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January 28, 2000

HAND DELIVERED

Mr. Mark Ashley, Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

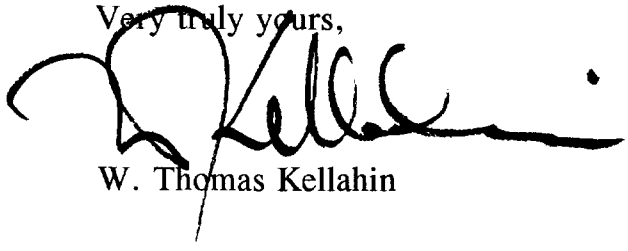
Re: *NMOCD Case No. 12325*
Application of Chesapeake Operating, Inc. for compulsory pooling and an unorthodox subsurface location, Lea County, New Mexico

Dear Mr. Ashley:

On behalf of Chesapeake Operating, Inc., please find enclosed a proposed order for entry in the referenced case heard on January 20, 2000.

I have also enclosed a wordperfect 5.1 diskette which contains a copy of the draft order.

Very truly yours,



W. Thomas Kellahin

cc: *William F. Carr, Esq.*
Attorney for Altura
cc: *Chesapeake Operating Inc.*
Attn: Lynda Townsend

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. 12325
ORDER NO R-____

APPLICATION OF CHESAPEAKE OPERATING INC. FOR COMPULSORY POOLING AND AN UNORTHODOX SUBSURFACE LOCATION LEA COUNTY, NEW MEXICO

CHESAPEAKE OPERATING INC.'S
PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 20, 2000 at Santa Fe, New Mexico, before Examiner Mark Ashley.

NOW, on this ____ day of February, 2000, The Division Director, having considered the testimony, the recorded and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Atoka formation underlying the S/2 of Section 17, T16S, R36E, NMPM, Lea County, New Mexico.

(3) In addition, Chesapeake has consolidated by voluntary agreement 100% of the working interest in the S/2SW/4 of this section and proposed to dedicate this 80-acre tract to a standard 80-acre spacing unit in the Northeast Shoe Bar-Strawn Pool by re-entering the plugged and abandoned David Fasken Berry Hobbs Well No. 1, now redesignated as Chesapeake's College of the Southwest "17" Well No. 1, which is at a surface location 981 feet FSL and 991 feet FWL, and to kick-off and directionally drilling to a standard subsurface location 660 feet FSL and 1096 feet FWL of Section 17 for potential production from the Northeast Shoe Bar-Strawn Pool.

(4) Chesapeake's reason for re-entering this wellbore was based upon its analysis of 3-D seismic data which indicated a potential Strawn reservoir just to the south of the bottom hole location of the abandoned David Fasken wellbore. By re-entering the wellbore a kicking off at about 8,900 feet, economic savings would be realized by all interest owners.

(5) On September 24, 1999, in accordance with Division Rule 111, the Division issued approved Chesapeake's administrative directional wellbore application for this re-entering this well and deepening it to the Strawn formation and approved the S/2SW/4 of this section as an 80-acre project area for this well. Chesapeake has filed to amend this approval to now include the Atoka/Morrow formations.

(6) During the drilling of this wellbore, Chesapeake's operational personnel at the well site determined that the Strawn formation was non-productive and elected to continue drilling through the Strawn formation to the base of the Atoka/Morrow formation.

(7) At the time Chesapeake's operational personnel elected to continue drilling this well, they were under the mistaken impression that Chesapeake had obtain the concurrence of all working interests owners to continue drilling and had voluntarily consolidated the interests of all owners in the S/2 of this section.

(8) After drilling, but prior to completion, Chesapeake determined that Altura Energy, Ltd. ("Altura") interest in the S/2SW/4 of this section were leased to Chesapeake but that Altura's interest in the N/2SW/4 and in the SE/4 of this section were still held by Altura and not by Chesapeake. In addition,

Chesapeake determined that Southeast Royalties owned an undivided 1.666% of the working interest in the 320-acre gas spacing unit to be dedicated to the Atoka formation if it produced.

(9) In addition, as a consequence, at total depth in the Atoka/Morrow formation this wellbore is at an unorthodox subsurface location 580 feet FSL and 1085 feet FWL of this section. Chesapeake has obtained waivers of objection from all of the appropriate offsetting interest owners towards whom this well encroaches.

