- you're
14 representing Nearburg. What Nearburg interest is that?

15 MR. CARR: Nearburg Exploration, L.L.C.

16 MR. CARROLL: And what's their interest in this
17 unit?

18 MR. CARR: Their interest is simply that they
19 have the north half with an approved APD. They have not
20 sought a compulsory pooling order.

21 MR. CARROLL: Do you also represent Gretchen
22 Nearburg?

23 MR. CARR: No, I do not.

24 MR. CARROLL: Or -- And Ameristate is the
25 principal as Mark Nearburg?

1 MR. CARR: As Mark Nearburg, but that's a
2 separate corporate entity from Nearburg Exploration.

3 MR. CARROLL: Okay. And what's your
4 understanding of the status of that Regis well?

5 MR. CARR: The Regis well, there's an approved
6 APD dated, as Ms. Townsend indicated, in September. It is
7 my understanding there has not been a pooling application
8 for a north-half unit.

9 EXAMINER ASHLEY: I have nothing further. Thank
10 you, Ms. Townsend.

11 MS. TOWNSEND: Thank you.

12 MR. KELLAHIN: Mr. Hefner.

13 Mr. Examiner I'm short some exhibit copies for
14 the geologic testimony. Do you have a full set, Robert?

15 MR. HEFNER: I do.

16 MR. KELLAHIN: All right, I'll give Steve a full
17 set following the hearing so that he has one for the
18 record.

19 Mr. Examiner, we call Robert Hefner.

20 ROBERT A. HEFNER, IV,
21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Hefner, for the record, sir, please state

1 your name and occupation.

2 A. My name is Robert Hefner. I'm a geologist for
3 Chesapeake in charge of their southeast New Mexico
4 exploration.

5 Q. On prior occasions, Mr Hefner, have you testified
6 before the Division as a geologist?

7 A. I have.

8 Q. And is the proposed Boyce 1-15 well in the
9 northeast quarter of Section 15 one of your
10 recommendations?

11 A. Yes, sir, it is.

12 Q. This is your project, is it not?

13 A. Yes, it is.

14 Q. The geologic evaluation of this process began in
15 September of 1998, did it not?

16 A. That's correct.

17 Q. And as a result of your evaluation of the
18 geology, you now have opinions concerning an appropriate
19 risk factor penalty to be imposed for the issuance of a
20 compulsory pooling order?

21 A. I do. I think it should be more than what the
22 District offers, but yes.

23 MR. KELLAHIN: All right, sir. We tender Mr.
24 Hefner as an expert petroleum geologist.

25 EXAMINER ASHLEY: Mr. Hefner is so qualified.

1 Q. (By Mr. Kellahin) Before we look at the
2 exhibits, let's talk about what you're trying to do. What
3 is the primary targeted intervals that you want to
4 evaluate?

5 A. We're wanting to evaluate the Atoka-Morrow
6 formations at the proposed location.

7 Q. Let's turn to the cross-section, so the Examiner
8 can see what you're referring to.

9 A. This cross-section that you have before you
10 includes some of the key offset wells and some of the --
11 that represent the particular members produced from the
12 Atoka-Morrow. It's a structural cross-section, so it shows
13 the relative structural position of each of these
14 wellbores, and then also a stick diagram for where the
15 proposed Boyce well is.

16 On the far left is a well that was drilled by
17 Ocean Energy. The lease name is the Carlisle State. It
18 was a redrill of a well that originally had blown out on
19 them. The producing member in that wellbore is highlighted
20 in yellow, and it would be in what is known, I guess, as
21 the Morrow formation. I'll refer to it casually as the
22 Carlisle member.

23 And then as you go --

24 Q. Let's stay with the Ocean well for a moment.

25 A. Okay.

1 Q. Their well was intended to drill to the top of
2 the Mississippian so that they could test all the Atoka-
3 Morrow intervals?

4 A. That's correct. Highlighted in a kind of a pink
5 color at the bottom of that wellbore would be the top of
6 that Mississippian limestone.

7 Q. All right. Let's do something. I think we need
8 a locator map so we don't lose track. If you'll turn to
9 Exhibit 10, let's use 10 as a locator map, and then we'll
10 get to its geology in a moment.

11 A. Ten is the isopach.

12 Q. Ten is the isopach. If we look at Section 15,
13 the east half of 15 is outlined in blue, correct?

14 A. That is correct.

15 Q. All right, let's look north into Section 10 and
16 then pay attention to the southwest quarter of 10, and
17 we're going to find the Carlisle well that you're talking
18 about, right?

19 A. That is correct.

20 Q. There are two gas-well symbols overlapping each
21 other, and they are just west to the blue 12-foot data
22 point, right?

23 A. That's correct.

24 Q. That's the Carlisle well?

25 A. That's right.

1 Q. Okay. The Carlisle well's only producing
2 interval in the Atoka-Morrow Gas Pool is what you've
3 characterized to be the Carlisle sand?

4 A. That's correct.

5 Q. Okay. The second well is what, sir?

6 A. The second well in the cross-section is a well
7 operated by Yates Petroleum. It's known as the Big Flat
8 well, and it produces from what I'll casually refer to as
9 the Brunson member of the Atoka-Morrow section. And it too
10 is highlighted in yellow.

11 Q. Let's find it on Exhibit 10, which is the
12 isopach. If you'll go to Section 10 and look in the
13 southwest quarter, identified in the northwest of the
14 southwest, that's the Big Flat well, is it not?

15 A. Yeah, actually in the southeast there.

16 Q. I'm sorry, the southeast --

17 A. Yeah.

18 Q. -- the northwest of the southeast?

19 A. That's correct, going due east of the Carlisle
20 well.

21 Q. All right. Was the Big Flat well successful in
22 the Carlisle sand?

23 A. No, it was not. That interval is missing in that
24 wellbore.

25 Q. This was Yates' attempt to offset the Ocean well

1 and hit the Carlisle sand, wasn't it?

