

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. 201200008
LEGAL	SECTION 15)	Order No.
DESCRIPTION:	TOWNSHIP 28 NORTH)	
	RANGE 9 WEST OF THE IM)	<u>597055</u>
	ALFALFA COUNTY, OKLAHOMA)	

ORDER OF THE COMMISSION

This Cause came on for hearing before William Peterson, Administrative Law Judge for the Corporation Commission of Oklahoma, on February 14, 2012, 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. This matter was reopened on March 6, 2012, for the presentation of additional evidence.

Emily P. Smith, attorney, appeared for Applicants, Chesapeake Operating, Inc. and Chesapeake Exploration, L.L.C. John Reeves, attorney, entered an appearance for SandRidge Exploration and Production, 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 Mississippian common source of supply underlying the 640-acre drilling and spacing unit consisting of Section 15, Township 28 North, Range 9 West of the IM, Alfalfa County, Oklahoma, as spaced by Order No. 593702.

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 certified mail and regular 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 source at hand to ascertain those parties that are entitled to notice and the whereabouts of those entitled to notice. All such parties were located, thus no parties were given notice by publication. The Commission finds the process to be proper and has jurisdiction over the subject matter and the parties. At the hearing, Respondent No. 3 was dismissed and Respondent No. 2 was shifted to curative. These amendments along with the other respondents to this matter are shown on the Exhibit "A" attached hereto.

3. The Applicants are the 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, owners of the right to drill a well on said drilling and spacing unit and to develop and produce said common source of supply, have not agreed with all of the other such owners in such drilling and spacing unit to pool their interests and to develop the drilling and spacing unit and common source of supply as a unit; that 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 unit and common source of supply covered hereby on a unit basis.

5. The Applicants propose to develop said unit and the common source 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 unit and common source of supply covered hereby as a unit, upon the terms and conditions set out in the "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.

6. 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.

ORDER

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

1. Applicants are hereby authorized to develop Section 15, Township 28 North, Range 9 West of the IM, Alfalfa County, Oklahoma, as a 640-acre drilling and spacing unit for the Mississippian common source 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. The estimated well costs are:

Completed for production - \$4,048,960.00
Completed as a dry hole - \$2,687,500.00

b. **\$1200.00 per acre cash (for a total royalty of 1/8)**, is a fair, reasonable and equitable bonus to be paid unto each owner who elects not to participate in said development by paying such owner's proportionate part of the cost thereof. Such cash bonus plus, 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 unit covered hereby, except for any normal 1/8 royalty interest, as defined in 52 O.S. § 87.1(e).

c. **\$1100.00 per acre cash, plus an overriding or excess royalty of 1/16 (for a total royalty of 3/16)**, is a fair, reasonable and equitable bonus to be paid unto each owner who elects not to participate in said development 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 unit covered hereby, except for any normal $1/8$ royalty interest, as defined in 52 O.S. § 87.1(e).

- d. **\$1,000.00 per acre cash, plus an overriding or excess royalty of 7.5% (for a total royalty of $1/5$)**, is a fair, reasonable and equitable bonus to be paid unto each owner who elects not to participate in said development 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 unit covered hereby, except for any normal $1/8$ royalty interest, as defined in 52 O.S. § 87.1(e).
- e. **No cash, but an overriding or excess royalty of $1/8$ (for a total royalty of $1/4$)**, is a fair, reasonable and equitable bonus for each owner who elects not to participate in said development by paying such owner's proportionate part of the cost thereof. Such overriding or excess royalty is satisfaction in full for all rights and interests of such owner in the drilling and spacing unit covered hereby, except for any normal $1/8$ royalty interest, as defined in 52 O.S. § 87.1(e).

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 that 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 paragraph 2b above, the owner of any such interest shall not be entitled to the option provided in paragraph 2b above, but shall be required to either participate or to accept the options provided in paragraphs 2c, 2d or 2e, above.

PROVIDED, further, 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 paragraph 2c above, the owner of any such interest shall not be entitled to the option provided in paragraph 2c above, but shall be required to either participate or to accept the options provided in paragraphs 2d or 2e, above.

PROVIDED, further, 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 paragraph 2d above, the owner of any such interest shall not be entitled to the option provided in paragraph 2d above, but shall be required to either participate or to accept the option provided in paragraph 2e, above.

