

**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. 13267
Order No. R-11432-B**

**THE FIRST AMENDED APPLICATION OF CHESAPEAKE OPERATING, INC.
FOR AN UNORTHODOX GAS WELL LOCATION AND TO AMEND DIVISION
ORDER R-11432-A, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 10, 2004 and on July 8, 2004 at Santa Fe, New Mexico before Examiner William V. Jones.

NOW, on this 7th day of September, 2004, 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 the subject matter.

(2) The applicant in this case, Chesapeake Operating, Inc. ("Chesapeake" or "Applicant") seeks exception to Division rule 104.C (2) (b) by asking for approval of an unorthodox gas well location for the Boyce "15" Well No. 5, located 330 feet from the North line and 1,650 feet from the East line (Unit B) of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, for Atoka gas production from the North Shoe Bar-Atoka Gas Pool (96763).

(3) In addition, Chesapeake seeks to amend Order R-11432-A, which allowed two Atoka gas wells in the same (NE/4) quarter section within a single standard 320-acre stand-up spacing unit consisting of the E/2 of Section 15, by substituting the Boyce "15" Well No. 5 for the Boyce "15" Well No. 1.

(4) On November 28, 2000, the Division, after consideration of findings in Case No. 12448 (Reopened), issued Order No. R-11432-A with ordering paragraphs as follows:

(1) *The applicant, Chesapeake Operating, Inc, 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 bottomhole location 2410 feet from the North line and 443 feet from the East line (Unit H) of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, in the Atoka formation, North Shoe Bar-Atoka Gas Pool.*

(2) *The applicant is further authorized to simultaneously dedicate the E/2 of Section 15 in the North Shoe Bar-Atoka Gas Pool to the Boyce "15" Well No. 3 and to its existing Boyce "15" Well No. 1 (API No. 30-025-34591) located at a standard gas well location 800 feet from the North line and 660 feet from the East line (Unit A) of Section 15.*

(3) *The applicant shall produce only from the Upper Atoka pay section of the North Shoe Bar-Atoka Gas Pool within the Boyce "15" Well No. 1 and produce only from the "Brunson" interval of the North Shoe Bar-Atoka Gas Pool within the Boyce "15" Well No. 3.*

(4) *The applicant shall not drill or recomplete additional infill wells within the E/2 of Section 15 in the North Shoe Bar-Atoka Gas Pool until such time as production operations permanently cease in the Atoka formation in either the Boyce "15" Well No. 1 or the Boyce "15" Well No. 3.*

(5) Chesapeake presented testimony at the June 10, 2004 hearing that the following events have occurred subsequent to the issuance of Division Order No. R-11432-A:

(a) the Boyce "15" Well No. 3 is now producing gas from the lower Atoka (or Brunson) intervals within the North Shoe Bar-Atoka Gas Pool at an unorthodox location in Unit H of Section 15.

(b) the Boyce "15" Well No. 1, located in Unit A of Section 15, was abandoned in the Upper Atoka intervals, unsuccessfully tested in the Strawn oil interval, and successfully recompleted in the Wolfcamp, as an oil producer in the North Shoe Bar-Wolfcamp Pool;

(c) the Boyce "15" Well No. 5 was permitted and drilled as a Strawn oil test at a standard location 330 feet from the North line and 1,650 feet from the East line of Section 15. After missing the Strawn algal mound at this location, the dry hole was deepened to test the Atoka gas (unorthodox location) and was perforated, fractured, and tested successfully in the upper Atoka intervals of the North Shoe Bar-Atoka Gas Pool.

(6) The North Shoe Bar-Atoka Gas Pool is currently governed by Division rule 104.C(2) which states, in part:

(a) *the initial well on a 320-acre unit is located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;*

(b) *only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is 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.*

(7) The location of the Boyce "15" Well No. 5 is less than 660 feet from the North line of Section 15 and therefore a violation of Division Rule 104.C (2). The well location encroaches on the spacing unit to the north consisting of the E/2 of Section 10, operated by Yates Petroleum Corporation ("Yates"). Division records indicate Yates operates the Big Flat ASN State Com Well No. 1 as an active producer in the North Shoe Bar-Atoka Gas Pool with an E/2 of Section 10 dedication.

