

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 RESCISSION OF THE SPECIAL)
 RULES AND REGULATIONS FOR THE T-V)
 PENNSYLVANIAN GAS POOL, CHAVES COUNTY,)
 NEW MEXICO)

CASE NO.

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REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Technical Examiner
 CAROL LEACH, Legal Examiner

November 1st, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Technical Examiner, Carol Leach, Legal Examiner, on Thursday, November 1st, 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

November 1st, 2007
Examiner Hearing
CASE NO. 14,023

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JIM BALL</u> (Landman)	
Direct Examination by Ms. Munds-Dry	4
Examination by Examiner Jones	10
<u>DAVID A. GODSEY</u> (Geologist)	
Direct Examination by Ms. Munds-Dry	13
Examination by Examiner Jones	17
REPORTER'S CERTIFICATE	20

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit A	7	10
Exhibit B	8	10
Exhibit C	9	10
Exhibit D	9	10
Exhibit E	14	17
Exhibit F	15	17
Exhibit G	17	17

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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:

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By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 11:23 a.m.:

3 EXAMINER JONES: Okay, let's go back on the
4 record, and let's call Case 14,023, Application of
5 Chesapeake Operating, Incorporated, for rescission of the
6 special rules and regulations for the T-V Pennsylvanian Gas
7 Pool, Chaves County, New Mexico.

8 Call for appearances.

9 MS. MUNDS-DRY: Good morning, Mr. Examiner, Ocean
10 Munds-Dry with the law firm of Holland and Hart, here
11 representing Chesapeake Operating, Inc., this morning, and
12 I have two witnesses.

13 EXAMINER JONES: Welcome back, Ocean.

14 MS. MUNDS-DRY: Thank you.

15 EXAMINER JONES: Are there any other witnesses --
16 or appearances in this case?

17 Will the witnesses please stand to be sworn?

18 (Thereupon, the witnesses were sworn.)

19 JIM BALL,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. MUNDS-DRY:

24 Q. Would you please state your name for the record?

25 A. My name is Jim Ball.

1 Q. Mr. Ball, where do you reside?

2 A. I reside in Edmond, Oklahoma.

3 Q. And by whom are you employed and what is your
4 position?

5 A. Chesapeake Energy Corporation, senior landman,
6 Permian north.

7 Q. Have you previously testified before the
8 Division?

9 A. Yes, I have.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 that are the subject of this Application?

15 A. Yes, I am.

16 MS. MUNDS-DRY: Mr. Jones, we would tender Mr.
17 Ball as an expert in petroleum land matters.

18 EXAMINER JONES: Mr. Ball is qualified as an
19 expert in petroleum land matters.

20 Q. (By Ms. Munds-Dry) Mr. Ball, would you briefly
21 state what Chesapeake seeks with this Application?

22 A. An order rescinding special pool rules and
23 regulations for the T-V Pennsylvanian Gas Pool.

24 Q. And would you review for the Examiner what these
25 special rules now require?

1 A. Yes, for the pool boundaries -- there's something
2 out of order here. Well, 990 feet from the boundary of a
3 quarter section, no nearer than 330 feet to any
4 governmental quarter quarter section.

5 Q. Do you know what the spacing is?

6 A. The spacing is 320 acres.

7 Q. And do you know what the pool boundaries are?

8 A. Yeah, the pool boundaries are the north half of
9 22 and the west half of 23, Township 11 South, Range 31
10 East.

11 Q. And let's review the history of these rules as
12 they were adopted. Do you know who brought the application
13 for special pool rules?

14 A. Yes, it was Robinson Brothers, 1961, Case Number
15 2131.

16 Q. Was that Application granted?

17 A. Yes, and it resulted in a temporary special rules
18 and regulations in Order Number R-1839.

19 Q. And were those rules made permanent?

20 A. Yes, by Order Number R-1839-A.

21 MS. MUNDS-DRY: Mr. Examiner, we'd ask that you
22 take administrative notice of Order Number R-1839 and
23 1839-A.

24 EXAMINER JONES: Okay, we'll take administrative
25 notice of R-1839 and 1839-A.

1 Q. (By Ms. Munds-Dry) So Mr. Ball, the original
2 boundary for the pool was the north half of Section 22; is
3 that correct?