(10) Because of potential production in the Wolfcamp and Atoka formations, Chesapeake needs to consolidate the interests of Altura in order to form 320-acre and 160-acre spacing units for those formations for this well and the interests of Southeast Royalties in order to form a 320-acre spacing unit for this well.

(11) This well is located within one mile of the following pools to which Chesapeake proposes the following dedications:

(a) S/2 of this section consisting of 320-acres for production Atoka/Morrow formations in the West Lovington-Pennsylvanian Gas Pool ("stateside spacing");

(b) S/2SW/4 of this section consisting of 80-acres for oil production from the strawn formation in the Northeast Shoe Bar-Strawn Pool (Order R-10848); and

(b) SW/4 of this section consisting of 160-acres for oil production from the Wolfcamp formation of the North Shoe Bar-Wolfcamp Pool (Order R-4657).

(12) Chesapeake has obtained the voluntary agreement of all such owners with the exception of:

(a) Altura Energy, Ltd. with 13.3333% of the working interest in the Wolfcamp formation (SW/4 = 160 acres) and 20.00% of the working interest in the Atoka formation (S/2 = 320 acres); and

(b) Southeast Royalties, Inc. with 1.6667% working interest in the Atoka formation (S/2 = 320 acres)

(13) Chesapeake proposed to use the method of allocating costs adopted by Division in Order R-9093-C issued November 29, 1990.

(14) That cost allocation method for allocating costs among multiple formations in compulsory pooling cases is based upon COPAS Bulletin No 2, Determination of Values for Well Costs Adjustments Joint Operations (September, 1965).

(15) Altura Energy, Ltd. has rejected Chesapeake's proposal and Southeast Royalties, Inc. has made a counter-proposal which is unacceptable to Chesapeake.

(16) It is now appropriate for the Division to enter a compulsory pooling order because Chesapeake was not been able to obtain a written voluntary agreement with these parties.

The Risk Factor Penalty

(17) Chesapeake has recommended to the Division the adoption of a 200% risk factor penalty despite the fact that the well has been drilled and logged because:

(a) there is no Atoka production within 3miles of this well;

(b) both the original David Fasken which Chesapeake re-entered in Unit M of Section 17 and the Yates' Robert AGX State Well No 1 in Unit A of Section 20 had log indication of the presence of sandstone in the Atoka formation but failed to produce; and that the Atoka log indications for the College of Southwest 1-17 well are poorer than either of those wells.

(c) The nearest well to the subject College of Southwest well is Yates' Robert AGX State Well No 1 in Unit A of Section 20 which has only produced 1,451 barrels of oil from the Wolfcamp since 1996 which is not economic.

(d) The next closest well which produced from the Wolfcamp is located almost a mile away in Unit A of Section 17 and produced 77,776 barrels of oil which was not sufficient to pay for the costs of that well.

(e) a log comparison of the Wolfcamp formation in the subject College of Southwest well with the Yates' well indicates that, at best, the College of Southwest well might be comparable to the Yates well, and if so, then production would not be sufficient to pay for the cost of the College of Southwest Well No. 1.

(18) Altura has recommended to the Division that no risk factor penalty be assessed against them because:

(a) Chesapeake should be punished for its mistake in failing to consolidate Altura's interest in the Wolfcamp and Atoka formations prior to re-entry of the well.

(b) Altura wants a chance to participate "risk free" in either the Atoka or Wolfcamp formations.

(19) The Division finds that Altura should not be allowed to take advantage of Chesapeake because:

(a) the availability of log data data and the driling of the well has not diminished the risk involved in this well to less than the statutory maximum and the maximum 200% risk factor should be awarded.

(b) Altura has the benefit of having the Chesapeake log data from which to base its decision concerning participation and if it elects not to participate then it will being doing so based upon the conclusion that it is too risky to participate;

(c) If Altura elects not to participate, it will be an admission that the risk is substantial and Altura should be subject to the maximum 200% penalty.

(d) Altura, after using Chesapeake's log data to analyze risk, can avoid any risk factor penalty by electing to participate.

(e) the fact remains that Chesapeake has paid for Altura's share of the costs of the well and should be reasonably compensated for having done so. The form of that compensation is a risk factor penalty.

(f) there is no compelling reason in this case to reject the precedent set by the Division in Order R-8245 when it awarded a 200% risk factor penalty for a well which had already been drilled but which was awaiting completion. (Also See Division Order R-8282-D)

Chesapeake's AFE costs

(20) Chesapeake has demonstrated that it has been able to realize a substantial savings between the actual costs of this wellbore from the estimated costs of this wellbore.

