

KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
Recognized Specialist in the Area of
Natural Resources-oil and gas law-
New Mexico Board of Legal Specialization

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kellahin@earthlink.net

July 21, 2004

VIA FACSIMILE
476-3462

Mr. Mark E. Fesmire, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Request for Continuance

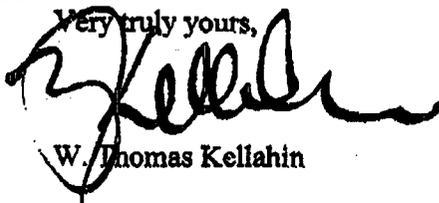
NMOCD Case 13310-La Rica "13" Well No. 4
NMOCD Case 13311-La Rica "13" Well No. 3
NMOCD Case 13312-La Rica "13" Well No. 2

Dear Mr. Fesmire:

This morning, I received from Mr. Stogner a copy of an objection letter written by Jo McInernay on behalf of Mr. Frank Morgan but was not copied to me by Mr. Morgan despite his receipt of my notice of hearing on July 8, 2004. Mr. Stogner's timely procedural action saved my client the unnecessary expense of attending a hearing that is now opposed.

On behalf of the applicant, and in order to have time to address this objection, I request that these three-referenced case be continued from the July 21, 2004 docket to the August 5, 2004 docket.

Very truly yours,



W. Thomas Kellahin

Facsimile:

Michael E. Stogner-OCD-Hearing Examiner
Chesapeake Operating Inc.
Attn: Lynda Townsend

CC: Mr. Frank Morgan

RECEIVED

Jo McInerney, LLC
Consulting Landman
1205 West 7th Street
Roswell, New Mexico 88201
505-622-9120

JUL 19 2004
OIL CONSERVATION
DIVISION

July 15, 2004

Oil Conservation Division
Attn: The Examiner
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

RE: Case #13310 - July 22, 2004
Application of Chesapeake Permian L.P.
For Compulsory Pooling
T19S, R33E, Section 13: NW/4SE/4
Lea County, New Mexico

Dear Examiner:

I work with Frank Morgan who is an interest owner under the referenced property. Mr. Morgan asked me to look at the Compulsory Pooling Application from Chesapeake Permian L.P. ("Chesapeake") and asked if he should do anything.

Mr. Morgan advised that he has never been contacted by Chesapeake to make any voluntary agreement on his interest as they state in their Application.

The only notice he has received about drilling this well has been from Nearburg Exploration Company, LLC ("Nearburg"), where they sent him three AFE's for his execution covering three separate locations including the location referenced above.

Since Mr. Morgan's interest is very small, he did not feel he could justify a trip to Santa Fe where he would probably not be seriously considered given the percentage interest he holds. However, we both felt that the OCD should at least review the information Mr. Morgan has received since it is unclear who is trying to operate and drill these wells. In addition, the OCD should be aware that no contact was made to Mr. Morgan to enter into a voluntary agreement, and as you can see, Nearburg advised that "after" the AFE's were executed they would provide a Joint Operating Agreement which is contrary to prudent operations.

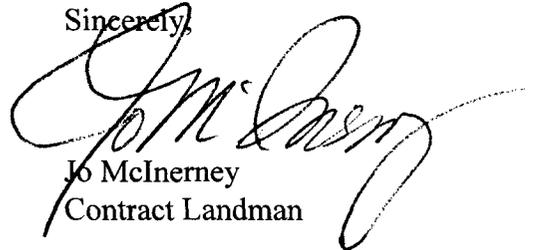
We believe when you review the enclosed correspondence and information, you cannot help but question this situation.

- 1) Which company is actually operating?.
- 2) How can the company ask a potential working interest owner to participate without a Joint Operating Agreement?
- 3) What voluntary agreements were submitted to the interest owners?
- 4) Was proper notice given?

Mr. Morgan understands that he has a minor interest. However, his interest should not just be forced pooled without any effort being made on the part of the potential operator to work out an agreement for this interest before compulsory pooling is approved.

Thank you for your attention.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jo McInerney', written in a cursive style.

Jo McInerney
Contract Landman

Enc.

