

STATE OF NEW MEXICO
ENERGY, MINEALS 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 13526
Order R-

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

**CHESAPEAKE OPERATING, INC.'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

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

NOW, on this 28 day of July, 2005, the Division Director, having considered the testimony, the record 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) The applicant, Chesapeake Operating, Inc. ("Chesapeake" or "Applicant") seeks approval of its South Chavlea State Exploratory Unit Agreement for all oil and gas in all formations from the surface to the base of the Pennsylvanian formations underlying the following-described 2,249.40 acres, more or less, of State of New Mexico in Lea and Chaves Counties, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 35 EAST, NMPM (Chaves)

Section 24: All
Section 25: N/2

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM (Lea)

Section 19: All
Section 30: All

- (3) The Applicant presented testimony and exhibits that demonstrated that:
- a. Chesapeake has obtained the approval of more than 75% of the working interest owners of leases within this unit thereby affording the opportunity for effective and efficient control over the unit acreage;
 - b. The unit area covers an area that can be reasonable developed under a unit plan;
 - c. The primary target for this unit area is the Atoka/Morrow formations, but all formations will be evaluated down to the base of the Pennsylvanian formation and if the initial well is successful, additional wells will be drilled in the unit area;
 - d. The Commissioner of Public Lands for the State of New Mexico has given preliminary approval for the proposed Unit;
 - e. The initial unit well (Chavlea "19" State Well No 1, API # 30-025-37130) is to be located approximately 660 feet from the West and South lines (Unit M) of Section 19, T12S, R32E, to an approximately depth of 11,300 feet or a depth sufficient to test the Morrow formation, and
 - f. The W/2 of Section 19 being a standard 320-acre gas spacing unit will be dedicated to this well.
- (4) No other party appeared at the hearing or otherwise opposed this application.
- (5) All of the proposed unit acreage appears prospective for recovery of oil and gas from the target formations under the concept proposed by the applicant. These 2,249.40 acres should be unitized and should equally share in the benefits from future oil and gas recovery.

- (6) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.
- (7) The applicant, as unit operator, has obtained the voluntary joinder of a sufficient percentage of working interest owners to provide effective and efficient control over this unit and its operations.

IT IS THEREFORE ORDERED THAT:

(1) The South Chavlea State Exploratory Unit Agreement executed by Chesapeake is hereby approved for all oil and gas in all formations from the surface to the base of the Pennsylvanian formations underlying the following-described 2,249.40 acres, more or less, of State of New Mexico in Lea and Chaves counties, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 35 EAST, NMPM (Chaves)

Section 24: All
Section 25: N/2

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM (Lea)

Section 19: All
Section 30: All

(2) The plan contained in the South Chavlea State Exploratory Unit Agreement for the development and operations of the above-described unit area is hereby approved in principal, provided, however, notwithstanding any of the provisions contained un the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligations that is now, or may hereafter be, vested in the Division to supervised and control operations for the unit and production of oil and gas there from.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30-days of 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 thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

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

(5) Jurisdiction of this cause 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 years hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
DIRECTOR

SEAL