2 A. That's correct.

3 Q. And it just wasn't there?

4 A. That's correct.

5 Q. Where did Yates complete the Big Flat well?

6 A. It completed it in what is locally known as the
7 Brunson member of the Atoka-Morrow.

8 Q. Let's look at the third well on the cross-
9 section, the Yates Brunson well.

10 A. Yes, that well is what established the
11 nomenclature, the local nomenclature, for the particular
12 member that produces. That was a well that was completed
13 in 1997 and produces from what is known as the Brunson
14 member.

15 Q. All right, find the Brunson well on Exhibit 10.
16 If you'll look in Section 10, it's the well in the
17 southwest of the northeast, is it not?

18 A. That's correct.

19 Q. When we put these three wells in chronological
20 order, what would that order be?

21 A. The order would be, the Yates Brunson well was
22 drilled prior to the drilling of the Ocean Carlisle, which
23 was then followed by the Yates Big Flat.

24 Q. Yates then had two wells in the Brunson sand in
25 the pool. They were the Brunson and the Big Flat?

1 A. That's correct.

2 Q. And to your knowledge, the Division has approved
3 the simultaneous dedication of those two gas wells to the
4 spacing unit?

5 A. That's my understanding.

6 Q. Then as we move through the cross-section, we get
7 to your proposed Boyce 1-15?

8 A. That's correct.

9 Q. And then the last well on the cross-section is
10 the Mesa Petroleum well?

11 A. That's correct.

12 Q. From what zone does it produce?

13 A. That well also produces from what is known as the
14 Brunson member of the Atoka-Morrow formations. And that
15 well was drilled back in 1975 and has produced just short
16 of 4 BCF from that member.

17 Q. At the time that you evaluated the opportunity
18 for locating an Atoka-Morrow gas well in the northeast of
19 15, when I look at the cross-section, how many of these
20 logs did you have?

21 A. The only logs I had at the time that I generated
22 the map that caused the proposal to be made was the Yates
23 Brunson well and the Mesa Monsanto well.

24 Q. You had verbal information concerning the Ocean
25 Carlisle well at that time?

1 A. That's correct.

2 Q. All right. Now that we have seen the target,
3 you're targeting principally what zones within the Atoka-
4 Morrow Gas Pool?

5 A. The Brunson and Carlisle members.

6 Q. Is this your greatest opportunity for success?

7 A. Yes.

8 Q. Any shallower opportunities are even riskier than
9 this?

10 A. They would be riskier, yes.

11 Q. Let's look at the isopach, Exhibit 10. When you
12 are making your evaluation of this area, Mr. Hefner, this
13 was in September of 1998?

14 A. Yes, my original hand-drawn maps were done in
15 September. This was submitted later, after management
16 agreed to the drilling of this well to be drafted up in the
17 final format.

18 Q. All right, the final format says October 2nd --

19 A. Uh-huh.

20 Q. -- but the work was done prior to that date?

21 A. Yeah, exactly.

22 Q. All right. What are you attempting to do?

23 A. We are attempting to locate a well that has the
24 best opportunity for finding the Brunson and Carlisle
25 members present.

1 Q. The control for the well is based upon
2 conventional geologic data?

3 A. Yeah, it's conventional subsurface data. As we
4 alluded to, the two control points we actually had at the
5 time that this map was generated was the Brunson and
6 Monsanto for this particular member that we're trying to
7 target with the Boyce. So we were wanting to drill a well
8 in between the two.

9 Q. When we look at the map, it shows the location of
10 the Boyce 1-15 well. This is the location that would have
11 been unorthodox; is that not true?

12 A. That's correct.

13 Q. And why was the location changed?

14 A. It was changed because in some preliminary
15 discussions with Yates that they were going to oppose that
16 and that we were going to end up with some kind of penalty
17 that would be quite substantial. If you just were given
18 the ratios on how unorthodox we were to what our actual
19 offset should be, it would be on the order of a 60-percent
20 penalty. So that was far too great to withstand, so we
21 went to an orthodox location.

22 Q. Were you able to satisfy yourself that you had a
23 standard location that was acceptable?

24 A. Yes. If you move that back to a 1650 offset from
25 the north line, you'd be in the 15-foot interval as mapped

1 on this map, but I have obtained subsequent information
2 that changes this map a little bit.

3 So in essence, really, the two locations would
4 have been the same.

5 Q. All right. When we look at the contouring, you
6 have -- around the original location you have an elliptical
7 shape?

8 A. Yeah.

9 Q. Do you see that?

10 A. Yeah, the bolder elliptical shape.

11 Q. Yeah, the peanut, the bolder peanut.

12 A. Yeah, exactly. That would represent about a 20-
13 foot contour.

14 Q. There's no data to support that, is there?

15 A. Not -- No, not really. The only well that had on
16 the order of 20 feet is from the Monsanto, but when we
17 obtained the information on the Yates Big Flat it did not
18 get to what was originally mapped to have been also above
19 20 feet.

20 Q. Let's look at it. Let's find the Big Flat well.

21 A. It's that well that's in the northwest of the
22 southeast of Section 10.

23 Q. You had mapped that with the expectation that it
24 might have greater than 15 feet of thickness?

25 A. Actually, greater than 20 feet.

1 Q. And in reality, what happened?

2 A. That well is in the cross-section that you have,
3 so that shows the thickness of that interval, and it's on
4 the order of 15 feet or less.

5 Q. On the map, some of the gas wells have been
6 identified in red. I count three. What does that
7 represent?

8 A. That would be wells that are producing from the
9 Brunson member of the Atoka-Morrow section.

10 Q. In addition, I find some gas wells that are
11 circled or highlighted in blue. By my count, there are
12 nine of those. What do those represent?

