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To

Name: *Flora Davidson*
Company: *BCD*
Phone number:
Fax number: *505-476-3462*

- Urgent
- For Reply
- Please Acknowledge
- Please Reply

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~~FEB 23 2004~~

FEB 24 2004

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505
FACSIMILE FORM

From

W. Thomas Kellahin

Telephone 505-982-4285
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E-Mail: kellahin@earthlink.net

Date sent: 2-24-04
Time sent: 1:30 pm
Number of pages including cover page:

-7-

Dear *Flora*,

Please find my application for Chesapeake attached for filing today for the March 2004 docket.

Regards,

Case 13231

NOTICE OF CONFIDENTIALITY

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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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February 24, 2004

HAND DELIVERED

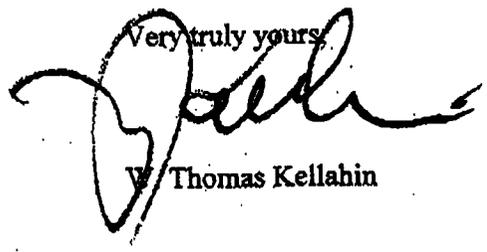
Case 13231

Ms. Lori Wrotenbery, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Williams "14" Well No. 1
Unit E, W/2 Section 14, T15S, R35E
Application of Chesapeake Operating, Inc.
for Compulsory Pooling
Lea County, New Mexico

Dear Ms. Wrotenbery:

On behalf of Chesapeake Operating, Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for March 18, 2004. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

W. Thomas Kellahin

cc: Chesapeake Operating, Inc.
Attr: Linda Townsend

CASE 1323 Application of Chesapeake Operating, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 14, T35S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre spacing and proration unit for any production for any and all formations/pools developed on 320-acre spacing within that vertical extent, including the Southwest Austin Morrow Gas Pool and the Southwest Austin-Mississippian Gas Pool. This unit is to be dedicated to its Williams "14" Federal Well No. 1 which is now drilled at a standard location in Unit E of this section. Also to be considered will be the costs of the re-entering said 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 H-1092, a risk charge of 200% for the risk involved in this well. This unit is located approximately 6 miles north-northeast from Lovington, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE OPERATING, INC.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 13231

APPLICATION

CHESAPEAKE OPERATING, INC. ("Chesapeake") by its attorneys, Kellahin & Kellahin, 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 Mississippian formation underlying the W/2 of Section 14, T15S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production for any and all formations/pools developed on 320-acre spacing within that vertical extent, including the Southwest Austin-Morrow Gas Pool and the Southwest Austin-Mississippian Gas Pool. This unit is to be dedicated to its Williams "14" Federal Well No. 1 which is to be drilled at a standard location in Unit E of this section. Also to be considered will be the costs of the re-entering said 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's working interest ownership in the oil and gas minerals underlying the NW/4 of Section 14, T15S, R35E, NMPM, Lea County, New Mexico, has dedicated the W/2 of this section as a standard 320-acre gas proration and spacing unit ("GPA") to its Williams "14" Well No. 1 located in unit E of this section.
2. Pitch Energy, Inc. is believed to be the current lessee of the SW/4 of Section 14.
3. The subject well is within 1 mile of the Southwest Austin-Mississippian Gas Pool and the Southwest Austin-Morrow Gas Pool, both subject to "statewide rules" pursuant to Division Rule 104.

4. On May 27, 2003, Chesapeake sent to Pitch Energy Inc. ("Pitch") a written well proposal, requesting an AFE, for its Williams "14" Federal Well No. 1 to be drilled 1869 feet FWL and 660 feet FWL, Unit E of Section 14, T15S, R356E, Lea County, New Mexico and dedicated to the W/2 of this section.

5. On June 13, 2003, in response to Chesapeake's letter, Pitch replied that it was willing to assign a 50% interest in this GPU to Chesapeake under certain terms whereby Chesapeake would drill and operator this well with Pitch participating as both a participating interest owner and being carried interest owner.

6. On August 22, 2003, Chesapeake sent Pitch a counter-offer to which Pitch sent its counter-offer dated September 17, 2003.

7. On October 24, 2003, Chesapeake, having been unable to reach a voluntary agreement with Pitch, filed a compulsory pooling application that was docketed as NMOCD Case 13179 and set for hearing to take place on November 6, 2003.

8. Dispute filing of compulsory pooling application, Chesapeake continue this case twice during which it continued to negotiate with Pitch's representative, Mr. Ray Miller. On December 3, 2003, Chesapeake dismissed Case 13179 because Mr. Miller has caused Chesapeake to believe that it had finally obtained a voluntarily agreement based upon terms subsequently set forth in Chesapeake's letter dated December 9, 2003.

9. Thereafter, Mr. Miller requested further changes and on February 4, 2004, Chesapeake sent Mr. Miller what it believed was a final revised agreement acceptable to both parties.

10. On February 17, 2004, Mr. Miller, now on behalf of Marbob Energy Corporation ("Marbob") instead of confirming this agreement with Chesapeake, changed his mind and for the first time proposed that Marbob drill and operator its proposed "Peakeabon Federal Com #1" a well to be drilled on acreage controlled by Chesapeake and to be located at the same location as Chesapeake's well and dedicated to the same GPU consisting of the W/4 of this section.

11. By his actions whether on behalf of Pitch and/or Marbob, Mr. Miller has repudiated his voluntarily agreement with Chesapeake and once again has required Chesapeake to file a compulsory pooling application.

12. Because of the uncertainty over whether Pitch or Marbob now controls the SW/4 of this section, Chesapeake seeks a compulsory pooling order against Pitch and/or Marbob.

13. Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.

14. 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.

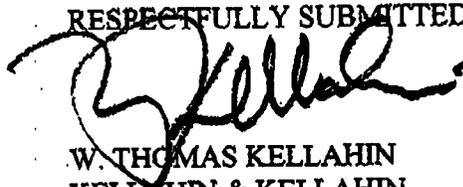
15. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying them of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for March 18, 2004.

WHEREFORE Chesapeake, as applicant, requests that this application be set for hearing on March 18, 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 interests 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) Provision for applicant and all working interest owners to participate in the costs of re-entering, completing, equipping and operating the well;
- (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:



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KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
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Exhibit "A"

Pitch Energy, Inc.
P. O. Box 304
Artesia, New Mexico 87011
Attn: Ray Miller

Marbob Energy Corporation
P. O. Box 227
Artesia, New Mexico
Attn: Ray Miller