



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

March 20, 2014

Rule 37 Case No. 0281194
Status No. 754868
District 09

APPLICATION OF CHESAPEAKE OPERATING, INC. FOR A RULE 37 EXCEPTION FOR ITS EDERVILLE LEASE, WELL NO. 4H, NEWARK EAST (BARNETT SHALE) FIELD, TARRANT COUNTY, TEXAS.

Rule 37 Case No. 0281092
Status No. 754864
District 09

APPLICATION OF CHESAPEAKE OPERATING, INC. FOR A RULE 37 EXCEPTION FOR ITS EDERVILLE LEASE, WELL NO. 6H, NEWARK EAST (BARNETT SHALE) FIELD, TARRANT COUNTY, TEXAS.

APPEARANCES:

FOR APPLICANT:

Glenn Johnson, Attorney
Ben Russ, Attorney
David Triana, Engineer
Bill Spencer, Regulatory Consultant
Melissa Condley, Reservoir Engineer

APPLICANT:

Chesapeake Operating, Inc.

FOR PROTESTANTS:

Mark Hixson
Robert J. Vann

REPRESENTING:

Himself and Various Tract Owners
Himself

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

APPLICATION FILED:
NOTICE OF HEARING:

April 11, 2013 and April 19, 2013
May 29, 2013

HEARD BY: Marshall Enquist - Hearings Examiner
Richard Atkins - Technical Examiner

HEARING DATE : July 24, 2013

PFD CIRCULATION DATE: March 20, 2014

STATEMENT OF THE CASE

Chesapeake Operating, Inc. ("Chesapeake" or "Applicant"), seeks an amended drilling permit pursuant to the provisions of Statewide Rule 37 for the Ederville Unit, Well Nos. 4H and 6H, horizontal wells in the Newark, East (Barnett Shale) Field, Tarrant County, Texas. The hearing as initially called included Rule 37 Case No. 0281091 for the Ederville Unit, Well No. 5H, but Chesapeake requested that the hearing in that docket be postponed due to a possible notice issue.

Chesapeake received a drilling permit on April 11, 2013 to drill its Well No. 4H on its Ederville Unit. The permit was restricted by "no perforation zones" ("NPZs") and was approved administratively. Chesapeake received a drilling permit on April 19, 2013 to drill its Well No. 6H on its Ederville Unit. The permit was restricted by "no perforation zones" ("NPZs") and was approved administratively.

On April 11, 2013, Chesapeake filed an application to permit the entirety of the wellbore of its Well No. 4H on the Ederville Unit by removing all NPZs. On April 19, 2013, Chesapeake filed an application to permit the entirety of the wellbore of its Well No. 6H on the Ederville Unit. The two applications are here consolidated.

The surface location of Well No. 4H is off-unit. It is 281 feet north of the R. Collins Survey, A-351, and 904 feet east of the R. Collins Survey, A-351. The proposed penetration point is 803 feet from the south line and 243 feet from the northwest line of the lease. The terminus is 240 feet from the south line and 272 feet from the southwest line of the lease and 1,342 feet from the south line and 545 feet from the west line of the W.S. Sublett Survey, A-1443. The lateral runs on NW-SE trend.

The surface location of Well No. 6H is off-unit. It is 296 feet north of the R. Collins Survey, A-351, and 874 feet east of the R. Collins Survey, A-351. The proposed penetration point is 267 feet from the north line and 1,289 feet from the east line of the lease. The terminus is 255 feet from the south line and 1,242 feet from the northeast line of the lease and 1524 feet from the south line and 595 feet from the east line of the W.S. Sublett Survey, A-1443. The lateral runs on a NW-SE trend.

Special field rules for the Newark, East (Barnett Shale) Field provide for 330 foot leaseline spacing. As to horizontal wells, where the horizontal portion of the well is cased and cemented back above the top of the Barnett Shale formation, the distance to any property line, leaseline, or subdivision line is calculated based on the distance to the nearest perforation point in the well, and not based on the penetration point or terminus. Where an external casing packer is placed in a horizontal well and cement is pumped above the external casing packer to a depth above the top of the Barnett Shale formation, the distance to any property line, leaseline, or subdivision line is calculated based on the top of the external casing packer or the closest open hole section in the Barnett Shale. The standard drilling

and proration unit for the Newark, East (Barnett Shale) Field is 320 acres. An operator is permitted to form optional drilling units of 20 acres.

