

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

**IN THE MATTER OF THE APPLICATION
OF MEWBOURNE OIL COMPANY FOR
CANCELLATION OF A DRILLING PERMIT
AND APPROVAL OF A DRILLING PERMIT
LEA COUNTY, NEW MEXICO.**

CASE NO. 13492

**CHESAPEAKE OPERATING, INC.'S
RESPONSE TO
MEWBOURNE OIL COMPANY'S
APPLICATION
FOR AN EMERGENCY ORDER**

CHESAPEAKE OPERATING, INC. ("Chesapeake") requests that the New Mexico Oil Conservation Division ("Division") deny Mewbourne Oil Company's application for an emergency order to vacate Chesapeake's APDs one of which is for its KF "4" State Well No 1 (API #30-025-37129) currently drilling at a depth of ___feet and located in Unit X of Irregular Section 4, T21S, R35E, Lea County, New Mexico. In opposition, Chesapeake states:

Mewbourne's application for an emergency order is nothing more than an inappropriate attempt to preclude Chesapeake from continuing to drill its KF "4" State Well No. 1, a well that Chesapeake has every right to be drilling and that the Division has authorized Chesapeake to drill. Mewbourne dislikes the facts that Chesapeake's orientation of its spacing unit is different from that wanted by Mewbourne.

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There is no emergency here. There is no need for the Division to take such extraordinary action to interrupt the continuation of the drilling of this well for which surface casing has been set. If the Division, after hearing all the evidence in Chesapeake's compulsory pooling case ultimately decides that the spacing unit should be reoriented as Mewbourne wants, then the Division can change the operator to Mewbourne who can then reimburse Chesapeake and "carve Chesapeake out of the spacing unit."

There is no emergency here. Even Mewbourne does not believe it is so or it would not have waited some 29 days after filing its APD before it filed its application for an emergency order. There is no emergency here. All the point raised by Mewbourne in support of its emergency application have been resolved against Mewbourne as a result of orders issued by the Commission in the TMBR/Sharp Case, Order R-11700, and in the Pride Case Orders R-12108 through R-12108-D.

Mewbourne argues that Chesapeake's drilling well is on a portion of Chesapeake's spacing unit in which Chesapeake has no interest. The Division has already rejected this argument in the Pride case holding that "the compulsory pooling statute NMSA 1978, 70-2-17) provides sufficient flexibility to allow the operator of a pooled unit to conduct operations anywhere on that unit, regardless of whether the owner of the land on which the well is located has consented thereto." See Order R-12108, findings (18), (19) and (23).

This is an attempt by Mewbourne with a 7.1875% interest in this well, to gain operations for a drilling well in which Chesapeake has a 50% interest. Mewbourne wants to obtain an emergency order by ignoring the fact that Chesapeake has obtained a valid permit to drill this well from the Division and

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has dedicated to this well a standard spacing unit consisting of the S/2 of Irregular Section 4, T21S, R35E. See API # 30-025-37129

In accordance by Division rules and the Oil & Gas Act, Chesapeake has commenced its drilling of this well prior to obtaining a compulsory pooling order in a case in filed on April 26, 2004. In a similar case, the Commission established a "precedent" that requires the Commission to deny Mewbourne application for an emergency order. In case 12731/12744 involving the TMBR/Sharp and Arrington dispute over "APDs", the Commission entered Order R-11700-B, dated April 26, 2002, finding at Paragraph 32: "On another issue, Arrington and Ocean Energy have both urged this body to stay these proceedings pending the resolution of the applications for compulsory pooling, arguing that a decision on those matters will effectively resolve the issues surrounding the permits to drill." Ultimately, the Commission will revolve this permit dispute based upon the geological evidence presented and its determination as to which if the two orientations is a "best fit" for the maximizing reservoir volume that is dedicated to this well. See Commission Order R-11700-D Dated June 12, 2003, in Cases 12816, 12841, 12859 and 12860.

CRITICAL FLAWS IN MEWBOURNE APPLICATION

Mewbourne has failed to demonstrate that an Emergency Order is needed to prevent irreparable harm to Mewbourne. In addition, Mewbourne has failed to demonstrate:

- (1) why the Division should take such extraordinary action;
- (2) why Chesapeake's drilling is contrary to Division rules and regulations;

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- (3) why is it necessary to interrupt Chesapeake's drilling operations in order to protect Mewbourne's correlative rights when there is no apparent violation of those rights;
- (4) how will Chesapeake's correlative rights will be protected;
- (5) Why the Division should take such extraordinary action that will constitute a new precedent;
- (6) Why the Division should take such extraordinary action in view of the Pride Case.

