

March 28, 2007

OIL AND GAS DOCKET NO. 10-0250771

APPLICATION OF CHESAPEAKE OPERATING COMPANY, INC. FOR FIELD RULES FOR THE B & B (GRANITE WASH) FIELD, WHEELER COUNTY, TEXAS

HEARD BY: Thomas H. Richter, P.E.

DATE OF HEARING: March 26, 2007

APPEARANCES:

REPRESENTING:

Bill Spencer
Cary McGregor

Chesapeake Operating Company, Inc.

EXAMINER'S REPORT AND RECOMMENDATION
STATEMENT OF THE CASE

This is the unprotested application of Chesapeake Operating Company, Inc. for field rules for the B & B (Granite Wash) Field which provide for:

1. The entire combined correlative interval from 11,758' to 15,369' as shown on the log of the Grace Petroleum Corp., (Combined Resource Corp.) C.A. Stein Lease Well No. 1 (API No. 42-483-30586), T. James Survey, Wheeler County, Texas should be designated as the B & B (Granite Wash) Field.
2. A two-factor allocation formula based on 95% deliverability and 5% per well and the allocation formula remain suspended.

It is also requested that as acreage is not part of the allocation formula and density is based on Statewide Rules, Form P-15 and Proration Unit plats not be required. The examiner recommends approval of the application.

DISCUSSION OF THE EVIDENCE

The B & B (Granite Wash) Field was discovered in 1982 at 12,144' subsurface depth. The field is governed by Statewide Rules and the allocation formula has been suspended since December 1, 2005. The field is classified as associated gas as there has been a well that was reclassified from gas to oil but has since been re-classified as gas. There are 21 wells in the field and three operators. Chesapeake operates 18 of the wells. Prior to Chesapeake's entrance into the field in 2004, there were three producing wells. Since that time, Chesapeake has completed 18 wells.

The entire combined correlative interval from 11,758' to 15,369' as shown on the log of the Grace Petroleum Corp., (Combined Resource Corp.) C.A. Stein Lease Well No. 1 (API No. 42-483-30586), T. James Survey, Wheeler County, Texas should be designated as the B & B (Granite Wash)

Field. The interval represents the entire DeMoines/Cherokee Granite Wash Sands and Atoka Granite Sands from the base of the Marmaton to the top of the 13 Finger Lime.

Proration unit density and designation is not necessary as acreage does not represent the recoverable reserves from a well. There are at least 9 recognizable/productive sections that are lenticular and vary in quality and thickness across the entire area. A total of 29 wells have been completed in the field. Gross thickness intervals range from 24' to 2,839'. The productive zones are all relatively marginal and are not "stand alone" targets. Water analysis of the DesMoines/Cherokee Sands and Atoka Sands does not show adverse water compatibility problems. Cumulative production is 4.64 BCF of gas and 301,000 barrels of condensate. It is estimated that an additional 15.2 MMCF per single completion will be recovered.

Because the proposed expanded interval is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes. The proposed two-factor allocation formula based on 95% deliverability and 5% per well satisfies this requirement. Continued suspension of the allocation formula is warranted as there is a demand for 100% of the gas produced from the field.

FINDINGS OF FACT

1. Notice of this hearing was sent to all affected persons in the subject area field at least ten (10) days prior to the subject hearing.
2. There was no protest at the call of the hearing.
3. The B & B (Granite Wash) Field was discovered in 1982 at 12,144' subsurface depth. The field is governed by Statewide Rules and the allocation formula has been suspended since December 1, 2005.
 - a. The field is classified as associated as there has been a well that was reclassified from gas to oil but has since been re-classified as gas.
 - b. There are 21 wells in the field and three operators.
4. The entire combined correlative interval from 11,758' to 15,369' as shown on the log of the Grace Petroleum Corp., (Combined Resource Corp.) C.A. Stein Lease Well No. 1 (API No. 42-483-30586), T. James Survey, Wheeler County, Texas should be designated as the B & B (Granite Wash) Field. The interval represents the entire DeMoines/Cherokee Granite Wash Sands and Atoka Granite Wash Sands from the base of the Marmaton to the top of the 13 Finger Lime.
5. Proration unit density and designation is not necessary as acreage does not represent the recoverable reserves from a well as there are at least 9 recognizable/productive sections that are lenticular and vary in quality and thickness across the entire area.

6. Because the proposed expanded interval is combining multiple productive zones, a two-factor allocation formula is necessary for the protection of correlative rights pursuant to State Statutes.
 - a. The proposed two-factor allocation formula based on 95% deliverability and 5% per well satisfies this requirement.
7. The allocation formula should remain suspended as there remains a 100% demand for the gas produced from the field.
 - a. Continued suspension of the allocation formula is warranted as there is a demand for 100% of the gas produced from the field.

CONCLUSIONS OF LAW

1. Proper notice was given to all parties as set out in the provisions of all applicable codes and regulatory statutes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Adoption of the proposed field rules will prevent waste, foster conservation and protect correlative rights.

EXAMINER'S RECOMMENDATION

Based on the above findings and conclusions of law, the examiner recommends approval of the proposed field rules for the B & B (Granite Wash) Field.

Respectfully submitted,

Thomas H. Richter, P.E.
Technical Examiner
Office of General Counsel