

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

2006 DEC 5 PM 4 34

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

**APPLICATION OF PURVIS OPERATING CO.,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

CASE NO. 13833

**APPLICATION OF PURVIS OPERATING CO.,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

CASE NO. 13834

**CHESAPEAKE ENERGY CORPORATION'S
MOTION TO DISMISS**

Chesapeake Energy Corporation, including Chesapeake Operating Co. (collectively "Chesapeake") moves that the New Mexico Oil Conservation Division dismiss these cases because the applicant, Purvis Operating Co. ("Purvis") prematurely filed theses cases and failed to comply with the custom and practice of the Division concerning Section 70-2-17.C NMSA 1978 by instituting an application for compulsory pooling (a) prior to proposing this wellbore to Chesapeake and (b) without conducting good faith efforts to reach a voluntary agreement with Chesapeake.

And in support states:

RELEVANT FACTS

(1) Chesapeake controls 100% of the working interest ownerships of a State of New Mexico oil & gas lease (CB-563, expiring 1/1/09) covering the W/2 of Section 8, T15S, R35E, Lea County, NM.

(2) Purvis Operating Co, ("Purvis") along with others, has a working interest in the E/2 of Section 8 consisting of 2 State of New Mexico oil & gas leases: NE/4 being lease V-6559 expiring 2/1/07 and the SE/4 being lease V-6717 expiring 10/1/07.

(3) Without notice to or consent by Chesapeake, Purvis filed 2 APDs, dated July 24, 2007, seeking approval to drill wellbores by placing both within the W/2 of Section 8 on Chesapeake's lease prior to reaching a voluntary agreement with Chesapeake or obtaining a compulsory pooling order.

(4) As part of these filings, Purvis attached to each a Division Form C-102, revised October 12, 2005, in which Purvis certificated that:

"I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division."

(5) At the time of certification, Purvis knew that it had not obtained a voluntary agreement from Chesapeake to place these wellbores on Chesapeake acreage or a compulsory pooling order.

(6) On August 1, 2006, the Division approved these 2 APD without knowing that Purvis had falsely certified Form C-201:

- a. Coyote State No. 1, Unit C (N/2 dedication) API#30-025-38037
- b. Armadillo State No. 1 Unit L (S/2 dedication) API#30-025-39035

(7) By letter dated August 28, 2006, Purvis proposed to Chesapeake the formation of a state exploratory unit, which included all of Section 8 and other acreage, consisting of approximately 1,900 acres with the initial unit well to be the Antelope #1 to be drilled in the NE/4 of Section 7

(8) By letter dated October 27, 2006, Purvis proposed to Chesapeake the Coyote State No 1 well at completed well costs of \$3,005,700.

(9) On October 31, 2006, after becoming aware of the Purvis' APDs, Chesapeake filed an application with the OCD-Hobbs requesting the cancellation of the Purvis APDs.

(10) In response, and on that same day, the OCD-Santa Fe obtain the voluntary agreement of Purvis that Purvis would not commence drilling these wells until Chesapeake's objections were resolved.

(11) Without waiting to discuss a settlement with Chesapeake and only sixteen days after first proposed the Coyote State No. 1 wellbore, on November 12, 2006, Purvis filed its compulsory pooling application for the N/2 of Section 8 to be dedicated to the Coyote State No. 1 well. requesting a hearing on December 13, 2006. **See OCD Case 13833**

(12) Again, without waiting to discuss a settlement with Chesapeake and without ever proposing the Armadillo State No. 1 wellbore, on November 12, 2006, Purvis filed its compulsory pooling application for the S/2 of Section 8 to be dedicated to the Armadillo State No. 1. **See OCD Case 13833**

(13) In both cases, Purvis have wrongfully alleging that it had attempted but failed to obtain voluntary agreements with Chesapeake.

(14) On November 17th and again on November 29th, 2006, Lynda Townsend, behalf of Chesapeake, talked with Mr. Purvis of Purvis Operating Co., and advised him that there was no need to pool Chesapeake interest in the N/2 of this section because Chesapeake was willing to elect as to this well.

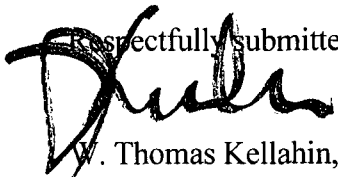
(15) Purvis has yet to provide Chesapeake with a proposed Joint Operating Agreement for either wellbore.

ARGUMENT

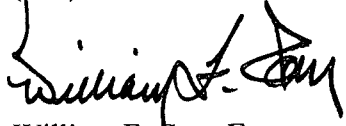
It has been the Division's longstanding interpretation of NMSA 1978 Section 70-2-17.C of the New Mexico Oil & Gas Act that an applicant is first required to make a good faith effort to obtain the voluntary commitment of interests in a spacing unit before seeking their compulsory pooling. Generally, that effort is commence by sending a written well proposal letter, including an AFE, that specifies the spacing unit, the well locations, estimated costs and depth and then waiting approximately 30-day thereafter before filing. The waiting period follows the industry's custom set forth in standard Joint Operating Agreements and is meaningful because it provides a period for the party to received the proposal, respond and to obtain further information from the proposing party or otherwise and then make an informed decision.

It is premature for any party, including Purvis, to proceed with compulsory pooling at this time for a spacing unit for the S/2 of this section. In addition, it appears to constitute "bad faith" for Purvis to proceed to hearing a pooling case for a N/2 spacing unit for which Chesapeake willing to participate.

Purvis' actions display either a total lack of knowledge of or a total disregard for the Division's rules, procedures and practices. If allowed by the Division will encourage Purvis and others to use compulsory pooling as a negotiating weapon rather than as a remedy of last resort. The Division's files are replete with cases that were dismissed for the same reasons that Purvis' cases should be dismissed. For example, See NMOCD Cases 9939, 106635, 10636, 11107, 11434, 11461, 11927, 11999 and 12014.

Respectfully submitted,


W. Thomas Kellahin, Esq.
Kellahin & Kellahin
706 Gonzales Road
Santa Fe, NM 87501
(505) 982-4285



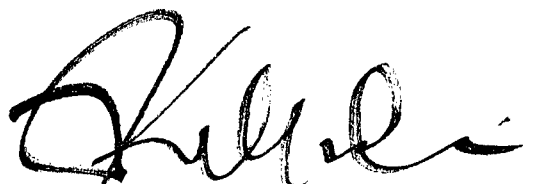
William F. Carr, Esq.
Holland & Hart
Attorney at Law
110 N Guadalupe
Santa Fe, NM 87501
(505) 988-4421
Attorneys for Chesapeake

CERTIFICATION OF SERVICE

I hereby certify that a copy of this pleading was served upon the following counsel of record this 5 day of December 2006, by facsimile.

David K Brooks, Esq.
Oil Conservation Division
1220 South St. Francis Drive
Fax: 505-476-3462

James Bruce, Esq.
Attorney for Purvis Operating Co.
Fax: (505) 982-2151


W. Thomas Kellahin

