

**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. 12186
ORDER NO. R-11216**

**APPLICATION OF CHESAPEAKE OPERATING, INCORPORATED FOR
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 24, 1999 at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 2nd day of July, 1999, 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., seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, in the following manner:

(a) the E/2 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Townsend-Morrow Gas Pool, Undesignated Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Atoka Gas Pool;

(b) the NE/4 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent;

(c) the E/2 NE/4 to form a standard 80-acre oil spacing and proration unit

for any formations and/or pools developed on 80-acre spacing within that vertical extent, which presently include the Undesignated South Big Dog-Strawn Pool; and

(d) the SE/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include the Northwest Shoe Bar-Strawn Pool, Undesignated Townsend-Strawn Pool and Undesignated Townsend-Permo Upper Pennsylvanian Pool.

(3) The applicant has the right to drill and proposes to drill its Boyce "15" Well No. 1 at the location described above for the proposed proration units.

(4) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) Ameristate Oil & Gas, Inc., Nearburg Exploration Company, L.L.C., Fuel Products, Inc., S.P. Johnson, III and Patricia Cooper appeared at the hearing through legal counsel.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, avoid waste, and afford to each interest owner in the units the opportunity to receive without unnecessary expense its fair share of the production in any pool completion resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the units. Note: After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

(7) Chesapeake Operating, Inc. should be designated the operator of the well and units.

(8) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(9) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the

reasonable well costs in the absence of such objection.

(11) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) At the time of the hearing, the applicant requested a fixed rate of \$7,027.00 per month while drilling. The 1998-99 Ernst & Young LLP's fixed rate overhead survey for wells of similar depth and location is less than the applicant's request. The applicant's requested fixed rate of \$7,027.00 per month while drilling should be reduced accordingly.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,485.00 per month while drilling and \$702.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(15) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before October 1, 1999, or if all the parties to this compulsory pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(16) The operator of the well and units should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All uncommitted mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 15, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

(a) the E/2 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Townsend-Morrow Gas Pool,

Undesignated Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Atoka Gas Pool;

(b) the NE/4 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent;

(c) the E/2 NE/4 to form a standard 80-acre oil spacing and proration unit for any formations and/or pools developed on 80-acre spacing within that vertical extent, which presently include the Undesignated South Big Dog-Strawn Pool; and

(d) the SE/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include the Northwest Shoe Bar-Strawn Pool, Undesignated Townsend-Strawn Pool and Undesignated Townsend-Permo Upper Pennsylvanian Pool. Note: After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the proposed well on or before October 1, 1999, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Delaware formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before October 1, 1999, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) Chesapeake Operating, Inc. is hereby designated the operator of the well and units.

(3) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of

estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

(a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and

(b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(8) The operator shall distribute the costs and charges withheld from production pursuant to this order to the parties who advanced the well costs.

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,485.00 per month while drilling and \$702.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order.

(11) Any well costs or charges that are to be paid out of production pursuant to this order shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the well that are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(13) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(15) Jurisdiction is hereby 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director