

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:)
AMENDED APPLICATION OF CHESAPEAKE)
OPERATING, INCORPORATED, FOR COMPULSORY)
POOLING, LEA COUNTY, NEW MEXICO)

CASE NO. 14,027

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Technical Examiner
DAVID K. BROOKS, Jr., Legal Examiner

January 10th, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, January 10th, 2008, 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.

* * *

STEVEN T. BRENNER, CCR
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I N D E X

January 10th, 2008
 Examiner Hearing
 CASE NO. 14,027

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A P P E A R A N C E S

FOR THE DIVISION:

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Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 9:07 a.m.:

3 EXAMINER JONES: And let's call Case 14,027,
4 amended Application of Chesapeake Operating, Incorporated,
5 for compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. MUNDS-DRY: Ocean Munds-Dry with the law firm
8 of Holland and Hart, here representing Chesapeake
9 Operating, Incorporated, this morning, and I have one
10 witness.

11 EXAMINER JONES: Any other appearances?
12 Will the witness please stand to be sworn?
13 (Thereupon, the witness was sworn.)

14 EDWARD J. BIRDSHEAD,
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 MS. MUNDS-DRY:

19 Q. Would you please state your full name for the
20 record?

21 A. Edward Joe Birdshead.

22 Q. Mr. Birdshead, where do you reside?

23 A. 2200 Cheswick Road, Edmond, Oklahoma.

24 Q. And by whom are you employed?

25 A. Chesapeake Energy Corporation.

1 Q. And what is your position with Chesapeake?

2 A. I'm a landman.

3 Q. Have you previously testified before the
4 Division?

5 A. No.

6 Q. Would you please review for the Examiner your
7 education and work background?

8 A. Yes, I have a petroleum land management degree
9 from OU, and I have worked for ARCO, Union Pacific, Noble
10 Energy, Dominion E&P, and now Chesapeake for about 25
11 years, land experience.

12 Q. How long have you been with Chesapeake?

13 A. Almost a year.

14 Q. And before that, who were you employed by?

15 A. Dominion E&P.

16 Q. Were you employed as a landman?

17 A. I was a staff land analyst.

18 Q. How long were you with Dominion?

19 A. About four years.

20 Q. And are you familiar with the Application that's
21 been filed in this case?

22 A. Yes.

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

25 A. Yes, I am.

1 MS. MUNDS-DRY: Mr. Examiner, we would tender Mr.
2 Birdshead as an expert in petroleum land matters.

3 EXAMINER JONES: Mr. Birdshead is qualified as an
4 expert in petroleum land matters.

5 Q. (By Ms. Munds-Dry) Mr. Birdshead, would you
6 briefly state what Chesapeake seeks with this Application?

7 A. Yes, an order pooling all mineral interests from
8 4000 feet to 15,751 feet, the Ellenburger formation, in the
9 north half of Section 21, Township 22 South, Range 36 East,
10 in Lea County, New Mexico.

11 Q. What is the name of the well that is the subject
12 of the spacing unit?

13 A. Said unit is to be dedicated to the Langley Greer
14 Well Number 3H, to be drilled at a surface location 2440
15 from the south line and 660 from the west line, a
16 penetration point 2310 from the north line and from the
17 west line, and a bottomhole location 660 feet from the
18 north line and from the west line of Section 21.

19 Q. Is this well the subject of an administrative
20 order that granted the nonstandard location for the
21 penetration point?

22 A. Yes, NSL 5720.

23 Q. Thank you, Mr. Birdshead. If you would please
24 turn to what's been marked as Chesapeake Exhibit Number 1
25 and identify and review that for Mr. Jones.

1 A. Okay, Mr. Jones, our well spacing is going to be
2 the north half of Section 21. We're going to enter real
3 close to a surface location which is in the north part of
4 the south half of 21. This is going to be a horizontal
5 well, drill it into Section -- the north half of Section
6 21.

7 Q. Thank you. Would you please turn to what's been
8 marked Exhibit Number 2 and review this also for the
9 Examiner?

10 A. These are the working interest owners that have
11 consented to participate in our well. It's their interest
12 and who they are, telephone numbers and everything.

13 Q. What is the primary objective of the proposed
14 well?

15 A. It would be the Devonian formation, gas.

16 Q. Would you please then turn to what's been marked
17 as Exhibit Number 3 and review your efforts to obtain the
18 voluntary participation of those interest owners listed
19 here?

20 A. Yes.

21 Q. And you might start, Mr. Birdshead -- sorry to
22 interrupt -- with some of the background of how we got here
23 today.