THE PRIDE CASE

~~Chesapeake is doing what Pride was allowed to do. In order to grant the relief Mewbourne seeks, the Division would have to disregard the Commission's decisions in the Pride Case. See Orders R-12108 through R-12108-D. These orders in the Pride case allowed Pride to:~~

- ~~(1) Re-enter a well on the Yates tract in which Pride had no interest;~~
- ~~(2) Compulsory pool a stand-up W/2 spacing unit dedicated to this well even though Yates had formed a lay-down N/2 spacing unit in which Pride had no interest;~~
- ~~(3) Compulsory pool Yates into the Pride spacing unit even though Yates had formed a voluntary spacing unit that require no compulsory pooling order;~~
- ~~(4) To change the orientation of Yates' spacing unit;~~
- ~~(5) Cause Yates' approved APD to be revoked and to obtain an approved APD for Pride reinstated.~~

In Order R-12108-A, the Commission held that a owner (Pride) who would have a right to drill at its proposed location in the event of a voluntary or compulsory pooling of the unit it proposes to dedicate to the well has the

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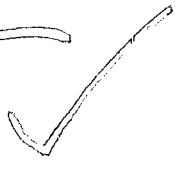
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necessary good faith claim of title to permit it to file an APD even though it has not yet filed a pooling application." At paragraph 26.

There is no material difference between what Chesapeake seeks against Mewbourne and what Pride sought against Yates. Counsel for Mewbourne is attempting to reverse the results that he obtained for Pride. Perhaps counsel has forgotten that in the Pride case he successfully prevented Yates' for obtaining an emergency order, based in part upon an allegation of trespass, similar to the order he now seeks to obtain for Mewbourne.

MEWBOURNE'S OMISSIONS

In addition, Mewbourne has conveniently failed to tell the Division that:

- (1) Mewbourne's partner, Samson Resources Corporation, has file a complaint in the State District Court for Lea county requesting a Temporary Restraining Order seeking to stop Chesapeake from continuing to drill this well based upon the same allegations, as well as others, that Mewbourne has raised by its application in this case. The Samson petition in District Court is set for hearing on May 2, 2005.
- (2) Chesapeake is the current lessee of State of New Mexico Oil & Gas Lease #VO-7063-1, effective May 1, 2004, covering the SW/4 of Irregular Section 4.
- (3) Chesapeake's compulsory pooling case is docketed as Case 13493 and is pending hearing on the May 19, 2005 Division Examiner's docket. 
- (4) The SE/4 of this section is subject to a State of New Mexico Oil & Gas Lease #B1481, effective December 19, 1932 that as of March 9, 2005 the working interest owners were: Kaiser Francis Oil Company with 43.75% interest and Samson Resources Company with 6.25% interest.

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- (5) On March 9, 2005, Chesapeake, by letter including an AFE, proposed the drilling of its KF State 4 Well No. 1 for an estimated completed well costs of \$2,012,000.00 to be dedicated to a standard 320-acre gas spacing unit consisting of the S/2 of this irregular section to both Kaiser Francis Oil Company and Samson Resources Company.
- (6) On March 10, 2005 Chesapeake staked the subject well and on March 11, 2005, obtained Division approval of Chesapeake's application for permit to drill ("APD")\
- (7) By letter dated March 16, 2005, Samson Resources Company, on its behalf and for all its related affiliates including Geodyne Nominee Corporation, elected to participate in Chesapeake's proposed well and spacing unit.
- (8) Eight days later, on March 24, 2005, Samson Resources Company entered into a JOA with Mewbourne Oil Company and Kaiser Francis Oil Company.
- (9) By letter dated March 30, 2005, Samson Resources Company attempted to rescind its March 16, 2005 election to participate contending that there was no JOA between the parties despite the fact that Chesapeake well proposal was not made pursuant to any JOA.
- (10) By its actions, Kaiser Francis Oil Company has apparently conspired with Mewbourne Oil Company in an attempt to avoid Chesapeake's proposal for its well and spacing unit and to now dispute this drilling well.
- (11) Neither Kaiser Francis Oil Company nor Mewbourne Oil Company has provided Chesapeake with any document concerning any transfer of interest nor was there any such documents of record as of the dated this application was filed.

Chesapeake is acting in full compliance with all Division rules and is entitled to continue to drill this well without interference from Mewbourne.

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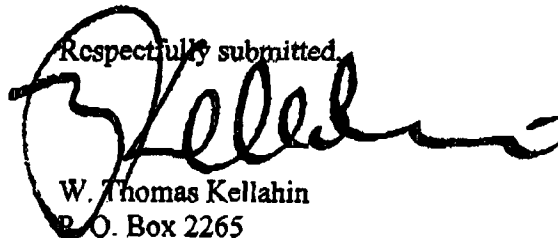
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CONCLUSION

Mewbourne seeks an extraordinary Emergency Order to cancel a valid and effective APD properly issued to Chesapeake by arguing that Chesapeake's drilling well is on a Samson lease, in which Chesapeake has no interest. In doing so, Mewbourne has chosen to ignore the fact that Chesapeake's has obtained an approved permit from the Division for this well site based upon Chesapeake's designation of a standard 320-acre gas spacing unit and full compliance with Division rules. Mewbourne has ignored the fact that Chesapeake has filed a compulsory pooling application to pool all interest in the SE/4 of section including those of Mewbourne. In order to grant Mewbourne this relief, the Division must contravene the Commission's order in the TMBR/Sharp Case and in the Pride Case. Such action would be arbitrary and capricious and violate the Oil & Gas Act.

Wherefore, Chesapeake requests that the Division deny Mewbourne application for an emergency order.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, certify that a true and correct copy of this pleading was hand delivered or send via facsimile on May 2, 2005 as follows:

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