

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

2005 AUG 17 PM 1 19

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

APPLICATION OF SAMSON RESOURCES  
COMPANY KAISER-FRANCIS OIL COMPANY,  
AND MEWBOURNE OIL COMPANY FOR  
CANCELLATION OF TWO DRILLING PERMITS  
AND APPROVAL OF A DRILLING PERMIT,  
LEA COUNTY, NEW MEXICO

CASE 13492

APPLICATION OF CHESAPEAKE OPERATING, INC.  
FOR COMPULSORY POOLING,  
LEA COUNTY NEW MEXICO

CASE 13493

AMENDED PRE-HEARING STATEMENT

Chesapeake Operating, Inc. submits this amended pre-hearing  
statement as required by the New Mexico Oil Conservation Division.

APPEARANCES OF THE PARTIES

Case 13493-Applicant  
Case 13492--Opponent

ATTORNEY

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**Case 13493-Opponent  
Case 13492-Applicant**

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**Samson Resources Company**

**J.E. Gallegos  
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## **STATEMENT OF THE CASES**

### **CHESAPEAKE:**

CHESAPEAKE PERMIAN, L.P. ("Chesapeake"), in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production for any and all formations/pools developed on 320-acre gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (**API#30-025-37129**) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and, pursuant to Commission order R-11992, a 200% charge for the risk involved in drilling and completing the well.

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.

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 are now: Kaiser Francis Oil Company with 36.5625% interest, Mewbourne Oil Company with a 7.1875% interest and Samson Resources Company with 6.25% interest.

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. The AFE was initially approved by Samson but Samson subsequently attempted to withdraw its approval. Chesapeake negotiated a surface damages and easement from the surface owner and proceeded to seek approval from the Division to drill the well and form a proration unit for the well in accordance with the prior orders by the Division and Oil Conservation Commission

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") this wellbore.

On April 26, 2005, Chesapeake filed its compulsory pooling application for a S/2 spacing unit to be dedicated to its K-S 4 State Well No. 1.

On April 27, 2005, Chesapeake in accordance with the Division approval APD and in compliance with Division rules spudded the KF State 4 Well. No 1 located in Unit X of this section.

On April 27, 2005, Mewbourne filed its application to cancel Chesapeake's approval ADP docketed as Case 13492 and as an attempt to stop the drilling and as a vehicle to dispute Chesapeake's orientation of the spacing unit for the K-F State 4 Well No. 1.

On May 2, 2005, the Director denied Mewbourne's application for an emergency order to stop Chesapeake from drilling the K-F 4 State Well No. 1.

On May 3, 2005, the State District Court denied Samson's application, based upon a claim of trespass, for a restraining order to stop Chesapeake from continuing to drill the K-F 4 State Well No.1.

On May 24, 2004 the Division Order R-12343-A that, among other things, denied Kaiser/Samson's joint motion to limit drilling operations for the K-F 4 State Well No.1.

On August 9, 2005, Chesapeake completed the K-F State 4 Well No.1.

By their actions, Kaiser Francis Oil Company, Samson Resources Company and Mewbourne Oil Company have attempted to avoid Chesapeake's proposal for its well and spacing unit. Because of this action, Chesapeake has concluded that it will be unable to reach a voluntary agreement with Kaiser Francis Oil Company, Samson Resources Company and Mewbourne Oil Company

Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.

Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Chesapeake needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

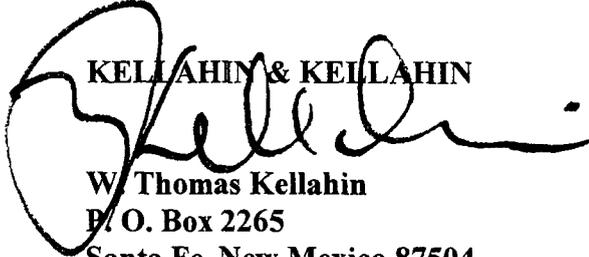
## **PROPOSED EVIDENCE**

### **CHESAPEAKE**

<b>WITNESSES</b>	<b>EST. TIME</b>	<b>EST. EXHIBITS</b>
<b>Lynda Townsend (land)</b>	<b>@ -30-60 minutes</b>	<b>@ 8</b>
<b>Mike Hazlip (land)</b>	<b>@ 20-30 minutes</b>	<b>@ 1</b>
<b>Clabe Pearson (land)</b>	<b>@ 15 minutes</b>	<b>@ 2</b>
<b>Cecil Gutierrez (land)</b>	<b>@ 15 minutes</b>	<b>@ 2</b>
<b>David Godsey (geologist)</b>	<b>@ 60-90 minutes</b>	<b>@ 7</b>
<b>David DeLaO (PE)</b>	<b>@ 30-45 minutes</b>	<b>@ 4</b>
<b>Jeffrey Finnell (PE)</b>	<b>@ 30-45 minutes</b>	<b>@ 4</b>

