

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. 12,653

APPLICATION OF CHESAPEAKE OPERATING,)
INC., FOR AN UNORTHODOX OIL WELL)
LOCATION, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 3rd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 5th, 2001, 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
(505) 989-9317

OIL CONSERVATION DIV.
01 MAY 18 PM 1:37

I N D E X

May 3rd, 2001
 Examiner Hearing
 CASE NO. 12,653

PAGE

APPEARANCES

3

APPLICANT'S WITNESSES:

LYNDA F. TOWNSEND (Landman)

Direct Examination by Mr. Bruce

4

Examination by Mr. Carr

13

Examination by Examiner Catanach

15

REPORTER'S CERTIFICATE

18

* * *

E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1

6

13

Exhibit 2

6

13

Exhibit 3

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
3304 Camino Lisa
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR CONOCO, INC.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:41 a.m.:

3 EXAMINER CATANACH: All right, at this time I'll
4 call Case 12,653, Application of Chesapeake Operating,
5 Incorporated, for an unorthodox oil well location in Lea
6 County, New Mexico.

7 Call for appearances in this case.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness.

10 EXAMINER CATANACH: Additional appearances?

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe office of Holland and
13 Hart, L.L.P. We represent Conoco, Inc., in this matter. I
14 do not have a witness.

15 EXAMINER CATANACH: Any additional appearances?

16 Will the witness please stand to be sworn in?

17 (Thereupon, the witness was sworn.)

18 LYNDA F. TOWNSEND,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of
24 residence for the record?

25 A. I'm Lynda Townsend, and I live in Guthrie,

1 Oklahoma.

2 Q. Who do you work for and in what capacity?

3 A. I've been a landman for Chesapeake Energy
4 Corporation since 1997.

5 Q. And the proposed well will be operated by
6 Chesapeake Operating; is that correct?

7 A. Yes, it is. That's the operating company.

8 Q. Okay. Have you previously testified before the
9 Division as a petroleum landman?

10 A. Yes, I have.

11 Q. And are you familiar with the land matters
12 involved in this case?

13 A. Yes, sir.

14 Q. And were your credentials as an expert petroleum
15 landman accepted as a matter of record by the Division?

16 A. Yes, they were.

17 MR. BRUCE: Mr. Examiner, I would tender Ms.
18 Townsend as an expert petroleum landman.

19 EXAMINER CATANACH: She is so qualified.

20 Q. (By Mr. Bruce) Ms. Townsend, what does
21 Chesapeake seek in this case? And I refer you to Exhibit
22 1.

23 A. All right, they seek to drill the Buchanan "5"
24 Number 1 well at an unorthodox location located 2365 feet
25 from the north line, 1641 feet from the east line, in

1 Section 5 of 17 South, 37 East.

2 Q. And are the well unit and the approximate well
3 location noted on Exhibit 1?

4 A. Yes, they are.

5 Q. What is the spacing for this proposed well?

6 A. This is 80-acre spacing. This is in the Shipp-
7 Strawn Pool. Pool rules for that pool are, a well is to be
8 no closer than 150 foot to the center of the quarter-
9 quarter.

10 Q. And it's 80-acre spacing?

11 A. Yes, it is.

12 Q. And in this case the west half of the northeast
13 quarter will be dedicated to the well?

14 A. Yes, sir.

15 Q. Okay. What is Exhibit 2?

16 A. Exhibit 2 lists the working interest owners or
17 the unleased mineral owners offsetting the proposed
18 location.

19 Q. Okay. Now, Conoco, Inc., is the lessee in the
20 east half of the northeast quarter?

21 A. Yes, they are.

22 Q. And all of the other persons listed on here are
23 in the southeast quarter; is that correct?

24 A. Yes.

25 Q. Okay. Referring back to Exhibit 1, some of this

1 same data is attached as Exhibit A to Exhibit 1?

