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June 14, 2004

Hand Delivered

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

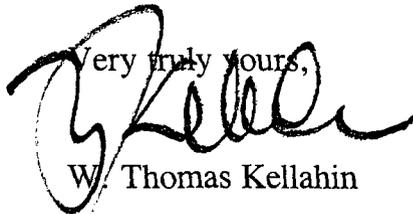
Re: NMOCD Case 13267
First Amended Application of Chesapeake Operating, Inc.
for an unorthodox gas well location and
to amend Order R-11432-A,
Lea County, New Mexico
Boyce "15" Well No. 5
E/2 Section 15, T16S, R35E, NMPM

2004 JUN 14 PM 3 22

Dear Mr. Fesmire:

On behalf of Chesapeake Operating, Inc., please find enclosed the referenced first amended application.

This case was heard on June 10, 2004 by Examiner Jones and continued to July 8, 2004 for the purpose of filing this first amended application to amend and re-advertise this case.

Very truly yours,

W. Thomas Kellahin

cc: William Jones, Examiner-OCD
William F. Carr, Esq.
Attorney for Yates
Chesapeake Operating, Inc.
Attn: Lynda Townsend

30-025-36475

Case 13267: Continued from June 10, 2004 and re-advertised. First amended application of Chesapeake Operating, Inc. for an unorthodox gas well location and to amend Order R-11432-A. Applicant seeks the approval of an unorthodox location for the Boyce "15" Well No. 5, in Unit B of Section 5, T15S, R35E for gas production from the North Shoe Bar-Atoka Gas Pool. This well was originally drilled at a standard location 330 feet FNL and 1650 feet FEL of this section for production from the Northwest Shoe Bar-Strawn Pool but is now at an unorthodox well location for any production of gas from the North Shoe Bar-Atoka Gas Pool. In addition, applicant seeks to amend Order R-11432-A. to substitute the Boyce "15" Well No. 5 for the Boyce "15" Well No.1 located in Unit A of this section. These well are located approximately 5 miles west of Lovington, New Mexico

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

**IN THE MATTER OF THE FIRST AMENDED
APPLICATION OF CHESAPEAKE OPERATING, INC.
FOR AN UNORTHODOX GAS WELL LOCATION,
AND TO AMEND DIVISION ORDER R-11432-A
LEA COUNTY, NEW MEXICO**

CASE: 13267

FIRST AMENDED APPLICATION

Comes now CHESAPEAKE OPERATING, INC. ("Chesapeake") by and through its attorneys, KELLAHIN and KELLAHIN, and amends this original application and now applies to the New Mexico Oil Conservation Division ("NMOCD") for approval of an unorthodox location for the Boyce "15" Well No. 5, in Unit B of Section 5, T16S, R35E for gas production from the North Shoe Bar-Atoka Gas Pool. This well was originally drilled at a standard location 330 feet FNL and 1650 feet FEL of this section for production from the Northwest Shoe Bar-Strawn Pool but is now at an unorthodox well location for any production of gas from the North Shoe Bar-Atoka Gas Pool. In addition, applicant seeks to amend Order R-11432-A to substitute the Boyce "15" Well No. 5 for the Boyce "15" Well No. 1.

In support thereof, Applicant states:

(1) On September 7, 2000, the Division conducted a hearing in Case 12482 to consider Chesapeake's application to contract the lower vertical limits of the North Shoe Bar-Atoka Gas Pool to exclude the "Brunson Interval" and to redesignate the pool as the North Shoe Bar-Upper Atoka Gas Pool and the concomitant creation of a new gas pool consisting of the Brunson Interval of the Lower Atoka formations to be designated as the North Shoe Bar-Atoka Gas Pool.

(2) On September 28, 2000 the Division entered Order R-11460 in Case 12482 and declined to create two separate Atoka gas pools but, in doing so, found that "in view of the evidence presented in this case, it is likely that Chesapeake can obtain an exception to Division Rule 104 to allow it to simultaneously produce its Boyce "15" Wells No. 1 and 3 from the North Shoe Bar-Atoka Gas Pool.