KELLAHIN & KELLAHIN
Attorney at Law

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June 29, 2004

CERTIFIED MAIL-RETURNED RECEIPT REQUESTED

TO: NOTICE OF THE HEARING OF THE FOLLOWING NEW
MEXICO OIL CONSERVATION DIVISION CASE:

Re: Application of Chesapeake Permian, L.P.
for Compulsory Pooling,
Lea County, New Mexico

On behalf of Chesapeake Permian, L.P., please find enclosed our application for an compulsory pooling order for the NW/4SE/4 (Unit J) of Section 13, T19S, R33E to the dedicated to its La Rica "13" Federal Well No. 4 which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for July 22, 2004. The hearing will be held at the Division hearing room located at 1220 South Saint Francis Drive, Santa Fe, New Mexico, 87505.

You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant Division Rule 1208.B, parties appearing in cases are required to file a Pre-Hearing Statement with the Division not later than 5:00 PM on Friday, July 16, 2004, with a copy delivered to the undersigned. This statement must include: the names of all witnesses the party will call to testify at the hearing; the approximate time of the party will need to present its case, and identification of any procedural matters that are to be resolved prior the hearing. In addition, the Division will impose a 200% risk charge unless you declare in this Pre-Hearing Statement you intention to oppose it. Please note that the burden of proof as to this issue will be yours.

Very truly yours,



W. Thomas Kellahin

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE PERMIAN, L.P.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO.

APPLICATION

CHESAPEAKE PERMIAN, L.P. ("Chesapeake") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the NW/4SE/4 of Section 13, T19S, R33E, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any production for any and all formations/pools developed on 40-acre spacing within that vertical extent, including but not limited to the Tonto Pool. This unit is to be dedicated to its La Rica "13" Federal Well No. 4 that is to be drilled at a standard well location Unit J of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well.

In support of its application Chesapeake states:

- (1) Chesapeake, as successor in interest to Concho Exploration Inc., is a working interest ownership in the oil and gas minerals underlying the NW/4SE/4 of Section 13, T19S, R33E, NMPM, Lea County, New Mexico, to be dedicated as a standard 40-acre oil proration and spacing unit for its La Rica "13" Federal Well No. 4 located in Unit J of this section.
- (2) On June 5, 2003, Concho Oil & Gas LP as the operating company for Concho Exploration Inc., sent to all working interest owners (See Exhibit "A" attached) its written well proposal, including an AFE, for its La Rica "13" Federal Well No. 3 to be drilled at a standard well location in Unit J of Section 13, T19S, R33E, Lea County, New Mexico and dedicated to the NW/4SE/4 of this section.

- (3) Despite reasonable efforts, Concho was unable to conclude a voluntary agreement with those parties listed on Exhibit "A"
- (4) Effective March 10, 2004, Concho Exploration Inc., Concho Oil & Gas LP, Concho Resources GP LLC and Concho Resources LP LLC were merged into Chesapeake Permian, L.P.
- (5) Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.
- (6) This spacing unit is within the Tonto-Seven Rivers Pool and subject, among other things, to Division Rule 104 providing for standard 40-acre spacing unit and locations not closer than 330 feet to
- (7) 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.
- (8) In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for July 22, 2004.

*-NO
CONTRACT
MADE*

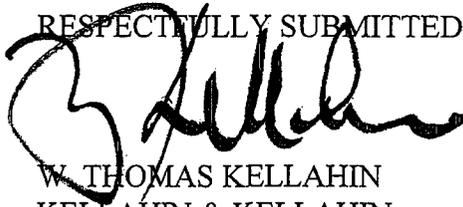
WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on July 22, 2004 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) Chesapeake Operating, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of re-entering, completing, equipping and operating the well;

NMOCD Application
Chesapeake Operating, Inc.
Page 3

- (3) In the event a mineral interest or working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
- (4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
Telephone: (505) 982-4285
Fax: (505) 982-2047

Frank S & Robin L Morgan
Rt. 1 Box 83
Artesia, NM 88210

Hutchings Oil Company
c/o Stratton & Calvin PA
PO Box 1216
Albuquerque, NM 87103

Susan Scott Murphy
800 North Penn
Roswell, NM 88201

Duran Properties LLC
1909 West 4th Street
Roswell, NM 88201

Mor Oil Co, Inc.
135 Cottonwood
Artesia, NM 88210

Red Oak Cattle Company
PO Box 998
Ardmore, OK 73402

The Estate of Kenneth D
Reynolds
PO Box 1498
Roswell, NM 88202



Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
432/686-8235
FAX: 432/686-7806