(21) Altura contends that Chesapeake's AFE is too high and that it contains estimated costs and contingencies which it argues should not be allowed by the Division.

(22) The Division finds that:

(a) Regardless of estimated well costs ("AFEs") the Division compulsory pooling orders ultimately require only the payment of reasonable actual well costs.

(b) all of Altura concerns about actual well costs compared to AFE costs is premature and the Division's compulsory pooling orders provide adequate procedures to address actual costs disputes.

(c) Chesapeake, in accordance with the terms of this pooling order which will require a 15-day period for a "post order" election, that shall submit to the uncommitted working interest owners a revised AFE modified to incorporate the actual costs spent to date.

Altura's share of well costs

(23) Altura contends that:

> (a) for the Atoka formation it should pay only its proportionate share of the costs to drill below the base of the Strawn formation to the Atoka formation and then the costs to actually complete that zone;
>
> (b) for the Wolfcamp formation it should pay only its proportionate share of the costs to actually complete that zone if and when a completion is attempted;

(24) Altura attempts to equate this drilling wellbore with the situation were an operator re-entered a plugged and abandoned wellbore and deepened it to another formation. In that instance, Altura argues that the old wellbore is a "free wellbore" the costs of which were borne exclusively by the parties who drilled and abandoned it.

(25) Southeast Royalties contends it is not fair for it to receive a "free well"--- meaning that the fact Chesapeake has already drilled the well should not be used as an excuse by another party to avoid paying a fair and reasonable share of those costs. Southeast Royalties objects to being a working interest owner because its business philosophy is to lease its interests so that it is only a royalty owner.

(26) Chesapeake contends that it should not be required to give Altura a "free wellbore" and asks the Division to decide cost allocation based upon COPAS Bulletin No 2.

(27) The Division finds that:

> (a) Altura's contention is without merit because it seeks to avoid making its fair and reasonable contribution for use of that portion of the wellbore from the surface to the base of the Strawn formation without which it would be impossible for Altura to share in any production from the Atoka formation.

(b) Altura's argument ignores the fact that the Chesapeake well was a continuous drilling operation and did not constitute an abandoned wellbore. (For Example, See Division Order R-10764-A)

(c) Altura's argument fails to address why it should not pay for its share of the costs of drilling to the shallower Wolfcamp formation in exchange for receiving its share of that production.

(d) allocation of costs as set forth in the COPAS Bulletin No. 2 is considered by the industry to the most equitable basis for the determination of values to be used in connection with the cost issues involved in this compulsory pooling case.

(e) there is no compelling reason in this case to reject the precedent set by the Division in Order R-9093-C when it allocated costs among multiple formations in a contested compulsory pooling case based upon the COPAS Bulletin No. 2

(f) The Division should adopt the Chesapeake proposed allocation method.

Good faith negotiations

(28) The Division finds that Chesapeake has engaged in good faith efforts to obtain voluntary agreement and despite its efforts has not been able to obtain such an agreement.

Additional findings

(29) Time is of the essence in this matter and Chesapeake should be awarded an expedited pooling order and Altura's and Southeast Royalties' post order period of election should be shortened from 30-days to 15 days.

(30) To avoid the drilling if unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit, subject to the terms and conditions set forth below.

(31) The applicant should be designated the operator of the subject well and unit.

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

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

(34) 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.

(35) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his 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.

(36) $6,000.00 per monthly while drilling and $600.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operation the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(37) All proceeds from production from the subject well which 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.

(38) Upon the failure of the operator of said pooled unit to commence the completion of the subject well to which said unit is dedicated on or before the expiration of the 90-day period following issuance of this order, then this order pooling said unit should become null and void and of no effect whatsoever.

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

(40) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of the order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Atoka formation underlying the following described acreage in Section 17, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner: to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 320 acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Shoe Bar-Wolfcamp Gas Pool, and to form a standard 320-acre spacing and proration unit for any and all formations and /or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the West Lovington Pennsylvanian Gas Pool. Said units are to be dedicated to its College of the Southwest "17" Well No. 1 drilled at an unorthodox subsurface location at total depth being 580 feet FSL and 1085 feet FWL within this section

PROVIDED FURTHER THAT, in the said operator does not commence the completion of this well on or before 90 days following issuance of this order, Decretory Paragraph No (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains an extension of time from the Division for good cause shown.

