

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF MATRIX NEW MEXICO HOLDINGS, LLC
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO. 13357

2009 OCT 15 PM 1:29

**CHESAPEAKE PERMIAN, L.P.'S
MOTION TO DISMISS
CERTAIN PARTIES
FROM CASE**

CHESAPEAKE PERMIAN, L.P. ("Chesapeake") moves that the New Mexico Oil Conservation Division ("Division") dismiss that portion of the compulsory pooling application of Matrix New Mexico Holdings, LLC ("MATRIX") that attempts to pool the interests of Chesapeake Permian, L.P., Concho Resources, Inc, and Steve W. Horn,

AND in support states:

UNDISPUTED FACTS

1. Matrix, in Case 13357, seeks to pooling the E/2 of Section 10, T13S, R38E to form various sized spacing unit to be dedicated to its Townsend "A" Well No. 1 (the "Well") to be located 530 feet FNL and 330 feet FEL of this section and drilled to a depth of 9,800 feet for oil production from the Wolfcamp formation subject to a 40-acre spacing unit.
2. By assignment dated September 19, 2003, and recorded with the Lea County Clerk on September 23, 2003, Steven W. Horn assigned certain interests in the E/2 of Section 10, T13S, R38E to Concho Resources, Inc. See Exhibit "A" attached

3. By Certificate of Merger dated March 9, 2004, Concho Resources, Inc. was merged into Chesapeake Permian , L.P. with Chesapeake Operating, Inc. as the sole general partner. **See Exhibit "B" attached**

4. By letter dated August 17, 2004, Matrix propose to Chesapeake Energy Corporation that it join Matrix in the drilling of the Townsend #1-A Well ("the Well") to be located 530 feet FNL and 330 Feet FEL of Section 10, T13S, R38E by signing and returning an "AFE" indication election to voluntarily participate. Matrix further stated that upon receipt of Chesapeake's election, Matrix would send a proposed JOA for Chesapeake's review and acceptance. **See Exhibit "C"**

5. Although Matrix failed to propose a spacing unit, the Well is subject the Bronco-Wolfcamp Pool that is subject to 40-acre oil well spacing unit in accordance with Division Rule 104.

6. On September 13, 2004, Chesapeake transmitted by facsimile this signed AFE thereby voluntarily agreeing to participate. **See Exhibit "D"**

7. Matrix never proposed this well to either Concho Resources, Inc. or Steven W. Horn but sent its proposal to Chesapeake, apparently because it knew that Chesapeake now held the interest formally owned by Horn then Concho Resources, Inc.

8. Four days later, on September 17, 2004, Matrix filed its compulsory pooling application seeking to pool the interests of Concho Resources, Inc. and Steven W. Horn in the E/2 of this section despite the fact that:

- a. It have never proposed its well to Conocho Resources, Inc. or Steven W. Horn;
- b. That the public record at the time this application was filed reflected and this interest was held by Concho Resources, Inc. and had repeatedly been made aware that Chesapeake had succeeded to all of the interests of Concho Resource, Inc.;

- c. That Matrix had received Chesapeake's election to voluntarily participate but Chesapeake, as of October 13, 2004 had not received Matrix's proposed JOA;
 - d. That the proper formations and spacing units were not proposed.
9. On September 17, 2004, Matrix filed its commenced compulsory pooling against Concho and Horn sending notice by letter dated September 24, 2004, prior to proposing this well to them and against an interest then held by Chesapeake after Chesapeake has reached a voluntary agreement. **See Exhibit "E" attached**
10. Matrix seeks to pool spacing units and formation that it did not propose to the working interest owners.

ARGUMENT AND AUTHORITIES

The Division requires that compulsory pooling be used as a last resort after a "good faith" effort to obtain a voluntary agreement has failed. Instead of sending the joint operating agreement ("JOA") it promised to send Chesapeake, Matrix prematurely filed a compulsory pooling application before it had exhausted efforts to submitting to or obtaining from Chesapeake a JOA.