13 A. Those would be wells that are dry in that
14 particular. That did not find productive reservoir from
15 that member.

16 Q. Okay. What, in your opinion, is the risk
17 associated with the drilling of this well?

18 A. The risk is very high. Another thing that I did
19 not mention, the information that we obtained later on the
20 Carlisle well showed that that particular interval that was
21 mapped was actually not even present, and it is actually a
22 zero. So that increases the risk, the perceived risk that
23 we even had at the time that this was mapped.

24 Q. Is the Carlisle sand in the Ocean well -- Is the
25 Ocean well the only well in the area that produces from the

1 Carlisle sand?

2 A. Yes, that's right. Of all the other penetrations
3 that have gone deep enough, none of them have found that
4 particular member.

5 Q. Okay. Does the change of location materially
6 change the risk associated with compulsory pooling?

7 A. No, it doesn't.

8 Q. And what is your recommendation?

9 A. For the full penalty.

10 Q. Which is cost plus 200 percent?

11 A. Yes, sir.

12 Q. Let's look at the last display, which is your
13 structure map. It's marked as Exhibit 11, Mr. Hefner.

14 A. This is a structure map based on the lower Atoka,
15 generated from subsurface control, although you'll also
16 note on this map there are some lines that have little
17 circles with numbers by them. Those are 2-D seismic lines
18 that we acquired in the public market when we first started
19 exploring in this area.

20 Q. All right, let's look at those. There's a line
21 running northwest to -- I'm sorry, northeast to southwest
22 at the bottom right-hand corner. It says V-LINE-3. Do you
23 see that one? It's in blue.

24 A. Yes, okay.

25 Q. Have you got it?

1 A. Section 23, yes, sir.

2 Q. All right. This is a commercially available 2-D
3 seismic line that you purchased?

4 A. Yeah, the data that's represented on this map was
5 obtained from two sources, one Western, the other Seitel.
6 We acquired them in 1995, I think it was.

7 Q. In addition, you have another control line
8 running northwest to southeast. It's line 11-LINE-4. Do
9 you see that?

10 A. Yes, sir.

11 Q. Or Roman numeral II, whatever that is?

12 A. Uh-huh.

13 Q. Then if you look along the boundary of Section
14 15, there's an east-west line that says ENM- -- is that
15 -B2?

16 A. Yeah, -B2 on the north end --

17 Q. All right.

18 A. -- and then -12 on the south end.

19 Q. And then you have another line that didn't get
20 reproduced on this exhibit, but it bisects Section 15 in a
21 northeast-southwest direction?

22 A. That's correct.

23 Q. All right. Based upon the 2-D lines, did that
24 afford you an opportunity to locate the fault that bisects
25 the northeast quarter of Section 15 from the northwest to

1 southeast?

2 A. Yes, sir, from the subsurface control you could
3 tell there was 300 to 400 feet of throw along that fault,
4 and then these 2-D seismic lines afforded me a place to
5 locate where that fault cut the formations, so I was able
6 to establish the strike of the fault going through the
7 section.

8 Q. As we follow the fault up into Section 10 and
9 find the Carlisle State well --

10 A. Yes, sir.

11 Q. -- it is in close proximity just to the northeast
12 of the fault?

13 A. That's right.

14 Q. All right. And then as we move away, we can find
15 the Big Flat and the Brunson wells?

16 A. That's right.

17 Q. Then you have some contour lines going out around
18 the Boyce 15 location. It's a minus 7855 --

19 A. -- or -50, would be --

20 Q. -- minus 7850 line; is that right?

21 A. Right, that's correct.

22 Q. All right. Encompassed within that is the
23 highest portion of the structural feature that you're
24 targeting, is it not?

25 A. Yes.

1 Q. Is there a difference that matters between the
2 unorthodox location and the standard location when you look
3 at structure?

4 A. No, they in essence would be essentially flat.

5 Q. Based upon the additional information concerning
6 structure, how does this affect your opinion concerning
7 risk?

8 A. It hasn't changed it.

9 Q. This additional information doesn't decrease the
10 risk?

11 A. No, it doesn't decrease the risk at all.

12 Q. Summarize for us, Mr. Hefner, your reasons that
13 support the 200-percent risk factor penalty.

14 A. There's been many wells drilled in this area that
15 have penetrated the Atoka-Morrow, and there's been only a
16 very few that have found the Brunson member productive, and
17 only one that has found that Carlisle member productive.

18 And so the risk associated with trying to explore
19 for these two members is very high, and so warrants the
20 full penalty.

21 MR. KELLAHIN: That concludes my examination of
22 Mr. Hefner, Mr. Examiner. We move the introduction of his
23 Exhibits 9, 10 and 11.

24 EXAMINER ASHLEY: Exhibits 9, 10 and 11 will be
25 admitted as evidence.

1 Mr. Carr?

2 CROSS-EXAMINATION

3 BY MR. CARR:

4 Q. Mr. Hefner, let's go to Exhibit Number 10.
5 Initially, could you tell me what is indicated by the
6 acreage shaded in yellow or beige on this exhibit?

7 A. That was acreage at the time in which Chesapeake
8 had an interest to explore.

9 Q. You're recommending a 200-percent penalty be
10 imposed on those interest owners who do not participate in
11 the Boyce Number 15?

12 A. That's correct.

13 Q. And the basis for that risk penalty is the risk
14 associated with being able to hit this geological feature;
15 is that right?

16 A. That's correct.

17 Q. You have prepared the interpretation, the isopach
18 that is set forth as Exhibit 10, based on well control
19 information; is that correct?

20 A. That's correct.

21 Q. And the green dots on Exhibit 10 indicate what?
22 Oil wells, or what are they --

23 A. No, those are wells that did not find the Brunson
24 member.

25 Q. All right. And so you have three wells at this

1 time that you've indicated on this exhibit that, in fact,
2 have intercepted that Brunson sand; is that correct?