Rule 37 exceptions are needed for the proposed Ederville Unit, Well Nos. 4H and 6H, because sections of the wells proposed to be perforated are closer than 330 feet to the boundary of tracts which are internal to the unit and unleased. Mark Hixson appeared at the hearing in protest and represented himself, David and Sonya Williams, Don and Helen Woodard and Shari Polk regarding the application for the Well No. 4H. Mr. Hixson appeared representing himself and Stewart and Ava Van Haasen, Maria Chavez, Linda Hart, Robert Hart and Vicki Vinson regarding the application for Well No. 6H. Robert Vann appeared at the hearing in protest and represented himself regarding the application for Well No. 6H.

DISCUSSION OF THE EVIDENCE

CHESAPEAKE OPERATING, INC.

Well No. 4H

Chesapeake seeks removal of the “no perforation zones” (“NPZs”) on its Ederville Unit, Well No. 4H imposed on the well by Chesapeake’s April 11, 2013 Commission-approved well permit. The NPZs are marked in red on the attached **Exhibit I**. At the time this permit was approved, the Ederville Unit contained 357.74 leased acres in a 372.989-acre gross unit area. By the time of the present hearing, on July 24, 2013, Chesapeake had leased additional acreage for a total of 358.816 leased acres. Chesapeake notes that the unit contains a total of 372.989 acres within its boundaries and that the unit is 96.2 percent leased. Chesapeake is engaged in ongoing leasing activities.

An isopach map derived from the logs of nearby wells indicates the Barnett Shale is roughly 340 feet thick under the Ederville Unit. Devon Energy Production Co., LLP conducted a study of the Tarrant/Denton/Wise County area which calculated total gas in place at 139 BCF per square mile in those counties, based on an average formation thickness of 433 feet, porosity of 0.04% and TOC (Total Organic Carbon) of 4%. Using that study, and correcting for the thickness (340 feet) of the Newark, East (Barnett Shale) Field under the Ederville Unit and the leased acreage, Chesapeake calculated the original gas in place in the 358.816 leased acres of the Ederville Unit to be 61.192 BCF. Assuming a recovery factor of 46%, Chesapeake calculates there was originally 28.271 BCF of recoverable gas beneath the Ederville Unit. Chesapeake has already produced 0.48 BCF from the partially completed Ederville Well No. 1H, leaving remaining recoverable gas in place of 27.791 BCF,

Chesapeake reviewed the Newark, East (Barnett Shale) Field wells within a 3-mile radius of the proposed well, finding 111 wells within that radius. Plotting the estimated ultimate recovery (EUR) of each of the wells, Chesapeake developed a scatter diagram and used a least squares regression method to produce a trend line to predict the ultimate recovery of a well in the area based on its length. Based on the scatter diagram, with the drainhole length as the “x” axis and the estimated EUR in MMCF as the “y” axis, Chesapeake derived a well recovery formula of “ $y = 0.7659x + 1294$ ”. This formula

indicates each incremental foot of wellbore will recover 765 MCF of gas. The 1,294 is the amount of gas, in MMCF, that Chesapeake would expect to recover with a vertical wellbore and no incremental horizontal drainhole length. Thus, Chesapeake calculates its proposed full-length lateral of 3,670.85 feet will recover 4.106 BCF of gas.

The current NPZs affect 1,131.25 feet of the Ederville Unit, Well No. 4H. Absent the removal of the NPZs, Chesapeake argues it would be left with a wellbore lateral available to perforate that is only 2,539.60 feet in length. The wellbore lateral available for perforation would recover only 3.239 BCF of gas, leaving 0.866 BCF unrecovered. Chesapeake argues that 0.866 BCF of gas is a significant quantity of hydrocarbons.

Chesapeake argues that failure to remove the NPZs would deprive Chesapeake and its lessors of the opportunity to produce their fair share of the recoverable hydrocarbons in place beneath the 358.816 leased acres of the Ederville Unit, which would be confiscation. Absent Rule 37 exceptions and the removal of the existing NPZs, Chesapeake and its lessors will not be able to recover their fair share of the recoverable hydrocarbons beneath the Ederville Unit.

Well No. 6H

Chesapeake seeks removal of the “no perforation zones” (“NPZs”) on its Ederville Unit, Well No. 6H imposed on the well by Chesapeake’s April 19, 2013 Commission-approved well permit. The NPZs are marked in red on the attached **Exhibit I**. At the time this permit was approved, the Ederville Unit contained 358.36 leased acres in a 372.989-acre unit. By the time of the present hearing, on July 24, 2013, Chesapeake had leased additional acreage for a total of 358.816 leased acres. Chesapeake notes that the unit contains a total of 372.989 acres within its boundaries and that the unit is 96.2 percent leased. Chesapeake is engaged in ongoing leasing activities.

