

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. 13492

APPLICATION OF SAMSON RESOURCES
COMPANY, KAISER-FRANCIS OIL COMPANY,
AND MEWBOURNE OIL COMPANY FOR
CANCELLATION OF TWO PERMITS AND
APPROVAL OF A DRILLING PERMIT, LEA
COUNTY, NEW MEXICO.

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CASE NO. 13493

APPLICATION OF CHESAPEAKE PERMIAN, L.P.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER NO. R-12343-B

**PRE-HEARING STATEMENT ON BEHALF OF SAMSON RESOURCES,
MEWBOURNE OIL COMPANY AND KAISER FRANCIS OIL COMPANY**

This Pre-Hearing Statement is submitted by Samson Resources Company, Mewbourne Oil Company and Kaiser Francis Oil Company in accordance with the hearing in this matter by the New Mexico Oil Conservation Commission set to commence on August 10, 2006.

This matter is on *de novo* appeal from Order R-12343-B entered in these consolidated cases by the Oil Conservation Division on January 10, 2006.

APPEARANCES

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APPLICANTS' STATEMENT OF THE CASE

Cancellation of Chesapeake Drilling Permit.

Chesapeake owns no interest in the southeast quarter of Section 4 (the east one-half of the south one-third), Township 21 South, Range 35 East, NMPM, Lea County. Section 4 is an irregular 950 acre section. Samson, Mewbourne and Kaiser-Francis are lessees of working interest in the 160 acres of the southeast quarter and entitled to enter the surface and to develop the minerals.

On March 10, 2005, Chesapeake electronically filed an Application for Permit to Drill with the Division's Hobbs Office proposing the KF State 4 No. 1 well in that

southeast quarter of Section 4. Without investigating whether Chesapeake had any rights to that quarter section a permit was granted on March 11, 2005. Chesapeake began work on the location at or before that date and spudded the well on April 27, 2005. On that same date Chesapeake filed the force pooling application in Case No. 13493.

When Chesapeake undertook development of the KF 4 State well in the southeast quarter it owned no interest in the property. When Chesapeake undertook development of the KF 4 State well in the southeast quarter it had no order of the Division pooling that acreage with its lease of the southwest quarter of Section 4.

Order R-12343-R that has sanctioned well development by a trespasser has produced a chaotic situation in this State's oil and gas industry. It has surrendered the orderly regulation and administration of pooling under the Division's statutory authority (NMSA 1978, §§ 70-2-17 and -18) to operators like Chesapeake.

The conclusions of the Division on the legal issues set forth in Part IV at 15-17 of its order are patently erroneous and can be and should be reversed on the undisputed facts, regulations and law. The Division misread or misunderstood the Commission decision in the Pride Energy Case.¹ That case did recognize that an operator might file for an APD even though it has not yet filed a pooling application. **The Commission in *Pride* did not, however, approve such operator proceeding to drill a well on acreage it did not own before the pooling application was decided.** To do so would

¹ Application for Cancellation of a Drilling Permit, Case No. 13153, Order R-12108-C, December 9, 2004.

reward the piracy of other operators' leaseholds by a trespasser – just what the decision of the Division has allowed.

The permit to drill issued to Chesapeake on March 11, 2005 must be revoked and a permit issued to the rightful owners of the lease on the southeast quarter of Section 4.

Pooling Applications.

Mewbourne completed the Osudo 9 State Com Well No. 1 in the northeast quarter of Section 9, 21 South, 35 East in early 2005. The logs on the well showed over 40 feet of Morrow formation porosity and the well is a prolific producer. Chesapeake holds a small working interest in the well. That well is located in the quarter section directly south of the southeast quarter of Section 4, where Chesapeake drilled the disputed KF 4 State well on Samson et al. acreage.

On March 18, 2005 (a week after obtaining the permit for the KF 4 State well). Chesapeake filed an APD for its Cattleman 4 State Com No. 1 well in Lot 16 of Section 4 (the southeast quarter of the middle one-third). That location is directly in line to the north of the KF 4 State and on a definite north-south alignment with that well and the Osudo 9 State Com. No. 1.

The source of the sands in the Osudo 9 and KF 4 wells that were laid down in Morrow time was a granite highlands to the north of these wells. The productive geological trend is on a decided north-south axis present in the southeast quarter of Section 4, but totally absent from Chesapeake's southwest quarter of Section 4. Chesapeake contributes no meaningful or productive acreage in its 320 acres lay-down unit. Chesapeake is participating in a spacing unit in which it otherwise has no

entitlement and its acreage contributes no reserves. The order granting Chesapeake's Application promotes waste and violates Samson and Kaiser Francis' correlative rights. Even though the technical evidence of Chesapeake cannot stand scrutiny, the Division granted its pooling application. Samson, et al. submit that decision was heavily influenced because Chesapeake had drilled and was operating the KF 4 well. Thus, by its trespass Chesapeake gained the advantage in a pooling proceeding. This will become the *modus operandi* for other lease interlopers, if it has not already, should the practice be permitted. Instead of regulation, New Mexico mineral development becomes a race to file an APD and "get the drill bit in the ground. . . ", just what the Division said should not be encouraged. Order R-12343-B at 17.

PROPOSED EVIDENCE

Will Call Witnesses

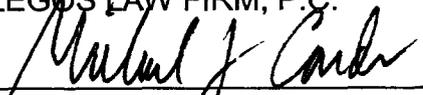
<u>Will Call Witnesses</u>	<u>Time</u>	<u>Exhibits</u>
Ron Johnson Geologist	2½ hours	43
Ken Krawietz Petroleum Engineer	45 minutes	10
Lyn S. Charuk Geologist	45 minutes	3

May Call Witnesses

Rita Buress Landman	20 minutes	10
Paul Kautz Division, Hobbs Office	30 minutes	
Jane Prouty Division, Santa Fe Office	30 minutes	

Respectfully submitted,

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By 

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CERTIFICATE OF SERVICE

I hereby certify that I have caused a true and correct copy of the foregoing Pre-Hearing Statement to be faxed on this 4th day of August, 2006 to the following:

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