24 A. Yes, we have about 90 orders that we have been
25 able to identify in this area. The thing about this

1 particular Application is, this section, the north half of
2 the section, is already covered by a lease, the two
3 different leases. But they are 1920s vintage, and there's
4 no pooling language in the lease, so it's -- actually what
5 we're trying to do is add some kind of pooling language to
6 them.

7 But in order to obtain the ownership, we had a
8 drilling opinion done, and then from there we checked our
9 records and -- to see who we were paying and what the
10 current ownership was in those wells, and then we took the
11 correlation between the two and then searched Internet and
12 county courthouse records of last known address and have
13 come up with a pretty good address list.

14 Q. And let's -- and let's -- You've started talking
15 about that, but let's divide your efforts, then, between
16 those interest owners who you were not able to locate and
17 then those interest owners who were locatable.

18 You said that you had a drilling opinion -- a
19 title opinion, completed. What other efforts did you
20 undertake to try to locate those lost interest owners?

21 A. We had a broker out of Midland helping us locate
22 the owners from other areas in the county, from other
23 wells. She was familiar with a lot of the owners already,
24 and so she helped us locate them. And then she also did
25 Internet searches and genealogy searches for addresses and

1 obituaries, and then from there we tried to obtain the
2 current ownership.

3 Q. Did you or anyone working in your behalf search
4 county records?

5 A. Yes, we searched online county records for
6 Midland, Harris County, I think maybe Dallas and Tarrant
7 County. They were all online, so we were able to gather
8 information online.

9 Q. And what is Exhibit Number 3?

10 A. Exhibit Number 3 are the owners that we have come
11 up with who have signed a voluntary pooling agreement for
12 this. We have so far 37 who have signed and returned our
13 request for the pooling agreement, and -- out of 90, about
14 41 percent.

15 Second page is a copy of a letter that was mailed
16 to each owner in this list --

17 Q. -- that you were able to find the address for?

18 A. -- that we were able to find the addresses for.
19 I don't think we had too many unlocatable owners. We were
20 able to identify at least the heirs or someone that knew
21 someone that we could send it to.

22 Q. And so also included in this packet is a copy of
23 the letter with the pooling agreement that went out to all
24 those interest owners?

25 A. Yes.

1 Q. And tell me here, what is the current status with
2 John H. Hendrix Corporation, if you know?

3 A. John H. Hendrix Corporation called me the other
4 day, and they thought they had a working interest in this
5 well. But our title opinion didn't show that they had a
6 working interest, but just the royalty interest. So she
7 was going to send me some backup that maybe we weren't able
8 to -- or our attorney didn't review and search in his
9 records when he did the title opinion. And from there,
10 we'll take it from there and see what kind of interest they
11 have. If they do actually have a working interest, then we
12 would revise our DOI and send them an offer to participate.

13 Q. And so, Mr. Jones, we've actually included --
14 although these are all royalty owners that we're seeking to
15 pool, if it turns out that Hendrix Corporation is a working
16 interest owner, we have some proposed drilling and
17 producing rates in case that's where we come out on this,
18 since that's a little bit up in the air right now. But
19 otherwise, that wouldn't be relevant with the royalty
20 owners at this time, just to give you that background.

21 In your opinion, Mr. Birdshead, have you made a
22 good faith effort to obtain the voluntary participation in
23 this well?

24 A. Yes.

25 Q. And would you please turn to Exhibit Number 4 and

1 review that for the Examiner?

2 A. Okay, this is the AFE, and these are estimated
3 costs of what it's going to cost to drill this well.

4 Q. And this is what was sent to all the working
5 interest owners?

6 A. Yes.

7 Q. And what are the dryhole and completed well
8 costs?

9 A. Well, the dryhole cost is \$2,729,000, and the
10 completed well cost is \$4,817,000.

11 Q. Are these costs in line with what Chesapeake or
12 other operators in the area are charging for similar wells?

13 A. Yes.

14 Q. And have you made an estimate of the overhead and
15 administrative costs while drilling this well and while
16 producing the well if successful?

17 A. Well, actually, it's covered by the JOA that we
18 already have in place, and it's right at \$2200 a month for
19 drilling rate and \$220 a month for a producing rate, which
20 is kind of low.

