

**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. 14165
ORDER NO. R-11993-A**

**APPLICATION OF CHESAPEAKE ENERGY CORPORATION, LLC 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 October 2, 2008, at Santa Fe, New Mexico, before Examiners William V. Jones, David K. Brooks, and Terry Warnell.

NOW, on this 8th day of October, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Chesapeake Energy Corporation, LLC ("applicant"), seeks an order pooling all uncommitted interests from the surface to the base of the Abo formation in the NE/4 NE/4 of Section 19, Township 20 South, Range 39 East, NMPM, in Lea County, New Mexico, to form a standard 40-acre oil spacing and proration "Unit" for all formations or pools spaced on 40 acres within this vertical extent, including but not limited to, the Undesignated Blinbry Oil and Gas Pool (Oil 6660), the Undesignated East Warren-Tubb Pool (Oil 63280), the Undesignated DK-Drinkard Pool (15390), and the Undesignated DK-Abo Pool (15200).

(3) The Unit is to be dedicated to the applicant's Duncan Well No. 1 API No. 30-025-36235 ("proposed well"), which is located at a standard location in the NE/4 NE/4 (Unit A) of Section 19 and is currently completed in the Abo formation and will be re-completed up-hole and downhole commingled.

(4) Applicant appeared at the hearing through counsel and presented testimony by affidavit in support of the application.

(5) The Division granted Chesapeake's predecessor (Xeric Oil & Gas Corporation) its application for compulsory pooling in Case No. 13084, Order No. R-11993, on August 1, 2003. Said order pooled oil production from the surface to the Abo formation and included costs to drill, complete, and equip the Duncan Well No. 1. The well was drilled and completed in the Abo formation as an oil producer.

(6) Chesapeake now wishes to re-complete this well into additional oil spacing units above the Abo and downhole commingle the additional production with Abo production and will be incurring re-completion costs of approximately 384,000 dollars. Chesapeake presented testimony by affidavit that ownership in this well is common to all depths for 40-acre oil spacing and proration units. However, land research has either discovered additional owners or heirs to the original owners cannot be located, and compulsory pooling as allowed by New Mexico statute is needed to allow for cost recovery of continued operations in this well and distribution of revenue.

(7) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to re-complete and proposes to re-complete the proposed well to a common source of supply within the Unit.

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) There are interest owners in the Unit that have not formally agreed to pool their interests. Other interest owners could not be located, and were served with notice of the hearing by publication. No party, other than applicant, appeared at the hearing, and no one indicated opposition to this Application.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Units.

(11) Chesapeake Operating, Inc. should be designated the operator of the proposed well and of the Unit.

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

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling or re-entering and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chesapeake Energy Corporation, LLC, all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Abo formation in the NE/4 NE/4 of Section 19, Township 20 South, Range 39 East, NMPM, in Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration "Unit" for all formations or pools spaced on 40 acres within this vertical extent, presently including but not necessarily limited to, the Undesignated Blinebry Oil and Gas Pool (Oil 6660), the Undesignated East Warren-Tubb Pool (Oil 63280), the Undesignated DK-Drinkard Pool (15390), and the Undesignated DK-Abo Pool (15200).

(2) The Unit shall be dedicated to the applicant's Duncan Well No. 1 API No. 30-025-36235 (the "proposed well"), which is located at a standard oil well location in the NE/4 NE/4 (Unit A) of Section 19.

(3) The operator of the Unit shall commence re-completion of this well on or before December 31, 2008, and shall thereafter continue recompletion operations of this well with due diligence to test oil bearing formations above the Abo and, if conditions warrant, to obtain a permit from the Division to downhole commingle any new interval(s) with existing Abo production. In the event the operator does not commence recompletion of this well on or before December 31, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the proposed work not be completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by the Order shall terminate unless the operator, prior to the expiration of such 120-day period, files an application with the Division for extension of the time for recompletion of the proposed well. Such application shall include an affidavit or affidavits setting forth good cause for an extension, supported by satisfactory evidence. The Division Director may grant such application without hearing.

(5) Upon final plugging and abandonment of the proposed well and all other wells drilled on the Unit pursuant to Division Rule 36, that pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(6) Chesapeake Operating, Inc. (OGRID 147179) is hereby designated the operator of the proposed well and of the Unit.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the

Unit an itemized schedule of estimated costs of recompleting and equipping the proposed well ("well costs").

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled 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 as hereinafter provided, 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. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following recompletion of the subject well, but in no event later than one (1) year of the date of issuance of this order. 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 deemed to be the reasonable well costs. 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.

(10) Within 60 days following determination of reasonable well costs, any pooled 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 the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(11) 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; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling or re-entering and \$600 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is 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 pooled working interest owners.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, 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 Records Clerk in Santa Fe of the name and address of the escrow agent within one (1) year from the date of issuance of this order.

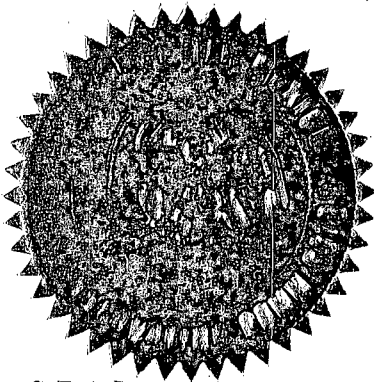
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) 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.

(17) 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.

(18) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "M. E. Fesmire", written over a horizontal line.

MARK E. FESMIRE, P.E.
Director