

PAUL BACA PROFESSIONAL COURT REPORTERS

**OIL
CONSERVATION**

CASE NO: 14165

EXHIBIT

4

500 4TH STREET NW, SUITE 105, ALBUQUERQUE, NEW MEXICO 87102

EXHIBIT 4

**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. 14165

**APPLICATION OF CHESAPEAKE OPERATING, INC.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

**AFFIDAVIT OF
ED BIRDSHEAD**

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

*Before the Oil Conservation Division
Case 14165
Hearing October 2, 2008
Chesapeake Energy Corp, LLC
Exhibit No. 4*

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 each 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).

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

Affidavit of Chesapeake Operating, Inc.

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. Chesapeake Energy Corporation, LLC ("Chesapeake") has a working interest ownership in the oil and gas minerals underlying the NE/4NE/4 of Section 19, T20S, R39E, 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 Division's Order R-11993, dated August 1, 2003, compulsory pooling this 40-acre spacing unit.
5. An amended 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 to recompleted in the Tubb and Drinkard formations and 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 attached as Exhibit "A".
7. Chesapeake has had the following additional contact:
 - (a) Telephone discussions with David A. Lynch with Dalport Petroleum, LLC, 575-396-2912
 - (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 Rader 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. Despite its good faith efforts, Chesapeake has been unable to obtain a voluntary agreement with the parties referenced herein.
10. 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:

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

(i) No opposition for the hearing is expected because the additional operation is expected to increase production incrementally.

(ii) 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) percentage of ownership interest.

(iii) Exhibit (2) The name and last known address of the party to be pooled with the nature and percent 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.

(iv) 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.

(v) The pooled unit is for oil.

(vi) Exhibits (3) Written evidence of attempts to reach voluntary agreement including letters and summaries of telephone calls are included herein.

(i) Exhibit (4) Geologic displays no longer required for risk charge.

(ii) Exhibit (7) A copy of the Ernest & Young average well costs overhead rates of \$4,000.00/month drilling and \$400.00/month producing well rates which are the rates originally approved by Order R-11993

(iii) Exhibit (8) Copy of Division form C-102 showing the well location and the proposed depth of the well.

(iv) Exhibit (9) Copy of the AFE in the amount of \$ 348,100.00 to re-completed this well, which we conclude, is fair, reasonable and current for wells of this type in this area.

RECOMMENDATIONS

8. I recommend that a compulsory pooling order be entered which provides that:

- (a) Chesapeake Operating, Inc. be named Operator;
- (b) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the well;
- (c) 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
- (d) Provisions for overhead rates of \$6,000.00 per month drilling and ^{521.81}~~\$600.00~~ per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

B. We have formed the following opinions based upon our respective expertise and upon the foregoing chronology of events:

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.

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 the subject well, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.

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

ACKNOWLEDGMENT

STATE OF OKLAHOMA)
)
 SS:
COUNTY OF OKLAHOMA)

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 15th day of August, 2008, 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.

Mary Frances Jowers
Notary Public



My Commission expires:

June 24, 2009

Todd Burns
425 Market Street, Ste 2200
San Francisco, CA 94105-2434

Kari Burns Rader
425 Market Street, Ste 2200
San Francisco, CA 94105-2434

Concord Oil Co.
100 West Houston St. Ste 1500
San Antonio, TX 78205-1424

Newton Financial Corp.
100 West Houston, Ste 1500
San Antonio TX 78205-1424

Dalco Petroleum, LLC
P.O. Box 1904
Lovington, NM 88260-1904

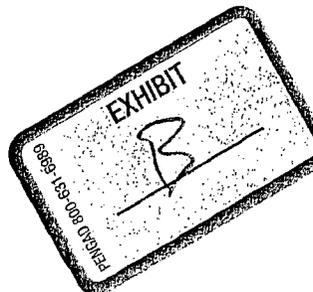
Terry B. Bannatyne
8500 N.M-33 Hwy
Cheboygan MI 49721