(3) On October 19, 2000 the Division heard Case 12448 (reopened). In accordance with Division Order R-11460, Chesapeake proposed to dedicate the E/2 of Section 15 to the Boyce #3 if it is capable of gas production from the Brunson Interval (lower Atoka) of the North Shoe Bar-Atoka Gas Pool and to simultaneously dedicate it and the Boyce #1 well to this spacing unit for production from the North Shoe Bar-Atoka Gas Pool.

(4) The North Shoe Bar-Atoka Gas Pool is currently governed by Division rule 104.C(2), which states, in part:

(a) the initial well on a 320-acre unit shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and

(b) only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(5) The Division by Order R-11432-A, dated November 28, 2000, (Case 12448 (reopened), approved Chesapeake's application and thereby:

a. authorized an exception to Rule 104 allowing the simultaneous dedication of two gas wells located in the same 160-acre portion of a 320-acre gas spacing unit to produce gas from the North Shoe Bar-Atoka Gas Pool being the Boyce 15 Well No. 3 and the Boyce 15 Well No. 1; and

- b. approved an unorthodox gas well location for the Boyce "15" Well No. 3 being located 2310 feet ENL and 443 feet FEL of this section for production from the North Shore Bar-Atoka Gas Pool.

(6) Subsequent to the order, Chesapeake has:

- a. abandoned the Atoka formation in the Boyce "15" Well No. 1 and has unsuccessfully attempted to recompleted the Boyce "15" Well No. 1 in the Strawn and then has successfully completed this well as an oil well in the Wolfcamp formation at a standard oil well location dedicated to a standard 160-acre oil spacing unit for the North Shoe Bar-Wolfcamp Pool;
- b. unsuccessfully drilled the Boyce "15" Well No. 5 to the Strawn formation at a location 330 feet FNL and 1650 feet FEL of this section for the Northwest Shoe Bar-Strawn Pool and then has successfully completed this well for gas production from the Upper Atoka gas section of the North Shoe Bar-Atoka Gas Pool causing this well to now be at an unorthodox location; and
- c. produced the Boyce "15" Well No. 3 at an approved unorthodox gas well location for gas production from the Townsend-Morrow Gas Pool in accordance with Order R-11432, issued in Case 12448 on August 3, 2000; and
- d. then abandoned the Morrow and completed the Boyce "15" Well No. 3 in the Brunson interval of the North Shoe Bar-Atoka Gas Pool in accordance with Division Order R-11432-A.

(7) Division Order R-11432-A provided, in part that "(4) The applicant shall not drill or recomplete additional infill wells within the E/2 of Section 15 in the North She Bar-Atoka Gas Pool until such time as production operations permanently cease in the Atoka formation in either the Boyce "15" Well No. 1 or the Boyce "15" Well No. 3.

(8) As a result of these changes, the Boyce "15" No. 1 is no longer production from the North Shoe Bar-Atoka Gas Pool and Order R-11432-A may be amended to substitute the Boyce "15" Well No. 5 for the Boyce "15" Well No. 1 thereby approving the simultaneous dedication of the Boyce "15" Well No. 5 and the Boyce "15" Well No. 3 to the same 160-acre portion of a standard 320-acre gas spacing unit consisting of the E/2 of Section 15.

(9) In addition, Chesapeake requests approval of the unorthodox gas well location for the Boyce "15" Well No 5 for production from the Upper Atoka portion of the North Shoe Bar-Atoka Gas Pool.

(10) Approval of this application will afford the applicant the opportunity to produce its just and equitable share of the gas underlying this unit, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

(11) Notice is being sent to Yates Petroleum Corporation as the offsetting operator towards whom the Boyce "15" Well No. 5 encroaches. Chesapeake has sent notification of this application and hearing as set forth on Exhibit A.

WHEREFORE, Applicant requests that, after notice and hearing, this Application be approved as requested.

KELLAHIN and KELLAHIN



BY _____
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NMOCD First Amended Application
Chesapeake Operating, Inc.
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EXHIBIT "A"

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Attn: Mr. Randy Patterson