3 A. Yeah, I think there's a couple wells in Section
4 11. I don't have all the information on it, so I'm not
5 sure what they produce --

6 Q. All right.

7 A. -- what they actually produce from that, but --

8 Q. The wells that you've utilized in making your
9 interpretation, any of them will be shown on this exhibit
10 in color?

11 A. Right, they would.

12 Q. When we look at this area, you've testified that
13 the Atoka-Morrow is the primary zone of interest for
14 Chesapeake?

15 A. Yes, sir.

16 Q. Is the Strawn a primary candidate for you as
17 well?

18 A. It has not been found to be productive over here,
19 although it's my understanding that Yates has recently
20 found some productive in -- I think it's in Section 11, the
21 northeast quarter, but --

22 Q. Have you been able to review data on the Carlisle
23 well?

24 A. Not in detail, no.

25 Q. Have you looked at information on that well as it

1 might relate to a Strawn location in the northeast quarter
2 of Section 15?

3 A. Based on what -- the information that I've
4 gathered on the completion attempt in the Strawn, that's
5 really in essence subeconomic, so it doesn't impact.

6 Q. If we look at the Carlisle well in the Atoka, the
7 Brunson sand simply wasn't present; isn't that right?

8 A. Right.

9 Q. And that would tell you that the channel that
10 you're trying to hit has got to be moved, and as you've
11 shown it principally in the east half of the northeast of
12 the section?

13 A. Right.

14 Q. You have moved the well a thousand feet to the
15 south from the location originally proposed, 660 out of the
16 northeast corner?

17 A. Uh-huh.

18 Q. Is there any geological support for that move?

19 A. Based on the geology, the two locations, the
20 difference between the two is really too small to make a
21 difference. And so what really affected the decision more
22 than the geology did was the penalty, the potential penalty
23 for production.

24 Q. You would agree with me, would you not, that in
25 the Atoka-Morrow, if you moved a well just a short

1 distance, in fact, you may move from a location where you
2 can drill a very successful well to one where you cannot?

3 A. Sure.

4 Q. And between the proposed Boyce 15 Number 1, the
5 original 660 location where you're now proposing to drill
6 the well, is there any particular geological data that you
7 can hang your hat on that says you can safely move 1000
8 feet south and not be substantially increasing your risk?

9 A. I would probably look at the Carlisle well about
10 that member not being present there, the Big Flat, not
11 finding it as thick. So the better control is actually
12 moving back to the southeast. I mean, if you want to push
13 direction, that might be a preferable direction to go. I
14 don't think it changes the risk --

15 Q. When I look at the exhibits that you've presented
16 here, your geological interpretation, you've used well
17 control, and then in terms of defining the structure you've
18 used some 2-D seismic; is that right? In trying to locate
19 these faults?

20 A. Yeah, for the fault strike, exactly.

21 Q. When you were able to move the location as you
22 have done, did you have or utilize any 3-D seismic to make
23 that move?

24 A. I've been instructed by my management not to
25 discuss anything pertaining to the 3-D seismic.

1 Q. And so you won't answer a question whether or not
2 you had some information. Did you have any information
3 other than well control when you moved the well to the
4 south?

5 A. These locations were based on these maps.

6 Q. You've been instructed not to even tell me if you
7 have tried to confirm your --

8 A. That's right.

9 Q. -- interpretation with subsequent data?

10 A. That's right.

11 Q. So we're not going to be able to ask you at
12 all -- not asking you to show the data, but whether or not
13 you've even looked at additional data?

14 A. Those are my instructions.

15 Q. When you are proposing a well in the -- say in
16 the Morrow in this area, the location of the well on the
17 tract is important to you in terms of evaluating the risk
18 of drilling; isn't that right?

19 A. Yeah, the Morrow really -- based on your
20 interpretation and your well control.

21 Q. Okay. If you were able to locate a well in the
22 east half of the section, you've obviously picked the east
23 half of the northeast quarter, correct?

24 A. Right.

25 Q. And you would consider that the lowest risk

1 area -- is that fair to assume? --

2 A. Yes.

3 Q. -- for drilling a successful well here?

4 A. Uh-huh.

5 Q. You would think it would be more risky if you
6 moved the well to the west; isn't that right?

7 A. Because of that fault, yeah. You don't want to
8 get -- All the wells that have been on the other side of
9 that fault have been unsuccessful and --

10 Q. And to the south as well?

11 A. Right.

12 Q. Are you able to, because of your management
13 instruction, even tell me if you've been involved in
14 decisions to seek seismic interpretation of the area?

15 A. I'm heeding my instructions.

16 Q. And so you couldn't tell me where you saw 3-D
17 seismic, correct?

18 A. Right.

19 Q. You couldn't tell me whether you were on the
20 Chesapeake or an offsetting tract, correct?

21 A. (No response)

22 Q. Have you ever worked with seismic? Can I ask you
23 that?

24 A. Oh, yeah.

25 Q. Is it a valuable tool?

1 A. In particular geological settings, yes.

2 Q. And it would be something in other settings you
3 might use to confirm your interpretation?

4 A. Yeah, if the geological setting warrants the use
5 of the tool, uh-huh.

6 Q. Can you tell me if you did it here or not?

7 A. I can't discuss that.

8 MR. CARR: I'm going to object to the admission
9 of the exhibits if I can't even ask what data he did use to
10 refine his interpretation, because as he said, the location
11 of the well is important in terms of the risk. And that's
12 what we're talking about, a risk penalty.

13 And their management says, Come in here, present
14 an exhibit, tell us -- tell the Commission what we want to
15 tell you, but don't even go behind the data. This is a
16 take-it-or-leave-it sort of an exhibit we're being served.

