

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

CASE NO: 14340

EXHIBIT

2

**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 PURPOSES OF CONSIDERING:**

CASE NO. 14340

**APPLICATION OF CHESAPEAKE EXPLORATION, L.L.C.
TO REINSTATE DIVISION ORDER R-11993-A
(FOR COMPULSORY POOLING),
LEA COUNTY, NEW MEXICO.**

Before the Oil Conservation Division
Exhibit No. 2
Chesapeake Energy Corp
OCD CASE 14340
Hearing: July 23, 2009

**AFFIDAVIT OF
ED BIRDSHEAD**

**STATE OF OKLAHOMA §
 § ss.
COUNTY OF OKLAHOMA §**

Before me, the undersigned authority, personally appeared Ed Birdshead, who being fully sworn stated:

A. Name and qualifications as an expert are as follows:

Ed Birdshead

Education: BBA University of Oklahoma, 1982 in
 Petroleum Land Management

Experience: Practicing Landman for 26 years in Texas, Oklahoma and
 New Mexico,

I am over the age of majority and competent to make this Affidavit.

I am both responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

I am personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with the New Mexico Oil Conservation Division Rule 1207.A(1)(b).

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS:

B. My expert opinions are based on the following facts and events:

1. Chesapeake Exploration, L.L.C. ("Chesapeake") has a working interest ownership in the oil and gas minerals underlying the NE/4NE/4 of Section 19, T20S, R39E, NMPM, Lea County, New Mexico.
2. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Abo formation underlying the NE/4NE/4 of Section 19, T20S, R39E, NMPM, Lea County, New Mexico.
3. Effective May 7, 2004, Chesapeake Operating, Inc., on behalf of Chesapeake Exploration Company, L.L.C., succeeded Xeric Oil & Gas Corporation as the operator of this spacing unit and this wellbore.
4. This spacing unit is subject to the Division's Order R-11993, dated August 1, 2003, compulsory pooling this 40-acre spacing unit.
5. An amendment of this order is required because Division Rule 36 does not provide the necessary subsequent operations procedure for this situation.
6. On June 12, 2008, Chesapeake proposed to all parties subject to this compulsory pooling order that the Duncan 19 Well No. 1 be recompleted in the Tubb and Drinkard formations, commingled with the existing Abo production and dedicated as a standard 40-acre oil spacing unit consisting of the NE/4NE/4 of this section for production from the DK-Drinkard Pool, DK-Abo Pool and East Warren-Tubb Pool. Form C-102 is attached as Exhibit "A".
7. Chesapeake has had the following additional contact:
 - (a) Telephone discussion with David A. Lynch of Dalport Petroleum, LLC
 - (b) Letters from/to: Concord Oil Co.; Newton Financial Corp; Dalco Petroleum, LLC; Robert Burns c/o Todd Burns; Bruce Burns c/o Todd Burns; Kari Burns Radar c/o Todd Burns; and Todd Burns.
8. Chesapeake has continued its attempts to contact the pool parties and has sent additional notices to certain parties.
9. Previously in Case 14165, the Division entered Order R-11993-A, dated October 8, 2008. This order was required because Division Rule 36 does not provide the necessary subsequent operations procedure for this situation.

10. Order R-11993-A expired on December 31, 2008 because, as a result of a clerical oversight, Chesapeake failed to request an extension of the commencement date for the work-over of this well.

11. With the exception of the circumstances involved with the expiration of the order, the estimated work-over well costs and other facts for this pooling order remain the same as on October 2, 2008, the date of the original hearing for Order R-11993-A.

12. At this point, Chesapeake still has not been able to obtain a written voluntary agreement from all the parties listed on Exhibit "A."

13. Despite its good faith efforts, Chesapeake has been unable to obtain a voluntary agreement with the parties referenced herein.

14. 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.

EXHIBITS:

C. In accordance with Division Rule 1207.A(1)(b), attached are the following statements and exhibits in support of this case:

1. No opposition for the hearing is expected because Chesapeake has received no notice of opposition.

2. Exhibit (1): (a) outlining the spacing unit to be pooled which is the NE/4NE/4 of Section 19, T29S, R39E, NMPM, Lea County, New Mexico, and (b) showing the well location and (c) the percentage of ownership interest.

