

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

APPLICANTS:	CHESAPEAKE OPERATING, INC. AND) CHESAPEAKE EXPLORATION, L.L.C.)	
RELIEF SOUGHT:	POOLING)	Cause CD No.) 201105779)
LEGAL	SECTION 24)	Order No.)
DESCRIPTION:	TOWNSHIP 28 NORTH) RANGE 17 WEST OF THE IM) WOODS COUNTY, OKLAHOMA)	591796

ORDER OF THE COMMISSION

This Cause came on for hearing before David Leavitt, Administrative Law Judge for the Corporation Commission of Oklahoma, on November 29, 2011, in the assigned Administrative Law Judge's courtroom, Jim Thorpe Building, Oklahoma City, Oklahoma, for the purpose of hearing, taking testimony and reporting his findings and recommendations to the Commission.

Emily P. Smith, attorney, appeared for Applicants, Chesapeake Operating, Inc. and Chesapeake Exploration, L.L.C.

The Administrative Law Judge heard the Cause and filed his report with the Commission, which report has been considered and the Commission therefore finds as follows:

FINDINGS

1. This is an application for an order pooling the interests, designating an Operator, providing for the development of the unit and adjudicating the rights and equities of oil and gas owners in the Lansing-Kansas City common source of supply as spaced by Order No. 97151 and in the Tonkawa Sand, Oswego and Cherokee Sand separate common sources of supply as spaced by Order No. 122715 and in the Big Lime and Mississippian separate common sources of supply as spaced by Order No. 591584, underlying the 640-acre drilling and spacing unit consisting of Section 24, Township 28 North, Range 17 West of the IM, Woods County, Oklahoma.

2. Notice has been given by publication as required by Commission rules and Affidavits of Publication have been filed. Those owners whose names and addresses were attainable have been given actual notice by mail. An adjudicative inquiry was conducted by the Administrative Law Judge into the sufficiency of the search to ascertain the names and addresses of all owners and if a diligent effort had been made to locate all affected interest owners. Applicants have made a meaningful and diligent search of all reasonably available sources at hand to ascertain those parties that are entitled to notice and the whereabouts of those entitled to notice but who were served only by publication. At the hearing, the following respondents were shifted to curative: Nos. 1, 5, 10 and 15. Respondent No. 13 was amended to address unknown. The Commission finds the process to be proper and has jurisdiction over the subject matter and the parties. These amendments along with the other respondents to this application are shown on the Exhibit "A" attached hereto.

3. The Applicants are owners of an interest in the area covered by the application and Applicants/Operator have furnished the Oklahoma Corporation Commission with a plugging

agreement and surety or a financial statement, as required by law and by the Rules of the Commission.

4. The Applicants own the right to drill a well on said drilling and spacing units and to develop and produce said separate common sources of supply. The Applicants have not agreed with all of the other such owners in such drilling and spacing units to pool their separate interests and to develop the drilling and spacing units and separate common sources of supply as a unit. Applicants made a bona fide effort to reach an agreement with each respondent, and the Commission should issue an order requiring such owners to pool and develop the drilling and spacing units and separate common sources of supply covered hereby on a unit basis.

5. The Applicants propose to develop said units and separate common sources of supply therefor as a unit by the drilling of a well or wells thereon and, to avoid the drilling of unnecessary wells and to protect correlative rights, all owners should be required to pool and develop the units and separate common sources of supply covered hereby as a unit, upon the terms and conditions set out in "ORDER" below, all of which are found hereby, after a consideration of the substantial evidence in this cause, to be just and reasonable and will afford each owner in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production from the unit.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of Oklahoma as follows:

1. Applicants are hereby authorized to develop Section 24, Township 28 North, Range 17 West of the IM, Woods County, Oklahoma, as a 640-acre drilling and spacing unit for the Lansing-Kansas City, Tonkawa Sand, Oswego, Cherokee Sand, Big Lime and Mississippian separate common sources of supply, and the rights and equities of all oil and gas owners covered hereby are pooled, adjudicated and determined as set forth below.

2. A respondent may elect to participate in the initial unit well subject to this order by paying such respondent's share of the completed well costs for the initial unit well. The estimated well costs for a single zone completion that reaches a depth sufficient to test the deepest common source of supply named above are:

Completed for production	\$4,243,700.00
Completed as a dry hole	\$2,505,500.00

3. **\$700.00 per acre cash, plus an excess royalty of 1/16 (for a total royalty of 3/16)**, is a fair, reasonable and equitable bonus to be tendered unto each owner who elects not to participate in said development of the initial well by paying such owner's proportionate part of the cost thereof. Such cash bonus plus overriding or excess royalty, when paid as set out in this order, is satisfaction in full for all rights and interests of such owner in the drilling and spacing units covered hereby, except for any normal 1/8 royalty interest, as defined in 52 O.S. § 87.1(e).

