

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

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF CHESAPEAKE ENERGY
CORPORATION FOR CANCELLATION OF A
PERMIT TO DRILL ("APDs") ISSUED TO
COG OPERATING, LLC, EDDY COUNTY,
NEW MEXICO.

CASE NO. 14323

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Presiding Examiner
TERRY G. WARNELL, Technical Examiner
WILLIAM V. JONES, Technical Examiner

August 20, 2009

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Presiding Examiner, WILLIAM V. JONES, Technical Examiner,
and TERRY G. WARNELL, Technical Examiner, on Thursday,
August 20, 2009, at the New Mexico Energy, Minerals and
Natural Resources Department, 1220 South St. Francis
Drive, Room 102, Santa Fe, New Mexico.

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Before the Oil Conservation Division
Case Nos. 14323, 14382, 14365 & 14366
Hearing May 20, 2010
Chesapeake Energy Corporation &
Chesapeake Operating, Inc.
Exhibit No.

PAUL BACA PROFESSIONAL COURT REPORTERS

A P P E A R A N C E S

FOR THE APPLICANT:

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FOR COG OPERATING, LLC:

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Jan Preston Spradlin

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1 opening statement, indicated that title was not in
2 dispute. Is there any title dispute in this case, or is
3 there going to be evidence regarding any difference of
4 opinion regarding title?

5 MR. HALL: There shouldn't be a difference
6 of opinion regarding title. We will put on evidence of
7 title. But I think implicit in Chesapeake's application,
8 it calls for a demonstration of the right to occupy, the
9 right to make the certification and the right to drill
10 here. We are prepared to do that.

11 MR. BROOKS: I would certainly concede
12 that if there is a dispute as to title, the OCD has no
13 jurisdiction to consider that. However, the dealings
14 I've done with this case before, as well as Mr.
15 Kellahin's opening statement, indicated to me that there
16 probably was not a title dispute in this case. You may
17 proceed, Mr. Kellahin.

18 MR. KELLAHIN: Thank you, Mr. Examiner.
19 At this time we call Ms. Jan Spalding.

20 MR. BROOKS: Ms. Spalding?

21 MS. SPRADLIN: Spradlin.

22 MR. KELLAHIN: I'm sorry.

23 MR. BROOKS: We apologize for
24 mispronunciation of your name. Please take the witness
25 stand. You've already been sworn.

1 MR. KELLAHIN: I apologize for
2 mispronouncing your name. I've heard it so many times.
3 I still can't say it.

4 JAN PRESTON SPRADLIN

5 Having been first duly sworn, testified as follows:

6 DIRECT EXAMINTION

7 BY MR. KELLAHIN:

8 Q. Ms. Spradlin, for the record, would you please
9 state your name and occupation.

10 A. My name is Jan Preston Spradlin. I'm a senior
11 landman at Concho, COG.

12 Q. In your capacities as a landman, have you made
13 yourself familiar with the Blackhawk wells that we're
14 discussing in Section 11?

15 A. Yes, sir.

16 Q. As part of that effort, are you familiar with
17 the working interest ownership in the south half of the
18 south half of Section 11?

19 A. I am to the point of the abstract of title we
20 have run to do our initial title checks.

21 Q. If you have before you what I have shown the
22 Examiner --

23 MR. BROOKS: Excuse me, Mr. Kellahin. Are
24 you going to qualify the witness as an expert?

25 MR. KELLAHIN: Not just yet. I want to

1 lay a better foundation.

2 MR. BROOKS: Okay. You may continue.

3 Q. (By Mr. Kellahin) Would you look at Exhibit
4 Number 1 for me?

5 A. Exhibit 1?

6 Q. Chesapeake Exhibit 1, which is a color display
7 map.

8 A. Okay.

9 Q. When you talk about the title information you
10 have, do you have any disagreement with the data that is
11 displayed on Chesapeake's Exhibit Number 1?

12 A. I am not aware -- I mean, this is from the
13 JOA, which I do not have access to. I had access to the
14 federal records and to the state records on who has
15 record title and operating rights.

16 Q. Let me ask this a different way.

17 A. I'm not questioning Chesapeake, Devon and
18 McDonald. I just don't know those percentages.

19 Q. Let me ask it a different way. As part of
20 your work, you have studied -- do you like to be called
21 Concho or COG?

22 A. We go by -- interchangeable.

23 Q. I'm going to use COG because I'm used to it.
24 In terms of your study of COG's interest, to the best of
25 your knowledge, their interest is confined to the

1 southeast quarter of 11 -- mineral interest?

