

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 HEARING:

RECEIVED
2009 MAY 26 AM 11:55
CASE NO. 14301

FIRST AMENDED APPLICATION OF CHESAPEAKE OPERATING, INC.
FOR SPECIAL RULES AND REGULATIONS FOR THE LOST TANK-
DELAWARE POOL, OR IN THE ALTERNATIVE, FOR THE
CANCELLATION OF ACCUMULATED OVERPRODUCTION, AN
EXCEPTION TO THE DEPTH BRACKET ALLOWABLE AND PROCEDURES
FOR THE "BALANCING" OF FUTURE OVERPRODUCTION
LEA COUNTY, NEW MEXICO

PRE-HEARING STATEMENT

Chesapeake Operating, Inc. submits this pre-hearing statement as required by the
New Mexico Oil Conservation Division.

APPEARANCES OF THE PARTIES

APPLICANT

Chesapeake Operating, Inc.
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Oklahoma City, OK 73118
Attn: Ed Birdshead
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ATTORNEY

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OPPONENTS

Yates Petroleum Company
OXY USA Inc.

ATTORNEY

James Bruce, Esq.
J. Scott Hall, Esq.

STATEMENT OF THE CASE

APPLICANT:

1. Chesapeake is the operator of the Lost Tank 16 State Well No. 4 (API # 30-025-38907) located in Unit D of Section 16, T21S, R32E, which is within one mile of the outer boundary of the Lost Tank Delaware Pool.
2. The Lost Tank Delaware Pool was created by Division Order R-9545, dated July 1, 1991. The horizontal limits of this pool, as amended, are described as follows:

Township 21 South, Range 31 East

Section 24: SE/4
Section 25: E/2
Section 34: E/2
Section 35: All
Section 36: All

Township 21 South, Range 32 East

Section 17: S/2
Section 18: S/2
Section 19: W/2
Section 30: S/2, NW/4
Section 31: NW/4

Township 22 South, Range 31 East

Section 1 & 2: All

Township 22 South, Range 32 East

Section 6: NW/4

3. The Lost Tank Delaware Pool is governed by the Division's statewide spacing and setback rules which provide for oil wells to be dedicated to 40-acre spacing units and to be located no closer than 330 feet to a quarter-quarter section line. NMAC 19.15.15.9

4. Pursuant to Division Rule 19.15.20.12 NMAC, this pool has a depth bracket allowable of not more than 142 barrels of oil per day.
5. On January 16, 2009, Chesapeake completed its Lost Tank 16 State Well No. 4 with perforation in the Delaware formation that the Division designated as within the vertical limits of the Lost Tank Delaware Pool.
6. On February 2, 2009, this well, on a 24-hour test, produced at a rate of 396 bopd, 120 mcfg and 201 bwpd with flowing tubing pressure of 300#.
7. Based upon this early rate of production, on March 3, 2009, Chesapeake filed its original application with the Division, seeking special rules and regulations for the Lost Tank Delaware Pool, providing for a depth bracket allowable of 400 barrels of oil per day, with a limiting gas/oil ratio of 2,000 cubic feet of gas for each barrel of oil produced. Chesapeake further requested that the rules be effective January 1, 2009.
8. On April 1, 2009, the OCD-Hobbs, approved Chesapeake's Request for Allowable for this wellbore (Form C-104)
9. By July 2009, Chesapeake estimates that the Lost Tank 16 State Well No. 4 will lose the capacity to produce in excess of the current depth bracket allowable of 142 Bopd.
10. Since first production on January 16, 2009 through June 30, 2009, Chesapeake estimated that the Lost Tank 16 State Well No. 4 will accumulated approximately 16,000 barrels of oil of overproduction based upon the current depth bracket allowable of 142 Bopd.
11. While the Lost Tank Delaware Pool is a solution gas drive oil pool and therefore should not be "rate sensitive," the pool's wells produce large volumes of water in association with the oil.
12. Chesapeake's Lost Tank 16 State Well No. 4 is equipped with a high capacity submersible pump in order to produce large volumes of water and oil.
13. Because of its design specifications, this submersible pump cannot be restricted to a reduce production rate of less than about 175-180 Bopd.
14. Because the Lost Tank Delaware Pool is not rate sensitive, there will be no adverse affects upon any of the operator in the Lost Tank Delaware Pool nor upon any offsetting operator or interest owner to Chesapeake's Lost Tank 16 State Well No.4, if the Division cancels an estimated 16,000 BBL of accumulated overproduction (January to June 30, 2009) and authorizes a maximum daily allowable of 200 Bpod and grant an exception from Division's Rules, including Rule 19.15.20.9 NMAC, for a sufficient period of time for the mitigation of the overproduction estimated to accumulated from July 1, 2009 to July 1, 2010 by Chesapeake's Lost Tank 16 State Well No. 4 (API 30-025-38907) Unit D of Section 16, T21S, R32E.

15. At a rate of not more than 200 Bopd, the estimated future overproduction should be mitigated by approximately July 1, 2010, as a result of the production decline of this wellbore, a procedure that will not adversely affect any of the offsetting operators or interest owners.
16. Chesapeake will not ultimately recovery more than its share of recoverable oil from this pool if the Division grants this application.

PROPOSED EVIDENCE

APPLICANT

WITNESSES	EST. TIME	EST. EXHIBIT
Ray Taylor (Petroleum Engineer)	45-60 min.	12
Lee Wescott (Geologist)	30 min.	4
Ed Birdshead (Landman)	15 min	6

PROCEDURAL MATTERS

None

KELLAHIN & KELLAHIN


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CERTIFICATE OF SERVICE

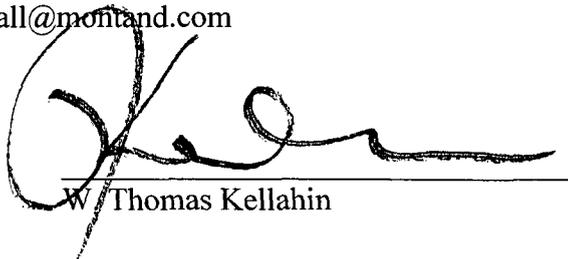
I certify that on May 26, 2009, I served a copy of the foregoing documents by:

- US Mail, postage prepaid
- Hand Delivery
- Facsimile
- Email

to the following:

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W. Thomas Kellahin