4. **\$350.00 per acre cash, plus an excess royalty of 7.5% (for a total royalty of 1/5)**, is a fair, reasonable and equitable bonus to be tendered unto each owner who elects not to participate in said development of the initial well by paying such owner's proportionate part of the cost thereof. Such cash bonus plus overriding or excess royalty, when paid as set out in this order, is satisfaction in full for all rights and interests of such owner in the drilling and

spacing units covered hereby, except for any normal 1/8 royalty interest, as defined in 52 O.S. § 87.1(e).

5. In the interest of the prevention of waste and the protection of correlative rights, this application should be granted, and the rights of all owners pooled and adjudicated.

6. Each owner subject hereto may make any of the elections set forth in "ORDER" paragraphs 2, 3 or 4 within 20 days from date of the order as to all or any part of the interest of such owner in the unit, which election shall further be governed by the following provisions:

- a. To participate in the development of the units and separate common sources of supply by agreeing to pay such owner's proportionate part of the actual cost of such development and operation of the units and separate common sources of supply covered hereby, which shall include a reasonable monthly charge for supervision and overhead, and, as to the initial well proposed hereunder, by paying, as set out herein, to Applicants such owner's proportionate part of the estimated completed for production cost of the proposed well, as set out in "ORDER" paragraph 2 above, or by furnishing security for such payment satisfactory to the Applicants. In all events, such owner's cost in said well shall not exceed its proportionate part of the actual or the reasonable cost thereof which shall be determined by the Commission in the event there is a dispute as to such cost. Such election to participate in the development of the units and separate common sources of supply shall be communicated in writing within 20 days of the date of this order as provided in "ORDER" paragraph 10 of this order. The payment of such owner's proportionate part of the estimated completed for production cost of said well, or the furnishing of security therefor, shall be accomplished within 25 days from the date of this order, such owner's proportionate part of the costs of, and of the production from, such well and unit, to be in proportion to the number of acres such owner has in the unit; or
- b. To receive the cash bonus as set out in "ORDER" paragraph 3 above, which cash bonus shall be paid or tendered by Applicants, if same can be paid or tendered, within 35 days from the date of this order; or
- c. To receive the cash bonus as set out in "ORDER" paragraph 4 above, which cash bonus shall be paid or tendered by Applicants, if same can be paid or tendered, within 35 days from the date of this order.

PROVIDED, however, that any excess royalty, overriding royalty or other payments out of production shall be charged against the overriding or excess royalty, or overriding royalty, as herein above set forth, and same shall be reduced by the amount of any such excess.

PROVIDED, further, that in the event the oil and gas interest of any owner is subject to any royalty, overriding royalty, or other payments out of production which create a burden on such interest in excess of the burdens set out in "ORDER" paragraph 3 above, the owner of any such interest shall not be entitled to the option provided in "ORDER" paragraph 3 above, but shall be required to either participate or to accept the option provided in "ORDER" paragraph 4 above.

PROVIDED, if any payment of bonus due and owing under this order cannot be made because the person entitled thereto cannot be located or is unknown, then said bonus shall be paid into an escrow account within 90 days after this order and shall not be commingled with any funds of the Applicants or Operator. Any royalty payments or other payments due to such person shall be paid into an interest bearing escrow account by the holder of such funds. Responsibility for filing reports with the Commission as required by law and Commission rules as to bonus, royalty or other payments deposited into escrow accounts shall be with the applicable holder. Such funds deposited in said escrow accounts shall be held for the exclusive use of, and sole benefit of, the person entitled thereto.

7. In the event any owner fails to elect within the time and in the manner as set out above which of the alternatives set forth in "ORDER" paragraphs 2, 3 and 4 above, any such owner accepts, then such owner shall be deemed to have elected to receive the highest cash bonus and corresponding royalty for which said owner's interest qualifies. An interest qualifies for a particular royalty in question when the sum of the owner's net revenue interest, together with all overriding royalties and other burdens on such interest, and the royalty in question, do not exceed 100%. In the event any owner, having elected to participate, fails to timely furnish payment of costs or security therefor, such owner shall be deemed to have elected to receive the highest cash bonus and corresponding royalty for which said owner's interest qualifies and such owner shall be deemed to have relinquished unto Applicants all of such owner's right, title, interest or claim in and to the drilling and spacing units, except for any normal 1/8 royalty interest, defined above, or other share in production to which such owner may be entitled by reason of an election hereunder. A non-participating initial election made or deemed to have been made by any owner shall be binding as to the owner, their heirs, representatives, agents, successors, assigns or estate for the first and all subsequent wells drilled pursuant to this order.

