



September 4, 2008

**VIA HAND-DELIVERY**

Ms. Florene Davidson, Clerk  
Oil Conservation Commission  
New Mexico Energy, Minerals  
and Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

Re: Case No. 14001 (De Novo): Amended Application of Chesapeake Operating Inc. for Statutory Unitization of the Quail Queen Unit Area, Lea County, New Mexico.

Case No. 14002 (De Novo): Amended Application of Chesapeake Operating Inc. for approval of a Waterflood Project and Qualification of the Project Area of the Quail Queen Unit for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Ms. Davidson:

Enclosed are (1) six copies of the Amended Pre-Hearing Statements of Chesapeake Operating Inc.'s in each of the above referenced cases, (2) the Index of Exhibits and (3) copies of Exhibit 26. All other exhibits were previously submitted to the Division on August 7, 2008.

By copy of this letter, these pleadings and Exhibit 26 are being provided to all counsel of record in accordance with 19.15.14.1211.B NMAC.

Very truly yours,

William F. Carr

ATTORNEY FOR CHESAPEAKE OPERATING INC.

Enclosures

**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:**

**AMENDED APPLICATION OF CHESAPEAKE OPERATING INC. FOR  
STATUTORY UNITIZATION OF THE QUAIL QUEEN UNIT AREA, LEA  
COUNTY, NEW MEXICO.**

**CASE NO. 14001  
De Novo**

**AMENDED PRE-HEARING STATEMENT**

This Prehearing Statement is submitted by Holland & Hart LLP as required by the Oil Conservation Division.

**APPEARANCES OF PARTIES**

**APPLICANT**

Chesapeake Operating Inc.  
Attn: Terry Frohnafel  
6100 N. Western  
Post Office Box 18496  
Oklahoma City, OK 73154-0496  
(405) 810-2727

**ATTORNEY**

William F. Carr, Esq.  
Holland & Hart LLP  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
(505) 988-4421

**OPPOSITION**

Pintail Production Company, Inc.

**ATTORNEY**

James Bruce, Esq.  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2151 Facsimile

**STATEMENT OF CASE**

Applicant in the above-styled cause, seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interest in the Queen formation, Quail-Queen Pool, underlying 840 acres, more or less, of State and Fee lands in the following acreage:

**TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM**

Section 11:	S/2, NE/4
Section 13:	W/2 NW/4, NW/4 SW/4

Said unit to be designated the Quail-Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the designation of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

**PROPOSED EVIDENCE**

**APPLICANT:**

<b><u>WITNESSES</u></b> (Name and Expertise)	<b><u>ESTIMATED TIME</u></b>	<b><u>EXHIBITS</u></b>
<b>Terry Frohnafel (Landman)</b>	<b>Approximately 20 Minutes</b>	<b>9</b>
<p>Mr. Frohnafel will review the status of the lands in the Quail Queen Unit Area and Chesapeake Operating Inc.'s efforts to identify and obtain the voluntary participation of all interest owners in the Quail Queen Unit.</p>		
<b>Robert Martin (Geologist)</b>	<b>Approximately 15 Minutes</b>	<b>5</b>
<p>Mr. Martin will present Chesapeake's geological interpretation of the Quail Queen formation in the Unit Area.</p>		
<b>Greg Adams (Engineer)</b>	<b>Approximately 20 Minutes</b>	<b>10</b>
<p>Mr. Adams will review Chesapeake's engineering data that supports the statutory unitization of this Unit Area and will review the applications of Chesapeake for approval of waterflood operations in the Unit Area and Qualification of the Unit Area for the Recovered Tax Rate authorized by the Enhanced Oil Recovery Act.</p>		

**PROCEDURAL MATTERS**

Chesapeake Operating Inc. will request that this case be consolidated or the purposes of hearing with Case 14002.

  
William F. Carr  
Attorney for Chesapeake Operating Inc.

**CASES 14001 AND 14002  
CONSOLIDATED AMENDED APPLICATIONS OF  
CHESAPEAKE OPERATING INC.  
FOR STATUTORY UNITIZATION AND  
APPROVAL OF A WATERFLOOD PROJECT AND QUALIFICATION OF THE  
PROJECT AREA OF THE QUAIL QUEEN UNIT  
FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE ENHANCED  
OIL RECOVERY ACT,  
LEA COUNTY, NEW MEXICO.**

**LAND:**

- EXHIBIT A: Oil Conservation Division Order No. R-12952**
- EXHIBIT 1: Unit Map – Exhibit A to Unit Agreement**
- EXHIBIT 2: Unit Agreement**
- EXHIBIT 3: List of Participation by Unit Tract – Exhibit C to Unit Agreement**
- EXHIBIT 4: List of redesignated well names**
- EXHIBIT 5: Unit Operating Agreement**
- EXHIBIT 6: Correspondence – Shows efforts to reach Voluntary Agreement**
- EXHIBIT 7: Preliminary Approval Letter from the Commissioner of Public Lands**
- EXHIBIT 8: List of Working Interest Owners  
Working Interest Owner Ratifications**
- EXHIBIT 9: Notice Letters – Waterflood Project**
- EXHIBIT 26: Revised SLO Preliminary Approval Letter**