2 A. Yes, it is.

3 Q. Okay. And Exhibit B attached to Exhibit 1 simply
4 lists your fellow working interest owners?

5 A. That's right.

6 Q. Was notice of this Application mailed to the
7 offsets?

8 A. Yes, it was.

9 Q. And is Exhibit 3 my affidavit of notice?

10 A. Yes, it is.

11 Q. Was this unorthodox location previously before
12 the Division?

13 A. Yes, it was. This was in Case Number 12,595. We
14 requested the exact unorthodox location but at a laydown
15 unit --

16 Q. Okay.

17 A. -- in the south half of the northeast.

18 Q. And in that case both you testified and I believe
19 a geologist testified on behalf of Chesapeake?

20 A. Yes, sir.

21 Q. Okay. What happened with that Application?

22 A. We talked with our working interest owners, our
23 partners in this well. According to our signed agreement
24 and verbal agreements with those partners, it is mandatory
25 that we make it a standup. So we dismissed the original

1 case. It was dismissed by Order Number R-11,557.

2 Q. Okay. Since that case was presented, I believe,
3 on February 22nd, was there any change in the geology?

4 A. No.

5 Q. Okay. Do you request that the testimony in Case
6 12,595 be incorporated into the record for purposes of
7 proving the need for the unorthodox location?

8 A. Yes, sir.

9 MR. CARR: We object to the inclusion and
10 incorporation of that testimony in the record here today.
11 The spacing unit is different. It changes the interest of
12 Conoco.

13 We would have been present at that hearing, if
14 we'd had a standup unit, and objected to the location and
15 the orientation of the spacing unit, and we only discovered
16 yesterday afternoon that the case was on the docket, and we
17 do object to incorporating into that case the record of
18 another case. It denies us the opportunity to cross-
19 examine those witnesses.

20 MR. BRUCE: Mr. Examiner, notice was given to
21 Conoco of this hearing, and they never claimed the
22 certified letter that's attached.

23 If you look at Exhibit 3, six pages from the
24 back, I have looked at that address approximately ten
25 times. That is Conoco's address in Midland. They did not

1 claim the notice. If Conoco cares to appeal this case *de*
2 *novo*, I suppose they have the chance to cross-examine the
3 witness, but at this point we'd ask that testimony be
4 incorporated in the record.

5 MR. CARR: Whether or not we were notified
6 doesn't change the fact that we are here today at a hearing
7 where there is a geological presentation supporting an
8 unorthodox location in a laydown unit. We have correlative
9 rights in the acreage.

10 We were initially in the laydown unit, and you
11 can't just -- the notice issue is not an issue as to
12 whether or not we have a right to cross-examine people who
13 are presenting a technical case for an unorthodox location.
14 The notice issue is gone, we're here.

15 The question is whether or not we have a right to
16 examine a technical case that we think impacts our rights.
17 We're here today, we object to incorporating that record.

18 MR. BRUCE: Mr. Examiner, I spoke with the
19 Division about this case, and we did not know of Conoco's
20 involvement until approximately 4:30 yesterday. It was
21 impossible to get our geologist up here.

22 MR. CARR: I think that when you say you don't
23 know of Conoco's involvement, you do, and we can establish
24 there have been negotiations between Ms. Townsend and a
25 representative of Conoco, if we'd like to do that first,

1 that we had expressed an objection or that we had preferred
2 a laydown unit. They knew we were involved.

3 And they knew they got a letter back that, for
4 whatever reason, hadn't gotten to Conoco. And so they knew
5 we weren't aware of this proceeding, or at least had not
6 received their notice.

7 And the notice issue is one issue. Whether or
8 not we have a right to examine a witness who's presenting
9 technical information is entirely another. And we have
10 that right, and you can't incorporate the record. And
11 without the record, you can't grant this Application. And
12 we should continue the case for two weeks, and we'll be
13 back at that time ready to go, both on geology and on land.