2 A. Yes. That's correct.

3 Q. And when we look at the southwest quarter
4 section of 11, the mineral interest, COG or Concho has no
5 mineral interest in that 160 acres?

6 A. I agree.

7 Q. Are you aware of the permitting by Concho of
8 the Blackhawk 11 Well in the south half of the south half
9 of Section 11?

10 A. Yes, sir.

11 Q. On prior occasions have you testified before
12 the Division Examiner?

13 A. Yes, I have.

14 Q. As part of that testimony, have you been
15 accepted and qualified as an expert landman?

16 A. Yes, I have.

17 MR. KELLAHIN: We tender Ms. Spradlin as
18 an expert landman.

19 MR. HALL: I guess I won't object to my
20 own witness.

21 MR. BROOKS: So qualified.

22 Q. (By Mr. Kellahin) Let me show you another
23 document.

24 MR. BROOKS: Are you going to give this an
25 exhibit number?

1 MR. KELLAHIN: It should be Exhibit Number
2 2, Mr. Examiner. I apologize for not getting that --

3 MR. BROOKS: Very good.

4 Q. (By Mr. Kellahin) Ms. Spradlin, were you
5 assigned responsibility for contacting the other working
6 interest owners for participation in the Blackhawk 11
7 Federal Com Well No. 1?

8 A. Yes, I was.

9 Q. I've shown you what is marked as Chesapeake
10 Exhibit Number 2.

11 A. Um-hum.

12 Q. This is a facsimile. It contains a cover
13 sheet and goes all the way over to page 7. Are you
14 familiar with this transmittal?

15 A. Yes, I am.

16 Q. Is this, in fact, a transmittal that you
17 executed and sent?

18 A. Yes. At my direction.

19 MR. KELLAHIN: Mr. Examiner, we move the
20 introduction of Exhibit Number 2.

21 MR. HALL: No objection.

22 MR. BROOKS: Exhibit 2 is admitted.

23 (Exhibit 2 was admitted.)

24 Q. (By Mr. Kellahin) When you turn over to the
25 next page, it is a letter dated August 11th, just over

1 your signature?

2 A. Yes.

3 Q. Is this the first occasion in which you've had
4 to send written correspondence to Chesapeake proposing
5 this particular wellbore to them?

6 A. Yes.

7 Q. When you turn past the letter, there's a --
8 your signature page. I may have miscollated, but the
9 next page you should see is an AFE.

10 A. Correct.

11 Q. Following the AFE you've attached a portion of
12 the federal permit that includes the cover sheet, and it
13 has, then, attached to that a Division Form C-102?

14 A. Correct.

15 Q. When you turn back to the federal APD page, do
16 you have an approximate date at which Concho filed this
17 APD with the BLM?

18 A. I'm trying to remember the dates.

19 Q. Let me show you something and see if it
20 refreshes your recollection. If you look at the first
21 page of the APD, in Line 25, there's a signature, Lee Ann
22 Rollins. It's dated 4/30/08?

23 A. Correct.

24 Q. Would that have been the approximate date in
25 which this document was filed, or was it done after that?

1 A. That would have been the approximate date.
2 That was our contractor who was filing for us and, you
3 know, doing all our contract work for us on regulatory
4 and surface.

5 Q. When you turn past the APD and you get to the
6 Form C-102, you see the operator certification there?

7 A. Yes, sir.

8 Q. Who is this individual?

9 A. Phyllis Edwards is our regulatory analyst in
10 house.

11 Q. What does a regulatory analyst do?

12 A. She -- currently she files all -- they file
13 all our permits. They work with our surface landman.
14 And any issues that we need -- she does all of the
15 physical permitting.

16 Q. Do you provide her information when she
17 executes the certification?

18 A. As far as --

19 Q. -- the ownership and who's involved in the
20 spacing unit.

21 A. The land department is responsible for -- we
22 look over the plat and make sure that it covers the
23 correct area.

24 Q. Would you have seen this plat before it was
25 signed and executed?

1 A. Yes. I would have been given a copy of it,
2 yes.

3 Q. Did you alert Ms. Edwards to the fact that
4 Concho did not have a mineral interest in the south half
5 of the southwest quarter?

6 MR. HALL: I'll object. That
7 mischaracterizes what's shown on the exhibit.

8 MR. BROOKS: Overruled.

9 Q. (By Mr. Kellahin) Do you have the question?

10 A. No. I don't understand your question, either,
11 so --

12 Q. When you look at the certification, there's a
13 certification as to an area that is the producing area
14 and the project area.

15 A. Right.

16 Q. The certification contains language about
17 information about control of the minerals.

18 Let me try it this way: Did you ever advise
19 Ms. Edwards that Concho did not have a mineral interest
20 in the south half of the southwest quarter for which this
21 certification covers?