**GEOLOGY:**

- EXHIBIT 10: Type Log**
- EXHIBIT 11: Structure Map – Top of Queen**
- EXHIBIT 12: N/S Cross Section**
- EXHIBIT 13: Queen B Sand -Net Porosity Map**
- EXHIBIT 14: Queen C Sand - Net Porosity Map**

**ENGINEERING:**

- EXHIBIT 15: Revised Executive Summary**
- EXHIBIT 16: 4 Well Montage**
- EXHIBIT 17: West Pearl Queen Locator**
- EXHIBIT 18: Comparison QQU v. WQPU**
- EXHIBIT 19: Tract Participation Factors**
- EXHIBIT 20: First Capital Expenditures – shows conversions**
- EXHIBIT 21: Second Capital Expenditures**
- EXHIBIT 22: Plot – Expected Production**
- EXHIBIT 23: C-108**
- EXHIBIT 24: Application for Incentive Tax Rate**

**EXHIBIT 25: Feasibility Study**

**CERTIFICATE OF SERVICE**

I certify that on September 4, 2008 I served a copy of the foregoing document to the following by Hand Delivery or by Facsimile:

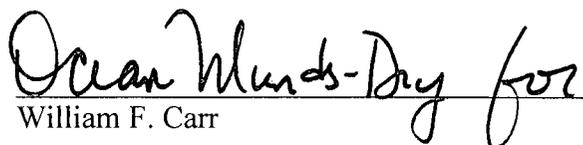
James Bruce, Esq.  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043  
(505) 982-2151 Facsimile  
E-mail: [jamesbruc@aol.com](mailto:jamesbruc@aol.com)

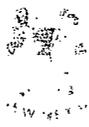
J. Scott Hall, Esq.  
Post Office Box 2307  
Santa Fe, New Mexico 87504-2307  
(505) 982-3673  
E-mail: [shall@montand.com](mailto:shall@montand.com)

Attorneys for Pintail Production Company, Inc.  
Pride Production Company, Inc.

Gail MacQuesten, Esq.  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505  
(505) 476-3451  
(505) 476-3462 Facsimile  
E-mail: [gail.macquesten@state.nm.us](mailto:gail.macquesten@state.nm.us)  
Attorney for the Oil Conservation Division

Lisa Curry Gray, Esq.  
Post Office Box 31085  
Santa Fe, New Mexico 87594-1085  
(505) 982-8711  
(505) 982-8825 Facsimile  
E-mail: [lcgraysf@earthlink.net](mailto:lcgraysf@earthlink.net)  
Attorney for Gene A. Snow Operating Co.

  
William F. Carr



PATRICK H. LYONS  
COMMISSIONER

*State of New Mexico*  
*Commissioner of Public Lands*

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760  
Fax (505) 827-5766  
www.nmstatelands.org

August 14, 2008

Holland & Hart LLP  
P. O. Box 2208  
Santa Fe, NM 87504-2208

Attention: Ms. Ocean Munds-Dry

Re: Revised Preliminary Approval Letter  
Proposed Quail Queen Unit  
Lea County, New Mexico

**RECEIVED**  
**AUG 18 2008**  
**HOLLAND & HART LLP**

Dear Ms. Munds-Dry:

This office has received your letter of August 7, 2008 and a copy of the amended Quail Queen Unit agreement in Lea County. In your letter you have notified this office that Section 2(d) and Section 12 of the original agreement form were amended following the approved NMOCD Order # R-12952 and have requested that this office re-new our preliminary approval of this agreement. This amended agreement form meets the general requirements of the Commissioner of Public Lands and has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
4. A copy of the Unit Operating Agreement.
5. A copy of your Initial Plan of Operation.
6. A re-designation of well names and numbers.
7. The filing fee for a unit agreement is \$30.00 dollars for every section of partial section thereof. Please submit a \$90 filing fee.

BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Case No. 14001 & 14002 De Novo  
(Consolidated).....Exhibit No. 26

Submitted by:

CHESAPEAKE EXPLORATION, L.L.C.

Hearing Date: August 14, 2008

Carrie Tingley Hospital • Charitable Penal & Reform School • NM Highlands University • NM Institute Handicapped • NM State Hospital • New Mexico State Park Commission • University of New Mexico

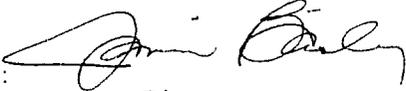
Improvement • Miners' Hospital of NM • NM Boys School for the Deaf • NM School for the Visually Handicapped • Public Buildings at Capital • University

Holland & Hart LLP  
August 14, 2008  
Page 2

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS  
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
PL/JB/pm

pc: Reader File  
OCD-Attention: Mr. Ed Martin