An isopach map derived from the logs of nearby wells indicates the Barnett Shale is roughly 340 feet thick under the Ederville Lease. Devon Energy Production Co., LLP conducted a study of the Tarrant/Denton/Wise County area which calculated total gas in place at 139 BCF per square mile in those counties, based on an average formation thickness of 433 feet, porosity of 0.04% and TOC (Total Organic Carbon) of 4%. Using that study, and correcting for the thickness of the Newark, East (Barnett Shale) Field under the Ederville Unit and the leased acreage, Chesapeake calculated the original gas in place in the 358.816 leased acres of the Ederville Unit to be 61.192 BCF. Assuming a recovery factor of 46%, Chesapeake calculates there was originally 28.271 BCF of recoverable gas beneath the Ederville Unit. Chesapeake has already produced 0.48 BCF from the partially completed Ederville Well No. 1H, leaving remaining recoverable gas in place of 27.791 BCF,

Chesapeake reviewed the Newark, East (Barnett Shale) Field wells within a 3-mile radius of the proposed well, finding 111 wells within that radius. Plotting the estimated ultimate recovery (EUR) of each of the wells, Chesapeake developed a scatter diagram and used a least squares regression method to produce a trend line to predict the ultimate recovery of a well in the area based on its length. Based on the scatter diagram, with the drainhole length as the “x” axis and the estimated EUR in MMCF as

the “y” axis, Chesapeake derived a well recovery formula of “ $y = 0.7659x + 1294$ ”. This formula indicates each incremental foot of wellbore will recover 765 MCF of gas. The 1,294 is the amount of gas, in MMCF, that Chesapeake would expect to recover with a vertical wellbore and no incremental horizontal drainhole length. Thus, Chesapeake calculates its proposed full-length lateral of 3,990 feet will recover 4.350 BCF of gas.

The current NPZs affect 3,489 feet of the Ederville Unit, Well No. 6H. Absent the removal of the NPZs, Chesapeake argues it would be left with a wellbore lateral available to perforate that is only 501 feet in length. The wellbore lateral available for perforation would recover only 1.678 BCF of gas, leaving 2.672 BCF unrecovered. Chesapeake argues that 2.672 BCF of gas is a significant quantity of hydrocarbons.

Chesapeake argues that failure to remove the NPZs would deprive Chesapeake and its lessors of the opportunity to produce their fair share of the recoverable hydrocarbons in place beneath the 358.816 leased acres of the Ederville Unit, which would be confiscation. Absent Rule 37 exceptions and the removal of the existing NPZs, Chesapeake and its lessors will not be able to recover their fair share of the recoverable hydrocarbons beneath the Ederville Unit.

PROTESTANTS' POSITION AND EVIDENCE

Mark Hixson

Mr. Hixson protests that the hearing is all about money and the taking of property that belongs to others to enrich someone else. In this case, the taking of gas that belongs to the protestants Mr. Hixson represents and the giving of that gas to Chesapeake. Chesapeake has been known to obtain a permit for a well that it does not intend to drill just to finally arrive at a hearing, like the present hearing, in order to confiscate the property of others. The protestants that Mr. Hixson represents have not been able to reach agreement with Chesapeake about the fair value of their minerals. Chesapeake's purpose is to obtain a permit that will allow it to take the protestant's minerals without fair compensation.

Mr. Hixson notes that, although Chesapeake may have 96.2% of the Ederville Unit leased up, 3.8% of the acreage is not leased. Under the present state of technology, Chesapeake admits that 53.8% of the gas under the Ederville lease will not be recovered. Chesapeake has stated that the recoverable gas beneath the Ederville Lease is 28.271 BCF. At today's price of \$3.70 per mcf, the value of the gas is \$104,602,700. The 3.8% of the minerals that are not leased would be valued at \$3,975,000. That is the value of the property that Chesapeake is attempting to take from the unleased owners.

Mr. Hixson states that he is an unleased property owner and is here representing other unleased mineral owners. In his opinion, Chesapeake's first permit from the Commission was granted under false pretenses because Chesapeake never had any intention of drilling a short lateral well. This is simply a process that Chesapeake has developed to end up where they are now, asking the Commission to allow them to take the minerals of unleased owners. Chesapeake not only wants its fair share of the minerals, but the unleased mineral owners fair share as well. Mr. Hixson believes the entire process is unfair.

