

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

IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE OPERATING INC. FOR
AN UNORTHODOX OIL WELL LOCATION,
LEA COUNTY, NEW MEXICO

CASE NO 11894 (*De Novo*)
ORDER NO. R-10937

MOTION FOR STAY OF DIVISION ORDER

Yates Petroleum Corporation ("Yates"), moves for a stay of Division Order No. R-10937, which Order granted the Application of Chesapeake Operating Inc. for an unorthodox well location. The Order should be stayed because it authorizes an unorthodox well location when a standard location is available to Chesapeake. If a well is drilled at the approved unorthodox location, this *de novo* proceeding will be rendered meaningless, because the Commission will be unable to take any action which will reverse the practical act of Chesapeake's drilling the well. Furthermore, to protect its correlative rights, Yates will be forced to seek an unorthodox well location which is equidistant to the approved Chesapeake location, a course of action which will result in imprudent development of the reservoir and wasteful drilling practices in this reservoir. Because Order No. R-10937 will result in waste, and irreparable harm will be caused, that Order should be stayed pending final determination of this *de novo* proceeding.

I. FACTS

The facts giving rise to this *de novo* proceeding are as follows:

(1) By its application to the Division, Chesapeake Operating, Inc. ("Chesapeake"), sought approval to drill its Salbar "16" Well No. 1 at an unorthodox oil well location 2456 feet from the North line and 1028 feet from the West line (Unit E) of Section 16, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, to test the Strawn formation, Undesignated Northeast Shoe Bar-Strawn Pool. Chesapeake sought to dedicate the S/2 NW/4 of Section 16 to the subject well, forming a standard 80-acre oil spacing and proration unit.

(2) By Order No. R-10848 entered on July 31, 1997, the Division granted the application of Chesapeake for Temporary Special Pool Rules and Regulations for the Northeast Shoe Bar-Strawn Pool which provide for 80-acre spacing and proration units with wells to be located no closer than 330 feet to any quarter-quarter section line. In granting that application, the Division found that:

- (8) The technical evidence presented by the applicant [Chesapeake] at the time of hearing indicates that production from the Chambers "7" Well No. 1 is characteristic of other Strawn oil production in the general area ... all of which produce from localized highly porous algal reef mounds within the Strawn formation. Chesapeake's evidence further indicates that the Strawn formation encountered in the above-described well is of high permeability and is capable of draining an area in excess of 40 acres.
- (9) The proposed **330-foot set back requirement is a departure from the established set-back requirements for 80-acre pools** which

restricts well locations to an area of 150 feet radius of the center of either quarter-quarter section or lot that comprise a single 80-acre unit...

FINDING: The 330-foot set-back request with the limitation of one well per proration unit would serve to provide the operators in the subject pool maximum flexibility in locating wells at more favorable positions on the reef mound or mounds in the immediate area.

These temporary pool rules are to be reopened at a Division Examiner hearing in February, 1999.

(3) The well location approved by the Division is 184 feet from the southern boundary of the Chesapeake spacing unit which is 146 feet closer to the South line of the dedicated spacing and proration unit than permitted by the Temporary Special Pool Rules and Regulations for the Northeast Shoe Bar-Strawn Pool and 326 feet closer than the established requirements for 80-acre pools. As such, this location encroaches on the SW/4 of Section 16 which is operated by Yates Petroleum Corporation ("Yates").

(4) The Division held a hearing on Chesapeake's application on December 4, 1997.

(5) Yates appeared at the hearing and presented evidence in opposition to the application of Chesapeake.

(6) Chesapeake's evidence included a Strawn Net Isopach Map that was prepared from 3-D seismic data. That map shows that the Strawn reservoir which Chesapeake hopes to produce with its proposed Salbar "16" Well No. 1 is confined to the S/2 NW/4 of said

Section 16. However, the map also shows there is a standard location available to Chesapeake in the S/2 NW/4 of Section 16 which is within the 80-foot contour line on this seismic interpretation and therefore in the thickest part of the reservoir (Chesapeake Exhibit No.1).

(7) Yates presented a Structure Map prepared from 3-D seismic data which showed that the standard location within the 80-foot contour on Chesapeake Exhibit No.1 in the S/2 NW/4 of Section 16 is also structurally high to the unorthodox location being sought by Chesapeake for the Salbar "16" Well No. 1 (Yates Exhibit No.1).

(8) The Temporary Special Pool Rules and Regulations for the Northeast Shoe Bar-Strawn Pool, adopted at the request of Chesapeake Oil Company, provide operators in the pool maximum flexibility in locating wells at more favorable positions on the reef mounds in this pool.