17 I don't question Mr. Hefner's integrity, I don't
18 want to say that. But I think there's a management
19 decision here that says you can present only certain things
20 to the OCD. I'm coming in here to explore what the risk
21 penalty ought to be, and I'm not allowed to find out
22 whether moving a well is more risky than where they
23 originally proposed it.

24 And it seems to me that in this circumstance the
25 exhibit should not be admitted and no risk penalty should

1 be imposed.

2 MR. KELLAHIN: Mr. Examiner, Mr. Carr waived this
3 issue and abandoned this item on 3-D seismic information
4 when he unilaterally and voluntarily withdrew the subpoena
5 that asked for this information.

6 Mr. Hefner has testified based upon this exhibit.
7 There is, in fact, 3-D data out there. It's the subject of
8 litigation between these parties. And we don't propose to
9 use this forum as a means for them to discover that data.
10 They've abandoned this issue before this procedure, and the
11 risk is appropriate based upon this date.

12 MR. CARR: May it please the Examiner, I have not
13 asked to see the data. It is not under subpoena. All I
14 want to know is if this witness used it to refine his
15 interpretation, because his interpretation is key to the
16 risk penalty you impose.

17 And if you impose a 200-percent risk penalty on
18 Ameristate, on Tom Beall, on Fuel Products, and deny us the
19 opportunity to come in here and just say, Did you refine
20 your interpretation with seismic, I mean, we haven't waived
21 anything as to being able to ask the man if he used it. We
22 don't have a subpoena out for it.

23 But it is important for us to know if this is
24 simply from well control from wells off to the west or the
25 north. We're not asking for the data. I want to know if

1 he used it to refine this. Because as we know, with the
2 data we have there are varying geological interpretations,
3 and they can have a real impact on the risk associated with
4 developing the east half of a section.

5 MR. KELLAHIN: If that's all he wants to know,
6 I'll represent to the Division and Mr. Carr that Mr. Hefner
7 has not refined or changed his mind or altered these
8 displays based upon 3-D data.

9 MR. CARR: But my question, Mr. Kellahin, was,
10 has he reviewed it? Does it confirm? I didn't ask if it
11 changed, I've asked if he has used it to confirm this.

12 MR. KELLAHIN: And we're not going to tell you.

13 MR. CARR: And they will not tell us, and
14 therefore I object and ask that the exhibits be stricken
15 and no risk penalty be imposed.

16 EXAMINER ASHLEY: Mr. Carr is not asking for the
17 information.

18 MR. KELLAHIN: Yes, sir.

19 EXAMINER ASHLEY: What he's asking is if it was
20 refined using 3-D data. And we're not asking for that
21 information to be presented, but we are asking for his
22 question to be answered.

23 MR. KELLAHIN: All right, I will answer that
24 question.

25 We have talked to the geophysicist that analyzes

1 the 3-D seismic data, and it was his opinion that there was
2 no need to change any of Mr. Hefner's work. Mr. Hefner did
3 not do that work; it was done by a geophysicist.

4 MR. CARROLL: Mr. Hefner, do you agree with that
5 statement?

6 THE WITNESS: Yes.

7 Q. (By Mr. Carr) Could I ask you if there was --
8 Did you at any time review the geophysical data, or was it
9 handled by someone else?

10 A. I've been instructed not to discuss the --

11 MR. CARR: We have a witness sponsoring an
12 exhibit. He won't even tell us if he --

13 THE WITNESS: Because it's a subject of
14 litigation, and the lawyers --

15 MR. CARR: I understand that.

16 THE WITNESS: -- have advised me not --

17 MR. CARR: I understand the position you're put
18 in, Mr. Hefner.

19 THE WITNESS: All right.

20 MR. CARR: My problem is that all I want to know
21 is, he says this is the interpretation, this is the best
22 place you can drill a well. You can move it and not
23 increase the risk, and I can't even find out if the witness
24 who's sponsoring the exhibit, in fact, has tried to refine
25 this interpretation with seismic data.

1 He can present seismic data to show a fault, he
2 can go to well control to show anything he wants. But when
3 I want to know, did you refine this with 3-D, I'm told
4 somebody else looked at it and said you're okay, and I
5 don't think that's proper support for the exhibit.

6 So I stand on my objection. It can't be
7 admitted.

8 MR. KELLAHIN: I don't know what else I can tell
9 Mr. Carr.

10 MR. CARR: The truth.

11 MR. KELLAHIN: The truth is, with -- you won't
12 accept hearsay testimony. The geophysicist has looked at
13 Mr. Hefner's work, he says your maps are fine, you don't
14 need to change them.

15 MR. CARR: That would be just like my saying Bob
16 Shelton, a landman for Nearburg, said the map was wrong.
17 You've got to have a witness sponsor your exhibits who will
18 tell you how he developed it.

19 MR. KELLAHIN: And this man just did.

20 MR. CARR: And it goes to the heart of the
21 question.

22 MR. CARROLL: It's my understanding that Mr.
23 Hefner testified that the location was chosen without the
24 3-D seismic, and if the geophysicist was consulted he said,
25 you know, it's fine with me too. But the original decision

1 to move it wasn't based upon 3-D.

2 MR. CARR: My question was, did you refine it by
3 using it? Did you get additional information? What did
4 you do with it?

5 MR. KELLAHIN: The answer is no, Mr. Hefner will
6 testify he did not change his maps.

7 MR. CARR: And the question is -- Of course he
8 didn't change his maps; he did them last September. The
9 question is, have you looked at seismic which in your own
10 mind satisfies you that, in fact, this is correct? Not
11 that somebody in some other office or someone you've hired
12 says, Yeah, you're all right. That's an entirely different
13 sort of a thing. That's not -- It's hearsay, it doesn't
14 support this exhibit.