21 Q. Operating agreement was signed --

22 A. Yes.

23 Q. -- a while back?

24 A. The operating agreement was signed back in the
25 '80s.

1 Q. Do you recommend that these figures be
2 incorporated into any order that results from this hearing?

3 A. Yes.

4 Q. And does Chesapeake request that in accordance
5 with Division Rules, that the maximum charge of 200 percent
6 be imposed on those interest owners who do not voluntarily
7 commit their interest in the well?

8 A. Yes.

9 Q. And does Chesapeake seek to be designated the
10 operator of this well?

11 A. Yes, yes, we do.

12 Q. And in your opinion will the granting of this
13 Application be in the best interest of conservation, the
14 prevention of waste and the protection of correlative
15 rights?

16 A. Yes.

17 Q. And if you'll turn to Exhibit Number 5, is this a
18 copy of my notice affidavit, as well as the Exhibit A of
19 those interest owners we seek to pool, a copy of the notice
20 letter, the affidavit of publication and the certified
21 receipts and green cards?

22 A. Yes.

23 Q. Were Exhibits 1 through 5 either prepared by you
24 or compiled under your direct supervision?

25 A. Yes, they were.

1 MS. MUNDS-DRY: Mr. Jones, we would move the
2 admission into evidence of Chesapeake Exhibits 1 through 5.

3 EXAMINER JONES: Exhibits 1 through 5 will be
4 admitted.

5 MS. MUNDS-DRY: And I have nothing further for
6 Mr. Birdshead.

7 EXAMINATION

8 BY EXAMINER JONES:

9 Q. The AFE says 14,384 feet, and you want to pool to
10 a measured depth of 15,751?

11 A. Yes.

12 Q. Is there a reason why there's a discrepancy
13 there?

14 A. What do you mean?

15 Q. You know, it may -- sometimes 1000 feet down at
16 that depths make a big difference.

17 A. Yes --

18 Q. Of course, \$4.8 million, you probably have it
19 covered.

20 A. Actually, we have a -- our geologist tells us we
21 could go either way on this well. We could come up with a
22 well, it could be an oil well which would be 40-acre
23 spacing, so --

24 Q. Okay.

25 A. -- the pooling order wouldn't be needed if it

1 actually turned out to be an oil well.

2 Q. Okay, I think you answered my questions as to why
3 you're doing the north half instead of the west half,
4 because you have those existing leases, and --

5 A. Uh-uh.

6 Q. -- and you didn't want to break the lease in two
7 or something.

8 A. Well, there are two leases, one in the east half
9 and one in the west half, and one was taken in 1928 and I
10 think the other one was taken in 1927, and they're all HBP
11 by several wells. And there was no pooling language in
12 those leases that we were comfortable with.

13 Q. If you had one on the west half, why didn't you
14 do a west-half spacing unit here? Was it geologic reasons?

15 A. Yeah, the Devonian formation, the pool there is
16 320-acre spacing, and so if we hit gas it will be 320.

17 Q. And they wanted a north half instead of a -- They
18 wanted a laydown instead of a standup?

19 A. Well, actually in the south half we are already
20 covered by the Langley Getty 2 re-entry --

21 Q. Okay.

22 A. -- and that's a laydown.

23 Q. That's the reason?

24 A. Yeah. It would have been easier to do it that
25 way, believe me.

1 Q. Okay. I've got to ask the question that --
2 before I forget. The Application said north half, but then
3 you would also -- wanted a 640 for the Jalmat gas. Is that
4 not what you want now?

5 MS. MUNDS-DRY: No -- yes, I don't believe that
6 there's any 640 Jalmat in this area. We may have just been
7 putting any pools that were, you know, applicable to this
8 area, but --

9 Q. (By Examiner Jones) So you're not targeting the
10 Jalmat gas?

11 A. No.

12 Q. Okay.

13 A. I don't even know if we have rights to the Jalmat
14 in this area.

15 Q. Okay, yeah, because you -- you said 4000 down to
16 15,751. That would take care of that.

17 A. There's a unit above it called the Eunice
18 Monument Unit --

19 Q. Okay.

20 A. -- and that's the one on top of it.

21 Q. Okay.

22 A. But we don't have an interest in that unit.

23 Q. Okay. Okay, I guess -- NSL-5720; is that
24 correct? That already covers the NSL --

25 A. Yes.

1 Q. It's already been done?

2 A. Yes, we have it done and approved.

3 Q. Okay. Well, it's a lot of money, but -- Why
4 slanted in this case? Is it worth that much more to drill
5 a slanted well --

6 A. Yeah, he --

7 Q. -- spend all that money?

8 A. -- he thought there might be something there.
9 The Langley Getty 2 actually went horizontal, and that well
10 turned out to be really good, and he just wanted to come in
11 to catch the Devonian, which was kind of in the west half.