(9) The Temporary Special Pool Rules and Regulations for the Northeast Shoe Bar-Strawn Pool permit a Strawn well to be drilled by Chesapeake within the 80-foot contour on its Strawn Net Isopach Map at a location which is structurally high to the unorthodox location it now proposes.

II. ARGUMENT

Chesapeake's unorthodox Strawn well location is an unnecessary intentional encroachment on Yates. Under the special pool rules approved by the Division in Case No. 11750, the standard setback from the lease line between Chesapeake's and Yates's properties

is 330 feet. The technical cases of both Chesapeake and Yates illustrate that Chesapeake may exploit the target reservoir by drilling a well 330 feet from the common lease line. There simply is no reason for the unorthodox location when a standard location is available.

Once the well is drilled, the Commission may not order that the well be drilled at the standard location. Instead, the only method of which Yates may avail itself to protect its correlative rights is to seek and drill a well which encroaches on Chesapeake's property to the same extent that the approved well encroaches on Yates. As the hearing examiner below found, the reservoir is very limited. Order No. R-10937 at ¶ (8)(b) ("the Strawn structure is very limited in extent"). The portion of the reservoir which is located on Yates' property is similarly limited. *Id.*

The only way that Yates may adequately realize the benefits of the minerals under its acreage is to seek approval for and drill a second well on its own acreage. Drilling two wells in this very small reservoir at unorthodox locations would result in an imprudent development pattern and wasteful drilling practices in violation of the Commission's statutory duty to prevent such waste. NMSA 1978, § 70-2-11.

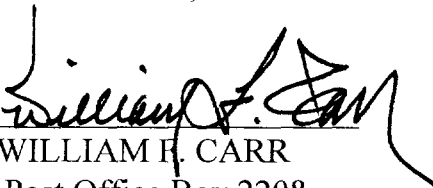
Furthermore, once the Chesapeake well is drilled, there is no way for the Commission to change that location. As will be proven at the Commission hearing on this matter, the approved unorthodox location is unnecessary. Yates will present evidence that the well can be located at a standard location under the existing special pool rules. That conclusion will be bolstered by the evidence presented by Chesapeake. Because the irrevocable act of

drilling the well is not reversible by the Commission, the Division Order should be stayed. The purpose of an equitable stay is to preserve the *status quo*. ***Penn v. San Juan Hospital, Inc.***, 528 F.2d 1181, 1185 (10th Cir. 1975). No other well is draining the reserves targeted by Chesapeake. If the Division's Order is stayed, the hydrocarbons will not go anywhere while the Commission considers whether a standard location is more appropriate. The only way to preserve the status quo is to stay the Division Order until the commission considers the lack of merits of the proposed location.

Therefore, because a standard location is adequate to drain the reserves targeted by Chesapeake, because the approved unorthodox location will result in the wasteful drilling of two wells, and because the stay will avoid the irreversible act of drilling a well that is unnecessary and intentionally located to drain reserves from an offsetting tract, the Commission should stay the Division Order pending the Commission hearing on the merits in this case.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: 
WILLIAM H. CARR

Post Office Box 2208
Santa Fe, New Mexico 87504-2208

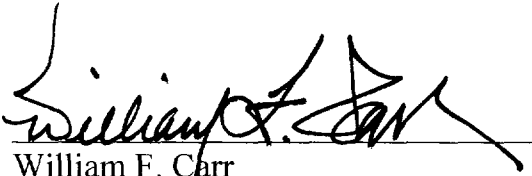
ATTORNEYS FOR YATES PETROLEUM
CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that on this 23rd day of January, 1998, I have caused to be hand-delivered a copy of Yates Petroleum Corporation's Motion for Stay of Division Order in the above-captioned case to the following named counsel:

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
117 North Guadalupe Street
Santa Fe, New Mexico 87501

Lyn Hebert, Esq.
Oil Conservation Division
New Mexico Energy, Minerals
& Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505


William F. Carr

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
ANTHONY F. MEDEIROS
PAUL R. OWEN

JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: ccbspa@ix.netcom.com

January 23, 1998

HAND-DELIVERED

Ms Kathleen A. Garland
Acting Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

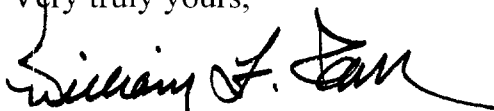
Re: ***Oil Conservation Division Case No. 11894 (De Novo); Order No. R-10937
Application of Chesapeake Operating Inc. for an Unorthodox Oil Well
Location, Lea County, New Mexico***

Dear Ms Garland:

Enclosed for filing is Yates Petroleum Corporation's Motion for Stay of Division Order No. R-10937.

I am providing via hand delivery a copy of said response to W. Thomas Kellahin and Lyn Hebert.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc: W. Thomas Kellahin, Esq.
Lyn Hebert, Esq.
Randy Patterson
Mike Hayes