

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:)

CASE NO. 13,464

APPLICATION OF LATIGO PETROLEUM, INC.,)
 FOR COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

May 19th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, May 19th, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 13,464

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<u>WILLIAM F. CHATHAM</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:05 a.m.:

3 EXAMINER JONES: And we'll Case 13,464,
4 Application of Latigo Petroleum, Incorporated, for
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. HALL: Mr. Examiner, Scott Hall, Miller
8 Stratvert, P.A., Santa Fe, appearing on behalf of the
9 Applicant, Latigo Petroleum, Inc., and we have one witness
10 this morning.

11 EXAMINER JONES: No other appearances, will the
12 witness please stand to be sworn?

13 (Thereupon, the witness was sworn.)

14 WILLIAM F. CHATHAM,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. HALL:

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

20 A. I'm William F. Chatham.

21 Q. And Mr. Chatham, where do you live and by whom
22 are you employed?

23 A. I live in Midland, Texas, I'm employed as a
24 senior staff landman with Latigo Petroleum.

25 Q. All right. Mr. Chatham, are you familiar with

1 the Application that's been filed in this case and the
2 lands that are the subject of the Application?

3 A. I am, sir.

4 Q. Have you previously testified before the Division
5 or one of its Examiners?

6 A. No, I have not.

7 Q. Okay, if you would please give the Hearing
8 Examiner a brief summary of your educational background and
9 work experience.

10 A. Okay. I have a bachelor's degree from the
11 University of Mississippi, and I did graduate at Texas
12 Christian University. I've been a landman for 22 years,
13 have been a -- I've worked as an independent with Meridian
14 Oil, Burlington Resources, Chesapeake and now Latigo.

15 I am a certified professional landman and have
16 been for 12 years.

17 Q. And does your experience include southeastern New
18 Mexico?

19 A. Yes, it does, sir, I've worked for several
20 companies.

21 MR. HALL: Mr. Examiner, we would tender Mr.
22 Chatham as a qualified professional landman.

23 EXAMINER JONES: Mr. Chatham is qualified as an
24 expert professional landman.

25 Q. (By Mr. Hall) If you would, briefly, Mr.

1 Chatham, summarize to the Examiner what it is that Latigo
2 is seeking by this Application.

3 A. Latigo is seeking to force pool the interest of
4 Chesapeake in the northwest quarter, Section 19, 25 South,
5 27 East, in Eddy County.

6 We have proposed a well at 1130 from the west
7 line, 1480 from the north line. We proposed it to our
8 internal partners. We hold a lease on the north --
9 actually, it's the -- we hold a lease on the east half, and
10 Chesapeake holds the lease on the west half, both federal
11 lands.

12 We have secured permission from the Bureau of
13 Land Management to consolidate the leases, and we have an
14 approved APD. And we have also proposed the well to
15 Chesapeake. Chesapeake has signed an AFE. We have
16 proposed a joint operating agreement and been negotiating
17 that operating agreement for a period of about a month and
18 a half to two months. We're getting close, but we haven't
19 gotten there, and we have a well -- I mean a rig, coming,
20 we think, July the 1st. That's what we are projecting
21 right now. And so we want to move forward with the
22 Application.

23 Q. Let's refer to Exhibit Number 1, Mr. Chatham.
24 Would you identify that, please, sir?

25 A. That's the C-102, the surveyor's plat that was

1 filed with the BLM for -- and the OCD with approval for
2 their drill location.

3 Q. And the well name on there is the Marine 19
4 Federal Well Number 1; is that correct?

5 A. That is correct.

6 Q. And Latigo is establishing a north-half spacing
7 unit for the well?

8 A. That is correct, sir.

9 Q. And what formations are you asking to be pooled?

10 A. From the surface to the base of the Morrow.

11 Q. Okay, so everything on 320-acre spacing?

12 A. Everything on 320 acres, yes, sir.

13 Q. And the Morrow is your primary objective for the
14 well?

15 A. That is correct.

16 Q. Let's look at Exhibit Number 2. Is that a copy
17 of your approved APD from the BLM?

18 A. That is, that is a copy with the -- that is a
19 copy of the APD.

20 Q. And Exhibit Number 3, identify that, please, sir.

21 A. Exhibit Number 3 is a letter in response to a
22 meeting that Chesa- -- I mean that Latigo had with the
23 Bureau of Land Management in their Roswell field office,
24 and also a letter requesting communitization, and the
25 Bureau has agreed to communitize these two leases.

1 Q. Consisting of a north-half unit?

2 A. Consisting of a north-half unit.

3 Q. All right. And that approval was issued on
4 January 7, 2005; is that correct?

5 A. That is correct.

6 Q. What percentage of the acreage in the north-half
7 unit is now committed to the well?

8 A. Fifty percent is committed, 50 percent, which is
9 Chesapeake's, is not committed.

10 Q. And by the way, do you know if Chesapeake's
11 ownership is in the name of Chesapeake Operating, or is it
12 another Chesapeake entity?