15 The question is, is the individual who is
16 sponsoring the exhibit willing to say, I looked at seismic,
17 these are the things I looked at, and this is my
18 interpretation. I can't see how that is unfair when we're
19 not asking him to lay it out, we're accepting his expert
20 credentials.

21 MR. KELLAHIN: We're niggling over nothing.

22 MR. CARROLL: Mr. Hefner, I think you testified
23 or agreed with Mr. Kellahin's statement that the
24 geophysicist was consulted, and he said there was no
25 problem with this location; is that correct?

1 THE WITNESS: That's correct. I mean, our
2 management is still willing to drill this well.

3 Q. (By Mr. Carr) Who is your geophysicist? Could I
4 ask that?

5 A. Yes, it's Cliff Hanoch.

6 Q. I'm sorry, I couldn't hear you.

7 A. Cliff Hanoch.

8 Q. Cliff Hanoch?

9 A. H-a-n-o-c-h.

10 MR. CARROLL: He's listed on the bottom of this
11 Exhibit 10.

12 Q. (By Mr. Carr) Is he a consultant or an in-house
13 geophysicist?

14 A. In-house geophysicist.

15 MR. CARR: I'm going to stand on my exhibit [sic]
16 and ask you to rule.

17 MR. KELLAHIN: I -- They're my exhibits. Please
18 don't stand on my exhibits, Mr. Carr.

19 MR. CARR: I'm going to stand on my objection.
20 I'd like to stand on his head. I will stand on my
21 objection and ask you to rule.

22 EXAMINER ASHLEY: Mr. Hefner, were these Exhibits
23 10 and 11 prepared before you discussed with Mr. Hanoch the
24 locations?

25 THE WITNESS: That's correct.

1 EXAMINER ASHLEY: These were done first?

2 THE WITNESS: Right, these were -- This is what
3 generated management's okay to drill a well in the
4 northeast.

5 EXAMINER ASHLEY: And then Mr. Hanoch was
6 approached after that?

7 THE WITNESS: Yeah, absolutely.

8 EXAMINER ASHLEY: Mr. Carr, I'm going to overrule
9 your objection and admit Exhibits 10 and 11.

10 Q. (By Mr. Carr) I just have one question to be
11 sure I understand the testimony. The testimony was that
12 someone else looked at geophysical data and said this --
13 you could move the location without substantially
14 increasing the risk; is that right?

15 A. No, the location --

16 Q. They said you were all right?

17 A. The location was moved because of the penalty
18 solely. The geology, subsurface geology, supported the
19 location. That's what the decision was based on. Mr.
20 Kellahin said that the geophysicist was asked, Was there
21 any reason to change that? And he said no.

22 Q. And was that -- Was Mr. Kellahin telling the
23 truth, to the best of your knowledge?

24 A. Yes, sir.

25 MR. CARR: That's a first. All right, thank you.

1 EXAMINER ASHLEY: That's on the record.

2 MR. CARR: I want it on the record, since he is
3 testifying, I'd like that.

4 EXAMINER ASHLEY: Any further questions, Mr.
5 Carr?

6 MR. CARR: No, that's all I have.

7 EXAMINER ASHLEY: Mr. Padilla?

8 CROSS-EXAMINATION

9 BY MR. PADILLA:

10 Q. Mr. Hefner, can you tell us what your
11 instructions were with regard to these seismic, 3-D?

12 A. It's subject to litigation, and so --

13 Q. No, I'm asking you what your -- Who instructed?
14 Let me ask that first, not to testify about 3-D.

15 MR. KELLAHIN: I instructed him.

16 Q. (By Mr. Padilla) As I understand your testimony,
17 your management told you not to testify concerning 3-D?

18 A. It's come via our legal -- in-house legal
19 representative and his discussions with our outside counsel
20 and that outside counsel's discussion with Mr. Kellahin.
21 So it comes indirectly through our in-house attorney.

22 Q. So it wasn't your management?

23 A. Well, I consider Mr. Hood -- he's VP of land and
24 legal -- as my management.

25 Q. What were your instructions?

1 A. Not to discuss anything pertaining to the 3-D
2 seismic, since it's under litigation.

3 Q. When were those instructions made to you?

4 MR. KELLAHIN: I'm going to direct you not to
5 answer. This is pointless, it has no relevancy to this
6 issue. We're beyond the 3-D.

7 EXAMINER ASHLEY: Mr. Kellahin, I'll sustain your
8 objection. I don't feel like we need any more questions
9 about the instructions on 3-D seismic and when it was to be
10 used.

11 MR. PADILLA: Your ruling is that I cannot ask
12 any further questions on 3-D; is that right?

13 EXAMINER ASHLEY: At this point I don't feel like
14 we need to know any more about the instructions on -- from
15 his management about using 3-D seismic.

16 Q. (By Mr. Padilla) Mr. Hefner, on your cross-
17 section, on the proposed well, what is the total depth
18 shown on that cross-section for the well?

19 A. On that stick diagram, on the cross-section, that
20 total depth is 12,500 feet.

21 Q. When was the decision to change the depth of the
22 well made?

23 A. Just in the last ten days, last -- I don't know
24 what day -- we decided to amend the permit. I mean,
25 generally we make our best estimate of what would be a

1 sufficient depth to adequately test the Atoka/Morrow, and I
2 guess when we have -- if we have been drilling and found
3 we've not gone deep enough, we probably would have been
4 within the proposal and AFE to continue on without having
5 done that anyway, but we want to do that in advance,
6 regardless.

7 The proposal letter was to adequately test the
8 Atoka-Morrow section, so I don't think it fixes a
9 particular depth, because the depth is always an estimate.