(8) Chesapeake has obtained a waiver of objection from Yates in exchange for Chesapeake's waiver of objection in the event that Yates deepens and re-completes, in the Upper or Middle Atoka portion of the North Shoe Bar-Atoka Gas Pool, their Big Flat "ASN" Well No. 2, at an unorthodox Atoka gas well location, 330 feet from the South line and 330 feet from the East line of Section 10, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico.

(9) Yates appeared through counsel at both hearings and agreed to this exchange of waivers as the operator of record within the spacing unit consisting of the E/2 of Section 10. No other party appeared or otherwise opposed this application or agreement between Yates and Chesapeake.

(10) Chesapeake's application to grant approval of the unorthodox Atoka gas well location of the Boyce "15" Well No. 5 should be approved.

(11) Chesapeake's application to amend Division Order No. R-11432-A, substituting the Boyce "15" Well No. 5 for the Boyce "15" Well No. 1 and approving simultaneous dedication of both wells to the same 160-acre portion of a standard 320-acre gas spacing unit consisting of the E/2 of Section 15, should be granted.

(12) Approval of this application will afford the applicant the opportunity to produce its just and equitable share of the gas underlying this unit, will prevent the economic loss caused by the drilling of unnecessary wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The portion of the application from Chesapeake Operating, Inc. ("Chesapeake" or "Applicant") to produce its Boyce "15" Well No 5 (API No. 30-025-36475) at an unorthodox Atoka gas well location within the North Shoe Bar-Atoka Gas Pool (96763), 330 feet from the North line and 1,650 feet from the East line of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico is hereby granted.

(2) In addition, Chesapeake's application to amend ordering paragraphs 2, 3, and 4, in Division Order No. R-11432-A, issued in Case No. 12448 (Reopened), to substitute the Boyce "15" Well No. 5 for the Boyce "15" Well No. 1 is hereby granted. These three (3) ordering paragraphs shall now read as follows.

(a) The Applicant is further authorized to simultaneously dedicate the E/2 of Section 15, as a standard 320-acre stand-up deep gas spacing unit in the North Shoe Bar-Atoka Gas Pool, to the Boyce "15" Well No 5 and to the Boyce "15" Well No. 3 (API No. 30-025-35006) located at an unorthodox bottomhole deep gas well location 2,410 feet from the North line and 443 feet from the East line (Unit H) of Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico.

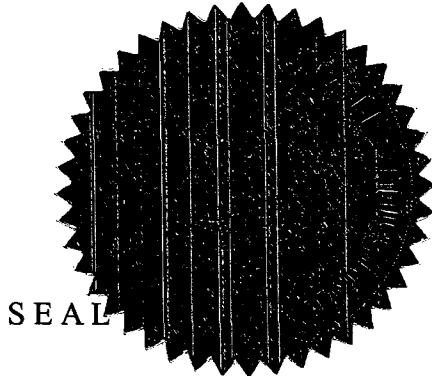
(b) The Applicant shall produce only from the Upper Atoka pay section of the North Shoe Bar-Atoka Gas Pool within the Boyce "15" Well No. 5 and produce only from the "Brunson" interval of the North Shoe Bar-Atoka Gas Pool within the Boyce "15" Well No. 3.

(c) The Applicant shall not drill or recomplete additional infill wells within the E/2 of Section 15 in the North Shoe Bar-Atoka Gas Pool until such time as production operations permanently cease in the Atoka formation in either the Boyce "15" Well No. 5 or the Boyce "15" Well No. 3.

(3) Those portions of Division Order No. R-11432-A, issued in Case No. 12448 (Reopened), not in conflict with this order, shall remain in full force and effect.

(4) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director