12 Q. Very persuasive geologist you have there,
13 persuade management to spend that much more money.

14 A. Yeah, I hope it's there.

15 Q. Yeah.

16 EXAMINER BROOKS: I think that's the most
17 expensive well I've seen in a compulsory pooling case.

18 MS. MUNDS-DRY: Is it?

19 EXAMINER JONES: Now tell me again about the
20 Hendrix situation.

21 MS. MUNDS-DRY: There appears to be -- they
22 believe -- Chesapeake's title opinion shows that they have
23 a royalty interest, and Hendrix believes they have a
24 working interest.

25 EXAMINER JONES: Have they been paying money all

1 these years to somebody for some reason?

2 MS. MUNDS-DRY: I'm not sure. Yeah, they'll work
3 it out.

4 THE WITNESS: I think it went back to an earlier
5 conveyance, which our attorney may not have seen. But she
6 was going to send me all the backup on that, and then I'm
7 just going to forward it to our attorney to see if he could
8 ascertain where the ownership might be different or where
9 -- if he had missed it or if he had already seen it and
10 didn't think it applied.

11 There was one -- there's one conveyance in there
12 that he said didn't really apply to title in this area, and
13 so he disregarded that, and that might be the one she's
14 talking about.

15 EXAMINER JONES: Okay. Well, that -- I guess
16 that takes care of that.

17 Q. (By Examiner Jones) Can you supplement our
18 record with the results of what you find out on that --

19 A. Okay.

20 Q. -- so that we can have it in our case file?

21 MS. MUNDS-DRY: We would be glad to.

22 THE WITNESS: Sure.

23 EXAMINER JONES: Okay. Do you have any
24 questions?

25 EXAMINER BROOKS: Yeah.

EXAMINATION

1
2 BY EXAMINER BROOKS:

3 Q. You said that Exhibit 2 was a copy of -- was the
4 list of the people who had joined.

5 A. Yes, of the working interest owners.

6 Q. Those are only -- those are only the -- only the
7 working interest owners and only ones who are contractually
8 committed?

9 A. Yes.

10 Q. And then the first page of Exhibit 3, is that a
11 list of all the owners you've identified?

12 A. I believe that might be just the royalty owners.
13 Yeah, that's just the royalty owners.

14 Q. Okay, are there any working interest owners who
15 are not contractually committed?

16 A. No, there aren't, they're all --

17 Q. So --

18 A. -- they're all covered by the JOA.

19 Q. So the pooling, force pooling, is only for the
20 royalty owners?

21 A. Right.

22 Q. Now is the -- does this first page of Exhibit 3
23 -- is this a list of all the ones for whom -- does -- this
24 address line over here in the third column, fourth column,
25 is that all the people you have addresses for?

1 A. Yes.

2 Q. So if it's blank, it means you don't have
3 addresses?

4 A. Right.

5 Q. And you're relying on the notice by publication,
6 right?

7 A. Right.

8 Q. And the notice that appears to have been
9 published, it seems like you did not include the names of
10 the people who are being noticed in the notice by
11 publication?

12 MS. MUNDS-DRY: That is correct, Mr. Brooks.

13 EXAMINER BROOKS: So your assuming -- the
14 supposition that the Rules of Civil Procedure apply by
15 analogy is probably not correct.

16 Well, I just wanted to establish that. I
17 continue to believe that that would be the more prudent
18 procedure, but I guess since our rules don't require it, I
19 can't be too dogmatic about it. Okay.

20 THE WITNESS: We have tried to find everybody
21 that we can. I mean, exhausting, that was probably the
22 hardest part of this well.

23 EXAMINER BROOKS: Very good, thank you.

24 EXAMINER JONES: Thanks, Mr. Birdshead --

25 THE WITNESS: Thank you.

1 EXAMINER JONES: -- and thanks, Ms. Munds-Dry.
2 Is that your last case?

3 MS. MUNDS-DRY: Yes, thank you very much, Mr.
4 Examiner.

5 EXAMINER JONES: Okay, with that, we'll take Case
6 14,027 under advisement.

7 And let's have a 15-minute break here.

8 (Thereupon, these proceedings were concluded at
9 9:28 a.m.)

10 * * *

11
12
13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. _____
18 heard by me on _____.

19 _____, Examiner
20 Oil Conservation Division
21
22
23
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 March 29th, 2008.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010