10 Q. On what basis did you change the -- make a
11 decision to change the depth of the well?

12 A. I had, you know, the plus or minus. They could
13 be based on thicknesses of offset wells of the entire
14 Atoka-Morrow section. If it's only as thick as what's like
15 in the Ocean Carlisle, then perhaps 12,100 would have been
16 sufficient. If it was thicker, like found in the Big Flat
17 or the Brunson, then perhaps 12,100 would not have been
18 adequate.

19 So it's just looking at what the maximum isopach
20 values are in the area and generating our best estimate of
21 what that depth would be.

22 Q. Let me ask you, why did you make an assessment to
23 change the depth of the well? I mean, the AFE said 12,100,
24 as I understand it, but the -- in the last ten days you're
25 saying that you changed the depth of the well?

1 A. Uh-huh.

2 Q. Correct?

3 A. Right.

4 Q. What did you look at to make that change?

5 A. I looked for the maximum thickness and changed it
6 based on that maximum thickness in the area.

7 Q. What particular materials did you look at to
8 change the --

9 A. Oh, which well? It would have been -- I'm not
10 sure exactly which well represented the thickness, but I
11 would go look at all the wells that are represented on this
12 map that have penetrated the entire Atoka-Morrow section,
13 establish what those thicknesses were, and chose the
14 maximum thickness represented in this area.

15 Q. Did you talk with anyone concerning the change in
16 depth of the well?

17 A. Did I talk to anyone?

18 Q. Did you -- yeah, talk or consult with anyone
19 concerning the depth of the well?

20 A. Within my company or outside of my company?
21 Within my company, yes.

22 Q. Who did you talk to?

23 A. Dave Ault, Linda Townsend. I'm not sure who
24 else.

25 Q. Did you talk to your geophysicist?

1 A. No, I did not.

2 Q. Who else did you consult with, within your
3 company?

4 A. I didn't consult with anyone.

5 Q. Did you consult with anyone outside of your
6 company?

7 A. No. Had we not been contested in this pooling, I
8 probably would have just left it where it was. But since
9 there's a lot of tension amongst the parties in here, I
10 felt it proper to go ahead and do that.

11 Q. I don't want to sound stressful, I just --

12 A. No, I tried to answer your questions. I don't
13 know where you want to go from there.

14 EXAMINER ASHLEY: Mr. Kellahin?

15 MR. KELLAHIN: That concludes our presentation.

16 EXAMINATION

17 BY EXAMINER ASHLEY:

18 Q. Mr. Hefner, are there any other wells within this
19 area that are producing other than the Carlisle --
20 producing from the Carlisle member?

21 A. No, there are not.

22 Q. Have you seen that zone show up in any other well
23 that's nonproductive?

24 A. No, I have not seen it developed. This is a very
25 unusual well.

1 Q. The Carlisle well?

2 A. Yeah.

3 Q. What production -- or what producing pools are
4 there above the Atoka and Morrow out here?

5 A. I guess the Strawn has been established as a
6 producer, as well as the Wolfcamp. And I don't think there
7 are any other formations that pools have been established
8 on.

9 EXAMINATION

10 BY MR. CARROLL:

11 Q. Mr. Hefner, you made a number of references to
12 some litigation. What litigation is that?

13 A. It's litigation between Ameristate, et al., and
14 Chesapeake over a trespass damages. Does that adequately
15 describe --

16 Q. And that's been filed by Ameristate against
17 Chesapeake?

18 A. Yes, sir.

19 Q. And where is that filed?

20 MR. KELLAHIN: That's filed in Lea County
21 District Court, Mr. Carroll. I can give you a copy of the
22 First Amended Complaint if you want to see it. But it's a
23 trespass case, seismic trespass case, filed by Ameristate
24 and a number of the parties to be pooled against Chesapeake
25 over the seismic -- 3-D seismic shoot that was done in this

1 area.

2 MR. CARROLL: Yeah, why don't you give me a copy?

3 MR. KELLAHIN: After the hearing I'll make an
4 extra copy.

5 MR. CARROLL: That's all the questions I have.

6 EXAMINER ASHLEY: I have no further questions,
7 Mr. Hefner. Thank you.

8 THE WITNESS: Thank you.

9 MR. KELLAHIN: That concludes our presentation,
10 Mr. Examiner.

11 MR. CARR: May it please the Examiner, I'd like
12 to make a brief statement at the end.

13 EXAMINER ASHLEY: That would be fine, Mr. Carr.

14 MR. CARR: Mr. Examiner, as we all know,
15 Chesapeake is here today seeking an order pooling the east
16 half of Section 15 and imposing on other interest owners a
17 200-percent risk penalty, a penalty that is authorized by
18 the Oil and Gas Act.

19 The issue that we have concerns the well location
20 in the Atoka-Morrow, and I don't think there's any dispute
21 that the proper location, locating it as well, will affect
22 the risk associated with the drilling of the well and the
23 rights of the parties being forced into that well.

24 They have moved the location. They have used 3-D
25 seismic to, if not pick the location, at least satisfy

1 themselves that the location can be moved. This is a
2 decision, it's a decision made by Chesapeake which has a
3 direct impact on the rights of Ameristate and others.

4 And in the hearing today we have not been even
5 afforded an opportunity to confirm what this particular
6 witness, the witness sponsoring the exhibits and proposing
7 that the change can be done without impacting risk -- we've
8 been denied the opportunity to even look at the --
9 determine exactly what this witness examined, to confirm
10 that this move could be safely made. You have ruled that
11 Mr. Padilla can't even question further about the 3-D
12 seismic.

13 I would suggest that the OCD, not Chesapeake's
14 management, should decide what the risk is and what data
15 you can properly consider. And on this record, having been
16 denied to examine the underlying data, we submit that no
17 penalty should be imposed. We haven't been allowed to
18 cross-examine on that, and we haven't been able to
19 determine the basis for the location and the risk related
20 thereto.

