

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. 12114
ORDER NO. R-11147

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 4, 1999 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 11th day of March, 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. ("Chesapeake"), seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying the SE/4 SW/4 (Unit N) of Section 21, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico, in order to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include the Caudill-Permo Upper Pennsylvanian Pool.
- (3) This unit is to be dedicated to Chesapeake's proposed M. I. Allen "21" Well No. 1 to be drilled at an unorthodox oil well location 1028 feet from the South line and 1744 feet from the West line of Section 21.
- (4) The applicant has a right to develop the subject unit and to recover oil underlying the same; at this time, however, not all working interest owners in the proposed unit have agreed to pool their interests.

(5) The applicant presented geological evidence and testimony indicating that a well drilled at the proposed unorthodox location should penetrate a small algal reef mound within the Strawn formation at a more structurally advantageous position than a well drilled at a standard location, thereby increasing the likelihood of obtaining commercial production.

(6) No interested or affected party appeared at the hearing in opposition to this application.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in this 40-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil underlying the unit, the subject application should be approved by pooling all mineral interests, whatever they may be, within this unit.

(8) Chesapeake should be designated the operator of the subject well and 40-acre unit.

(9) 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.

(10) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its 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.

(11) Any non-consenting 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.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well 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.

(13) At the time of the hearing Chesapeake Operating Inc. proposed fixed overhead and administrative costs for the M. I. Allen "21" Well No. 1 of \$6,000.00 per month while drilling and \$662.00 per month while producing.

(14) The latest available "Fixed Rate Overhead Survey" for 1997-98, published by Ernst & Young, LLP of Houston, Texas, shows average overhead rates of \$5,500.00 while drilling and \$570.00 while producing for oil wells drilled to a depth of 12,000 feet in southeast New Mexico.

(15) The proposed overhead rate charges should therefore be adjusted to conform with the survey rates described above with allowance for inflation.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,650.00 per month while drilling and \$585.00 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.

(17) 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.

(18) If the operator of the pooled unit fails to commence drilling the well to which the units are dedicated on or before July 31, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

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

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chesapeake Operating, Inc. ("Chesapeake"), all mineral interests, whatever they may be, from the surface to the base of the Strawn formation underlying the SE/4 SW/4 (Unit N) of Section 21, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include the Caudill-Permo Upper Pennsylvanian Pool. This unit is to be dedicated to the applicant's proposed M. I. Allen "21" Well No. 1 to be drilled at an unorthodox oil well location 1028 feet from the South line and 1744 feet from the West line (Unit N) of Section 21.

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before July 31, 1999, and shall thereafter continue drilling the well with due

diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before July 31, 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 is hereby designated the operator of the subject well and 40-acre unit.

(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 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 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 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 to the parties who advanced the well costs.

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,650.00 per month while drilling and \$585.00 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 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.

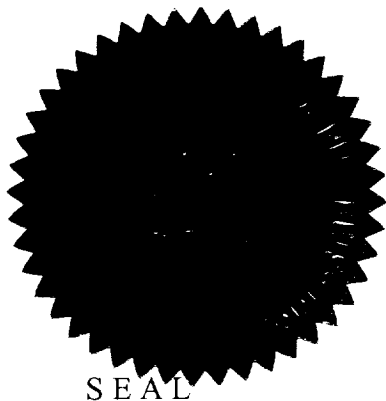
(12) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within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

(13) Should all the parties to this forced pooling 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 Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director