8. In the event Applicants propose the drilling of a subsequent well, it shall notify those owners who participated in the initial well of its intent to drill a subsequent well. Such notice shall be sent by certified mail, return receipt requested, and shall be accompanied by an AFE which sets forth the anticipated dry hole and completed for production costs of the well and the well location. Only those owners electing to participate in the initial well will be allowed to participate in any subsequent well drilled on the drilling and spacing units covered hereby. Each owner who participated in the prior well shall have 20 days from the receipt of said notice to elect, to the Applicants, in writing, whether said owner elects to participate in said subsequent well, or, if not, which of the alternatives set forth in "ORDER" paragraphs 3 and 4 above such owner elects. Owners electing to participate must pay to Applicants their proportionate share of said "completed for production" costs as appearing on the AFE, or furnish security satisfactory to Applicants therefor, within 25 days from the receipt of said notice. Those owners failing to elect to the Applicants within the period provided, or those owners electing to participate but failing to pay or secure costs within the period provided, shall be deemed to have elected not to participate in the proposed subsequent well in which case said owner's right to participate in the proposed subsequent well and all subsequent future wells shall be transferred to the operator and said owner shall receive the highest cash bonus and corresponding royalty for which such interest qualifies herein under "ORDER" paragraphs 3 and 4 above. An interest qualifies for the particular royalty in question when the sum of the owner's net revenue interest, together with all overriding royalties and other burdens on such interest, and the royalty in question, do not exceed 100%. Any time an owner elects or is deemed to have elected not to participate in a subsequent well, then that owner shall not be allowed to participate in future wells drilled on the

drilling and spacing units covered hereby and shall be deemed to have forfeited all rights in such future wells, except the right to receive royalty (if any) to which that owner may be entitled. The Commission shall retain jurisdiction to determine the reasonableness of actual drilling and completion costs of subsequent wells. In the event operations for the proposed subsequent well are not commenced within 180 days after the date of the notice, then the proposal shall terminate and new notice must be resubmitted to those parties that elected to participate in the proposed well.

The term "subsequent well" for purposes of this paragraph 8 shall not be deemed to include any sidetracking or other operation with respect to the initial or any subsequent well, and shall not be deemed to be any well that is drilled as a replacement or substitute well for the initial or any subsequent well covered hereby, by virtue of any mechanical or other problems arising directly in connection with the drilling, completing, equipping or producing of any such well, and no party subject to this order shall have the right to make any subsequent elections as to any such sidetracking, replacement well, or substitute well.

9. The Applicants, in addition to any other rights provided herein, shall have a lien, as set out in 52 O.S. § 87.1(e), on the interest of any owner, subject to this order, who has elected to participate in the well covered hereby by paying such owner's proportionate part of the costs thereof.

10. Chesapeake Exploration, L.L.C., acting by and through its agent, Chesapeake Operating, Inc., P.O. Box 18496, Oklahoma City, Oklahoma 73154, is designated Operator of the drilling and spacing units and separate common sources of supply covered hereby. **All elections must be communicated to said Operator in writing at the address above as required in this order marked to the attention of Jeff Ramsdell.**

11. The Operator must commence operations for the drilling or other operations with respect to the initial well covered hereby within 180 days from the date of this order and diligently prosecute the same to completion in a reasonably prudent manner, or this order shall be of no force and effect, except as to the payment of bonus.

12. The Applicants or their attorney shall file with the Secretary of the Commission, within 10 days from the date of this order, an affidavit stating that a copy of said order was mailed within 3 days from the date of this order to all parties pooled by this order, whose addresses are known.

CORPORATION COMMISSION OF OKLAHOMA

Dana L. Murphy

DANA L. MURPHY, Chair

Bob Anthony

BOB ANTHONY, Vice Chairman

Patrice Douglas

PATRICE DOUGLAS, Commissioner

DONE AND PERFORMED THIS 8 day of Dec 2011.

BY ORDER OF THE COMMISSION

Peggy Mitchell

PEGGY MITCHELL, Secretary

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The foregoing findings and order are the report and recommendations of the Administrative Law Judge.

APPROVED:

William L. Stevenson

Administrative Law Judge

6 DEC 11

Date

William L. Stevenson

Reviewer - Technical Department

12/06/11

Date

APPROVED AS TO FORM AND CONTENT

Emily P. Smith

Emily P. Smith, OBA 20805

EXHIBIT "A"

Respondents with known addresses:

2. Mary E. Colaw
1344 Pacific Street
San Luis Obispo, CA 95401
3. Bonnie Cranston
c/o 1007 Maple Street
Atlantic, IA 50022
9. John Gavreau
c/o 1007 Maple Street
Atlantic, IA 50022
11. Gary Greene
154 Lakeside Drive
Lipan, TX 76462
12. Gary Greene
5121 King Richards Row
Midland, TX 79707
14. Alice Kintzi
c/o 3814 Navajo Avenue
Bakersfield, CA 93309

Respondents with unknown addresses:

4. Dorris J. Currier
Address Unknown
6. E.O. Dryden, a/k/a Edgar O. Dryden
Address Unknown
7. George L. Dryden
Address Unknown
8. M.M. Dryden
Address Unknown
13. Violet Greene
Address Unknown

Respondents listed for curative purposes:

1. Cal State Sonoma Enterprises, Inc
Address Unknown
5. Leo M. Doolin
c/o 2801 NE Heritage Drive
Lawton, OK 73507
10. Mabel Gavreau
c/o 1007 Maple Street
Atlantic, IA 50022
15. Walter J. Smith
Address Unknown