4 A. That's correct.

5 Q. And was the pool boundary expanded?

6 A. Yes, to be the west half of 23.

7 Q. Was that in Order Number R-12,646?

8 A. Yes.

9 MS. MUNDS-DRY: Mr. Examiner, we'd also ask that
10 you take administrative notice of Order Number R-12,646.

11 EXAMINER JONES: Okay, we'll administrative
12 notice of Order R-12,646.

13 Q. (By Ms. Munds-Dry) Mr. Ball, have you prepared
14 exhibits for presentation at the hearing today?

15 A. Yes, I have, this large color map.

16 Q. Would you please turn to what's been marked as
17 Chesapeake Exhibit A and review that for Mr. Jones?

18 A. Okay, this map shows, first off, the green outer
19 boundary, shows the one-mile radius around the pool itself.
20 The pool is the hached red marks describing the north half
21 of 22, west half of 23. There's three operators in the
22 outlined area, Chesapeake, Read and Stevens and Samson
23 Resources. The blue represents Chesapeake, the gold
24 Samson, and the pink Read and Stevens.

25 These each one of their proration units, and the

1 wells shown, as the symbols indicate, are either new
2 locations, producing gas wells, or P-and-A'd wells. And
3 this is recent activity from the last -- like 2007. The
4 last year.

5 Q. And does this map show the discovery well for the
6 pool?

7 A. Well, yes, the discovery well was in Section 22.
8 I've only shown the wells that are the recent activity.
9 The discovery well was P-and-A'd, I don't recall what year
10 but previously, so its proration unit isn't shown, but it
11 was in the north half of 22, I believe.

12 Q. And Mr. Ball, if you would please turn to Exhibit
13 Number B and review this for the Examiner. It should be
14 that top letter.

15 A. Okay, Exhibit B is the letter that we got from
16 the State, basically telling us to either file an
17 unorthodox well location application or change pool rules.
18 The attachment shows the wells that were in violation, as
19 the rules are currently written.

20 Q. And as you reviewed the rules for this pool and
21 then looked at the wells that have been currently drilled
22 for this field, were any of the wells drilled in
23 conformance with the special pool rules?

24 A. None of the wells were drilled in conformance to
25 the pool rules.

1 Q. And again, some of these wells, at least, are
2 listed on the letter that's included as Exhibit B?

3 A. That's correct.

4 Q. And then if you would please turn to Chesapeake
5 Exhibit Number C.

6 A. Exhibit C are the two letters, first one being --

7 Q. Actually C and D, Mr. Ball.

8 A. C and D, okay. First letter is from Read and
9 Stevens supporting our Application. Exhibit D is the
10 Samson letter, again supporting -- again, this would be all
11 the operators within the radius of the existing pool.

12 Q. What are the nature of the lands that are the
13 subject of this Application?

14 A. It's state, federal and fee lands. They are
15 approximately 4 percent federal -- When you take the 6400
16 acres outlined, 4 percent, approximately, is federal lands,
17 36 percent is fee lands, and the balance, 60 percent, is
18 state lands.

19 Q. And then what is the status of the royalty
20 interests, then, under these lands?

21 A. It's the same, state, fed and fee.

22 Q. Will development of these lands on statewide
23 rules adversely affect any of these royalty interests?

24 A. No, they won't.

25 Q. And why is that? Obvious point, but why is that?

A. Well, this Application we have, probably is a better situation, we feel like we can better place the wells, therefore producing better outcome and royalties for the state, fed and fee.

Q. And were Exhibits A through D compiled by you or prepared by you?

A. Yes, they were.

MS. MUNDS-DRY: Mr. Jones, we would ask that Exhibits A, B, C and D be admitted into evidence.

EXAMINER JONES: Exhibits A, B, C and D will be admitted into evidence.

MS. MUNDS-DRY: And that concludes my direct examination of Mr. Ball.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Ball, the rules on notification, when you change anything to do with a pool, is it your understanding that you notify all the operators within a mile of the pool, or you notice all the operators, and if there's not an operator you notice the lessee? What is your take on that? I don't have my rule book with me.

MS. MUNDS-DRY: I believe it's Rule 1210.A.(4), and it requires notice to all operators within a mile, as long as there's a designated operator within that mile radius there.

1 EXAMINER JONES: It doesn't say anything about if
2 there is no operator?

3 MS. MUNDS-DRY: I don't have it in front of me
4 either --

5 EXAMINER JONES: Okay.

6 MS. MUNDS-DRY: -- but I believe it's all of the
7 operators, and that's who we notified, any the operators
8 that had wells in the pool --

9 EXAMINER JONES: Okay.

10 MS. MUNDS-DRY: -- within a mile radius.

11 Q. (By Examiner Jones) Do you know anything about
12 the lessees of the lands that are not colored in?

13 A. Yes, I know that Yates Pet. is in support of it.
14 I didn't -- since their application was rescinded. I
15 didn't ask them for a support letter, but I'm sure that I
16 could get one. They know we're here, they're in support of
17 it.

