

**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. 13646
ORDER NO. R-12525**

**APPLICATION OF CHESAPEAKE OPERATING, INC. FOR A NON-
STANDARD DEEP GAS SPACING UNIT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 16, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 22nd day of March, 2006, 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 an order approving a 160-acre non-standard deep gas spacing and proration unit comprised of the SE/4 of Section 25, Township 20 South, Range 32 East, NMPM, Lea County, New Mexico, for all gas formations and/or pools spaced on 320 acres, which presently include but are not necessarily limited to the Undesignated South Salt Lake-Atoka Gas Pool. The proposed unit is to be dedicated to the applicant's existing Little Eddy Unit Well No. 1 (API No. 30-025-00960) located at a standard gas well location 660 feet from the South and East lines (Unit P) of Section 25.

(3) By letter to the Division dated February 15, 2006, Mr. Mark K. Adams, an attorney with Rodey, Dickason, Sloan, Akin & Robb, P.A. ("Rodey Law Firm") requested a continuance of this case on behalf of Intrepid Potash, the potash lessee within the SE/4 of Section 25, on the basis that Intrepid Potash was not provided notice of this application by Chesapeake.

(4) An examination of Division Order No. R-111-P, which order sets forth *"The Rules and Regulations Governing the Exploration and Development of Oil and Gas in Certain Areas Herein Defined, Which Are Known to Contain Potash Reserves"* indicates that:

- (a) the Little Eddy Unit Well No. 1 is located within the "Potash Area" as defined by Order No. R-111-P; and,
- (b) Order No. R-111-P requires that any well operator that proposes to drill a well within the "Potash Area" provide notice of its intention to drill to all potash lessees within a radius of one mile of the well.

(5) The evidence presented in this case demonstrates that Chesapeake is not proposing to drill a new well, but rather to recompleate the existing Little Eddy Unit Well No. 1 from the South Salt Lake-Morrow Gas Pool to the South Salt Lake-Atoka Gas Pool. Division records indicate that the Little Eddy Unit Well No. 1 was originally drilled in 1956 by The Texas Company, and was initially completed in the Morrow formation.

(6) The Division Examiner determined at the hearing that Chesapeake was not required to provide notice of its application to Intrepid Potash.

(7) A representative from the Rodey Law Firm was in attendance at the hearing.

(8) Division records demonstrate that the Little Eddy Unit Well No. 1 is located within one mile of the South Salt Lake-Atoka Gas Pool, and is therefore subject to the rules governing this pool. The South Salt Lake-Atoka Gas Pool was created by Division Order No. R-2101 dated October 23, 1961. Pursuant to Division rules existing at that time, the South Salt Lake-Atoka Gas Pool was spaced on 160 acres.

(9) By Division Order No. R-2707 dated May 25, 1964 and issued in Case No. 3044, Rule No. 104 of the *"New Mexico Oil Conservation Division General Rules and Regulations"* was amended to provide for 320-acre spacing for gas wells in southeast New Mexico (Lea, Chaves, Eddy and Roosevelt Counties) of Pennsylvanian age or older which were created and defined after June 1, 1964. This order further stipulated that all such pools of Pennsylvanian age or older that were created and defined prior to June 1, 1964 were to remain spaced on 160 acres.

(10) Subsequent to the issuance of Division Order No. R-2707, the Division has, on numerous occasions, amended Rule No. 104. The current version of Rule No. 104 does not contain language that specifically addresses the spacing within those pools

of Pennsylvanian age or older that were created and defined prior to June 1, 1964, and as a result, there may be some confusion regarding the proper well spacing for these pools.

(11) Except for certain pool-specific instances, there has been no Division order issued subsequent to R-2707 that changed the spacing in these pools from 160 to 320 acres. In addition, there have been no orders issued subsequent to R-2707 that specifically changed the spacing in the South Salt Lake-Atoka Gas Pool from 160 to 320 acres.

(12) By Amended Order No. NSL-2191 dated February 8, 1990, the Division approved an unorthodox bottomhole gas well location for Grace Petroleum Corporation's Felmont Federal Well No. 2 (API No. 30-025-26302) located at a bottomhole location 1194 feet from the South line and 1659 feet from the West line (Unit N) of Section 25, Township 20 South, Range 32 East, NMPM, Lea County, New Mexico. In this order the Division stated that *"the South Salt Lake-Atoka Gas Pool is developed on 160-acre spacing, pursuant to Division General Rule 104.A and 104.C.II and Division Order No. R-2101."* The Division also stated that *"It is hereby ordered that Administrative Order NSL-2191 be amended at this time to properly reflect the acreage dedicated to the subject well in the South Salt Lake-Atoka Gas Pool as the SW/4 of said Section 25 thereby forming a standard 160-acre gas spacing and proration unit for said pool."*

(13) The evidence presented in this case and Division records demonstrate that the South Salt Lake-Atoka Gas Pool is currently spaced on 160 acres.

(14) The evidence further shows that the SW/4 of Section 25 is currently being developed on 160-acre spacing in the South Salt Lake-Atoka Gas Pool by the existing Felmont Federal Well No. 2.

(15) A further examination of Division records shows that there are currently no other deep gas pools spaced on 320 acres in the area of Section 25.

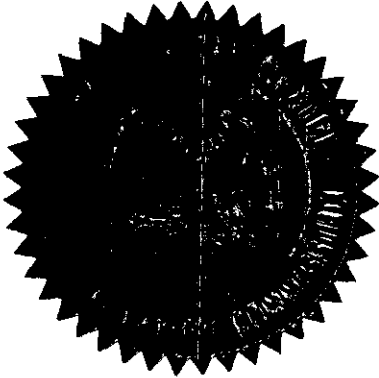
(16) The applicant's request in this matter is not necessary, and therefore, the application should be dismissed.

IT IS THEREFORE ORDERED THAT :

(1) The application of Chesapeake Operating, Inc. to establish a 160-acre non-standard deep gas spacing and proration unit comprised of the SE/4 of Section 25, Township 20 South, Range 32 East, NMPM, Lea County, New Mexico, for all gas formations and/or pools spaced on 320 acres, which presently include but are not necessarily limited to the Undesignated South Salt Lake-Atoka Gas Pool, this proposed unit is to be dedicated to the applicant's existing Little Eddy Unit Well No. 1 (API No. 30-025-00960) located at a standard gas well location 660 feet from the South and East lines (Unit P) of Section 25, is hereby dismissed.

(2) 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

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire", written over a horizontal line.

MARK E. FESMIRE, P.E.
Director