

OIL AND GAS DOCKET NO. 08-0263733

**THE APPLICATION OF CHESAPEAKE OPERATING, INC. TO ADOPT TEMPORARY
FIELD RULES FOR THE HOEFS T-K (WOLFCAMP) FIELD, REEVES COUNTY, TEXAS**

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner

DATE OF HEARING: January 15, 2010

APPEARANCES:

REPRESENTING:

APPLICANT:

Bill Spencer
Cary McGregor

Chesapeake Operating, Inc.

INTERESTED PARTY:

Tim George
Roy E. Kimsey, Jr.

Roy E. Kimsey, Jr.

EXAMINER'S REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Chesapeake Operating, Inc. ("Chesapeake") requests that temporary field rules be adopted for the Hoefs T-K (Wolfcamp) Field. The proposed rules are summarized as follows:

1. Designation of the field as the correlative interval from 7,692 feet to 11,750 feet as shown on the log of the El Paso Natural Gas Co. - Hoefs Lease, Well No. 1 (API No. 42-389-00310);
2. 467'-933' well spacing with a special provision for "take points" in horizontal wells;
3. 160 acre oil units with a special provision for the assignment of acreage to horizontal wells;
4. Allocation based on 75% acres and 25% per well with a 1965 Yardstick Top Allowable of 471 BOPD.

OIL AND GAS DOCKET NO. 08-0263733

During the hearing, the examiner proposed revised language for “take points” in horizontal wells that would not allow designating “no perf zones” (NPZs) between the first and last “take points” to avoid having to obtain a Rule 37 exception. Chesapeake felt that the new language would restrict their use of “take points” and withdrew their request for “take points”.

There were no protests to this application and the examiner recommends approval of the temporary field rules, as requested by Chesapeake, subject to review in 24 months.

DISCUSSION OF EVIDENCE

The Hoefs T-K (Wolfcamp) Field was discovered in February 1988 at an average depth of 10,500 feet. The field operates under Statewide Rules and the top allowable is 192 BOPD with an allowable gas oil ratio of 2,000 cubic feet per barrel. There are two producing wells carried on the oil proration schedule. Chesapeake and Roy E. Kimsey, Jr. operate one vertical well each, but Chesapeake has plans to drill horizontal wells in the future. Cumulative production from the field through December 2009 is 24.5 MBO and 59.7 MMCFG.

Chesapeake requests that the field be defined as the correlative interval from 7,692 feet to 11,750 feet as shown on the log of the El Paso Natural Gas Co. - Hoefs Lease, Well No. 1 (API No. 42-389-00310). This interval includes the entire Bone Springs and the Upper and Middle Wolfcamp formations.

Chesapeake purchased the Lindsay 326 Lease, Well No. 2, operated by Roy E. Kimsey, Jr. and recompleted the well in April 2009. Chesapeake perforated and fractured stimulated the entire Bone Springs and Upper and Middle Wolfcamp intervals from 7,838 feet to 10,623 feet. By stimulating the entire interval, Chesapeake hopes to recover additional reserves within the thinly laminated sands which in the past were deemed uneconomic to produce. The Lindsay 326 Lease, Well No. 2, had an initial potential flowing of 60 BOPD, 80 MCFGPD and 300 BWPD. The well still produces about 60 BOPD.

Chesapeake requests well spacing of 467'-933', 160 acre density and additional acreage be assigned to horizontal wells by a formula based on the length of the laterals. The rules proposed by Chesapeake are similar to the rules which have been adopted in several Bone Springs and Wolfcamp fields in Reeves County, including the Hoban (Bone Springs) Field. In addition, approximately sixty of the fields have adopted 160 acre density.

Chesapeake calculated recoverable reserves beneath 160 acres and 40 acres in this field to be approximately 317,300 BO and 79,300 BO, respectively. The calculations are based on the following reservoir properties: 11.5% average porosity, 40% average water saturation, 42 feet of net pay and a 15% estimated recovery factor.

Chesapeake requests that the allocation formula be based on 75% acreage and

OIL AND GAS DOCKET NO. 08-0263733

25% per well to meet statutory requirements for multiple productive zones.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice at least ten days prior to the date of hearing.
2. The Hoefs T-K (Wolfcamp) Field was discovered in February 1988 at an average depth of 10,500 feet. The field operates under Statewide Rules and the top allowable is 192 BOPD with an allowable gas oil ratio of 2,000 cubic feet per barrel.
3. There are two producing wells carried on the oil proration schedule. Chesapeake and Roy E. Kimsey, Jr. operate one vertical well each, but Chesapeake has plans to drill horizontal wells in the future.
4. The Hoefs T-K (Wolfcamp) Field should be defined as the correlative interval from 7,692 feet to 11,750 feet as shown on the log of the El Paso Natural Gas Co. - Hoefs Lease, Well No. 1 (API No. 42-389-00310). This interval includes the entire Bone Springs and the Upper and Middle Wolfcamp formations.
5. Well spacing of 467'-933', 160 acre density and the horizontal rule proposed by Chesapeake for purposes of assigning acreage are similar to the rules which have been adopted in several Bone Springs and Wolfcamp fields in Reeves County.
6. Chesapeake calculated recoverable reserves beneath 160 acres and 40 acres in this field to be approximately 317,300 BO and 79,300 BO, respectively. The calculations are based on the following reservoir properties: 11.5% average porosity, 40% average water saturation, 42 feet of net pay and a 15% estimated recovery factor.
7. Allocation based on 75% acreage and 25% per well is a reasonable formula which will protect correlative rights and meet statutory requirements.

CONCLUSIONS OF LAW

1. Proper notice of this hearing was issued.
2. All things have been accomplished or have occurred to give the Commission jurisdiction in this matter.
3. Adoption of the proposed temporary Field Rules for the Hoefs T-K (Wolfcamp) Field will prevent waste, protect correlative rights and promote

OIL AND GAS DOCKET NO. 08-0263733

the orderly development of the field.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiner recommends adoption of temporary Field Rules for the Hoefs T-K (Wolfcamp) Field, as requested by Chesapeake, subject to review in 24 months.

Respectfully submitted,

Richard D. Atkins, P.E.
Technical Examiner