Marilyn Pasney
8500 N.M-33 Hwy
Cheboygan, MI 49721

Greg Bannatyne
2232 Hennings Road
Cheboygan MI 49721

Robert Burns
425 Market Street, Ste 2200
San Francisco, CA 94105-2434

Bruce Burns
425 Market Street, Ste 2200
San Francisco, CA 94105-2434





Jared I. Boren
Associate Landman

June 12, 2008

VIA USPS CERTIFIED MAIL
(7005 3110 0003 8077 5612)

Todd Burns
425 Market Street, Suite 2200
San Francisco, CA 94105-2434

Re: Recompletion Proposal
Chesapeake's Duncan 19-1
NE/4 NE/4 Section 19-20S-39E
Lea County, New Mexico



Dear Mr. Burns:

Pursuant to New Mexico Oil Conservation Division ("NMOCD") Order No. R-11993 ("Order"), dated August 1, 2003, Xeric Oil & Gas Corporation drilled the Duncan Well #1 (API #30-025-36235) at a standard oil well location in Unit A of Section 19-20S-39E, Lea County, New Mexico, completed it for production from the Abo formation, and dedicated it to the 40-acre spacing unit consisting of the NE/4NE/4 of this section.

Effective May 7, 2004, Chesapeake Operating, Inc. became the operator on behalf of Chesapeake Exploration, L.L.C. (collectively "Chesapeake"). Our records indicate that you are a party subject to the Order.

This well is currently still producing from the Abo formation at the rate of 10 barrels of oil per day and 33 mcf/d of gas. Chesapeake's analysis shows that it is now time to recomplete this well and test for production "up-hole" in the Tubb and Drinkard formations. This recompletion is projected to recover an incremental 30 barrels of oil per day and 75 mcf/d of gas.

Chesapeake hereby proposes to file an application with the NMOCD to amend the Order and obtain permission to recomplete the captioned well in the Tubb and Drinkard formations and commingle production with the existing Abo formation. Tubb and Drinkard completions in area wells have been successful, and the proposed operation may enhance current production.

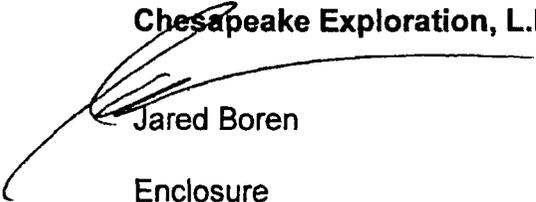
Todd Burns
June 12, 2008
Page 2 of 2

Prior to amending the Order, we desire to provide you with an opportunity to participate. The estimated costs are \$348,100.00, as set out on the enclosed AFE. Your proportionate share of the cost is \$2,447.58, or 0.703125% WI. Please indicate your election in the space provided below and return with prepayment within the 30-day election period. In the event you fail to respond as requested, we will send you a notice of hearing, and you will be able to appear and participate in the hearing of this matter before the NMOCD.

Your early attention and response to this proposal will be greatly appreciated. Should you have any questions, please contact the undersigned.

Sincerely,

Chesapeake Exploration, L.L.C.



Jared Boren

Enclosure

I/We hereby elect to participate in the Duncan 19-1 recompletion.

I/We hereby elect **not** to participate in the Duncan 19-1 recompletion.

By: _____

Name: _____

Title: _____

Date: _____

I am interested in selling my interest in this unit including any producing well bores. Please contact me to discuss.

CHESAPEAKE OPERATING, INC.

AUTHORIZATION FOR EXPENDITURE

Project Area: CBP
 Well Name: Duncan 19-1
 Operator: Chesapeake Operating, Inc.
 AFE #: 303504
 Spacing Unit: Section 19-20S-39E

County, State: Lea, New Mexico
 Date: 4/28/08
 Total Depth: 7,750'
 Formation: Abo
 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: ORB

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.