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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

December 3, 2001

HAND DELIVERED

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

Case 12787

Re: **Lee "20" Well No. 1
E/2, Section 20, T17S, 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 January 10, 2002. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Chesapeake Operating, Inc.
Attn: Linda Townsend

CASE 12787 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 Morrow formation underlying the following described acreage in Section 20, T17S, R35E, NMPM, Lea County, New Mexico: (i) the E/2NE/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within this vertical extent; (ii) the NE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre gas spacing within this vertical extent; and (iii) the E/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within this vertical extent, including but not limited to the North Vacuum Atoka-Morrow Gas Pool. This unit(s) is to be dedicated to its Lee "20" Well No. 1 which will be located at a standard well location within Unit A of this section. Applicant further seeks an order prescribing terms ("operating provisions") pursuant to which future operations may be conducted in accordance with applicant's Joint Operating Agreement. 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 charge for risk involved in this well. This unit is located approximately 11 miles southeast of the center of the City of 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. 12787

APPLICATION

Comes now CHESAPEAKE OPERATING, INC. by its attorneys, Kellahin & Kellahin, and in accordance with NMSA 1978 Section 70-2-17.C, applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 20, T17S, R35E, NMPM, Lea County, New Mexico: (i) the E/2NE/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within this vertical extent; (ii) the NE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre gas spacing within this vertical extent; and (iii) the E/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within this vertical extent, including but not limited to the North Vacuum Atoka-Morrow Gas Pool. This unit(s) is to be dedicated to its Lee "20" Well No. 1 which will be located at a standard well location within Unit A of this section. Applicant further seeks an order prescribing terms ("operating provisions") pursuant to which future operations may be conducted in accordance with applicant's Joint Operating Agreement. 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 charge for risk involved in this well.

In support of its application, Chesapeake Operating, Inc. ("Chesapeake") states:

1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Morrow formation underlying the E/2 of Section 20, T17S, R35E, NMPM, Lea County, New Mexico.

2. Chesapeake has proposed this well and its appropriate spacing unit(s) to the working interest and unleased mineral interest owners in the spacing unit as identified on Exhibit "A."

3. Despite a good faith effort, Chesapeake has not been able to obtain written voluntary agreement from the parties listed on Exhibit "A."

4. 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.

5. Applicant further seeks an order prescribing terms ("operating provisions") pursuant to which future operations may be conducted in accordance with applicant's Joint Operating Agreement.

6. 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 "A" 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 10, 2002.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on January 10, 2002 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 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 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) an order prescribing terms ("operating provisions") pursuant to which future operations may be conducted in accordance with applicant's Joint Operating Agreement.
- (6) 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 in a cursive style.

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

EXHIBIT "A"
Parties to be pooled

Southwest Energy Production Company¹
2350 N. Sam Houston Parkway East, Ste 300
Houston, Texas 77032
attn: Sam Thompson

Phillips Petroleum Company²
4001 Penbrook Street
Odessa, TX 79762
attn: Linda Hicks

Ricks Exploration II, Limited Partnership
210 Park Ave.
3000 Oklahoma Tower
Oklahoma City, OK 73102
Attn: Larry Fenity

¹ Phillips Petroleum Company has advised that its entire interest in this spacing unit is subject to their farmout to Southwest.

² Phillips advises that it has farmed out its interest to Southwest