PROCEDURAL MATTERS

Examiner's decision on Kaiser's Motion to Enforce and Kaiser-Samson-Mewbourne's Motion in Limine. Chesapeake has filed Responses to the Motions and requests that the Examiner deny the motions and include the costs it incurred in responding to the same in .as part of the recovery of costs incurred in drilling the K-F State 4 Well No.1

  
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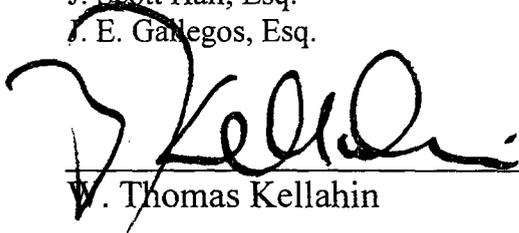
CERTIFICATE OF SERVICE

I certify that on August 17, 2005, I served a copy of the foregoing documents by:

- US Mail, postage prepaid
- Hand Delivery
- Facsimile

to the following:

David Brooks, Esq.  
James Bruce, Esq.  
J. Scott Hall, Esq.  
J. E. Gallegos, Esq.

  
\_\_\_\_\_  
W. Thomas Kellahin

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

**IN THE MATTER OF THE APPLICATION  
OF CHESAPEAKE PERMIAN, L.P.  
FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

**OCD CASE NO. 13493**

2005 NOV 16 PM 2 10

**AMENDED PRE-HEARING STATEMENT**

This Amended Pre-Hearing Statement is submitted by Samson Resources Company ("Samson") in accordance with Rule 1208.B., 19 NMAC 15.N.

**APPEARANCES OF PARTIES**

**APPLICANTS**

Chesapeake Permian LP

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Mewbourne Oil Company

James Bruce  
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To Samson's knowledge, no other party has entered an appearance or filed opposition in this matter.

### **SAMSON'S STATEMENT OF THE CASE**

On March 10, 2005, Chesapeake Operating Inc. filed with the Division's Hobbs district office an Application for Permit to Drill (APD) its proposed KF State "4" Well No. 1 in the SE/4 of Section 4, T21S, R35E, NMPM, Lea County, New Mexico. The district office permitted the well without investigating whether Chesapeake had any interest or a right to drill the well. Chesapeake, its affiliates and working interest partners, own no interest in the SE/4 of Section 4, a fact recognized in Division Order No. R-12343 issued May 5, 2005 in Case No. 13492.

Samson, Kaiser-Francis and Mewbourne are the lessees, rightful working interest owners and parties with an interest in the SE/4 of Section 4 and thereby entitled to drill a well and develop the acreage. They executed a communitization agreement in April, 2005 covering the acreage in the SE/4 of Section 4 that is the subject of Chesapeake's Application. Samson, Kaiser-Francis and Mewbourne are ready, willing and able to develop the acreage and test the Morrow formation and voluntarily formed a 320 acre spacing unit including that quarter section to accomplish that purpose.

Chesapeake is a bad faith trespasser. Notwithstanding that it owns no interest to authorize its entry onto the SE/4 of Section 4, Chesapeake began drilling its KF State "4" Well No. 1 on or about April 24, 2005. The Division by Order No. R-12343-A entered May 24, 2005 in Case No. 13492 granted Samson's and Kaiser-Francis' Motion

to Prohibit production from the KF State "4" Well No. 1 prior to issuance of an approval unit. The well is designed to test the Morrow formation.

This force pooling application was filed April 29, 2005, after the Samson/Kaiser Francis/Mewborne communitization agreement was executed. It presents an effort by Chesapeake to (1) excuse itself from the consequences of its bad faith trespass, and (2) insert itself into a spacing unit to share in production to which it is not entitled and to which it would contribute no productive acreage. Chesapeake's application should be denied for the following reasons:

1. Samson, Kaiser-Francis and Mewbourne are lessees/working interest owners in the SE/4 of Section 4. They have an approved operating agreement and a communitization agreement joined by the Commissioner of Public Lands, the mineral lessor, and are ready, willing and able to drill a well to test the Morrow formation and develop the acreage. The Division has no authority to force pool acreage that is already subject to a voluntarily development agreement under NMSA 1978 § 70-2-17.

2. Chesapeake is a bad faith trespasser. The Division should not sanction a trespass and reward a trespasser by approving this force pooling application.

3. The productive geological trend is on a decided north- south axis present in the SE/4 of section 4, but totally absent from Chesapeake's SW/4. Chesapeake contributes no meaningful or productive acreage in its proposed unit. By this Application, Chesapeake is attempting to participate in a spacing unit in which it otherwise has no entitlement and its acreage contributes no reserves. An order granting Chesapeake's Application would promote waste and violate Samson's correlative rights.

**PROPOSED EVIDENCE**

**SAMSON**

<b>WILL-CALL WITNESSES (Name and Expertise)</b>	<b>ESTIMATED TIME</b>	<b>EXHIBITS</b>
Rita Burress Landman	20 min.	5-6
Ron Johnson Geologist	45 min.	5-10
Leo Gallegos Engineer	45 min.	2-3

Counter exhibits may be presented to rebut, explain or otherwise address testimony or exhibits of Chesapeake or any other party who appears at the hearing.