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

June 7, 2004

TO ALL WORKING INTEREST OWNERS:
(See Distribution List)

RE: La Rica "13" Federal #2
990' FSL and 1,980' FWL of Section 13
La Rica "13" Federal #3
1,780' FSL and 1,980' FWL of Section 13
La Rica "13" Federal #4
1,650' FSL and 1,980' FEL of Section 13
T-19-S, R-33-E
Lea County, New Mexico
Stetson Prospect

*CHESAPEAKE
pooling*

Dear Working Interest Owner:

Attached please find two sets of Authority for Expenditure's ("AFE") for the captioned wells. Nearburg Exploration Company, L.L.C. ("NEC") proposes to drill each of these wells to a depth of 4,000', testing the Yates/7 Rivers formation. We are proposing and intend to drill all three wells using the same rig. Nearburg Producing Company ("NPC") will be the operator and would like to commence the wells by July. We would appreciate your prompt response to the enclosed AFE's. Upon your execution of same, we will send out a Joint Operating Agreement for approval and execution.

If you elect to participate, please execute and return one original AFE. Should you elect not to participate, NEC desire to acquire a mutually acceptable term assignment of your interest covering the three 40 acre tracts proposed to be drilled on.

*NO
FURTHER
CONTACT
MADE*

Thank you for your cooperation and prompt response. If you have any questions, please feel free to contact me at (432) 686-8235, ext. 214.

Yours truly,



Bob Shelton
Land Manager

BS/dw
encl.

cc: Fred White
Duane Davis
Kathie Craft

La Rica "13" Federal #2
990' FSL and 1,980' FWL of Section 13
La Rica "13" Federal #3
1,780' FSL and 1,980' FWL of Section 13
La Rica "13" Federal #4
1,650' FSL and 1,980' FEL of Section 13
T-19-S, R-33-E
Lea County, New Mexico
Stetson Prospect

Cheasapeake Permian L.P. P. O. Box 18496 Oklahoma City, OK 73154	74.3647654
Scott Exploration Inc. Susan Scott Murphy George L. Scott, III Warren Scott 648 Petroleum Bldg. Roswell, New Mexico 88201	3.4558572 0.5647056 0.5647056 0.5647056
Williamson Enterprises 216 W. 3 rd Street Roswell, New Mexico 88201	0.4411758
Stephen Mitchell C/O Murchison Oil & Gas 414 W. Texas, Suite 405 Midland, Texas 79701	0.4235292
Harold Kious 320 Gold Ave. SW #1210 Albuquerque, New Mexico 87102-3248	0.352941
Frank S. and Robin L. Morgan Moroilco, Inc. 135 W. Cottonwood Road Artesia, New Mexico 88210	0.2823528 0.5647056
Mr. Bane Bigby Red Oak Cattle Company P. O. Box 998 Ardmore, OK 73402	0.2823528
Sealy Hutchings Cavin, Inc. 504 N. Wyoming Ave. Roswell, New Mexico 88201	0.5647056

Nuevo Seis, L.P. Barbara Hannifin, President Box 2588 Roswell, New Mexico 88202	0.1411764
David J. Sorenson P. O. Box 1453 Roswell, New Mexico 88210	2.823528
Daniel W. Varel (recently deceased) 8647 Lakemont Drive (home) Dallas, Texas 75209-1707 c/o Bright & Bright, L.P. (wk) 5944 Luther Lane, Suite 600 Dallas, Texas 75225	1.764705
Eloy S. Duran P. O. Box 1854 Roswell, New Mexico 88201	1.411764
S.H. Cavin 504 N. Wyoming Ave. Roswell, New Mexico 88201	1.200000
Hutchings Oil Company C/O Sealy H. Cavin, Jr. P. O. Box 1216 Albuquerque, New Mexico	0.8470584
Kenneth D. Reynolds P. O. Box 2055 Roswell, New Mexico 88201	0.8470584
Total Working Interest	91.4617924
NEC Interest	<u>8.5382076</u>
TOTAL WORKING INTEREST	100.000000

