

**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:**

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

CASE 134

2005 MAY 13 PM 1:23:50

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PRE-HEARING STATEMENT

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

APPEARENCES OF THE PARTIES

APPLICANT

**Chesapeake Operating, Inc.
6100 N. Western Ave
Oklahoma City, OK 73118
Attn: Lynda Townsend
405-879-9414**

ATTORNEY

**Thomas Kellahin, Esq.
P. O. Box 2265
Santa Fe, NM 87504
505-982-4285**

OPPONENT

**Samson Resources Company
Kaiser-Francis Oil Company**

ATTORNEY

**J. Scott Hall, Esq.
150 Washington Ave,
Suite 300
Santa Fe, NM 87501
505-989-9857 (fx)
505-988-4421 (ph)**

Mewbourne Oil Company

**James Bruce, Esq.
P. O. Box 1056
Santa Fe, NM 87504
505-982-2043 (ph)
505-982-2151 (fx)**

STATEMENT OF THE CASE

APPLICANT:

CHESAPEAKE PERMIAN, L.P. ("Chesapeake"), in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production for any and all formations/pools developed on 320-acre gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (**API#30-025-37129**) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and, pursuant to Commission order R-11992, a 200% charge for the risk involved in drilling and completing the well.

Chesapeake is the current lessee of State of New Mexico Oil & Gas Lease #VO-7063-1, effective May 1, 2004, covering the SW/4 of Irregular Section 4.

The SE/4 of this section is subject to a State of New Mexico Oil & Gas Lease #B1481, effective December 19, 1932 that as of March 9, 2005 the working interest owners are now: Kaiser Francis Oil Company with 36.5625% interest, Mewbourne Oil Company with a 7.1875% interest and Samson Resources Company with 6.25% interest.

On March 9, 2005, Chesapeake, by letter including an AFE, proposed the drilling of its KF State 4 Well No. 1 for an estimated completed well costs of \$2,012,000.00 to be dedicated to a standard 320-acre gas spacing unit consisting of the S/2 of this irregular section to both Kaiser Francis Oil Company and Samson Resources Company.

On March 10, 2005 Chesapeake staked the subject well and on March 11, 2005, obtained Division approval of Chesapeake's application for permit to drill ("APD")

On April 27, 2005, Chesapeake in accordance with the Division approval APD and in compliance with Division rules spudded the KF State 4 Well. No 1 located in Unit X of this section.

By their actions, Kaiser Francis Oil Company, Samson Resources Company and Mewbourne Oil Company have attempted to avoid Chesapeake proposal for its well and spacing unit. Because of this action, Chesapeake has concluded that it will be unable to reach a voluntary agreement with Kaiser Francis Oil Company, Samson Resources Company and Mewbourne Oil Company

Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.

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.

PROPOSED EVIDENCE

APPLICANT

WITNESSES

EST. TIME

EST. EXHIBITS

Lynda Townsend (land)

@ 20-30 minutes

@ 6

David Godsey (geologist)

@ 60-90 minutes

@ 7

PROCEDURAL MATTERS

None and this time.


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CERTIFICATE OF SERVICE

I certify that on May 13, 2005, I served a copy of the foregoing documents by:

☐ US Mail, postage prepaid

☒ Hand Delivery

☐ Facsimile

to the following:

James Bruce, Esq.

J. Scott Hall, Esq.

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin