

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION COMMISSION FOR THE)
 PURPOSE OF CONSIDERING:)
)
 APPLICATION OF SAMSON RESOURCES COMPANY,) CASE NOS. 13,492
 KAISER-FRANCIS OIL COMPANY, AND)
 MEWBOURNE OIL COMPANY FOR CANCELLATION)
 OF TWO DRILLING PERMITS AND APPROVAL OF)
 A DRILLING PERMIT, LEA COUNTY,)
 NEW MEXICO)
)
 APPLICATION OF CHESAPEAKE PERMIAN, L.P.,) and 13,493
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)
) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING (Closing of Session for Deliberation)

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

ORIGINAL

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Volume V - January 11th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, MARK E. FESMIRE, Chairman, on August 10th, December 14th and 15th, 2006, January 2nd and January 11th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

January 11th, 2007
Commission Hearing (Closing of Session for Deliberation)
CASE NOS. 13,492 and 13,493 (Consolidated)

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A P P E A R A N C E S

FOR THE COMMISSION:

CHERYL BADA
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 11:57 a.m.:

3 CHAIRMAN FESMIRE: With this, I'm going to ask
4 the Commission members whether they want to break for lunch
5 and come back. We still -- The only thing remaining before
6 the Commission on today's docket is the deliberations on
7 the Cases Number 13,492 and 13,493, the *de novo* Application
8 of Samson Resources Company, Kaiser-Francis Oil and
9 Mewbourne Oil for cancellation of two drilling permits and
10 approval of a drilling permit in Lea County, New Mexico --
11 that's Case Number 13,492 -- Case Number 13,493 is the *de*
12 *novo* Application of Chesapeake Permian, L.P., for
13 compulsory pooling, Lea County, New Mexico.

14 Would the Commission like to begin deliberations
15 or break for lunch and come back --

16 COMMISSIONER BAILEY: I have to eat.

17 COMMISSIONER OLSON: Yeah, eat food.

18 (Laughter)

19 CHAIRMAN FESMIRE: I will consider that as a
20 motion and a second to break for lunch and return at -- ?

21 COMMISSIONER BAILEY: 12:30 is fine with me, as
22 long as --

23 COMMISSIONER OLSON: How about 1:00.

24 CHAIRMAN FESMIRE: -- and return at one o'clock
25 p.m. today, at which time we will take up the deliberations

1 on Causes Number 13,492 and 13,493.

2 (Thereupon, noon recess was taken at 11:58 a.m.)

3 (The following proceedings had at 1:03 p.m.)

4 CHAIRMAN FESMIRE: At this time the Commission
5 will come back into session. Let the record reflect that
6 it's one o'clock on Thursday the 11th of January, 2007.
7 Again, the entire Commission is present, as is Counsel
8 Bada, and at this time we're going to go into executive
9 session to consider Causes Number 13,492 and 13,493. Thank
10 you.

11 (Off the record at 1:04 p.m.)

12 (The following proceedings had at 2:52 p.m.)

13 CHAIRMAN FESMIRE: Okay, let the record reflect
14 that it is approximately 10 minutes to three o'clock on the
15 afternoon of January 11th, 2007. The New Mexico Oil
16 Conservation Commission had met in executive session to
17 consider Cases Number 13,492 and 13,493. During that
18 executive session those two cases were the only cases that
19 the Commission discussed. Let the record also reflect that
20 all three Commissioners, Commissioner Bailey, Commissioner
21 Olson and Commissioner Fesmire, were present during that
22 discussion and took part in the deliberations.

23 The Commission has decided that because of --

24 COMMISSIONER OLSON: Wait a second.

25 COURT REPORTER: It's okay. Yeah, I'm sorry,

1 it's okay.

2 CHAIRMAN FESMIRE: Ready? After reviewing the
3 geologic evidence and the evidence presented in the many,
4 many days of testimony in this case, the Commission has
5 determined that because of the influences of both source
6 areas, the coalescence of the sands in the reservoir area
7 comes from both the north and south and east-west source
8 areas, north-south, east-west, source areas.

