

**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-11432**

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

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this 3rd day of August, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(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 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) of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, for production from the Townsend-Morrow Gas Pool. The E/2 of Section 15 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit.

(3) The subject well and spacing unit are located within the Townsend-Morrow Gas Pool. This pool is currently governed by Division Rule 104.C.(2), which requires standard 320-acre spacing and proration units with wells located no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(4) The applicant presented land and geologic evidence that demonstrates:

(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; and

(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").

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

(6) Chesapeake's application should be approved.

(7) The evidence further demonstrates that producing the Boyce "15" Well No. 3 at the unorthodox gas well location may adversely affect the correlative rights of the interest owners in the W/2 of Section 14.

(8) In order to protect correlative rights of the affected interest owners, the 35 percent production penalty agreed to by Chesapeake and Arrington should be adopted.

(9) 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.

(10) Approval of the unorthodox gas well location, subject to the aforesaid production penalties, will afford the applicant the opportunity to recover its just and equitable share of gas reserves underlying the E/2 of Section 15, protect correlative rights, 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 otherwise prevent waste and protect correlative rights.

(11) Chesapeake should be required to conduct a directional survey during or upon completion of drilling operations on the Boyce "15" Well No. 1. Chesapeake should notify the supervisor of the Division's Hobbs District Office of the date and time the directional survey is to be conducted in order that it may be witnessed. Chesapeake should submit copies of the directional survey to the Santa Fe and Hobbs offices of the Division upon completion.

(12) Upon application by Chesapeake, the production penalty imposed by this order may be administratively adjusted by the Division Director based upon the final bottomhole location of the Boyce "15" Well No. 1.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Chesapeake Operating, Inc. ("Chesapeake"), is hereby authorized to complete and produce its Boyce "15" Well No. 3 (API No. 30-025-35006) at an unorthodox 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) of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, for production from the Townsend-Morrow Gas Pool.

(2) The E/2 of Section 15 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit.

(3) A production penalty of 35 percent is hereby assessed against the Boyce "15" Well No. 3 for a completion within the Morrow formation, Townsend-Morrow Gas Pool.

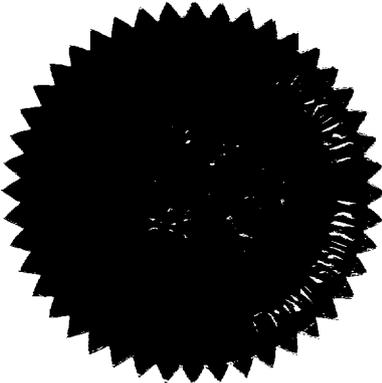
(4) This penalty shall be applied against the well's ability to produce into a pipeline as determined from semi-annual deliverability tests conducted in accordance with Division rules.

(5) Chesapeake shall conduct a directional survey during or upon completion of drilling operations on the Boyce "15" Well No. 3. Chesapeake shall notify the supervisor of the Division's Hobbs District Office of the date and time the directional survey is to be conducted in order that it may be witnessed. Chesapeake shall submit copies of the directional survey to the Santa Fe and Hobbs offices of the Division upon completion.

(6) Upon application by Chesapeake, the production penalty imposed by this order may be administratively adjusted by the Division Director based upon the final bottomhole location of the Boyce "15" Well No. 3.

(7) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director