

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

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APPLICATION OF CHESAPEAKE ENERGY
CORPORATION FOR CANCELLATION OF A PERMIT
TO DRILL ISSUED TO COG OPERATING LLC, EDDY
COUNTY, NEW MEXICO

DE NOVO
CASE NO. 14323

APPLICATION OF COG OPERATING LLC FOR
DESIGNATION OF A NON-STANDARD SPACING
UNIT AND FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

DE NOVO
CASE NO. 14365

APPLICATION OF COG OPERATING LLC FOR
DESIGNATION OF A NON-STANDARD SPACING
UNIT, UNORTHODOX WELL LOCATION, AND FOR
COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO

CASE NO. 14366

APPLICATION OF CHESAPEAKE ENERGY
CORPORATION FOR CANCELLATION OF A PERMIT
TO DRILL ISSUED TO COG OPERATING LLC, EDDY
COUNTY, NEW MEXICO

CASE NO. 14382

COG OPERATING LLC'S CONSOLIDATED PRE-HEARING STATEMENT

This pre-hearing statement is submitted by COG Operating LLC as required by the rules of the Division and Commission.

APPEARANCES

APPLICANT

Chesapeake Energy Corporation

APPLICANT'S ATTORNEY

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OTHER PARTY'S ATTORNEY

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STATEMENT OF THE CASE

CASE NOS. 14323 AND 14382

APPLICANT

Applicant, Chesapeake Energy Corporation, seeks an order canceling APD'S for two horizontal wells planned by COG Operating LLC.

OPPONENT

The APD's for the two wells have been withdrawn. Consequently, Chesapeake's Applications are moot and should be dismissed.

In Case Nos. 14323 and 14382, Chesapeake filed Applications that seek rescission of APDs previously approved by the BLM for COG's Blackhawk "11" Fed Com Well No. 1-H and Blackhawk "11" Fed Com Well No. 2-H. COG had accomplished the permitting work necessary to horizontally drill these wells to the Abo/Wolfcamp formation on adjoining non-standard spacing units and special project areas comprising (1) 160-acres in the S/2 S/2 (the "1-H" well) and (2) 120

acres in the NE/4 SW/4 and N/2 SE/4 (the "2-H" well), both in Section 11 T16S R28E, Eddy County, New Mexico. No drilling has commenced.

In the case of the 1-H well, COG owns or controls 100% of the working interest in the S/2 SE/4 of Section 11 and since this dispute began, has obtained the participation of at least one other working interest owner in the S/2 SW/4. Chesapeake also owns a working interest in the S/2 SW/4 of Section 11, as does Devon Energy. Chesapeake has not committed its interest to the well. A substantially identical situation exists on the acreage dedicated to the 2-H well.

Chesapeake's Applications assert that the APD's for the two wells were improperly certified by COG and should not have been approved by the BLM because portions of the proposed wellbores will traverse acreage where, at the time, COG had no interest. Chesapeake's Applications contain no allegations that obtaining approvals of the APD's results in waste or the violation of correlative rights. Chesapeake is not asserting a competing right to operate these wells. It does not seek approval of its own APD's and has no plans or proposals drill on the subject acreage. Instead, Chesapeake's Applications focus on the operator certification language reflected on the Division's C-102 acreage dedication forms:

"I hereby certify...that the organization either owns a working interest or unleased mineral interest in the land, including the proposed bottomhole location, or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interests or in a voluntary pooling agreement or compulsory pooling order hereto entered by the Division"

This language resulted from a 2007 Commission case decided against Chesapeake which involved the actual drilling of a vertical well.¹ Chesapeake did not further appeal that case.

It is COG's position that this issue is better suited for a rulemaking proceeding. With the voluntary withdrawal by COG of the two federal APD's at issue, there is no longer a controversy for the Commission to resolve. There are no APD's to rescind. Further, the consolidation via compulsory pooling of the interests in the two non-standard units of those parties who have not agreed to voluntarily participate in the wells also eliminates the issue that Chesapeake seeks to force the Commission to decide. New APD's will be filed with the BLM after the un-joined interests are force-pooled. Consequently, Chesapeake's Applications are rendered moot.