3. Exhibit (2): The name and last known address of the parties to be pooled with the nature and percentage of their interest. I attest that a diligent search has been conducted of all public records in the county where the well is located and the party has been contacted on our behalf on several occasions.

4. The names of the formations and pools to be pooled are as follows:
DK-Abo Pool, DK-Drinkard Pool and the East Warren-Tubb Pool, all on 40-acre spacing
units. 15200 15390 63280

5. The pooled unit is for oil.

6. Exhibit (3): Written evidence of attempts to reach voluntary agreement, including letters and summaries of telephone calls, are included herein.

7. Exhibit (4) Geologic displays no longer required for risk charge.
8. Exhibit (5) The well costs overhead rates of \$6,000.00/month drilling and \$600.00/month producing well rates which were the rates approved by Order R-11993-A
9. Exhibit (6) Copy of Division form C-102 showing the well location and the proposed depth of the well.
10. Exhibit (7) Copy of the AFE in the amount of \$348,100.00 to re-complete this well, which we conclude, is fair, reasonable and current for wells of this type in this area.

RECOMMENDATIONS:

- D. I recommend that a compulsory pooling order be entered which provides that:
1. Chesapeake Operating, Inc. be named Operator;
 2. Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the well;
 3. In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty; and
 4. Provisions for overhead rates of \$6,000.00 per month drilling and \$600.00 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

OPINIONS:

- E. I have formed the following opinions based upon my expertise and upon the foregoing chronology of events:
1. That Chesapeake has been able to locate the owners of the interest to be pooled and the application is not expected to be opposed by those owners.
 2. That the approval of Chesapeake's application in this case is necessary in order to consolidate the interest ownership within this spacing unit for the drilling, completing, and producing of the subject well and such approval will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.
 3. That the New Mexico Oil Conservation Division should enter an order pooling all mineral interests as described including the costs of drilling and completing said well and the allocation of costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a 200% charge for risk involved in recompleting said well.

FURTHER AFFIANT SAYETH NOT:

Ed Birdshead

Ed Birdshead

Acknowledgement

STATE OF OKLAHOMA §
 §
COUNTY OF OKLAHOMA §

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 7th day of July, 2009, personally appeared Ed Birdshead known to me to be the identical person who subscribed the name of the maker thereof to the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

D. J. Graham
Notary Public



My Commission expires:

9/5/12

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

'API Number 30-025-36235	'Pool Code 15390 ✓	'Pool Name D-K; Drinkard
'Property Code 300227	'Property Name Duncan 19	'Well Number 1
'OGRID No. 147179	'Operator Name Chesapeake Operating, Inc.	'Elevation 3527'

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	19	20S	39E		600'	North	500'	East	Lea

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

"Dedicated Acres 40 ✓	"Joint or Infill	"Consolidation Code	"Order No. PC-1108
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No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

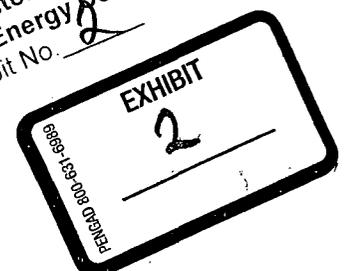
16		¹⁷ OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a 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</i>	
		Linda Good Signature	05/12/2008 Date
		Linda Good Printed Name	
		¹⁸ SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief</i>	
Date of Survey		Signature and Seal of Professional Surveyor Please refer to original plat	
Certificate Number			



**EXHIBIT "B" to that certain
Application of Xeric Oil & Gas Corporation for Compulsory Pooling
Lea County, New Mexico
dated June 13, 2003**