3. Each owner, subject hereto, may make any of the elections as to all or any part of the interest of such owner in the unit and must give notice as to which of the elections stated in paragraphs 3a, 3b, 3c, 3d or 3e herein such owner accepts.

- a. To participate in the development of the unit and common source of supply by agreeing to pay such owner's proportionate part of the actual cost of such development and operation of the unit and common source 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 paragraph 2a 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. 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 units, to be in proportion to the number of acres such owner has in the units; or,
- b. To receive the cash bonus and statutory royalty, as set out in paragraph 2b 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 plus overriding or excess royalty, as set out in paragraph 2c 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
- d. To receive the cash bonus plus overriding or excess royalty, as set out in paragraph 2d 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
- e. To receive the overriding or excess royalty, as set out in paragraph 2e above.

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 the sole benefit of, the person entitled thereto.

4. Each owner of the right to drill in said drilling and spacing unit to said common source of supply covered hereby, who has not agreed to develop said units as a unit, other than Applicants, may elect any of the alternatives set out in paragraph 3 above as to all or any part of the interest which such party owns, said election to be made to Applicants, in writing within 20 days from the

date of this Order. 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 paragraph 3 above, any such owner accepts, then such owner shall be deemed to have elected to receive the highest cash bonus and lowest royalty for which said 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 1.00. In the event any owner elects to do other than participate in said well by paying his pro rata share of the costs thereof, or fails to make any election provided above, or, having elected to participate, fails to timely furnish payment of costs or security therefor, 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 unit, 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. The initial or deemed election made by any owner not to participate 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.

5. Only those owners electing to participate in the initial well will be allowed to participate in subsequent wells drilled on the drilling and spacing unit covered hereby. Owners electing or deemed to have elected any option other than participation in the initial well shall receive no additional cash consideration for subsequent wells, but shall receive the royalty (and excess royalty, if applicable) provided therein for subsequent wells. In the event Applicants propose the drilling of a subsequent well, it shall notify those owners who participated in the prior 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 cost of the well and the well location. 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 paragraph 3 above such owner elects. Owners electing to participate must pay to Applicants their proportionate share of said costs, 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 subsequent wells. Said owner's right to participate in the proposed well and all future wells shall be transferred to the operator and said owner shall receive the greatest bonus and lowest royalty for which such interest qualifies herein. 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 1.00. 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 unit 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 well are not commenced within 180 days after the date of the notice, then the proposal shall terminate and new notice must be resubmitted.

For purposes of this paragraph 5, any owner who participates in the risk and expense of a well drilled under this Order shall notify the Applicants of any assignment or transfer of its interest in the drilling and spacing unit. The Applicants shall then be obligated to mail the written proposal described above to that assignee, or transferee.

The term subsequent well for purposes of this paragraph 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.

6. 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; provided, however, that in the event an owner elects to participate in said well by paying his proportionate part of the costs thereof and fails or refuses to pay or to secure the payment of such owner's proportionate part of the completed for production cost as set out in paragraph 2a above, or fails or refuses pay or make an arrangement with the Applicants for the payment thereof, all within the periods of time as prescribed in this Order, then such owner shall be deemed to have elected to receive the highest cash bonus for which such 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 unit, 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. Thereupon, the payment of such cash bonus shall be made by the Applicants within 35 days after the last day on which such defaulting owner, under this Order, should have paid his proportionate part of such costs or should have made satisfactory arrangements for the payments thereof.

7. 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 unit and common source 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 Nathan Cook.**

8. 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.

9. 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 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 30 day of April 2012.

BY ORDER OF THE COMMISSION

Peggy Mitchell
PEGGY MITCHELL, Commission 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. Peterson
Administrative Law Judge

04/25/12
Date

Michael Becker
Reviewer

4-25-2012
Date

Approved as to form and content

Emily P. Smith
Emily P. Smith

EXHIBIT "A"

Respondent dismissed from application:

3. The Clara R. Melling Inter Vivos Trust,
dated 4/1/1970
Address Unknown

Respondents with known addresses:

1. Atinum Midcon I, LLC
333 Clay Street, Suite 700
Houston, TX 77002
4. SandRidge Exploration and Production,
LLC
123 Robert S. Kerr Avenue
Oklahoma City, OK 73102

Respondent listed for curative purposes:

2. Alvarez Chapin
c/o 13749 Koski Road
Baraga, MI 49908