14 EXAMINER CATANACH: Mr. Bruce, I'd be inclined to
15 agree with Mr. Carr on this matter. I think Conoco does
16 have the right to cross-examine your geologic witness. And
17 I know that -- I was involved in discussions on whether or
18 not the geologic witness should be here today, and I
19 believed not, but I didn't know that Conoco was going to
20 show up and --

21 MR. BRUCE: Well, I recognize that, Mr. Examiner,
22 but on the other hand it's not Chesapeake's fault that
23 Conoco refused to pick up its certified mail.

24 EXAMINER CATANACH: Well, I don't think that's an
25 issue. I mean, Mr. Carr is here today --

1 MR. CARR: Whether we, you know, divined it from
2 some unique source, we're here. Notice isn't the issue.
3 The right to examine a witness is the issue.

4 EXAMINER CATANACH: I would have to agree with
5 Mr. Carr, and I would suggest that we do continue the case
6 for two weeks and bring your geologic witness back up, and
7 let's do it right.

8 MR. BRUCE: Okay.

9 Q. (By Mr. Bruce) Other than Conoco, Ms. Townsend,
10 did any offset object to the unorthodox location in the
11 prior case?

12 A. No.

13 Q. I believe Amerind Oil Company, Limited, an offset
14 to the south, requested a mirror location --

15 A. Yes, which we granted.

16 Q. -- and -- which you granted?

17 A. Yes.

18 Q. And you confirm that granting of a mirror
19 location to the --

20 A. Yes.

21 Q. -- working interest owners in the southeast
22 quarter, do you not?

23 A. We do. We've also reached everyone that's around
24 us.

25 Q. Everyone, including --

1 A. Yes --

2 Q. -- Conoco?

3 A. -- yes.

4 Q. What is Conoco's position, then?

5 A. Conoco said that they still wanted the laydown.
6 We even talked with Conoco at length. I told them right
7 after the first hearing, after we had talked with Texaco
8 and our other working interest partners, which is where we
9 feel that our loyalty lies, since our acreage was acquired
10 through them, from them. Conoco was told we were getting
11 ready to send it up. I mean, we've marked a location for
12 them with a big X, we've given them the benefit of our
13 seismic, our geological information. We've offered them a
14 waiver. I don't know what else we can do.

15 Q. Okay. Were Exhibits 1 through 3 prepared by you
16 or under your supervision or compiled from company business
17 records?

18 A. Yes.

19 Q. And in your opinion, is the granting of
20 Chesapeake's Application in the interests of conservation
21 and the prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Chesapeake Exhibits 1 through 3.

25 MR. CARR: No objection.

1 EXAMINER CATANACH: Exhibits 1 through 3 will be
2 admitted as evidence.

3 Mr. Carr?

4 MR. BRUCE: Just one thing, Mr. Examiner, after
5 Mr. Carr gets through, I would like if -- depending on what
6 happens upon the continuance -- if possible, if Ms.
7 Townsend does not have to return, if not necessary.

8 MR. CARR: We always like to see Ms. Townsend.

9 THE WITNESS: Thank you, I think.

10 (Laughter)

11 EXAMINER CATANACH: Would you like to make
12 that --

13 MR. CARR: My initial reaction is that Ms.
14 Townsend should not have to come back. I'd like to just
15 confirm that, and I can confirm that to you and to Mr.
16 Bruce as soon as I talk to Conoco. But I can't think of a
17 reason why she would have to come back. I mean, I think it
18 would be pretty clear, and I don't think there is a
19 dispute. I can ask a couple of questions, and that might
20 help too. Okay?

21 EXAMINER CATANACH: Okay.

22 EXAMINATION

23 BY MR. CARR:

24 Q. Ms. Townsend, initially this was proposed as a
25 laydown unit, was it not?

1 A. Yes.

2 Q. And you had discussions over some period of time
3 with a Mr. Charlie Rule at Conoco, did you not?

4 A. Yes, sir.

5 Q. And Conoco preferred the laydown unit --

6 A. Yes.

7 Q. -- and expressed that to you?

8 Did they tell you that one of the reasons they
9 opposed a standup unit was, there was a dry hole in this
10 formation in the northwest of the northeast?

