

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,
EDDY COUNTY, NEW MEXICO.

CASE NO. 12985

APPLICATION

CHESAPEAKE OPERATING, INC. ("Chesapeake") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) and Division Rule 1207.A(1)(b) seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 7, T23S, R28E, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320-acre spacing, including but not limited to the North Loving-Morrow Gas Pool. This unit is to be dedicated to its Will "7-A" Well No. 1 has been drilled and completed at a standard well location in Unit A of this section. Also to be considered will be the costs of drilling and completing 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 a charge for risk involved in this well.

In support of its application Chesapeake states:

1. Chesapeake has a working interest ownership in the oil and gas minerals from the surface to the base of the Morrow formation underlying the N/2 of Section 7, T23S, R28E, NMPM, Eddy County, New Mexico.
2. The subject tract is located within one mile of the North Loving-Morrow Gas Pool.

3. This well was drilled at a standard gas well location in the N/2 (Unit A) of Section 7 to test any and all formations in the pooled interval from the surface to the base of the Morrow Formation.

4. Chesapeake has the voluntary agreement of certain of the working interest ownership of the oil & gas minerals from the surface to the base of the Morrow formation underlying the N/2 of this section

5. Chesapeake despite its good faith effort, has been unable to obtain the voluntary agreement the remaining 0.58625 percent of the mineral and working interest owner(s) in the spacing unit as identified on Exhibit "A."

6. 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.

7. Chesapeake requests that this application be processed in accordance with Division Rule 1207.A(1)(b) and at the time of hearing will submit the data required by this rule.

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 January 9, 2003.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on January 9, 2003 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 drilling, 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a faint circular stamp or watermark.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

Exhibit "A"

State of New Mexico,
ex rel State Highway Commission of New Mexico
P. O. Box 1149
Santa Fe, NM 87504-1149
Attn: William Moyers, Esq
General Counsel