

**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN\*

\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 18, 2000

**Hand Delivered**

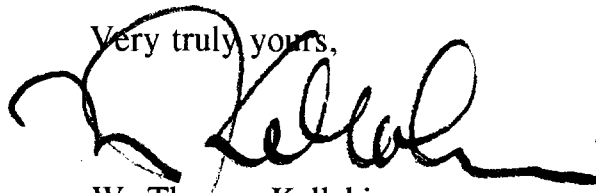
Mr. Mark Ashley, Hearing Examiner  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

Re: NMOCD Case 12448  
Boyce "15" Well No. 3  
E/2 Section 15, T16S, R35E, NMPM  
Application of Chesapeake Operating, Inc.  
for an unorthodox gas well location,  
Lea County, New Mexico

Dear Mr. Ashley:

On behalf of Chesapeake Operating, Inc., please find enclosed our proposed order for your consideration in the referenced case., Also enclosed is a word perfect 5.1 diskette containing the draft order.

Very truly yours,



W. Thomas Kellahin

cc: Chesapeake Operating, Inc.  
Attn: Lynda Townsend

**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. 12448  
Order No. R-**

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

**CHESAPEAKE OPERATING, INC.'S  
PROPOSED ORDER OF THE DIVISION**

**BY THE DIVISION:**

This cause came on for hearing at 8:15 a.m. on July 13, 2000 at Santa Fe, New Mexico, before Examiner Mark Ashley.

NOW, on this \_\_\_\_ day of July, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS THAT:**

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Chesapeake Operating, Inc. ("Chesapeake"), seeks approval to complete and produce its Boyce "15" Well No. 3 (API No. 30-025-35006) at an unorthodox gas well surface location 2310 feet from the North line and 341 feet from the East line (Unit H) and at an unorthodox subsurface location 2382 feet from the North line and 430 feet from the East line (Unit H) Section 15, Township 16 South, Range 35 East, NMPM, Townsend-Morrow Gas Pool, Lea County, New Mexico.

(3) Chesapeake presented land and geologic data which demonstrates that:

(a) the well was permitted at a standard location for oil production from the Northwest Shoe Bar Strawn Pool but, as a result of logging errors, was unintentionally drilled to the base of the Morrow formation;

(b) the well was unsuccessful in the Strawn formation and Chesapeake seeks approval to test and produce this well from the Morrow formation;

(c) there is potential for Morrow gas production which will be wasted unless the unorthodox well location is approved.

(d) Any production from the Morrow formation will be unorthodox because the well is closer than 660 feet to the eastern and southern sides of the NE/4 of this section;

(e) the southern encroachment is towards the SE/4 of this section in which Chesapeake controls 100% of the working interest, while the eastern encroachment is towards the W/2 of Section 14 which is operated by David H. Arrington Oil & Gas, Inc. ("Arrington");

(f) By letter dated June 14, 2000, Chesapeake and Arrington have entered into a production limitation agreement stipulating a 35% production penalty (430 feet divided by 660 feet) for the Chesapeake well based upon the distance ratio method between the well's bottom hole location of the well and the minimum standard distance of 660 feet from the common boundary; and

(g) Chesapeake has confirmed with the OCD-Hobbs that the Boyce "15" Well No. 3 proposed perforated interval below 11,700 feet will be in the Townsend-Morrow Gas Pool, while Chesapeake's Boyce "15" Well No. 1 located in Unit A of this section is perforated above the top of the Morrow formation and is dedicated to Atoka production in the North Shoe Bar-Atoka Gas Pool.

(4) The 35 % encroachment penalty agreed to by Chesapeake and Arrington should be adopted in this case.

(5) Because Morrow production from the Townsend-Morrow Gas Pool is not prorated, this penalty should be applied against the well's ability to produce into a pipeline as determined from semi-annual deliverability tests conducted in accordance with Division rules.

(6) The above penalty formula method and the stipulated 35 % penalty are appropriate in this case and will provide a reasonable restriction to protect correlative rights of offsetting operator and interest owners but is sufficient to afford the applicant the opportunity to protect its correlative right to recover its share of remaining recoverable gas underlying its spacing unit.

(7) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in the Morrow formation, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

**IT IS THEREFORE ORDERED THAT:**

(1) The applicant, Chesapeake Operating, Inc., is hereby authorized to complete and produce its Boyce "15" Well No. 3 (**API No. 0-025-35006**) at an unorthodox gas well surface location 2310 feet from the North line and 341 feet from the East line (Unit H) and at an unorthodox subsurface location 2382 feet from the North line and 430 feet from the East line (Unit H) Section 15, Township 16 South, Range 35 East, NMPM, Townsend-Morrow Gas Pool, Lea County, New Mexico.

(2) The E/2 of this section shall be dedicated to the well forming a standard 320-acre gas spacing and proration unit.

(3) A production penalty of 35% is hereby assessed against the well's ability to produce Morrow gas from the Townsend-Morrow Gas Pool.

(4) This penalty should be applied against the well's ability to produce into a pipeline as determined from semi-annual deliverability tests conducted in accordance with Division rules.

(5) Chesapeake shall be required to notify Arrington and the Division's Hobbs District Office of the date and time the semi-annual deliverability test is to be conducted in order that the test may be witnessed.

(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

LORI WROTENBERY  
Director