

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

**IN THE MATTER OF THE APPLICATION OF
CHESAPEAKE OPERATING INC. FOR
STATUTORY UNITIZATION OF THE QUAIL QUEEN
UNIT AREA, LEA COUNTY, NEW MEXICO.**

CASE NO. 14001

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AMENDED APPLICATION

CHESAPEAKE OPERATING INC. ("Chesapeake"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, NMSA, 1978 Comp.) hereby applies to the Oil Conservation Division for an order unitizing the Quail Queen Unit Area, Lea County, New Mexico, and in support of its application states:

1. Chesapeake is a corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and natural gas.

2. Chesapeake seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of a portion of the Quail-Queen Pool which consists of 840 acres, more or less, of State and Fee lands located in Lea County, New Mexico, and is more particularly described as follows:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM

| | |
|-------------|---------------------|
| Section 11: | S/2, NE/4 |
| Section 13: | W/2 NW/4, NW/4 SW/4 |
| Section 14: | NE/4, N/2 NW/4 |

A map of the proposed Unit Area is attached to this application as **Exhibit A.**

3. The vertical limits of the unitized formation to be included within the proposed Unit Area shall mean the that stratigraphic interval occurring between a point of 100 feet above the top of the Queen Sand formation, as found in the Read and Stevens Quail State #1 well, (now the Chesapeake Operating Inc. Quail State #1 SWD well), located in the SW/4 SE/4 of Section 11, Township 19 South, Range 34 East, NMPM, Lea County, New Mexico, at the drilling depth interval of 5,033 feet to 5,294 feet (-1069' to -1420' subsea), as measured by the Compensated Densilog/Compensated Neutron.

4. The portions of the Queen reservoir that are the subject of this application have been reasonably defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit area.

6. Attached to this application as **Exhibit B** and incorporated herein is a copy of the proposed plan of unitization that Chesapeake considers fair, reasonable and equitable.

7. Attached to this application as **Exhibit C** and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Chesapeake further states:

- A. Unitized management, operating and further development of the portion of the Queen formation, Quail-Queen Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and, at a later date, tertiary recovery operations, and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
- B. The proposed unitized methods of operations to be applied to this portion of the Quail-Queen Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and/or gas from the pool, or unitized portions thereof, than would otherwise be recovered.
- C. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
- D. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.
- E. Chesapeake Operating Inc., as operator, has made a good faith effort to secure voluntary unitization within the portion of the Quail-Queen Pool affected by this application.
- F. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. Chesapeake requests that any order issued in this case include each matter set forth in NMSA 1978, § 70-7-7 and that it specifically provide for carrying any working interest owner on a limited, carried net profits basis, payable out of production,

and include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

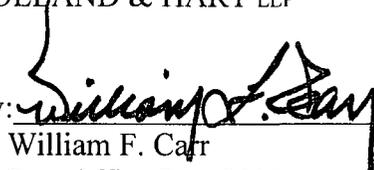
10. Pursuant to the provisions of Division Rule 1210.A.(1), notice of this application has been provided to all owners of interest in the mineral estate of any portion of the lands to be unitized whose interest is evidenced by a written conveyance document of record or known to the applicant at the time this application is filed and whose interest has not been voluntarily committed to the unit plan. These interest owners are identified on **Exhibit D** to this application.

11. Statutory unitization of the Quail-Queen Unit Area, Quail-Queen Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Chesapeake Operating Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on October 4, 2007, and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the subject portions of the Quail-Queen Pool, Lea County, New Mexico.

Respectfully submitted,

HOLLAND & HART LLP

By: 

William F. Carr

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR CHESAPEAKE
OPERATING INC.

CASE 14001: (Re-Advertised) Amended Application of Chesapeake Operating Inc. for statutory unitization of the Quail-Queen Unit Area, Lea County, New Mexico. Applicant in the above-styled cause, seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interest in the Queen formation, Quail-Queen Pool, underlying 840 acres, more or less, of State and Fee lands in the following acreage:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM

| | |
|-------------|---------------------|
| Section 11: | S/2, NE/4 |
| Section 13: | W/2 NW/4, NW/4 SW/4 |
| Section 14: | NE/4, N/2 NW/4 |

Said unit to be designated the Quail-Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the designation of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable. Said unit area is located approximately 22 miles West of Hobbs, New Mexico.