¹ NMOCC Case No. 13492 (De Novo): Application of Samson Resources Company, Kaiser-Francis Oil Company and Mewborne Oil Company for Cancellation of Two Drilling Permits and Approval of a Drilling Permit, Lea County, New Mexico; Order No. R-12343-E.

For the reason that Chesapeake made application to the Division for the rescission of the APD's, COG reasonably concluded that Chesapeake did not wish to voluntarily participate in the drilling of the two Blackhawk wells. Accordingly, COG made separate applications in Case Nos. 14365 and 14366 for the force-pooling of Chesapeake's interests.

DEVON ENERGY CORPORATION

Devon has indicated that it is taking no position on the Applications.

PROPOSED EVIDENCE

APPLICANT

WITNESSES

EST. TIME

EXHIBITS

OPPONENT

EST. TIME

EXHIBITS

WITNESSES

None. However, COG reserves the right to present rebuttal evidence.

N/A

N/A

PROCEDURAL MATTERS

COG has two motions pending before the Commission: (1) *Motion To Stay Or Continue Pending Rulemaking*; and (2) *Motion To Dismiss Case Nos. 14323 and 14382 For Failure To Provide Notice of New Issues*. The first motion was amended on February 12, 2010 to request dismissal of the Applications. The second motion was filed on February 12, 2010. Chesapeake failed to file any response to the motion.

STATEMENT OF THE CASE

CASE NOS. 14365 AND 14366

APPLICANT

These are unexceptional compulsory pooling cases. It is believed that there are no disputes over geology, operations, well costs or risk-penalty.

Case No. 14365: Applicant seeks an order consolidating the 40-acre spacing units within the S/2 S/2 of Section 11, Township 16 South Range 28 East, NMPM and designating the consolidated units as a 160-acre \pm non-standard oil spacing and proration unit in the Abo/Wolfcamp formation (Crow Flats Wolfcamp Pool) for Applicant's horizontal drilling project area. Applicant further seeks the compulsory pooling of all interests in the Abo/Wolfcamp formation underlying the S/2 S/2 of said Section 11 to be dedicated to its Blackhawk "11" Fed Com No. 1-H to be drilled horizontally from a surface location 430' from the South line and 430' from the West line to a bottom hole location 330' from the South line and 330' from the East line to a depth sufficient to test the Abo/Wolfcamp formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of COG Operating LLC as operator and a charge for risk involved in drilling the well.

Case No. 14366: Applicant seeks an order consolidating the 40-acre spacing units within the NE/4 SW/4, N/2 SE/4 of Section 11, Township 16 South Range 28 East, NMPM and designating the consolidated units as a 120-acre \pm non-standard oil spacing and proration unit for an unorthodox well location in the Abo/Wolfcamp formation (Crow Flats Wolfcamp Pool) for Applicant's horizontal drilling project area. Applicant further seeks the compulsory pooling of all interests in the Abo/Wolfcamp formation underlying the NE/4 SW/4, N2 SE/4 of said Section 11 to be dedicated to its Blackhawk "11" Fed Com No. 2-H to be drilled horizontally from an unorthodox surface location 1880' from the South line and 1590' from the West line to a bottom hole location 1650' from the South line and 330' from the East line to a depth sufficient to test the Abo/Wolfcamp formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of COG Operating LLC as operator and a charge for risk involved in drilling the well.

OPPONENT

OTHER PARTIES

PROPOSED EVIDENCE

APPLICANT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Jan Spradlin-Land	20 minutes	Approx. 6
Ted Galowski-Geology	15 minutes	3
Gayle Burleson-Engineering	20 minutes	

OPPONENT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
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OTHER PARTIES

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
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PROCEDURAL MATTERS

None.

MONTGOMERY & ANDREWS, P.A.

By: _____



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Certificate of Service

I hereby certify that a true and correct copy of the foregoing was e-mailed to counsel of record on the 13th day of May, 2010, as follows:

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