At a minimum, Chesapeake should have to pay the unleased owners for their minerals after Chesapeake recovers its costs of drilling.

Robert J. Vann

Mr. Vann has lived in the Fort Worth area since 2008 and has attended many different presentations and meetings there, some by the EPA and others by TCEQ and the Railroad Commission. At these meetings, he has heard many people complain that, after wells are drilled in their areas, they have been hurt by the wells or their children have become sick. After hearing these statements, Mr. Vann feels that he cannot contribute his gas or his property to the people he feels are causing so much pain and so many problems with area water and people's health.

EXAMINERS' OPINION

It is the basic right of every landowner or lessee to a fair and reasonable chance to recover the oil and gas under their property as recognized by the Texas Supreme Court in *Gulf Land Co. v. Atlantic Refining Co.*, 131 S.W.2d 73, 80 (Tex. 1939). Denial of that fair chance is confiscation within the meaning of Rule 37. *Id.* To obtain an exception to Statewide Rule 37 to protect correlative rights and prevent confiscation, the applicant must show that 1.) it is not possible for the applicant to recover its fair share of minerals under its tract from regular locations; and 2.) that the proposed irregular location is reasonable.

The examiners are of the opinion that approval of the Statewide Rule 37 exception requested by Chesapeake is necessary to prevent confiscation and protect correlative rights. Chesapeake and its lessors are entitled to recover their fair share of gas from beneath the Ederville Unit. "Fair share" is measured by the currently recoverable reserves beneath the lease, which in this case is 27.791 BCF. The evidence shows that it is not feasible for Chesapeake to recover its fair share of gas from regular locations in the unit due to the presence of unleased tracts. The Ederville Unit Well No. 4H, at its full length of 3,670.85 feet, is projected to recover 4.106 BCF over its useful life. The Ederville Unit Well No. 6H, at its full length of 3,990 feet, is projected to recover 4.350 BCF over its useful life.

The issues raised by Mr. Hixson, regarding the alleged confiscation of both his mineral rights and those of the mineral owners he represents, have remedies that are not available in the current proceedings. First, the unleased mineral owners have the option of leasing their minerals to Chesapeake so that they may receive royalty payments for the recovery of their proportional share of the minerals in the Ederville Lease. Second, if the unleased mineral owners believes the terms they are being offered are not reasonable, they may file an application under the Mineral Interest Pooling Act and let the Commission determine whether they should be included in the unit and on what terms. Third, the unleased mineral owners have the right to choose to lease to another operator or to seek their own permits and drill their own wells on their own mineral property. Although the practicality of this remedy is doubtful due to the small size of the protestants' tracts, it is a potentially available remedy under the law.

Mr. Hixson stated that Chesapeake obtained drilling permits fraudulently, in that Chesapeake never intended to actually drill its initial short-lateral wells or subsequent NPZ-limited wells. Mr. Hixson cross-examined Chesapeake's reservoir engineer regarding this issue.

Q. (Hixson) Did Chesapeake have any intention of drilling the well as it was originally permitted with the NPZ zone?

A. (Condley) Chesapeake did drill the wells as they are permitted. So the well is fully developed from a being drilled standpoint. So yes, I think there was intention to develop this unit. It was done so under current permits that have no-perforation zones, and the goal obviously to be able to recover our fair share of gas is to maximize the amount of drainhole length that we can complete. And so that is why we are here today to seek Rule 37 relief on these applications.

[Transcript, page 94, lines 5-16]

Mr. Vann has heard the testimony and remarks of individuals who feel they have been harmed by drilling in Fort Worth and is sympathetic towards those individuals. As a result, he does not wish to lease his minerals to any operator. That is his right.

The Ederville Unit Well No. 4H has a full-length lateral of 3,670.85 feet. This lateral is restricted by 1,131.25 feet of non-perforation zones. The NPZ-restricted lateral will recover 3.239 BCF. If the NPZ restrictions are removed, the full-length lateral will recover 4.106 BCF, a difference of 0.866 BCF. The examiners find that 0.866 BCF is a substantial quantity of hydrocarbons that would go unrecovered if the "no-perforation zone" restrictions are not removed.

