

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. 11836
ORDER NO. R-10880*

**APPLICATION OF CHESAPEAKE OPERATING INC. FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 21, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 12th day of September, 1997, 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., seeks an order pooling all mineral interests from the surface to the base of the Strawn formation, underlying the following described acreage in Irregular Section 1, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, and in the following manner:

(a) the S/2 SE/4 to form a standard 80-acre oil spacing and proration unit for any and all pools developed on 80-acre spacing within said vertical extent, which presently includes only the Northeast Lovington-Pennsylvanian Pool; and,

(b) the SE/4 SE/4 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 said vertical extent.

(3) The proposed well location and 80-acre unit are within the horizontal limits of the Northeast Lovington-Pennsylvanian Pool and any production obtained from the Pennsylvanian interval will therefore be subject to the "*Special Rules and Regulations for the Northeast Lovington-Pennsylvanian Pool*", as promulgated by Division Order No. R-3816, as amended, which provides for standard 80-acre oil spacing and proration units with wells to be located within 150 feet of the center of either governmental quarter-quarter section or lot. All other oil bearing intervals within said vertical extent will be subject to Division Rule 104, which require standard 40-acre oil spacing and proration units with wells to be located no closer than 330 feet from the outer boundary of the spacing unit.

(4) Both proposed units are to be dedicated to the applicant's Kim "1" Well No. 1 to be drilled at a standard oil well location thereon.

(5) Chesapeake has the right to drill a well in the proposed spacing unit but had not been able to reach a voluntary agreement with Bristol Resources Corporation who controls a 25% working interest.

(6) Bristol Resources Corporation appeared at the hearing and through legal counsel sought a risk factor penalty of less than the statutory maximum of 200 percent.

(7) The applicant presented adequate geological testimony at the time of the hearing to support its request for the assignment of a full 200 percent risk penalty factor as reasonable in the drilling of its proposed Kim "1" Well No. 1.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of hydrocarbon production in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(9) Chesapeake Operating Inc. should be designated the operator of the subject well and units.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(11) Any non-consenting working interest owner who does not pay his share of

estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) 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.

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

(14) At the time of the hearing Chesapeake Operating Inc. proposed fixed overhead and administrative costs for the Kim "1" Well No. 1 to be \$7,145.00 per month while drilling and \$714.50 per month while producing.

(15) The latest available "Fixed Rate Overhead Survey", dated 1996, published by Ernst & Young, LLP of Houston, Texas, shows average overhead rates of \$5,000.00 while drilling and \$500.00 while producing for oil wells drilled to a depth of 12,000 in southeast New Mexico.

(16) The proposed overhead rate charges should therefore be adjusted to reflect amounts more consistent with the rates described above.

(17) \$5,000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(18) All proceeds from production from the subject well which 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.

(19) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before December 15, 1997, the order pooling said units should become null and void and of no further effect whatsoever.

(20) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(21) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Strawn formation, underlying the following described acreage in Irregular Section 1, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

(a) the S/2 SE/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes only the Northeast Loving-Pennsylvanian Pool; and,

(b) the SE/4 SE/4 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 said vertical extent.

Said units are to be dedicated to its Kim "1" Well No. 1 to be drilled at a standard oil well location thereon.

PROVIDED HOWEVER THAT, the operator shall commence the drilling of said well on or before the fifteenth day of December, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the fifteenth day of December, 1997, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Chesapeake Operating Inc. is hereby designated the operator of the subject well and units.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 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 his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata 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 pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (b) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the

schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$5,000.00 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such 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 the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

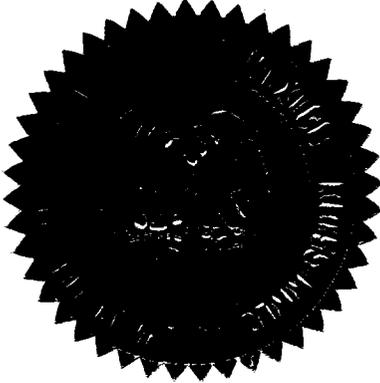
(12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent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

(13) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

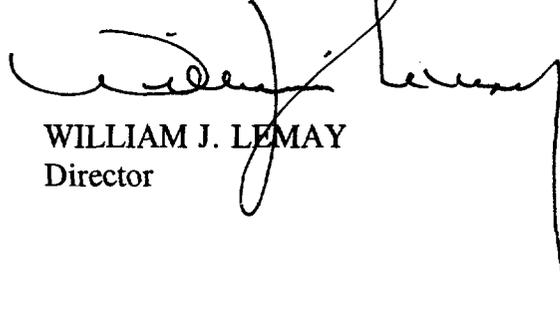
(14) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(15) 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 year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "William J. Lemay". The signature is written in a cursive style with a long, vertical tail on the right side.

WILLIAM J. LEMAY
Director