<u>MINERAL OWNER/ ADDRESS</u>	<u>FRACTIONAL INTEREST</u>	<u>TYPE INTEREST</u>
Alice T. Bannatyne Address: Unknown	9/320	Mineral/Royalty
The Heirs or Devisees of Harald Muller, dec'd and Helen Muller, dec'd Address: Unknown	9/320	Mineral/Royalty
William J. Foster Address: Unknown	9/640	Mineral/Royalty
Mary C. Foster Geddes Address: Unknown	9/640	Mineral/Royalty
Concord Oil Company Alamo National Building 105 South St. Mary's Street, Suite 1500 San Antonio, TX 78205	1/192	Mineral/Royalty

Before the Oil Conservation Division
Case 14165
Hearing October 2, 2008
Chesapeake Energy Corp., LLC
Exhibit No. 2



CHESAPEAKE
OCD CASE 14340

EXHIBIT 3

NO FURTHER CONTACTS

EXHIBIT 4

NO GEOLOGIC EXHIBITS

EXHIBIT 5

NONE

EXHIBIT 6

SAME AS EXHIBIT 1

CHESAPEAKE OPERATING, INC.

PROJECT INFORMATION		AUTHORIZATION FOR EXPENDITURE	
Project Area: CBP		County, State:	Lea, New Mexico
Well Name: Duncan 19-1		Date:	4/28/08
Operator: Chesapeake Operating, Inc.		Total Depth:	7,750'
AFE #: 303504		Formation:	Abo
Spacing Unit: Section 19-20S-39E		Property #:	891142

DRINKARD AND TUBB RECOMPLETION

CODE	CAPITAL COSTS	WORK DESCRIPTION	ESTIMATED COSTS
234400	Location:	Location Expense	\$0.00
234401		Damages	\$0.00
234402		Governmental Filings	\$0.00
234405		Reclamation	\$0.00
234408		Pipeline Construction	\$0.00
234414		Contract Labor and Services	\$4,500.00
234416		Supplies and Utilities	\$14,500.00
234417		Cement Casing	\$0.00
234419		Chemicals and Injectants	\$0.00
234427		Fishing	\$0.00
234428		Downhole Rental Equipment	\$8,500.00
234430		Workover/Completion Unit	\$65,000.00
234431		Cased Hole Services/Perforating	\$19,700.00
234433		Jetting	\$0.00
234434		Formation Treatment	\$133,500.00
234437		Surface Equipment Rental	\$15,000.00
234438		Transportation	\$5,000.00
234440		Flowback Hauloff	\$3,000.00
234443		Supervision	\$13,000.00
234439		Technical Labor	\$0.00
234435		Direct Labor	\$0.00
234444		Consultants	\$9,100.00
234446		Overhead	\$0.00
234447		Insurance	\$0.00
234450		Plug to Abandon	\$0.00
		Contingency	\$43,000.00
TOTAL CAPITAL WORKOVER		Total Capital Workover Costs	\$333,800.00
CODE	TANGIBLE COSTS	WORK DESCRIPTION	ESTIMATED COSTS
230109		Production Liner	\$0.00
230104		Float Equipment	\$0.00
230105		Tubing	\$2,200.00
230106	Lease Equipment:	Wellhead Equipment	\$3,000.00
230107		Downhole Equipment	\$7,800.00
230111		Artificial Lift - Pumping Unit	\$0.00
230113		Production Equipment	\$0.00
230115		Compressor/Compression	\$0.00
230116		Pipeline Equipment	\$0.00
230120		Non-Controllable Equipment	\$0.00
		Contingency	\$1,300.00
TOTAL TANGIBLES		Total Tangible Costs	\$14,300.00
		Total Costs	\$348,100.00

Prepared by: KH

Approved by: DRB

OPERATOR'S APPROVAL: _____ DATE: _____
Operations/Geology

OPERATOR'S APPROVAL: _____ DATE: _____
Land/Accounting

NON-OPERATOR'S APPROVAL: _____ DATE: _____

The costs on this AFE are estimates only and may not be construed as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay its proportionate share of actual costs incurred, including legal, curative, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well, as modified by any Accounting Procedure Exception attached to this AFE. The operator may contract with an affiliated entity to drill the well at prevailing rates in the area. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides operator a certificate evidencing its own insurance in amounts acceptable to the operator by the date of spud.