Additional rebuttal witnesses may be called, depending on the evidentiary presentation made by Chesapeake or other parties appearing at the hearing.

**PROCEDURAL MATTERS**

Division Case No. 13492 is an Application seeking cancellation of Chesapeake's APD. There is pending in that case a Motion to Enforce Subpoena Duces Tecum and for Sanctions and a Motion In Limine. These matters should be heard before entertaining Chesapeake's Application for force pooling.

Samson will file contemporaneously a Motion to Dismiss Chesapeake's Application to the extent it seeks to force pool acreage in the SE/4 of Section 4 that is already subject to a voluntary communitization agreement.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By



J.E. GALLEGOS

MICHAEL J. CONDON

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**CERTIFICATE OF SERVICE**

I hereby certify that I have caused a true and correct copy of the foregoing to be mailed on this 16th day of August, 2005 to the following:

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

IN THE MATTER OF THE APPLICATION  
OF CHESAPEAKE PERMIAN, L.P. FOR  
COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO

CASE NO. 13493

2005 NOV 10 PM 1:05

**AMENDED PRE-HEARING STATEMENT**

This Pre-Hearing Statement is submitted by Miller Stratvert P.A. (J. Scott Hall) on behalf of Kaiser-Francis Oil Company, as required by the Oil Conservation Division.

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Samson Resources Company

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## STATEMENT OF THE CASE

### APPLICANT

Applicant seeks an order pooling all formations spaced on 320-acres from the top of the Wolfcamp to the base of the Morrow formation to form a gas spacing unit consisting of the S/2 of Section 4, Township 21 South, Range 35 East for the KF "4" State Well No. 1 drilled in Unit X.

### KAISER-FRANCIS OIL COMPANY

Kaiser-Francis Oil Company, Samson Resources Company and Mewbourne Oil Company, are the working interest owners in Lots 9, 10, 15, 16, and the SE/4 of Irregular Section 4, T. 21 S., R. 35 E., NMPM, Lea County, New Mexico (the "Subject Lands"). The mineral interests under the Subject Lands are owned entirely by the State of New Mexico and are subject to State Oil and Gas Lease Nos. V-7054 and B-1481-14, 100 percent of which are owned and/or controlled by Kaiser-Francis, Samson and Mewbourne. Under that Communitization Agreement approved by the Commissioner of Public Lands on April 27, 2005, effective April 1, 2005, and pursuant to that Joint Operating Agreement dated March 24, 2005, the subject lands were consolidated to form a standard 320-acre stand-up gas spacing and proration unit comprised of Lots 9, 10, 15, 16 and the SE/4 of Section 4. Further, pursuant to the Joint Operating Agreement the Movants have designated Samson Resources Company as operator and have agreed to drill the Osudo "4" State Com Well No. 1 at a standard gas well location 660 feet from the south line and 1,650 feet from the east line of said Section 4.

The Applicant, through Chesapeake Operating, Inc., purports to have dedicated a lay-down 320-acre gas spacing and proration unit for the KF State "4" No. 1 Well consisting of the SW/4 and SE/4 of Section 4. Applicant claims it has the authority to do so solely on the basis of an APD. Neither Applicant nor Chesapeake Operating, Inc. own any interest in any portion of

the Subject Lands. However, Chesapeake Permian, L.P., purports to own the lease outside the Subject Lands covering the SW/4 of Section 4.

On approximately April 27, 2005, without notice, Chesapeake moved a drilling rig onto the location for the KF State "4" No. 1 Well and commenced drilling operations that same day. It is undisputed that Chesapeake trespassed onto the Subject Lands. Further, the proration unit proposed by Applicant conflicts with the communitized unit previously approved by the Commissioner of Public Lands. Kaiser-Francis contends that Applicant is without the requisite authority to drill the well or to pool the SE/4 of Section 4.

### PROPOSED EVIDENCE

#### KAISER-FRANCIS OIL COMPANY

WITNESSES:	Est. Time	No. of Exhibits
Jim Wakefield (Petroleum Engineer)	1 hour	11

### PROCEDURAL MATTERS

1. This matter may be consolidated with Case No. 13492 for hearing.
2. Chesapeake's operations on the KF "4" State Well No. 1 on the subject lands are subject to the restrictions of Order No. 12343-A.
3. Without notice, the Applicant changed the bottom hole location for the KF "4" State Well No. 1 to Unit W. As a consequence, an amended Application and re-advertisement may be necessary.

MILLER STRATVERT P.A.

By: J. I. Hall  
J. Scott Hall  
Attorneys for Kaiser-Francis Oil Company  
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**Certificate of Service**

I hereby certify that a true and correct copy of the foregoing was faxed to counsel of record on the 19<sup>th</sup> day of August, 2005, as follows:

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