The Ederville Unit Well No. 6H has a full-length lateral of 3,990 feet. This lateral is restricted by 3,489 feet of non-perforation zones. The NPZ-restricted lateral will recover 1.678 BCF. If the NPZ restrictions are removed, the full-length lateral will recover 4.350 BCF, a difference of 2.672 BCF. The examiners find that 2.672 BCF is a substantial quantity of hydrocarbons that would go unrecovered if the "no-perforation zone" restrictions are not removed.

The examiners find that Well Nos. 4H and 6H are reasonably located as part of a development pattern designed to maximize hydrocarbon recovery on the Ederville Unit.

The examiners recommend that Chesapeake be granted an exception to Statewide Rule 37 for its Well Nos. 4H and 6H on the 358.816 leased acres of the 372.989-acre Ederville Unit in Tarrant County based on prevention of confiscation. Based on the record in this docket, the examiners recommend adoption of the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. At least 10 days notice of this hearing was given to the designated operator, all offset operators,

all lessees of record for tracts that have no designated operator, and all owners of record of unleased mineral interests for each affected adjacent tract.

2. Chesapeake Operating, Inc. ("Chesapeake" or "Applicant"), seeks an exception to Statewide Rule 37 for the Ederville Unit, Well No. 4H, in the Newark, East (Barnett Shale) Field in Tarrant County.
3. Chesapeake seeks an exception to Statewide Rule 37 for the Ederville Unit, Well No. 6H, in the Newark, East (Barnett Shale) Field in Tarrant County.
4. On April 11, 2013, Chesapeake obtained a permit to drill Well No. 4H, at a Rule 37 location on the Ederville Unit, approved administratively with NPZs. The plat associated with that application is attached to this proposal for decision as Exhibit I, which is incorporated into this finding by reference.
5. On April 19, 2013, Chesapeake obtained a permit to drill Well No. 6H, at a Rule 37 location on the Ederville Unit, approved administratively with NPZs. The plat associated with that application is attached to this proposal for decision as Exhibit I, which is incorporated into this finding by reference.
6. On April 11, 2013, Chesapeake submitted an application to remove NPZs totaling 1,131.25 feet from the lateral of its Well No. 4H on its Ederville Unit.
7. On April 19, 2013, Chesapeake submitted an application to remove NPZs totaling 3,489 feet from the lateral of its Well No. 6H on its Ederville Unit.
8. A Rule 37 exception is needed for the proposed Ederville Unit, Well Nos. 4H and 6H, because sections of the wells proposed to be perforated are closer than 330 feet to the boundaries of certain tracts internal to the unit that are unleased.
9. Special field rules for the Newark, East (Barnett Shale) Field provide for 330 foot leaseline spacing. As to horizontal wells, where the horizontal portion of the well is cased and cemented back above the top of the Barnett Shale formation, the distance to any property line, leaseline, or subdivision line is calculated based on the distance to the nearest perforation point in the well, and not based on the penetration point or terminus. Where an external casing packer is placed in a horizontal well and cement is pumped above the external casing packer to a depth above the top of the Barnett Shale formation, the distance to any property line, leaseline, or subdivision line is calculated based on the top of the external casing packer or the closest open hole section in the Barnett Shale. The standard drilling and proration unit for the Newark, East (Barnett Shale) Field is 320 acres. An operator is permitted to form optional drilling units of 20 acres.
10. The surface location of the Ederville Unit Well No. 4H is located off-unit. It is 281 feet north of the R. Collins Survey, A-351, and 904 east of the R. Collins Survey, A-351. The proposed

penetration point is 803 feet from the south line and 243 feet from the northwest line of the lease. The terminus is 240 feet from the south line and 272 feet from the southwest line of the lease and 1,342 feet from the south line and 545 feet from the west line of the W.S. Sublett Survey, A-1442. The lateral runs on a NW-SE trend.