9 As a result, the Commission has decided to create
10 a 640-acre proration unit consisting of the south two-
11 thirds of Section 4, Township 21 South, Range 35 East -- or
12 make that approximately 640 acres -- and that it is
13 necessary to create that proration unit to prevent waste
14 and protect correlative rights. There shall be an option
15 of up to four wells, four total wells, in the subject
16 reservoir of approximately 640 acres. Those wells shall be
17 located at standard locations. As the largest interest
18 holder, Samson shall be appointed operator and that that
19 appointment shall be effective from the date of this order.

20 The well costs for the KF State Number 4 well
21 shall be divided according to the working interest in the
22 resulting approximately 640-acre unit, with all parties
23 paying their *pro rata* share of the reasonable, actually
24 incurred costs of drilling. To the extent possible, the
25 allocation of these costs shall follow Rules 35 and 36 --

1 let's check that and make sure -- yes, Rules 35 and 36.
2 Such costs shall not include any charge for risks, but
3 shall include only actually incurred charges for
4 supervision. Parties shall offset costs, and proceeds of
5 production shall be credited to the parties from the date
6 of first production.

7 To prevent future confusion in the interpretation
8 of Commission rulings, particularly orders in the Pride-
9 Yates and TMBR/Sharp cases, the Commission ratifies the
10 language on Form C-102, field 17, concerning the operator's
11 certification. That certification reads as follows: I
12 hereby certify that the information contained herein is
13 true and correct to the best of my knowledge and belief and
14 that the organization either owns a working interest or
15 unleased mineral interest in the land, including the
16 proposed bottomhole location, or has a right to drill this
17 well at this location pursuant to a contract with an owner
18 of such mineral or working interests or in a voluntary
19 pooling agreement or compulsory pooling order hereto
20 entered by the Division.

21 Chesapeake shall provide copies of invoices and
22 documentation, as well as sales documents, for all
23 reasonable costs incurred, and the working interest
24 owners -- to the working interest owners, I'm sorry, within
25 30 days of the order. Working interest owners shall object

1 to the OCC within 30 days of the receipt of said
2 documentation. The OCC shall set for hearing these
3 objections at a regularly scheduled meeting.

4 It is the intention of the Commission that the
5 actual costs be reimbursed according to the working
6 interest percentage, and those costs do not include any
7 provision for risk but do include the actual incurred costs
8 of supervision.

9 With that, Commission will ask -- I mean, the
10 Chairman will ask the Commissioners, Bailey first and then
11 Commissioner Olson, if they have anything to add to the
12 statement on the record?

13 COMMISSIONER BAILEY: No, I believe that
14 adequately reflects the decisions that we made in closed
15 session.

16 CHAIRMAN FESMIRE: Commissioner Olson, do you
17 have anything to add to the record?

18 COMMISSIONER OLSON: No, I just -- I believe that
19 reflects our discussions and decisions in this matter.

20 CHAIRMAN FESMIRE: Okay. At this time we will
21 instruct Counselor Bada to draft an order to that effect,
22 and we'll continue this case until the next regularly
23 scheduled meeting of the Commission, which is February 8th,
24 I believe, and at that time the Commission will take up
25 what we hope to be the final action on this case.

1 Are there -- Any other business before the
2 Commission today?

3 COMMISSIONER BAILEY: No.

4 COMMISSIONER OLSON: No.

5 CHAIRMAN FESMIRE: Okay. With that, the Chair
6 would entertain a motion for adjournment.

7 COMMISSIONER BAILEY: I move we adjourn.

8 COMMISSIONER OLSON: Second.

9 CHAIRMAN FESMIRE: All those in favor?

10 COMMISSIONER BAILEY: Aye.

11 COMMISSIONER OLSON: Aye.

12 CHAIRMAN FESMIRE: Aye. Let the record reflect
13 that the meeting of the Commission was adjourned at three
14 o'clock p.m.

15 (Thereupon, these proceedings were continued at
16 3:00 p.m.)

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CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL January 15th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010