22 A. No, I didn't, because it's within -- we own
23 lands within the project area.

24 Q. Do you handle all of your horizontal wellbore
25 filings in this fashion?

1 A. I assume -- I mean, I would look at the
2 permit. We have an ownership within the project area in
3 a horizontal well.

4 Q. So you're looking only to see if you have the
5 ownership in any of the tracts in the project area? Is
6 that what you do?

7 A. Yes. We look at the project area.

8 Q. Let's look at this project area. When you
9 look at the project area which is the south half of the
10 south half of 11, in that project area, you would have
11 mineral interest in two of the four quarters?

12 A. Correct.

13 Q. Is it your understanding that all you need is
14 an interest in one of those tracts to file for and obtain
15 an approved APD?

16 A. Yes.

17 Q. That's what you do?

18 A. We have to own within the project area.

19 Q. And your ownership could be confined to a
20 fractional share of one of the 40-acre tracts?

21 A. Correct.

22 Q. If you turn back to the letter, itself, if you
23 look at the first paragraph, you're including within this
24 well proposal an AFE and a copy of the permit.

25 A. Correct.

1 Q. Is it Concho's strategy to get permits first
2 and then propose the well?

3 A. We do the permitting process first. We
4 determine an area we're going drill in. We geologically
5 determine that, which is out of my realm. We then either
6 acquire the acreage, or we have the acreage that we're
7 going to drill. Then we go through the permit process.
8 We determine if it's split estate, the ownership,
9 whatever. Yes, we do get a permit first, because,
10 without a permit -- you don't know how long permitting is
11 going to take, whether it's federal or state. And you
12 want to make sure you have all the people in your lands.
13 And then once we have a permit, this well goes on to a
14 drilling schedule. We notify our partners or potential
15 partners, and that's when we start the process of
16 notification.

17 Q. You could do this another way, could you not?

18 A. This is the process in our company. It is the
19 process that I did in my prior company.

20 Q. Let me explain the process, then. As I
21 understand it, you get the permit first. And then along
22 with the pooling application, you send that permit and a
23 well proposal and AFE to the parties?

24 A. Yes.

25 Q. You choose not to determine the ownership in

1 the proposed spacing unit first and send those proposals
2 to those interest owners first, to see if they want to
3 participate?

4 A. No. We do our permitting process first
5 because of the timelines involved.

6 Q. Do you perceive that you're gaining some type
7 of advantage over other operators by getting a permit
8 over acreage in which you have no interest?

9 A. No.

10 Q. Where is this well on your rig schedule?

11 A. It is anticipated we'll spud probably in the
12 first -- end of the first quarter of 2010.

13 MR. KELLAHIN: Mr. Examiner, I'd also move
14 the introduction of Exhibit 1.

15 MR. BROOKS: Exhibit 1 is admitted.

16 (Exhibit 1 was admitted.)

17 MR. KELLAHIN: I'll pass the witness.

18 MR. HALL: Do you mean Exhibit 2?

19 MR. KELLAHIN: I already --

20 MR. BROOKS: Exhibit 2 was previously
21 admitted. Exhibit 2 is the map. I'm sorry. I didn't
22 give you an opportunity to object to Exhibit 1, Mr. Hall.

23 MR. HALL: There's no objection.

24 MR. BROOKS: Exhibit 1 and 2 are admitted.

25 Are you passing the witness, Mr. Kellahin?

1 MR. KELLAHIN: Yes, sir.

2 MR. HALL: I'll take the witness under the
3 ambient of cross-examination, subject to the right for me
4 to call her on my case. That's the way it works; right?

5 MR. BROOKS: Yes. However, you will not
6 be allowed to ask her leading questions, except that
7 we're usually fairly tolerant about that, usual
8 tolerance, but no more.

9 MR. HALL: Seems fair.

10 CROSS-EXAMINATION

11 BY MR. HALL:

12 Q. Ms. Spradlin, let me ask you about
13 Chesapeake's Exhibit 1, the well proposal for this --

14 MR. WARNELL: That's Exhibit 2.

15 Q. Let's ask about Exhibit 2, then, the well
16 proposal. Have you had a response from Chesapeake to the
17 well proposal?

18 A. Not specific to the well proposal. I have
19 been called by Kevin and asked about an operating
20 agreement.

21 Q. And Kevin is Kevin Pfister, the addressee on
22 the well proposal?

23 A. Yes.

24 Q. Was there any indication by Mr. Pfister or
25 anyone else at Chesapeake that they would not participate