Contrary to the custom and practice before the Division and in violation of 1979 NMSA Section 70-2-17.C, Matrix has instituted compulsory pooling action against the Concho Resources and Steven Horn (an interest controlled by Chesapeake) without first undertaking a good faith effort to form a spacing unit on a voluntary basis for the drilling of Matrix's Well.

Section 70-2-17.C NMSA 1979 is very specific in its requirement that the compulsory pooling authority of the Division can only be exercised in those instances where the parties have not agreed to voluntarily pool their interests in a spacing unit for a specially proposed well within that unit. It is impossible to have failed to agree when Chesapeake has signed and returned Matrix's AFE and done what Matrix has required for reaching a voluntary agreement.

In addition, although its well proposal letter of August 17, 2004 sought voluntary agreement for a Wolfcamp oil well to be drilled to 9,800 feet, Matrix now seeks to compulsory pooling interests below the base of the Wolfcamp formation that it never proposed to the working interest owners.

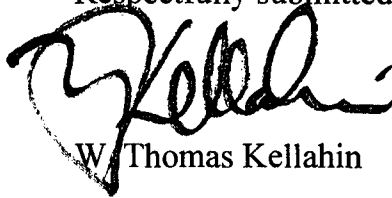
CONCLUSION

The Division requires that compulsory pooling be used as a last resort after a "good faith" effort to obtain a voluntary agreement as failed. Instead of sending the JOA it promise to send Chesapeake, Matrix pre-maturely filed a compulsory pooling application before it had exhausted efforts to obtain a JOA from Chesapeake. The Division also requires that the compulsory pooling application be consistent with the well proposal letter. Matrix's actions in this case are egregious and demonstrate either ignorance of or a disregard for the Division's rules and procedures.

REQUESTED RELIEF

Wherefore, Chesapeake moves that the Division grant this motion to dismiss.

Respectfully submitted,

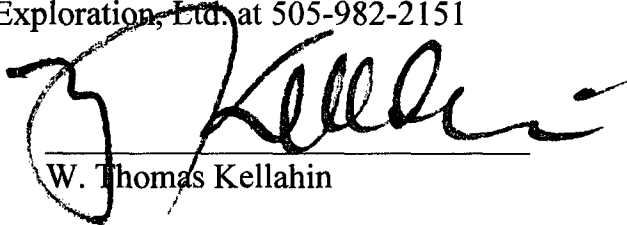


W. Thomas Kellahin

CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, certify that a true and correct copy of this pleading was transmitted on October 15, 2004 by facsimile to:

- (1) Paul Owen, Esq., an attorney for Matrix New Mexico Holdings, LLC at 505-982-4289.
- (2) James Bruce, Esq., an attorney for Land Services, Inc. and Cogent Exploration, Ltd. at 505-982-2151



W. Thomas Kellahin

10-04-2004 11:16AM FROM MIKE BRAUN 432 683 3071

P. 2

10/01/2004 05:13 915-883-1200

STEVEN W HORN

PAGE 01

45046

ASSIGNMENT OF OIL AND GAS LEASES

STATE OF NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF LEA

Steven W. Horn, a single man, whose address is P.O. Box 2755, Midland, Texas 79702, hereinafter called Assignor, for and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby assign, transfer, sell and convey unto Concho Resources, Inc., 350 West Texas Avenue, Suite 1300, Midland, Texas 79701, hereinafter referred to as Assignee, all right, title and interest in and to the Oil and Gas Leases more particularly described on the attached Exhibit "A" and covering the lands described therein together with all of Assignor's rights incident thereto, and personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

The terms and conditions of this Assignment shall extend to and be binding upon the heirs, successors, legal representatives and assigns of the parties hereto.

This Assignment is made without warranty, express, implied or statutory.

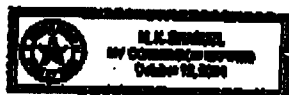
IN WITNESS WHEREOF, the Assignor has executed this Assignment this 19th day of September, 2003.

Steven W. Horn
Steven W. Horn

STATE OF TEXAS:

COUNTY OF MIDLAND:

This instrument was acknowledged before me this the 19th day of September, 2003 by Steven W. Horn, a single man.