21 And our correlative rights are to be affected --
22 or to be protected -- and if our rights in a hearing like
23 this are to be protected, the only conclusion is, no risk
24 penalty can be assessed?

25 EXAMINER ASHLEY: Mr. Padilla?

1 MR. PADILLA: Mr. Examiner, I concur with Mr.
2 Carr's remarks. I find it chilling to not be able to
3 cross-examine somebody here in terms of geological
4 testimony. I think the kind of restriction that the
5 Examiner placed on me today is something that -- which
6 would be -- I represented clients here, that becomes
7 suspect when there's some kind of an objection on the basis
8 of management decisions that seem to be proprietary or some
9 other reason.

10 I think it's fair when someone comes here to
11 testify concerning geology, concerning risk factor and that
12 sort of thing, that the full extent of cross-examination
13 ought to be allowed.

14 In particular with respect to my clients, I
15 believe that Chesapeake has made it material by submitting
16 something on June 21st to my clients without an opportunity
17 to respond. I think the -- to make a decision one way or
18 the other, but I think that is something that is open to
19 inquiry and should be -- It just looks bad that somebody
20 receives notice four days ahead of a hearing without being
21 able to evaluate the change or why the change was made.

22 We don't know here today whether my clients have
23 even received the June 21st change for -- the change in the
24 depth of the well.

25 For those reasons, I believe the Application

1 ought to be denied, or at least postponed until adequate
2 notice is given to my clients concerning the well change
3 which we believe is material.

4 Thank you.

5 EXAMINER ASHLEY: Mr. Kellahin, would you like
6 to --

7 MR. KELLAHIN: Thank you.

8 EXAMINER ASHLEY: -- make any comment at this
9 time?

10 MR. KELLAHIN: I feel compelled to say something,
11 Mr. Examiner.

12 EXAMINER ASHLEY: Hm?

13 MR. KELLAHIN: I feel compelled to say something,
14 Mr. Examiner. I'm sorry that Mr. Padilla got chilled, I am
15 distressed that Mr. Carr's blood pressure now is high, but
16 this is not a game. Mr. Padilla referred to this as fair
17 game. This is a serious business.

18 Chesapeake afforded the opportunity to Mr. Carr's
19 clients to participate in the 3-D seismic effort that now
20 is in litigation. They've sued us over that fact. We are
21 the only interest owner in the spacing unit to propose this
22 well. They won't talk to us, they won't respond to us.
23 They just sue us.

24 When you look at this nonsense over the well
25 location, you realize it's nonsense. What does Ameristate

1 do? After they get our proposal, they file their own
2 competing pooling case and, based upon their own
3 information, choose the same location that we did, the
4 standard location. So niggling over the difference is
5 niggling over nothing.

6 Our witness testified to the fact that it doesn't
7 change the risk factor penalty. That's what's going on
8 here. He's disclosed to you all the information that he's
9 utilized to reach this opinion. He showed you the 2-D
10 lines and all the subsurface geological control.

11 He has not shown you the 3-D seismic work because
12 we're not going to give it away to Mr. Carr's clients.
13 They can go get it through litigation if that's where they
14 want to find out that information.

15 But we don't want this process used as an excuse,
16 while they whine over participation, to disclose very
17 valuable seismic information.

18 Look at the reality of this. They've been
19 afforded a full opportunity to participate. We will give
20 them that opportunity again. They now have the
21 information, they can go do that.

22 And what happens if they don't? Then Chesapeake
23 cuts a check for \$500,000, approximately 50 percent of it,
24 and we take the risk, and they watch what happens. When
25 you take that kind of financial risk, you get the benefit

1 of the penalties imposed. These are big boys, playing big
2 games, and they know how to do this. They can write a
3 check and participate.

4 Ameristate has got what? Eleven percent? I
5 forgot the number. Let them kick in, let them make their
6 own evaluation.

7 The niggling over 400 feet of depth is nonsense
8 as well. This well was proposed as a well to totally
9 penetrate to the base of the Morrow. Mr. Hefner has re-
10 examined it. He says, I need another 400 feet. Quite
11 frankly, he could have simply done it within the context of
12 this AFE. It didn't change.

13 But to be very careful that we're dotting all the
14 i's and crossing all the t's for this contentious group, we
15 got our permit amended by filing the appropriate notice,
16 and we've sent them notice again. If they don't like this,
17 then they don't have to participate.

18 The only thing we've heard from Mr. Padilla's
19 clients is, they'd like to review the operating agreement.
20 We've provided that to them. If they'll come back to us,
21 we'll have something to talk about. That is the only issue
22 any of these people have ever described to us until today.

23 They didn't object to our location. In fact,
24 they adopted our location.

25 They never objected to our AFE.

1 They don't object to our spacing unit.

2 Mr. Carr is here to represent Nearburg
3 Exploration. It says nothing about what happens with the
4 overlapping competing spacing units. I guess that's an
5 issue for a different day. But here was a chance to figure
6 that out. He represents them and does nothing about it.

7 So I think you have a plain, ordinary compulsory
8 pooling order to issue, and we would like you to do that
9 for us.

10 Thank you.

11 EXAMINER ASHLEY: Case 12,186 will be taken under
12 advisement.

13 And this concludes today's hearing.

14 (Thereupon, these proceedings were concluded at
15 10:06 a.m.)

16 * * *

17
18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 12186,
heard by me on 6-24-1999.

22 Mark Ashley, Examiner
23 Oil Conservation Division
24
25

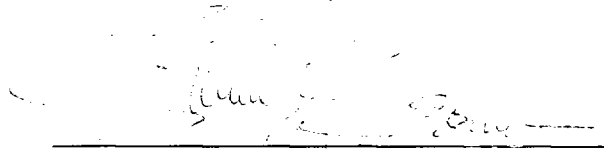
CERTIFICATE OF REPORTER

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 June 25th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002