

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. 12,985
)
 APPLICATION OF CHESAPEAKE OPERATING,)
 INCORPORATED, FOR COMPULSORY POOLING,)
 EDDY COUNTY, NEW MEXICO)
 _____)

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

January 9th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, January 9th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

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 PURPOSES OF CONSIDERING:

CASE NO. 12985

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

AFFIDAVIT OF WILLIAM F. CHATHAM, DOUG K. BELLIS AND ANDREW J.
MCCALMONT,

STATE OF OKLAHOMA §
 § ss.
COUNTY OF OKLAHOMA §

Before me, the undersigned authority, personally appeared William F. Chatham,
Doug K. Bellis and Andrew J. McCalmont who being fully sworn stated:

A. Our names and qualifications as experts are as follows:

William F. Chatham

Education: BA University of Mississippi – 1967
Experience: Practicing Landman for 20 years in Texas, Oklahoma and
New Mexico,
Certification: Certified Professional Landman #4928

Doug K. Bellis

Education: BS in Geology, Univeristy of Oklahoma—1978
Experience: Practicing geologist for 24 year, Texas, Oklahoma, New
Mexico, Kansas, Colorado, Arkansas

Andrew J. McCalmont

Education: BS Petroleum Engineering—New Mexico Inst. Of Mining and
Tech.—1982
Experience: Practicing Petroleum Engineer for 20 years Oklahoma,
Kansas, and Wyoming, Montana, Texas, New Mexico
Certification: Cert Prof. Engr # 11085



- B. We are over the age of majority and competent to make this Affidavit.

We are each responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

We are each personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with the New Mexico Oil Conservation Division Rule 1207 A(1)(b).

- C. Our expert opinion are based on the following facts and events:

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. Chesapeake Operating, Inc. ("Chesapeake") has a working interest ownership in the oil and gas minerals underlying the N/2, Section 7, T23S, R28E, Eddy County, New Mexico.
2. Chesapeake has drilled and has completed its Will Fee "7-A" Well No. 1 at a standard location to test the Morrow Formation and in the future plans to test any and all formations in the pooled interval from the surface to the base of the Morrow formation.
3. Based upon an oil & gas title opinion, Chesapeake believes that the entity listed on the attached Exhibit "A" may own an unleased mineral interest in the subject unit.
4. Chesapeake has submitted a written well proposal and AFE to the unleased mineral owners, and we have had the following additional contact:

State Highway Commission of New Mexico
Department of Transportation and Highways

0.006186 M.I.

October 30, 2002, Telephone conversation with Mr. Hugh W. Parry regarding the October 1, proposal letter and any action being taken by the Department of Transportation and Highways. Mr. Parry did indicate that probably the best course of action was to proceed with compulsory pooling. Mr. Parry further indicated that the Department was not prepared to declare no opposition to the pooling.

October 24, 2002, Transmittal of historical data and documents to Mr. Hugh W. Parry by United Parcel Service overnight service.

October 23, 2002, Telephone conversation with Mr. Hugh W. Parry, contract counsel with New Mexico Department of Transportation and Highways. Files and title opinions were offered regarding the tract of land in question.

October 1, 2002, Proposal Letter. Receipted October 3, 2002.

September 3, 2002, Telephone conversation between Mr. William Burford, Esq. and William Moyers, Esq., Assistant General Counsel, Department of Transportation and Highways, State of New Mexico.

November 28, 2001, Telephone conversation between Maner B. Shaw, Shaw Interests, and William Moyers.

October 26, 2001, Letter from Maner B. Shaw to Mr. Moyers with offer to lease.

July 20, 2001, Letter from Albert E. Sherman, Esq., Cotton, Bledsoe, Tighe & Dawson, to Mr. Moyer.

5. Despite its good faith efforts, Chesapeake has been unable to obtain a voluntary agreement with the parties referenced herein.
6. 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, Chesapeake needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
7. In accordance with Division Rule 1207.A(1)(b) attached the following statements and exhibits in support of this case:
 - (i) No opposition for the hearing is expected because the ownership of the tract by the Highway department is in question and the fee mineral owners have been leased.
 - (ii) Map: (a) outlining the spacing unit to be pooled which is the N/2 of Section 7, T23S, R28E, NMPM, Eddy County, New Mexico and (b) showing the well location and (c) percentage of ownership interest.
 - (iii) The name and last known address of the party to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is located and the party has been contacted on our behalf on several occasions.
 - (iv) The names of the formations and pools to be pooled are as follows:

Delaware. Atoka and Morrow

- (v) The pooled unit is for gas.
- (vi) Written evidence of attempts to reach voluntary agreement including letters and summaries of telephone calls are included herein.
- (vii) Geologic displays of the Atoka and Morrow formations form the basis for the opinion that the maximum 200% risk factor penalty was justified prior to drilling the well.
- (viii) A copy of the Ernest & Young average well costs overhead rates of \$6,000.00/month drilling and \$600.00/month producing well rates which we request to be authorized for this case.
- (ix) Copy of Division form C102 showing the well location and the proposed depth of the well.
- (x) Copy of the AFE in the amount of \$ 1,272,000.00 completed well costs for this well, which we conclude, is fair, reasonable and current for wells of this type in this area.

8. We recommend that a compulsory pooling order be entered which provides that:

- (a) Chesapeake Operating, Inc. be named Operator;
- (b) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the well;
- (c) In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty; and
- (d) Provisions for overhead rates of \$6,000.00 per month drilling and \$600.00 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

C. We have formed the following opinions based upon our respective expertise and upon the foregoing chronology of events:

- (1) That Chesapeake has been able to locate the owners of the interest to be pooled and the application is expected to be opposed by that owner.
- (2) That the approval of Chesapeake's application in this case is necessary in order to consolidate the interest ownership within this spacing unit for the

drilling, completing, and producing the subject well, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.

- (3) That the New Mexico Oil Conservation Division should enter an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 Section 7, T23S, R28E, NMPM, Eddy County, New Mexico, and forming a standard 320 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 North Loving-Morrow Gas Pool, to dedicate this pool unit to its Will Fee "7A" Well No. 1 which has been drilled at a standard gas well location within said spacing unit including the costs of drilling and completing said well and the allocation of costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a 200% charge for risk involved in drilling and completing said well.

FURTHER AFFIANT SAYETH NOT:

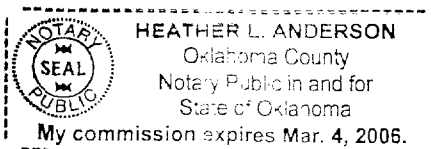
William F. Chatham
William F. Chatham

Doug K. Bellis
Doug K. Bellis

Andrew J. McCalmont
Andrew J. McCalmont

STATE OF OKLAHOMA §
 §
COUNTY OF OKLAHOMA §

SUBSCRIBED AND SWORN TO before me this 6th day of January, 2003, by William F. Chatham, Doug K. Bellis, and Andrew J. McCalmont



Heather L. Anderson
Notary Public COMM # 02003824

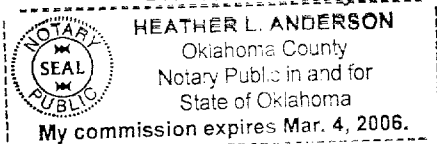
ACKNOWLEDGMENT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

SS

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 6th day of January, 2003, personally appeared William F. Chatham, Doug K. Bellis and Andrew J. McCalmont to me known to be the identical persons who subscribed the name of the maker thereof to the foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.



Heather L. Anderson
Notary Public COMM # 02003824

My Commission expires:

3/4/2006