

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

**IN THE MATTER OF THE APPLICATION
OF COG OPERATING LLC FOR DESIGNATION
OF A 160-ACRE NON-STANDARD SPACING
AND PRORATION UNIT AND FOR COMPULSORY POOLING
(ORION FEDERAL WELL NO. 2)
CHAVES COUNTY, NEW MEXICO.**

CASE NO. 14208

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**AGREED MOTION TO SUBSTITUTE APPLICANT
AND
RE-ALIGN PARTIES**

COG OPERATING LLC, ("COG") by its attorneys, Montgomery & Andrews, P.A. (J. Scott Hall) and CHESAPEAKE ENERGY CORPORATION ("Chesapeake") by its attorneys, Kellahin & Kellahin (W. Thomas Kellahin), jointly move to that the Division substitute Chesapeake for COG as the applicant and re-align the parties in this case and allow Chesapeake to designate Chesapeake Operating Co as the proposed Division approval operator of a 160-acre non-standard spacing and proration unit consisting of the N/2S/2 of Section 13, T15S, R31E, Chaves County, N. M., and in supports state:

- (1) COG and Chesapeake have reached a voluntary agreement concerning this spacing unit.
- (2) COG will transfer its NMOCD permit to drill ("APD") to Chesapeake so that Chesapeake can drill, complete and operate COG's ORION Federal Well No. 2 (API# 30-005-27994) which will be located at a standard surface location 1980 feet FSL and 330 feet FWL (Unit I) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an westerly direction staying within a producing area 330 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1980 feet FSL and 330 feet FEL (Unit L).
- (3) In addition, Chesapeake will continue to seek an order pooling the non-committed interests of Penroc Oil Corporation in the NE/4SW/4 (Unit K) of Section 13 being all mineral interests from the surface to the base of the Wolfcamp formation underlying this tract to be included as one of the four tracts within the subject 160-acre non-standard spacing unit.

- (4) Also to be considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and a 200% charge for risk involved in this well.
- (5) COG and Chesapeake have the right to drill and develop the oil and gas minerals from the surface to the base of the Wolfcamp formation underlying three of the four 40-acre tracts composing a 160-acre non-standard oil spacing and proration unit consisting of the N/2S/2 of Section 13, T15S, R31E, NMPM, Chaves County, New Mexico. See locator map attached as Exhibit "A".
- (6) This proposed 160-acre non-standard oil spacing unit is the N/2S/2 of Section 13 with COG having 37.5%, Chesapeake with 37.5% and Penroc with 25% containing four 40-acre tracts:
- | | |
|-----------|--------------------------------|
| N/2SE/4: | Chesapeake = 50% and COG = 50% |
| NW/4SW/4 | Chesapeake = 50% and COG = 50% |
| NE/4SW/4: | Penroc = 100% |
- (7) COG and Chesapeake jointly control 75% of the working interest ("WIO") and need an order compulsory pooling Penroc Oil Corporation to complete the consolidation of the WIO for this well and spacing unit.
- (8) On December 17, 2007, COG proposed to Penroc Oil Corporation that the N/2S/2 of Section 13 be dedicated as a 160-acre Wolfcamp oil spacing unit for production from the Wolfcamp formation to be obtained from its proposed horizontal Orion Federal Well No. 2 (API # 30-005-27994).
- (9) At this time, neither COG nor Chesapeake has been able to obtain a written voluntary agreement from Penroc Oil Corporation.
- (10) While Division Rule 111 provides that a project area for a horizontal wellbore may include a combination of complete spacing units, the New Mexico Oil and Gas Act limits compulsory pooling to the tracts of land embraced within a spacing or proration unit. See 70-2-17.C NMSA (1978). It appears that a project area for a horizontal wellbore that contains multiple 40-acre oil spacing units cannot be pooled unless a non-standard spacing unit is also approved. Therefore, COG and Chesapeake seeks the designation of the N/2S/2 of Section 13 as a 160-acre non-standard spacing and proration unit.
- (11) Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, the applicant needs an order of the Division pooling the identified mineral interests involved in order to protect correlative rights and prevent waste.

(12) Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake request that a 200% risk charge be applied against Penroc Oil Corporation.

(13) A copy of this motion has been emailed to the Penroc Oil Corporation, whose interest is to be pooled with the applicant's request for a hearing of this matter currently set for hearing on October 30, 2008 before the Division to the next available Examiner's docket now scheduled for November 13, 2008.

WHEREFORE, COG and Chesapeake request that this motion be granted and the hearing of this application currently set for hearing on October 30, 2008 to continued to November 13, 2008 and at that time the Division enter its order pooling the mineral interests described in the spacing unit for the drilling completion and production of this well upon terms and conditions which including:

(1) Chesapeake Operating, Inc. be named operator;

(2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;

(3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor charge of 200%;

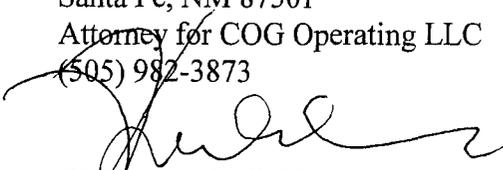
(4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

(5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



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