13 A. I believe it is Chesapeake Exploration, L.P., I
14 believe. I can check that real quick. Chesapeake
15 Operating, Inc., is -- No, it's Chesapeake Exploration
16 Limited Partnership, an Oklahoma limited partnership.

17 Q. Okay. If you would, Mr. Chatham, would you
18 summarize your efforts to obtain the voluntary
19 participation of Chesapeake in the well?

20 A. Certainly. We proposed -- I proposed the well on
21 behalf of Latigo to RJV Partners as well as Chesapeake on
22 2-3-05, on February 3rd of '05.

23 On March 3rd I received a fax from Chesapeake
24 signing the AFE, signed by Aubrey McClendon, chief
25 executive officer for Chesapeake.

1 On 3-18 I returned -- March 18th, I returned to
2 Latigo -- I mean, to Chesapeake, as well as the other
3 partners, a proposed operating agreement. We have gone
4 through a number of e-mails and iterations for the
5 operating agreement, most minor in nature, I will say. But
6 the JOA was -- I've been told that we're almost there but
7 not quite. We've got a few little issues to iron out, as
8 of last Monday. And actually, I've got an e-mail this
9 morning that I checked, and we're just getting a memorandum
10 together and a few other things.

11 Q. Well, let's go through your exhibits. If you'd
12 look at Exhibit 4, is that the transmittal for your initial
13 well proposal to Chesapeake dated February 3, 2005?

14 A. That's correct, sir.

15 Q. And that transmitted the AFE?

16 A. That's right, sure did.

17 Q. And if you look at Exhibit Number 5, is that a
18 transmittal letter?

19 A. That's a letter back from Lynn McGuire who's a
20 land tech at Chesapeake, transmitting the original
21 agreement back to me, or the original AFE back to me.

22 Q. And that's dated March 3, 2005. And it appears
23 that the AFE was signed on March 2, 2005, by Chesapeake
24 Operating, Inc., general partner; is that right?

25 A. That's correct.

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17 Q. And as of today, negotiations for the final terms
18 of a JOA are not complete?

19 A. That's correct.

20 Q. You haven't received a signed JOA from
21 Chesapeake; is that right?

22 A. No, I have not.

23 Q. And Exhibit 8, is that a copy of the JOA that was
24 initially transmitted to Chesapeake?

25 A. No, sir, this is actually the last iteration of

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1 the JOA, and pretty much the one that will wind up
2 standing, we think.

3 Q. All right.

4 Q. And of course, under your JOA and pursuant to
5 your Application, Latigo seeks to be designated operator of
6 the well?

7 A. Absolutely, yes, sir.

8 Q. In your opinion, has Latigo made a good-faith
9 effort to obtain Chesapeake's voluntary participation in
10 the well?

11 A. Yes, sir, we have.

12 Q. If you would, Mr. Chatham, refer back to your
13 AFE. I think you can refer to Exhibit Number 5. Would you
14 review the well costs reflected in the AFE for the
15 Examiner?

16 A. Yes, sir, we're predicting -- or the estimate is
17 that the well will be -- dryhole cost on the well will be
18 \$2,002,500, completion cost of \$592,500, for a total cost
19 of \$2,580,000.

20 The AFE was written in December 14th. It might
21 have gone up a little bit, based on rig costs that we have,
22 but it's certainly within the tolerances that you would
23 expect.

24 Q. And are the costs reflected on the AFE in line
25 with what other operators in the area are charging for

1 Q. Then Exhibit 6, why don't you identify that?

2 A. Exhibit is a letter I sent to Kathy Blick who's a
3 landman with Chesapeake, offering her or presenting to her
4 our operating agreement, and that was the first transmittal
5 letter.

6 Do you want me to just continue on?

7 Exhibit 17 [sic] goes through a series of e-mails
8 in which we exchanged various copies of the joint operating
9 agreement, trying to pull it into place. This is pretty
10 typical of how we proceed through this matter.

11 Q. Now, Exhibit 7 consists of a compilation of three
12 e-mails, beginning April 15th, 2005, including April 20th,
13 2005, and going all the way to May 9, 2005, and do they
14 indicate your efforts to negotiate final terms for a JOA
15 with Chesapeake?

16 A. Yes, sir, they do.

17 Q. And as of today, negotiations for the final terms
18 of a JOA are not complete?

19 A. That's correct.

20 Q. You haven't received a signed JOA from
21 Chesapeake; is that right?

22 A. No, I have not.

23 Q. And Exhibit 8, is that a copy of the JOA that was
24 initially transmitted to Chesapeake?

25 A. No, sir, this is actually the last iteration of

1 Morrow completion?

2 A. Yes, sir, they certainly are.

3 Q. And has Latigo made an estimate of the overhead
4 and administrative costs while drilling and producing the
5 well?

6 A. Yes, sir, on page 4 the COPAS is attached to the
7 joint operating agreement, and this is an item that we have
8 negotiated with Chesapeake.