CASE 14002: (Re-Advertised) Amended Application of Chesapeake Operating Inc. for approval of a waterflood project and qualification of the Project Area of the Quail-Queen Unit for the Recovered Oil Tax rate pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico. Applicant in the above-styled cause, seeks approval of its Quail-Queen Unit Waterflood Project by injection of water into the Queen formation through six injection wells located in the following described area:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM

| | |
|-------------|---------------------|
| Section 11: | S/2, NE/4 |
| Section 13: | W/2 NW/4, NW/4 SW/4 |
| Section 14: | NE/4, N/2 NW/4 |

The applicant requests that the Division establish procedures for the administrative approval of additional injection wells within the unit area without the necessity of further hearings and the adoption of any provisions necessary for such other matters as may be appropriate for said waterflood operations. Said area is located approximately 22 miles west of Hobbs, New Mexico.

EXHIBIT A

**APPLICATION OF
CHESAPEAKE EXPLORATION L.L.C. FOR STATUTORY UNITIZATION
OF THE QUAIL QUEEN UNIT AREA, LEA COUNTY, NEW MEXICO.**

NOTIFICATION LIST

MINERAL INTEREST OWNER

State of New Mexico
Commissioner of Public Lands
310 Old Santa Fe Trail
Post Office Box 1148
Santa Fe, New Mexico 87504-1148

OVERRIDING ROYALTY INTEREST OWNERS

Cimarex Energy Company
15 E. 5th Street, Suite 1000
Tulsa, Oklahoma 74103-4346

Columbine II Ltd Partnership
Post Office Box 22854
Denver, Colorado 80222

Diverse GP III
111 Fannin, Suite 680
Houston, Texas 77002-6922

Macey & Mershon Oil Inc.
1801 Broadway, Suite 1600
Denver, Colorado 80201

Magnum Hunter Production Inc.
4031 Solutions Center
#774031
Chicago, Illinois 60677-4000

Ann W. Morris
2865 Macvicar
Topeka, Kansas 66611-1704

Paul and Patricia Slayton

Post Office Box 2035
Roswell, New Mexico 88202-2035

WORKING INTEREST OWNERS

Roy G. Barton and Opal Barton
Rev. Trust, Roy G. Barton, Jr.
Aka George Barton Trust
1919 N. Turner Street
Hobbs, New Mexico 88240-2712

William A. Bradshaw
701 Three Cross
Roswell, New Mexico 88201

CLM Production Company
Post Office Box 881
Roswell, New Mexico 88202

First Century Oil Inc.
Post Office Box 1518
Roswell, New Mexico 88201-1518

Fisco Inc.
Post Office Box 3087
Roswell, New Mexico 88202-3087

Randall R. Fort
9716 Admiral Enerson Ave NE
Albuquerque, New Mexico 87111

Tommy L. Fort
Post Office Box 2044
Midland, Texas 79702-2044

New Mexico Western Minerals, Inc.
Post Office Box 1738
Roswell, New Mexico 88202-1738

Pintail Production Company Inc.
3450 West Vickery Blvd.
Fort Worth, Texas 76107

Patricia L. Pruitt
1405 Latigo Lane
Roswell, New Mexico 88201-3430

Pride Energy Company
Post Office Box 701950
Tulsa, Oklahoma 74170-1950

Read & Stevens Inc.
Post Office Box 1518
Roswell, New Mexico 88201-1518

Laura Read
Post Office Box 1518
Roswell, New Mexico 88201-1518

Gene A. Snow Operating
Post Office Box 1270
Lovington, New Mexico 88260

Joe M. and Nancy Wigley
1502 N. Missouri
Roswell, New Mexico 88201

OFFSET LESSEES/MINERAL OWNERS

Big Three Energy Group LLC
1801 West 2nd
Roswell, NM 88201

Chevron USA, Inc.
PO Boc 1635
Houston, TX 77251

Charles D. Ray
PO Box 51608
Midland, TX 79710

Crown Oil Partners III, LP
PO Box 51608

Devon Energy Production Company
Attn: Linda Guthrie
20 N Broadway
Oklahoma City, OK 73102

Featherstone Development Corp

1801 West 2nd
Roswell, NM 88201

Marbob Energy Corp
PO Box 227
Artesia, NM 88211-0227

Parrot Head Properties LLC
1801 West 2nd
Roswell, NM 88201

Pitch Energy Corp
PO Box 304

Prospector LLC
1801 West 2nd
Roswell, NM 88201

Read & Stevens
PO Box 2126
Roswell, NM 88201

United States Department of Interior
Bureau of Land Management
Roswell Field Office
2909 West Second Street
Roswell, NM 88201