18 MS. MUNDS-DRY: And we did notify them, Mr.
19 Hearing Examiner, we did notify you.

20 EXAMINER JONES: Okay.

21 THE WITNESS: As far as the others, I didn't
22 contact them. Let me look real briefly here. There are
23 other people that own leasehold in here that I did not
24 contact.

25 EXAMINER JONES: Okay. I guess what we can do,

1 then, is go ahead and proceed with the case, and if we
2 decide later, after we look at the Rules, that it does
3 require that, I can communicate with your attorney on that.

4 MS. MUNDS-DRY: And I'm sure that we can
5 obviously, of course, give notice to lessees if that's what
6 the Rule is. So we'll go back and review that and --

7 EXAMINER JONES: Okay.

8 MS. MUNDS-DRY: -- make sure we're in compliance.

9 EXAMINER JONES: Okay, I'll talk to Carol
10 afterwards about it.

11 MS. MUNDS-DRY: Okay.

12 Q. (By Examiner Jones) And as far as any other
13 questions, I -- So Yates didn't show up, even though they
14 got an application turned down? They left it to you guys
15 to change the pool rules?

16 A. I don't remember Yates getting an application
17 to --

18 Q. Okay, you said something about they had a well
19 that --

20 A. Oh, they had a well permitted, and between Yates,
21 Read and Stevens and Samson worked something out, and they
22 bowed out. And I notified them that they still had this
23 application out there, and they sent in their rescission
24 because they said they got everything worked out --

25 Q. Oh.

1 A. -- and let somebody else operate it.

2 EXAMINER JONES: Okay. Well, I don't think I
3 have any more questions?

4 Do you have any questions?

5 MS. LEACH: Nothing.

6 EXAMINER JONES: Okay, thanks.

7 MS. MUNDS-DRY: We'd like to call David Godsey to
8 the stand.

9 DAVID A. GODSEY,
10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. MUNDS-DRY:

14 Q. Please state your name for the record.

15 A. David Godsey.

16 Q. And where do you reside?

17 A. Edmond, Oklahoma.

18 Q. And by whom are you employed and in what
19 position?

20 A. I work for Chesapeake Energy, I'm a senior
21 geologist, working the Permian Basin.

22 Q. And are you familiar with the Application that
23 Chesapeake has filed in this case?

24 A. Yes, I am.

25 Q. And are you familiar with the geology that is the

1 subject of this Application?

2 A. Yes, I am.

3 MS. MUNDS-DRY: We would tender Mr. Godsey as an
4 expert in petroleum geology.

5 EXAMINER JONES: Mr. Godsey is qualified as an
6 expert in petroleum geology.

7 Q. (By Ms. Munds-Dry) Mr. Godsey, have you prepared
8 exhibits for presentation in this hearing?

9 A. Yes, I have.

10 Q. Would you please identify and review Chesapeake
11 Exhibit Number E for the Examiner?

12 A. Certainly. Exhibit E is a net porous sand
13 isopach of the T-V Pennsylvanian Morrow sand that's
14 producing in the field. This is a 1-to-100-scale map. It
15 covers a little bit more than the pool boundaries. It
16 shows all well control out here. The isopach map that you
17 see here was built by subsurface well control. I'm picking
18 net clean porous sand using a 10-percent porosity cutoff in
19 there and mapping that.

20 The red circles you see around four of the wells
21 on there indicate the wells that have produced gas or are
22 producing gas out of the T-V sand. And then in red numbers
23 and green numbers to the right of those we're showing the
24 cumulative production. The gas would be in BCF, and the
25 oil is in MBOs.

1 The two more recent wells that there's no data --
2 you know, production data on yet are the Read and Stevens
3 Manry-Elliott Number 2 in Section 22 and then the Chesapeake
4 Lauralea 26 State Number 1. I have information about their
5 recent completions in there.

6 The purple Xs that you see scattered throughout
7 the map area, those actually are the legal locations that
8 can be drilled according to the existing field rules.
9 Essentially what it works out to be is, you can drill 990
10 and 990 from the quarter line, or 1650-1650, or a
11 combination of 990 and 1650, with no leeway as we normally
12 have, say, on statewide rules.