M.K. Brackley
Notary Public
Printed Name:
Commission Expires:

BOOK 1254 PAGE 723



10-04-2004 11:17AM FROM MIKE BRAUN 432 683 3071

P.3

10/01/2004 09:19 915-683-1255

STEVEN W HORN

PAGE 02

EXHIBIT "A"

1. **Date:** May 22, 2003
Lessor: Ronald Del Alexander
Lessee: Steven W. Horn
Recorded: Book 1227, Page 54 of the Lea County Records of
Lea County, New Mexico
Description: T-13-S-R-38-E-N.M.P.M.
Section 10: E/2
Lea County, New Mexico

2. **Date:** May 22, 2003
Lessor: Carlos Dean Alexander
Lessee: Steven W. Horn
Recorded: Book 1233, Page 760 of the Lea County Records of
Lea County, New Mexico
Description: T-13-S-R-38-E-N.M.P.M.
Section 10: E/2
Lea County, New Mexico

3. **Date:** August 18, 2003
Lessor: Matt Whitson Spencer, Independent Executor for
The Estate of Mary Othel Whitson, deceased
Lessee: Steven W. Horn
Recorded: Book 1249, Page 513 of the Lea County Records of
Lea County, New Mexico
Description: T-13-S-R-38-E-N.M.P.M.
Section 10: E/2
Lea County, New Mexico

45046

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

SEP 23 2003

at _____ o'clock _____ M
and recorded to Book _____
Page _____
Subscribed and sworn to before me, Lea County Clerk
By _____ Deputy



BOOK 1254 PAGE 724

OFFICE OF THE SECRETARY OF STATE



CERTIFICATE OF MERGER

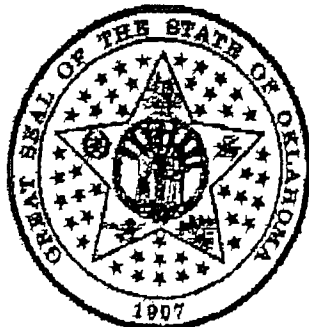
WHEREAS,

CHESAPEAKE PERMIAN, L.P.

a limited partnership organized under the laws of the State of OKLAHOMA, has filed in the office of the Secretary of State duly authenticated evidence of a merger whereby said limited partnership is the survivor, as provided by the laws of the State of Oklahoma.

NOW THEREFORE, I, the undersigned Secretary of State of Oklahoma, by virtue of the powers vested in me by law, do hereby issue this Certificate evidencing such merger.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused to be affixed the Great Seal of the State of Oklahoma.



*Filed in the City of Oklahoma City this
10th day of March, 2004.*

A handwritten signature in cursive script, reading "M. Susan Savage".

Secretary Of State

OIL C
Case No.
Submitted
Chesape
Hearing D

EXHIBIT

B

FILED - Oklahoma Secretary of State 03/10/2004 15:11

CERTIFICATE OF MERGER

Pursuant to Section 310.1 of the
Oklahoma Revised Uniform Limited Partnership Act

Chesapeake Permian, L.P., as the surviving limited partnership, hereby states and certifies as follows:

1. The name and jurisdiction of formation or organization of the domestic limited partnership and the other business entities which are to merge are:

<u>Name</u>	<u>Jurisdiction of Formation/Organization</u>
Chesapeake Permian, L.P.	Oklahoma
Concho Exploration Inc.	Oklahoma
Concho Resources LP LLC	Oklahoma
Concho Oil & Gas LP	Oklahoma
Concho Resources GP LLC	Oklahoma
Chesapeake Permian Corp.	Delaware

2. An agreement of merger has been approved and executed by Chesapeake Permian, L.P. and each of the other business entities which are to merge.
3. The name of the surviving domestic limited partnership is Chesapeake Permian, L.P.
4. The agreement of merger is on file at the principal place of business of Chesapeake Permian, L.P. at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.
5. A copy of the agreement of merger will be furnished by Chesapeake Permian, L.P., on request and without cost, to any partner of Chesapeake Permian, L.P. or any person holding an interest in any other business entity which is to merge.