11. The surface location of the Ederville Unit Well No. 6H is located off-unit. It is 296 feet north of the R. Collins Survey, A-351 and 874 feet east of the R. Collins Survey, A-351. The proposed penetration point is 267 feet from the north line and 1,289 feet from the east line of the lease. The terminus is 255 feet from the south line and 1,242 feet from the northeast line of the lease and 1,524 feet from the south line and 595 feet from the east line of the W.S. Sublett Survey, A-1443. The lateral runs on a NW-SE trend.
12. Mark Hixson appeared at the hearing in protest and represented himself, David and Sonya Williams, Don and Helen Woodard and Shari Polk regarding the application for the Well No. 4H. Mr. Hixson appeared representing himself and Stewart and Ava Van Haasen, Maria Chavez, Linda Hart, Robert Hart and Vicki Vinson regarding the application for Well No. 6H. Robert Vann appeared at the hearing in protest and represented himself regarding the application for Well No. 6H.
13. The Barnett Shale formation is present and productive under the entirety of the Ederville Unit.
14. At the time of the hearing, the leased acreage in the Ederville Unit had increased to 358.816 acres. The unit contains a total of 372.989 acres within its boundaries and is 96.2 percent leased.
15. To establish the currently recoverable reserves under the 358.816 leased acres of the 372.989-acre Ederville Unit, Chesapeake used a volumetric calculation:
 - a. Available well logs in the vicinity of the Ederville Unit indicate the thickness of the Barnett Shale locally to be 340 feet.
 - b. A study conducted by Devon Energy Production Co., LLP for the Tarrant/Denton/Wise County calculated original gas in place at 139 BCF per square mile in those counties, based on an average formation thickness of 433 feet, porosity of 0.04 and %TOC (Total Organic Carbon) of 4%. Using that study, and correcting for the thickness of the Newark, East (Barnett Shale) Field under the Ederville Unit and the leased acreage, Chesapeake calculated the original gas in place in the 358.816 leased acres of the Ederville Unit to be 61.192 BCF. Assuming a recovery factor of 46%, Chesapeake calculates there was originally 28.271 BCF of recoverable gas beneath the Ederville Unit. The existing partially completed Well No. 1H has produced 0.48 BCF, leaving remaining recoverable gas in place of 27.791 BCF.
16. Chesapeake plotted drainhole length versus estimated ultimate recovery for 111 wells within a

3 mile radius of the applied-for well on a scatter diagram. Using the least squares regression method, Chesapeake derived a well recovery formula of “ $y = 0.7659x + 1294$ ”, with drainhole length represented by “x” and estimated EUR in MMCF represented by “y”. This indicates that each incremental foot of horizontal wellbore will recover an additional 765 MCF of gas, while a purely vertical well would recover 1,294 MMCF.

17. The total usable length of the Well No. 4H drainhole, after removal of the 1,131.25 feet of NPZs placed on the subject well under the permit granted on April 11, 2013, is 3,670.85 feet. Applying Chesapeake’s calculated well recovery formula, Well No. 4H will have an estimated ultimate recovery of 4.106 BCF of gas.
18. As permitted on April 11, 2013, Well No. 4H had 1,131.25 feet of NPZs. Removal of the NPZs would result in the recovery of 0.866 BCF that would otherwise not be recoverable by the well.
19. As permitted on April 19, 2013, Well No. 6H had 3,489 feet of NPZs. Removal of the NPZs would result in the recovery of 2.672 BCF that would otherwise not be recoverable by the well.
20. The amount of gas that would go unrecovered by the well absent removal of the 1,131.25 feet of NPZs in Well No. 4H, 0.866 BCF, is a significant quantity of hydrocarbons.
21. The amount of gas that would go unrecovered by the well absent removal of the 3,489 feet of NPZs in Well No. 6H, 2.672 BCF, is a significant quantity of hydrocarbons.
22. Chesapeake’s fair share of gas in place beneath the Ederville Unit is 27.791 BCF of gas.
23. The proposed locations of the Ederville Unit Well Nos. 4H and 6H are reasonable as part of a multi-well recovery program designed to maximize recovery from the Ederville Unit.
24. Chesapeake continues its attempt to sign unleased mineral interest owners in the Ederville Unit.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred to give the Commission jurisdiction to decide this matter.
3. Approval of Rule 37 exceptions for the proposed locations of the Ederville Unit, Well Nos. 4H and 6H, as proposed by Chesapeake Operating, Inc. is necessary to prevent confiscation and protect the correlative rights of the mineral owners.

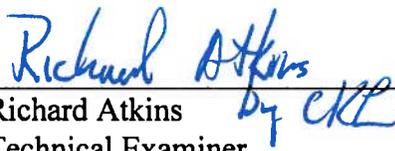
RECOMMENDATION

The examiners recommend that the application of Chesapeake Operating, Inc., for Statewide Rule 37 exceptions for the proposed locations of the Ederville Unit, Well Nos. 4H and 6H in the Newark, East (Barnett Shale) Field, Tarrant County, be granted as necessary to prevent confiscation and protect correlative rights.

Respectfully submitted,



Marshall Enquist
Hearings Examiner


by CKL

Richard Atkins
Technical Examiner