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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

September 2, 1997

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

SEP - 2 1997

Re: NMOCD Case 11836
Application of Chesapeake Operating Inc.
for compulsory pooling,
Lea County, New Mexico

Dear Mr. LeMay:

On August 21, 1997, the referenced case was presented to Examiner Stogner and is now awaiting the entry of an order.

The purpose of this letter is to request that the Division expedite the entry of an order for the following reasons:

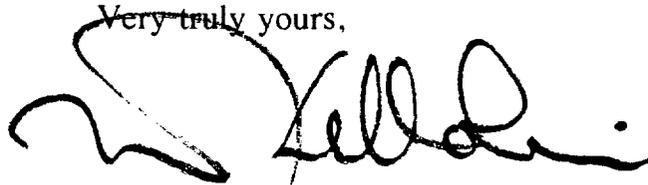
- (1) More four months ago, Chesapeake proposed this well to Bristol Resources Corporation who controls 25 % interest.
- (2) As a result of the delays caused by Bristol, Chesapeake was forced to obtain an extension of its term assignment from Conoco which now expires on October 1, 1997.
- (3) Chesapeake must commence this well in the next few weeks in order to save its assignment from Conoco.
- (4) Even with the immediate entry of a pooling order, Bristol will now have an opportunity to learn the results of this well before its election period expires.

William J. LeMay
September 2, 1997
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(5) Time is of the essence in this matter and in order to avoid giving Bristol an opportunity to learn the results of this well before it must make an election, Chesapeake should be awarded an expedited pooling order and Bristol's period of election should be shortened from 30-days to 10 days.

We would appreciate your approval of our request on behalf of Chesapeake Operating Inc.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin

cc: Michael E. Stogner, OCD
cc: Chesapeake Operating Inc.
Attn: Mike Hazlip
cc: William F. Carr, Esq.
Attorney for Bristol

**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-_____**

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

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

DRAFT

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 ___ day of September, 1997, The Division Director, having considered the testimony, the recorded 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"), seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying the S/2SE/4 of Irregular Section 1, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, forming a standard 80-acre spacing and proration unit for any and all formations and/or pools developed on 320 acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Northeast Lovington-Pennsylvanian Oil Pool or, in the alternative forming a standard 40-acre spacing and proration unit for any and all formations and /or pools developed on 40-acre spacing within said vertical

extent. Said unit is to be dedicated to its proposed Kim 1-1 Well to be drilled at a standard oil well location within Section 1.

(3) 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.

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

(5) In support of its application, Chesapeake provided land and geologic testimony which demonstrated that:

(a) Chesapeake had obtained the agreement of Conoco whereby Conoco would grant to Chesapeake a 90-day term assignment of Conoco's interest provided Chesapeake commenced the well on or before August 29, 1997;

(b) On April 24, 1997, Chesapeake proposed the subject well and its spacing unit to Bristol and after more than six separate conversations believed that on June 23,, 1997 it had obtained Bristol's voluntary agreement. However, by August 21, 1997, the date of the hearing, and after an additional eight attempts by Chesapeake, Bristol had still not agreed to voluntarily commit its interest to the well.

(c) As a result of the delays caused by Bristol, Chesapeake was forced to obtain an extension of its term assignment from Conoco which now expires on October 1, 1997.

(d) During this period Bristol has requested, and Chesapeake has refused to disclose Chesapeake's proprietary 3-D seismic data.

(e) The availability of 3-D seismic data has not diminished the risk involved in this well because of the 6 Strawn wells drilled in this immediate vicinity utilizing 3-D seismic data only one well appears to be commercial.

(6) The Division finds that:

(a) Chesapeake has engaged in good faith efforts to obtain voluntary agreement and despite its efforts has not been able to obtain such an agreement.

(b) the availability of 3-D seismic data has not diminished the risk involved in this well and the maximum 200% risk factor should be awarded.

(7) Time is of the essence in this matter and in order to avoid giving Bristol an opportunity to learn the results of this well before it must make an election, Chesapeake should be awarded an expedited pooling order and Bristol's period of election should be shortened from 30-days to 10 days.

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

(9) The applicant should be designated the operator of the subject well and unit.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs first 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 the 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 working 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) \$7,145.00 per monthly while drilling and \$714.50 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 operation the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(15) 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.

(16) Upon the failure of the operator of said pooled unit to commence the drilling of the subject well to which said unit is dedicated on or before the expiration of the 90-day period following issuance of this order, then this order pooling said unit should become null and void and of no effect whatsoever.

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

(18) The operator of the well and unit shall notify the Director of the Division on writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of the 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 S/2SE/4 of Irregular Section 1, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are

hereby pooled to form a standard 80-acre spacing and proration unit for any and all formations and/or pools developed on 320 acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Northeast Lovington-Pennsylvanian Oil Pool or, in the alternative forming a standard 40-acre spacing and proration unit for any and all formations and /or pools developed on 40-acre spacing within said vertical extent. Said unit is to be dedicated to its proposed Kim 1-1 Well to be drilled at a standard oil well location within Section 1.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the ___ day of _____, 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 said operator does not commence the drilling of said well on or before 90 days following issuance of this order, Decretory Paragraph No (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains an extension of time 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 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 unit.

(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 unit an itemized schedule of estimated well costs.

(4) Within ten (10) 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 operation 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 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 well 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 thirty (30) days from the date the schedule of estimated well costs is furnished.

(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 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) \$7145.00 per month while drilling and \$714.50 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-

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consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operation 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 immediately 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 parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(15) Jurisdiction is hereby 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

WILLIAM J. LEMAY, Director

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