IN WITNESS WHEREOF, Chesapeake Permian, L.P., as the surviving limited partnership, has caused this Certificate of Merger to be executed by its Sole General Partner this 9th day of March, 2004.

CHESAPEAKE PERMIAN, L.P., an Oklahoma limited partnership

03/10/2004 02:49 PM
OKLAHOMA SECRETARY OF STATE

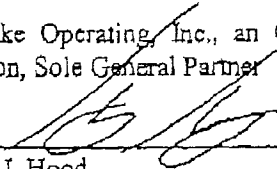


SOS



1122080003

By Chesapeake Operating, Inc., an Oklahoma corporation, Sole General Partner

By 
Henry J. Hood,
Senior Vice President - Land and Legal



MATRIX
PRODUCTION
COMPANY

5725 Commonwealth Boulevard
Sugar Land, Texas 77479
Phone 281-265-1212
Fax 281-265-1778

Via Certified/Return Receipt Mail

August 17, 2004

Ms. Lynda Townsend
Chesapeake Energy Corporation
P.O. Box 18496
Oklahoma City, OK 73154-0496

Re: Townsend #1-A Well
Township 13 South, Range 38 East
Section 10: 530' FNL & 330' FEL
Lea County, New Mexico

Gentlemen:

Matrix New Mexico Operating Company, LLC proposes the drilling of the Townsend #1-A well as a 9,800' Wolfcamp test at the captioned location. An Authority for Expenditure is enclosed for your review.

If you desire to participate in the drilling of the above well, please execute and return one copy of the enclosed AFE so indicating your election. Upon receipt of your election to participate, an Operating Agreement will be sent to you for your review and acceptance. If you do not wish to participate in the drilling of this well, Matrix will consider acquiring your interest under mutually acceptable terms. Please do not hesitate to call if you have any questions concerning the enclosed.

Yours truly,

Fred C. Bryla
Vice President

Enclosures





Lynda F. Townsend, CPL/ESA
Senior Landman

September 13, 2004

VIA FACSIMILE (281) 265-1778
AND U.S. MAIL

PERMIAN DISTRIBUTION	
cc:	AKM, TLW, HJH, JML, SCD, CMB, WMH, Sara

Mr. Fred C. Bryla
Matrix Production Company
5725 Commonwealth Boulevard
Sugar Land, TX 77479

Re: Townsend #1-A
Section 10-13S-38E
Lea County, New Mexico

Dear Mr. Bryla:

Enclosed please find our executed AFE for the drilling of the captioned well. Also enclosed is a copy of our well requirements for your use in reporting.

Please do not hesitate to contact me at (405) 879-9268 should you have any questions.

Sincerely,

Chesapeake Permian, L.P.

A handwritten signature in black ink that reads "Tami R. Brody".

Tami R. Brody
Land Tech

Enclosure

z:/Permian/brody/elections/Townsend#1-A_Matrix_91304.doc



CHESAPEAKE OPERATING, INC.
Interoffice Form

TO: (via IO mail) Kathy Nowlin

CC: (via IO mail in ~~envelope with sign here tab~~) Tom Ward, Mark Lester, Rob Jones, Mike Brown, Steve Dixon ☒ New WellCC: (via IO mail) Henry Hood, Mike Sherwood, Tom Brennan, LandAdmin, ☐ Recompletion

David Godsey, Cliff Harnock, Barry Langham, Andrew

McCalmont, Pablo Hadzeriga, Susan Keller ☐ WorkoverCC: (via IO mail) Mike Hazlip, Sara Caldwell ☐ M/FD/IND

