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September 30, 2008

**HAND DELIVERED**

*Case 14231*

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

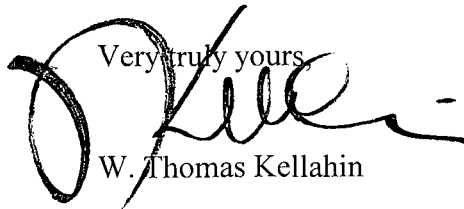
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**Re: Chesapeake's Wrinkle 13 Federal Com Well No. 3H**  
**(API # pending)**  
**S/2N/2 Section 13, T15S R31E**  
**Application of Chesapeake Energy Corporation**  
**for approval of a 160-acre non-standard oil proration and**  
**spacing unit and Compulsory Pooling**  
**Chaves County, New Mexico**

Dear Mr. Fesmire:

On behalf of Chesapeake Energy Corporation, enclosed for filing is our referenced application to be set for hearing on October 30, 2008.

Very truly yours,



W. Thomas Kellahin

CC: Chesapeake Energy Corporation  
Attn: Jared I. Boren, Landman

CASE 14231: Application of Chesapeake Energy Corporation for approval of a 160-acre non-standard spacing and proration unit and for compulsory pooling, Chaves County, New Mexico. Applicant seeks the formation of a 160-acre non-standard spacing and proration unit consisting of the S/2N/2 of Section 13, T15S, R31E, Chaves County, N. M. to be dedicated to its Wrinkle 13 Federal Com Well No. 3H (API# pending) which will be located at a standard surface location 1980 feet FNL and 330 feet FEL (Unit H) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an westerly direction staying within a producing area 330 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1980 feet FNL and 330 feet FWL (Unit E). In addition, applicant seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the above-described acreage. Also to be considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and a 200% charge for risk involved in this well. This unit is located approximately 30 miles east of Hagerman, New Mexico.

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

**IN THE MATTER OF THE APPLICATION  
OF CHESAPEAKE ENERGY CORPORATION FOR  
APPROVAL OF A 160-ACRE NON-STANDARD SPACING  
AND PRORATION UNIT AND FOR COMPULSORY POOLING  
CHAVES COUNTY, NEW MEXICO.**

CASE NO. 14231

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**APPLICATION**

Comes now CHESAPEAKE ENERGY CORPORATION ("Chesapeake") by its attorneys, Kellahin & Kellahin, applies to the New Mexico Oil Conservation Division for approval of a 160-acre non-standard spacing and proration unit consisting of the S/2N/2 of Section 13, T15S, R31E, Chaves County, N. M. to be dedicated to its Wrinkle 13 Federal Com Well No. 3H (API# pending) which will be located at a standard surface location 1980 feet FNL and 330 feet FEL (Unit H) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an westerly direction staying within a producing area 330 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1980 feet FNL and 330 feet FWL (Unit E). In addition, applicant seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the above-described acreage. Also to be considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and a 200% charge for risk involved in this well.

In support of its application, Chesapeake Energy Corporation ("Chesapeake") states:

1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Wolfcamp formation underlying two of the four 40-acre tracts composing a 160-acre non-standard oil spacing and proration unit consisting of the S/2N/2 of Section 13, T15S, R31E, NMPM, Chaves County, New Mexico. See locator map attached as Exhibit "A"
2. This proposed 160-acre non-standard oil spacing unit contains four 40-acre tracts:

S/2NE/4:	Chesapeake = 50% and COG =50%
S/2NW/4:	Penroc= 100%

3. On November 20, 2007, Chesapeake proposed to COG Oil & Gas LP ("COG") and on December 7, 2007 to Penroc Oil Corporation that the S/2N/2 of this section be dedicated as a 160-acre Wolfcamp oil spacing unit for production from the Wolfcamp formation to be obtained from its proposed horizontal wellbore the Wrinkle 13 Federal Com Well No. 3H to be located drilled as a horizontal wellbore as shown on Form C-102 attached as Exhibit "B".
4. On November 1, 2007, COG, without first proposing its well to Chesapeake, obtained approval of an application for permit to drill ("APD") from the BLM for its Orion Federal Well No. 1H (API # 30-005-27978).
5. On December 17, 2007, COG, having received Chesapeake's well proposal, responded to Chesapeake with a competing wellbore.
6. At this time, Chesapeake has not been able to obtain a written voluntary agreement from all the party listed on Exhibit "C"
7. While Division Rule 111 provides that a project area for a horizontal wellbore may include a combination of complete spacing units, the New Mexico Oil and Gas Act limits compulsory pooling to the tracts of land embraced within a spacing or proration unit. See 70-2-17.C NMSA 1978. It appears that a project area for a horizontal wellbore that contains multiple 40-acre oil spacing units cannot be pooled unless a non-standard spacing unit is also approved. Therefore, Chesapeake seeks the designation of the S/2N/2 of this section as a 160-acre non-standard spacing and proration unit.
8. 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, the applicant needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
9. Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that a 200% risk charge be applied.
10. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest are to be pooled and whose current addresses are known as listed on Exhibit "C" of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for October 30, 2008.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on October 30, 2008 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 the drilling of this 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 drilling, completing, equipping and operating the well;
- (3) In the event a 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 charge 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a stylized, flowing script.

W. THOMAS KELLAHIN  
KELLAHIN & KELLAHIN  
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Santa Fe, New Mexico 87501  
(505) 982-4285

2010  
FEE

1H 25%

CHK 50.0%  
COG 50.0%  
1/8  
02/28/2011  
FEDERAL

SL

50%

SL

% HBP  
18%  
8%

PENROC 62%  
OTHER 38%  
HBP  
FFF  
1 (10)  
WINKLE

PENROC 100%  
HBP  
FEE

Winkle  
13 Fed  
Com 3H 25%

13

CHK 50.0%  
COG 50.0%  
1/8  
02/28/2011  
FEDERAL

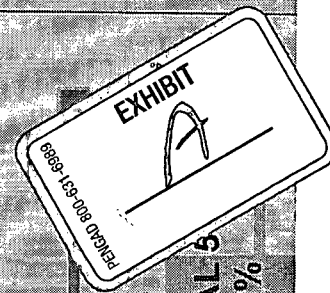
Winkle 13  
Fed. Com  
1H 37.5%

CHK 50.0%  
COG 50.0%  
1/8  
02/28/2011  
FEDERAL

Winkle  
13 Fed  
Com 2H 25%

MOBIL 100%  
HBP  
STATE

PITCH ENERGY 100%  
(MARBOB)  
HBP



CENTRAL 5  
RBOB 50%  
2012

FEDERAL

4

1

2

3

4

1

2

CHASE  
2011  
STATE

18

CHASE  
2011  
STATE

10

EXHIBIT A-1

Exhibit "C"

COG Oil & Gas LP  
550 West Texas Avenue  
Suite 1300  
Midland, TX 79701

Penroc Oil Corporation  
1515 Calle Sur Street  
Hobbbs, NM 88240  
Attn: Mr. Merch Merchant