

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 13526
ORDER NO. R-12401**

**APPLICATION OF CHESAPEAKE OPERATING, INC. FOR APPROVAL OF A
UNIT AGREEMENT, LEA AND CHAVES COUNTIES, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 28, 2005, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 28th day of July, 2005, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Chesapeake Operating, Inc. ("Chesapeake"), seeks approval of the South Chavlea State Exploratory Unit Agreement for all oil and gas in any and all formations from the surface to the base of the Pennsylvanian formation underlying the following-described 2,249.40 acres, more or less, of State lands in Lea and Chaves Counties, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM, CHAVES COUNTY, NEW MEXICO

Section 24:	All
Section 25:	N/2

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY, NEW MEXICO

Section 19:	All
Section 30:	All

- (3) The applicant presented evidence that demonstrates that:
- (a) Chesapeake has obtained the approval of more than 75% of the working interest owners of the leases within the proposed unit thereby affording the opportunity for effective and efficient control over the unit acreage;
 - (b) the unit area encompasses an area that can be reasonably developed under a unit plan;
 - (c) the primary target for this unit area is the Atoka/Morrow interval; however, all formations down to the base of the Pennsylvanian formation will be evaluated and, if the initial well is successful, additional wells will be drilled within the unit area;
 - (d) the Commissioner of Public Lands for the State of New Mexico has given preliminary approval for the proposed unit by letter dated July 13, 2005;
 - (e) the initial well to be drilled within the unit area, the Chavlea "19" State Well No. 1 (API No. 30-025-37130) will be drilled at a standard gas well location 660 feet from the South and West lines (Unit M) of Section 19, Township 12 South, Range 32 East, NMPM, to an approximate total depth of 11,300 feet or to a depth sufficient to test the Morrow formation; and
 - (f) the W/2 of Section 19 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit.
- (4) No other interested party appeared at the hearing or otherwise objected to the proposed unit.

(5) Approval of the proposed unit agreement should promote the prevention of waste and protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chesapeake Operating, Inc., the South Chavlea State Exploratory Unit Agreement is hereby approved for all oil and gas in any and all formations from the surface to the base of the Pennsylvanian formation underlying the following-described 2,249.40 acres, more or less, of State lands in Lea and Chaves Counties, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM, CHAVES COUNTY, NEW MEXICO

Section 24: All
Section 25: N/2

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY, NEW MEXICO

Section 19: All
Section 30: All

(2) The plan contained in the unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof. In the event of subsequent joinder by any other party or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

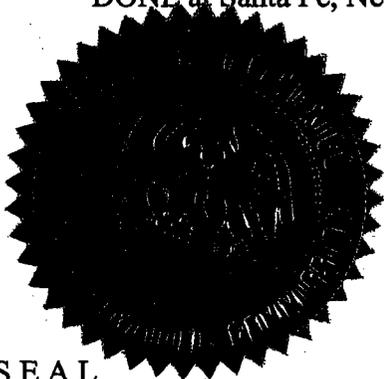
(4) All plans of (i) development and operation; (ii) creation, expansion or contraction of participating areas; or (iii) expansion or contraction of the unit area shall be submitted to the Director for approval.

Case No. 13526
Order No. R-12401
Page 4

(5) This order shall become effective upon the approval of the unit agreement by the Commissioner of Public Lands for the State of New Mexico. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director