FROM: Lynda Townsend

cc: Kathy Nowlin, LandAdmin, Mike Hazlip/Sara Caldwell

DATE: 9/24/04

RE: OUTSIDE OPERATED PROPERTIES
PERTINENT INFORMATION DATA SHEET
UNIT PROPTownsend #1-A

PROPOSED BY:	Matrix Production Company	unknown	WI (if known)
UNIT OPERATOR:	Matrix Production Company	unknown	WI (if known)
WELL NAME:	Townsend #1-A		
DISTRICT:	Permian		
FIELD:	Bronco (Wolfcamp)		
REGION:	Permian		
PROSPECT:	Burns CON		
LEGAL LOCATION:	530' FNL & 330' FEL Sec. 10-13S-38E		
COUNTY/PARISH, STATE:	Lea	New Mexico	
OBJECTIVE (NAME OF ZONE):	Wolfcamp		
ESTIMATED DEPTH:	9,800'		
UNIT DESIGNATION:	NENE		
CHESAPEAKE W.I. BPO:	6.484400%		
CHESAPEAKE N.R.I. BPO:	5.009800%	77.2593% Average NRI	
CHESAPEAKE W.I. APO:	6.484400%		
CHESAPEAKE N.R.I. APO:	5.009800%	77.2593% Average NRI	
SPACING:	40.000000		
GROSS DRY HOLE COST:	\$339,810	\$22,035 Net to Chesapeake	
GROSS COMPLETED COST:	\$654,800	\$42,488 Net to Chesapeake	
GROSS TOTAL COST:	\$994,710	\$64,501 Net to Chesapeake	
SPUD DATE:	Pending		
WELL STATUS:	Proposed		
NON-CONSENT PENALTIES:	N/A		
SOURCE(s) OF INTEREST:	Leasehold interest		

FARMOUT PROVISIONS OFFERED WITH WELL PROPOSAL:

If we do not wish to participate in the drilling of this well, Matrix will consider acquiring our interest under mutually acceptable terms

OTHER PERTINENT INFORMATION RELEVANT TO PROPOSAL:

N/A

(1) Other owners' working interest (if known):

ELECTION DATE:	09/14/04	APPROVALS	CONSENT	N/C	F/O	OTHER
PREPYMT DATE:	N/A	TOM WARD:	<input checked="" type="checkbox"/>			
AGREEMENT:	N/A	MARK LESTER:	<input checked="" type="checkbox"/>			
		ROB JONES	<input type="checkbox"/>			
		MIKE BROWN:	<input type="checkbox"/>			
LANDMAN:	Lynda Townsend	STEVE DIXON:	<input type="checkbox"/>			



9-30-2004 9:23AM

FROM MIKE BRAUN 432 683 3071

P. 2

MONTGOMERY & ANDREWSPROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS AT LAWPaul R. Owen
Direct Dial: (505) 986-2538
powen@montand.comPost Office Box 2307
Santa Fe, New Mexico 87504-2307
325 Paseo de Peralta
Telephone (505) 982-3873
Fax (505) 982-4289
www.montand.com

September 24, 2004

VIA CERTIFIED U.S. MAIL
RETURN RECEIPT REQUESTED**Interest Owners****E/2 Section 10, Township 13 South, Range 38 East
Lea County, New Mexico****Re: *Application of Matrix New Mexico Holdings, LLC for Compulsory Pooling, Lea
County, New Mexico*****Dear Ladies and Gentlemen:**

This letter is to advise you that Matrix New Mexico Holdings, LLC has filed the enclosed application with the New Mexico Oil Conservation Division seeking the compulsory pooling of all mineral interests from the surface to the base of the Wolfcamp formation, in certain spacing and proration units in the E/2 of Section 10, Township 13 South, Range 38 East, NMPM, Lea County, New Mexico. Matrix proposes to dedicate the referenced pooled units to its proposed Townsend #1-A Well, to be drilled at a standard location in the NE/4 NE/4 of said Section 10.

This application has been set for hearing before a Division Examiner at 8:15 a.m. on October 21, 2004, at the Division's offices located at 1220 South Saint Francis Drive in Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases have been requested by the Division (Memorandum 2-90) to file a Prehearing Statement substantially in the form prescribed by the Division. Prehearing statements should be filed by 4:00 o'clock p.m. on the Friday before a scheduled hearing.

Very truly yours,



Paul R. Owen

Attorney for Matrix New Mexico Holdings, LLC

Enclosure

cc: Mr. Fred Bryla

