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William F. Carr

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March 13, 2002

David R. Catanach  
Hearing Examiner  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

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Re: Oil Conservation Division Case 12795: Application of Chaparral Energy, Inc. for an unorthodox gas well location, Lea County, New Mexico.

Dear Mr. Catanach:

At the March 7, 2002 Examiner Hearing, Chaparral Energy, Inc. presented testimony in support of its application for approval of an unorthodox well location for the Crosby Deep 28 Well No. 1 ("the Crosby 28 Well") located 330 feet from the South line and 1980 feet from the West line of Section 28, Township 25 South, Range 37 East, NMPM. Chaparral testified that after its recompletion in the Devonian formation, the Crosby 28 Well would be 50% closer to the NW/4 of Section 33, the offsetting tract to the south, than permitted under Division rules. It also testified that the drainage radii for wells in the Devonian formation in this area exceeded 2300 feet (See Exhibits 6 and 7) and that they were going to attempt to complete in a Devonian interval not produced in the offsetting well to the south which had previously produced from this formation.

Pride Energy Company owns interest in the NW/4 of offsetting Section 33. Pride appeared in the case and requested that, since the well will be 50% closer to the acreage in which it owns an interest than allowed by the applicable Division rules, a 50% production penalty should be imposed on the well.

By letter dated March 7, 2002, Chaparral Energy, Inc. submitted its own penalty calculation and recommended a penalty of 15.5%. In its proposed penalty letter, Chaparral states: "The only well in the NW/4 of Section 33 which could be a candidate for recompletion in the Devonian formation is the Crosby Deep Federal 33 Well No. 4 which is located **785 feet from the North line** and 1980 feet from the West line of Section 33." If the Crosby Deep 33 Well No. 4 is recompleted in the NW/4 of Section 33 and the Crosby Deep 28

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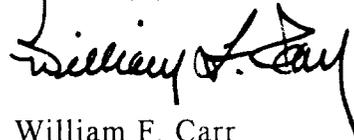
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Well No. 1 is recompleted as proposed, The Crosby 28 Well would be approximately 70% closer to the common boundary between these spacing units (330 feet) than the well in Section 33 in which Pride owns an interest (785 feet).

The purpose of a production penalty on an unorthodox well location is to protect correlative rights by offsetting the advantage gained on a neighboring tract. The test should not be the distance between wells but who owns the reserves being drained by the well at the unorthodox location. The 15.5% penalty recommended by Chaparral is inconsistent with its own testimony and exhibits and would simply authorize drainage and impair the correlative rights of the interest owners in Section 33.

On the facts of this case, a 50% penalty on the Crosby 28 Well is a conservative penalty and must be imposed to protect Pride's correlative rights in the NW/4 of Section 33.

Sincerely yours,



William F. Carr

cc: John Pride