9 The drilling well rate is \$6000 per month,
10 producing well rate is \$650 a month.

11 Q. And as well, are those rates in line with what's
12 being charged in the area currently?

13 A. They are in line with what's being charged. If
14 not, they are below COPAS recommendations. But they are --
15 well, within line of what's customary and usual in this
16 area.

17 Q. And are you recommending that these drilling and
18 producing overhead rates be incorporated in any order that
19 issues from the Division?

20 A. Yes, I am.

21 Q. And does Latigo request the 200-percent risk
22 penalty assessment in this case?

23 A. Yes, we do.

24 Q. And does Latigo seek an order that provides for
25 an adjustment of the drilling and producing overhead rates

1 in accordance with the current COPAS bulletin?

2 A. Yes, sir, we do that too.

3 Q. In your opinion, Mr. Chatham, would the granting
4 of Latigo's Application be in the best interest of
5 conservation, the prevention of waste and protection of
6 correlative rights?

7 A. Yes, sir, it certainly would.

8 Q. Now, were Exhibits 1 through 8 prepared by you or
9 at your direction?

10 A. Yes, sir, they were.

11 MR. HALL: At this time, Mr. Examiner, we would
12 tender into evidence Exhibits 1 through 8.

13 That concludes our direct of this witness.

14 EXAMINER JONES: Exhibits 1 through 8 will be
15 admitted to evidence.

16 EXAMINATION

17 BY EXAMINER JONES:

18 Q. Mr. Chatham, can you say one more time the
19 drilling rate?

20 A. The drilling rates, the one that we're providing
21 for, a drilling rate of \$6000 per month --

22 Q. \$6000.

23 A. -- and producing rate at \$650 per month.

24 Q. \$650, okay. And Chesapeake is the only party to
25 be pooled, you say?

1 A. They're the only party to be pooled, yes, sir.

2 Q. Okay. And the well, does it have an API number
3 or -- I can try to find that if it's -- It's already been
4 approved by the feds, right?

5 A. Yes, it has. It's probably -- get my eyes on it
6 here. Well, I'm not honing in on it, but it --

7 Q. I can find it. I don't think they assign one
8 until the feds have approved it.

9 A. I'm not -- I don't have that in my -- It's not on
10 the APD. Probably would have been, but --

11 Q. Okay, so what we're talking about here is 320
12 gas, Strawn and Morrow, and that's it, right? No 160s or
13 no 40s?

14 A. No, we're looking at the 320-acre --

15 Q. -- only.

16 A. -- production unit.

17 Q. And those are both undesignated. They're right
18 on the edge of the Cottonwood Draw, the pool, this well
19 will be?

20 A. I'm sorry, I didn't understand your question.

21 Q. It's not inside the pool yet, it's right outside
22 the pool?

23 A. I believe that's correct.

24 Q. Okay. How many acres is in this -- is it really
25 320 or is it --

1 A. I believe this one, sir, is -- even though it
2 shows lines through here, I believe it is 320 acres.

3 Q. Okay. Yeah, I see a lot 1 and 2. I could say
4 more or less.

5 A. More or less, yes, sir. I don't show anything
6 that really -- With that being lots, I would suggest we use
7 the language, "more or less".

8 EXAMINER JONES: Okay. I'm running low on
9 questions here.

10 Gail, do you have a question?

11 MS. MacQUESTEN: Mr. Hall, do we have proof of
12 notice for Chesapeake of a hearing date?

13 MR. HALL: We do. I'll present Mr. Brenner with
14 the original and a copy of the notice that has been marked
15 as Exhibit 9.

16 We ask that it be admitted into evidence.

17 EXAMINER JONES: We'll admit number -- Exhibit 9
18 into evidence.

19 I guess that takes care of everything. Thank you
20 very much, Mr. Chatham --

21 THE WITNESS: I appreciate it, sir.

22 EXAMINER JONES: -- for coming today. And Mr.
23 Hall, thank you very much.

24 MR. HALL: Thank you, Mr. Examiner. That
25 concludes our case.

1 EXAMINER JONES: Okay, with that, we'll take Case
2 13,464 under advisement.

3 And we'll adjourn this docket until Monday
4 morning.

5 (Thereupon, these proceedings were concluded at
6 10:25 a.m.)

7 * * *

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12 I do hereby certify that the foregoing is
13 a complete record of the proceedings in
14 the Examiner hearing of Case No. _____
heard by me on _____

15 _____, Examiner
16 Oil Conservation Division
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CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 21st, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006