11 A. Yes, I believe so.

12 Q. Is it fair to say that you knew they were
13 concerned about a standup unit?

14 A. I knew they were concerned about it. Their
15 initial reaction to me was, their interest -- They
16 initially had 50 percent in a laydown unit. In a standup
17 unit they have none. However, in a well by themselves they
18 have 100 percent.

19 Q. And that's the kind of decisions operators make
20 all the time, right?

21 A. Exactly.

22 Q. You stated that -- I think you stated that it was
23 mandatory that you proceed with a standup unit?

24 A. Yes.

25 Q. Why is it mandatory?

1 A. By our agreement with Texaco. It is written into
2 the agreement by Texaco and their partners that it be a
3 standup unit.

4 Q. If the -- And when you say "in the agreement", is
5 that the agreement by which you initially acquired the
6 interest in this acreage?

7 A. Yes.

8 Q. And so when you were proposing a laydown unit,
9 you were actually proposing something inconsistent with
10 that, I believe?

11 A. Well, at the time we were proposing the unit, the
12 farmout agreement had not been signed; it had been verbally
13 discussed. And we were on a time limit to spud the well.

14 Q. And with a standup unit, it would increase the
15 ownership in the well of Texaco and those individuals?

16 A. Yes.

17 Q. As opposed to a laydown unit?

18 A. Yes.

19 MR. CARR: Okay, that's all I have. Thank you.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Now, Ms. Townsend, you acquired your interest in
23 that west half from Texaco; is that right?

24 A. Yes.

25 Q. By virtue of some farmout agreement?

1 A. It is a farmout agreement, uh-huh.

2 Q. Okay. And in addition to Texaco -- Well, let's
3 see, Exhibit B lists the working interest owners within a
4 standup unit; is that correct?

5 A. Yes, those are *et al.* for Texaco, and we offered
6 them the same farmout terms that we offered Texaco. Some
7 of them have decided to participate in the well, some of
8 them have proposed to farm out to us.

9 Q. But you do have an agreement with all of these
10 interest owners?

11 A. Yes.

12 Q. Okay. The only thing I think -- could you
13 provide me -- Initially you guys have proposed a south
14 half --

15 A. Yes.

16 Q. -- of the northeast quarter?

17 Could you provide me with a breakdown of what the
18 interest ownership is in either of those units, a standup
19 and a laydown --

20 A. Yes, sir.

21 Q. -- the percentage and who owns what --

22 A. Yes.

23 Q. -- just so we have that on the record in this
24 case?

25 A. All right.

1 EXAMINER CATANACH: And I think if we can get
2 that, I don't see why Ms. Townsend needs to be back,
3 although I would certainly hate to have to continue again.

4 MR. CARR: If I don't tell you in 48 hours that
5 we would like her back, you can be sure that we will not
6 ask after that. I don't think we would need Mrs. Townsend.

7 MR. BRUCE: Mr. Carr and I can work that out over
8 the next few days.

9 EXAMINER CATANACH: All right, that will be good.
10 So just let me know, and we'll go from there.

11 Anything else at this point, Mr. Bruce?

12 MR. BRUCE: No, sir.

13 EXAMINER CATANACH: Mr. Carr?

14 MR. CARR: No, sir.

15 EXAMINER CATANACH: Okay, with that we will
16 continue Case 12,653 to the May 17th hearing.

17 (Thereupon, these proceedings were concluded at
18 9:55 a.m.)

19 * * *

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 12653
24 heard by me on 5/13/11
25 Daniel R. Catanach, Examiner
Oil Conservation Division

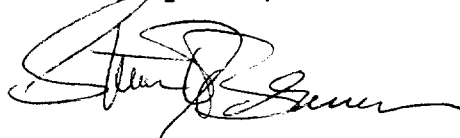
CERTIFICATE OF REPORTER

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 4th, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002



LTR



Job separation sheet

STATE OF NEW MEXICO
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OFFICIAL EXHIBIT FILE

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Santa Fe, New Mexico

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* * *

STEVEN T. BRENNER, CCR
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