PROVIDED FURTHER THAT, should this well not be completed, or abandonment, within 120 days after commencement of completion thereof, said operator shall appear before the Division and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

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

(3) After the effective date of this order and within 30 days prior to completing this well, the operator shall furnish the Division and each known working interest owner in the subject unit a revised itemized schedule of estimated well costs which has been modified to include actual costs to date which shall be allocated among the Wolfcamp, Strawn and Atoka formations in accordance with the Council of Petorleum Accountants Societies Bulletin No 2, dated September, 1965, entitled Determination of Values for Well Costs Adjustments Joint Operations as set forth on Exhibit A attached to this order.

(4) Within fifteen (15) days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operation costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 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 his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata 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 pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within thirty (30) days from the date the schedule of estimated well costs is furnished.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs is furnished to him.

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

(9) $6000.00 per month while drilling and $600.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share od such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operation such 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 the terms of this order.

(11) Any well costs or charges which are to be paid put of production shall be withheld only from the working interest's 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 which 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 an escrow agent within 30 days from the date of first deposit with the agent.

(13) Should all parties to this forced 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 unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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, Director

ALTURA ENERGY, INC.
Allocation of Well Costs - COPAS

A. Intangibles

(1) Using Drilling Day Ratio allocation:
total days – 19

12 day to drill to base of Wolfcamp: 12/19 = 63.16%

3 days to drill to base of Strawn 3/19 = 15.79%

4 days to TD (base of Atoka) 4/19 = 21.05%

(2) allocation to owners of each zone

(a) Wolfcamp WI:	1/3rd of 63.16%	21.05%
(b) Strawn WI:	1/3rd of 63.16% plus ½ of 15.79%	28.945%
(c) Atoka WI:	1/3rd of 63.16% plus ½ of 15.79% plus 100% of 21.05%	49.995%

(3) allocation to Altura

(a) 13.333% of Wolfcamp	2.806%
(b) 20.0% of Atoka	9.99%
TOTAL	12.796%

B. Tangibles:

(1) Using footage Ratio allocation:
total footate = 12,050'

11,050 feet to base of Wolfcamp 11,050/12,050 = 91.7%

600' to base of Strawn 600/12,050 = 4.97%

400' to TD (base of Atoka) 400/12,050 = 3.32%

(2) allocation to owners of each zone:

(a) Wolfcamp WI:	1/3rd of 91.7%	30.566%
(b) Strawn WI:	1/3rd of 91.7% plus ½ of 4.97%	33.051%
(c) Atoka WI:	1/3rd of 91.7% plus ½ of 4.97% plus 100% of 3.32%	36.37%

(3) allocation to Altura:

(a) 13.333% of Wolfcamp	4.075%
(b) 20% of Atoka	7.274%
TOTAL	11.349%

EXHIBIT 7

SOUTHEAST ROYALTIES, INC.
Allocation of Well Costs - COPAS

A. Intangibles

(1) Using Drilling Day Ratio allocation:

total days – 19

12 day to drill to base of Wolfcamp: 12/19 = 63.16%

3 days to drill to base of Strawn 3/19 = 15.79%

4 days to TD (base of Atoka) 4/19 = 21.05%

(2) allocation to owners of each zone

(a) Wolfcamp WI:	1/3rd of 63.16%	21.05%
(b) Strawn WI:	1/3rd of 63.16% plus ½ of 15.79%	28.945%
(c) Atoka WI:	1/3rd of 63.16% plus ½ of 15.79% plus 100% of 21.05%	49.995%

(3) allocation to Southeast

(a) 1.666667% of Atoka 0.83325%

B. Tangibles:

(1) Using footage Ratio allocation:

total footate = 12,050'

11,050 feet to base of Wolfcamp 11,050/12,050 = 91.7%

600' to base of Strawn 600/12,050 = 4.97%

400' to TD (base of Atoka) 400/12,050 = 3.32%

(2) allocation to owners of each zone:

(a) Wolfcamp WI:	1/3rd of 91.7%	30.566%
(b) Strawn WI:	1/3rd of 91.7% plus ½ of 4.97%	33.051%
(c) Atoka WI:	1/3rd of 91.7% plus ½ of 4.97% plus 100% of 3.32%	36.37%

(3) allocation to Southeast:

(a) 1.666667% of Atoka 0.606167%

TOTAL 1.439417%

EXHIBIT 7