13 Also represented on here in the green box is the
14 net feet of porous sand that I'm mapping in here.

15 The real thing to note here is, as always with
16 the nature of the Morrow sands in general, and specifically
17 with respect to this pool, the field rules would make it
18 very difficult to properly develop and produce the gas out
19 of this pool.

20 Q. Thank you. Would you please turn to Exhibit E --
21 F, I'm sorry, and review that for Mr. Jones?

22 A. This is a spreadsheet of all the wells that have
23 been drilled or permitted within the map area. They are
24 sorted by their permit date, so the earliest permit date
25 would be at the top, and the most recent would be at the

1 bottom of the spreadsheet.

2 It shows the operator, lease name, well number,
3 their actual locations, what field they were filed in, API
4 number, virtually everything you want to know about those
5 wells. It does show what producing formation that they're
6 reported to have produced out of and any net cumulative
7 production that they've made.

8 One thing that you can see from looking at the
9 footage locations on these wells, as Mr. Ball referred to
10 earlier, actually no well drilled out here is actually in
11 compliance with the T-V pool rules.

12 Q. And after looking at the geology in this area and
13 then the well performance, what are your conclusions?

14 A. Well, my conclusion is that the field rules are
15 really not appropriate for this pool. They're not
16 appropriate for the Morrow in general, but specifically to
17 this case the nature of the sands are relatively thin,
18 they're narrow bodies, you need to have leeway as per the
19 normal statewide rules to properly develop this. Without
20 that, you're going to leave gas in the ground and you're
21 going to have very -- extreme difficulty protecting your
22 correlative rights.

23 Q. And will the granting of this Application be in
24 the best interests of conservation, the prevention of waste
25 and the protection of correlative rights?

1 A. Yes, it will.

2 Q. If you could please turn to Exhibit G, is Exhibit
3 G an affidavit of publication as well as the green cards
4 that we sent to those operators in the pool?

5 A. I need to get that from Mr. Ball. I think he
6 walked off with the rest of --

7 Q. I'll just give you mine.

8 A. Okay. Yes, it is.

9 Q. Were Exhibits E, F and G either prepared by you
10 or compiled under your direct supervision?

11 A. Yes.

12 MS. MUNDS-DRY: We would move the admission of
13 Exhibits E through G into evidence.

14 EXAMINER JONES: Exhibits E through G will be
15 admitted into evidence.

16 MS. MUNDS-DRY: And that concludes my direct
17 examination of Mr. Godsey.

18 EXAMINATION

19 BY EXAMINER JONES:

20 Q. Okay, Mr. Godsey, did you look at the case file
21 for the original special pool rules and figure out why they
22 went through these?

23 A. I didn't examine the history of how they came to
24 those somewhat bizarre rules, no. It was done in the '60s,
25 and I'm at a loss to explain. I think I've seen this kind

1 of pool rules once before, and I can't even remember where
2 now.

3 Q. Okay, that was 1960, so that was back when --
4 Maybe that was a --

5 A. Yeah, it --

6 Q. Have to ask some of the other -- older people
7 here. They might know.

8 A. Yeah, I've been in the industry, it'll be 30
9 years this year and, you know, this is pretty unusual
10 rules.

11 EXAMINER JONES: Okay, I didn't have any more --

12 THE WITNESS: By the way, the discovery well is
13 -- that Jim Ball referred to in Section 22, in the
14 northwest quarter of Section 22, made the 4.34 BCF of gas,
15 that's the one that was the discovery, and that's the one
16 that they established the pool rules in. It doesn't meet
17 with the pool rules either, you know. So it's -- like I
18 said, it's unusual pool rules. I don't think they're
19 appropriate.

20 EXAMINER JONES: Okay, even the discovery well
21 was --

22 THE WITNESS: That's right.

23 EXAMINER JONES: -- didn't obey the pool rules.

24 Okay, that's -- Thank you very much, Mr. Godsey.

25 THE WITNESS: Thank you.

1 MS. MUNDS-DRY: Thank you, Mr. Jones.

2 EXAMINER JONES: With that, we'll take Case
3 14,023 under advisement.

4 (Thereupon, these proceedings were concluded at
5 11:43 a.m.)

6 * * *

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12
13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. _____
16 heard by me on _____
17 _____, Examiner
18 Oil Conservation Division
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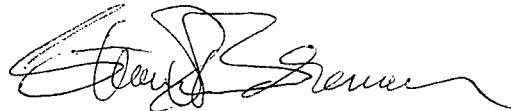
CERTIFICATE OF REPORTER

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 November 2nd, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010