

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

P.O. Box 2265
Santa Fe, New Mexico 87504
117 North Guadalupe
Santa Fe, New Mexico 87501

Telephone 505-982-4285
Facsimile 505-982-2047
kellahin@earthlink.net

April 26, 2005

HAND DELIVERED

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

Case 13493

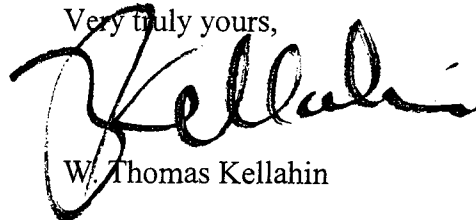
2005 APR 26 PM 1 43

Re: KF "4" State Well No. 1 (API #30-025-37129)
Location: Unit X
Dedication: S/2 of Irregular Section 4, T21S, R35E
Application of Chesapeake Permian, L.P.
for compulsory pooling,
Lea County, New Mexico

Dear Mr. Fesmire:

On behalf of Chesapeake Permian, L.P., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for May 19, 2005. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Chesapeake Operating, Inc.
Attn: Lynda Townsend

CASE 13493: Application of Chesapeake Permian, L.P. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, 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 gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (API #30-025-37129) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the 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, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well. This unit is located approximately 6 miles west from Oil Center, New Mexico.

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

**IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE PERMIAN, L.P.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO. *13493*

APPLICATION

CHESAPEAKE PERMIAN, L.P. ("Chesapeake") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, 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 gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (API#30-025-37129) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the 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, 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 is the current lessee of State of New Mexico Oil & Gas Lease #VO-7063-1, effective May 1, 2004, covering the SW/4 of Irregular Section 4.
- (2) The SE/4 of this section is subject to a State of New Mexico Oil & Gas Lease #B1481, effective December 19, 1932 that as of March 9, 2005 the working interest owners were: Kaiser Francis Oil Company with 43.75% interest and Samson Resources Company with 6.25% interest.
- (3) On March 9, 2005, Chesapeake, by letter including an AFE, proposed the drilling of its KF State 4 Well No. 1 for an estimated completed well costs of \$2,012,000.00 to be dedicated to a standard 320-acre gas spacing unit consisting of the S/2 of this irregular section to both Kaiser Francis Oil Company and Samson Resources Company.

- (4) On March 10, 2005 Chesapeake staked the subject well and on March 11, 2005, obtained Division approval of Chesapeake's application for permit to drill ("APD")
- (5) By letter dated March 16, 2005, Samson Resources Company, on its behalf and for all its related affiliates including Geodyne Nominee Corporation, **elected to participate** in Chesapeake's proposed well and spacing unit.
- (6) By letter dated March 30, 2005, Samson Resources Company **attempted to rescind** its March 16, 2005 election to participate contending that there was no JOA between the parties despite the fact that Chesapeake well proposal was not made pursuant to any JOA.
- (7) The validity of Samson Resources Company attempt to rescind its election is disputed by Chesapeake.
- (8) By letter dated April 4, 2005, Chesapeake sent its Joint Operating Agreement ("JOA") to Samson Resources Company and to Kaiser Francis Oil Company.
- (9) By letter dated April 5, 2005, Samson Resources Company, still assuming that it could rescind its prior election to participate, acknowledge receipt of Chesapeake's JOA and advised that it would not sign it.
- (10) On April 5, 2005, Jim Wakefield, on behalf of Kaiser Francis Oil Company, informed Chesapeake that he owed Mewbourne Oil Company and "big favor" and was assigning it what amounted to 7.1875% interest the SE/4 and therefore decline to participate in Chesapeake's proposal.
- (11) By its actions, Kaiser Francis Oil Company has apparently conspired with Mewbourne Oil Company in an attempt to avoid Chesapeake proposal for its well and spacing unit.
- (12) Because of Kaiser Francis Oil Company action, Chesapeake has concluded that it will be unable to reach a voluntary agreement with Kaiser Francis Oil Company.

- (13) As an alternative to litigation whether Samson Resources Company has validly rescinded its prior election to participate, Chesapeake seeks to have Samson Resources Company interest pooled by the Division.
- (14) Neither Kaiser Francis Oil Company nor Mewbourne Oil Company has provided Chesapeake with any document concerning any transfer of interest or if there are any such documents of record as of the date this application was filed.
- (15) But in the event that Mewbourne Oil Company may have an interest in the SE4 of this section, then Chesapeake seeks any order that pooled all interests in the SE/4 of this section including any held by Mewbourne Oil Company.
- (16) Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.
- (17) 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.
- (18) 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 May 19, 2005.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on May 19, 2005 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:

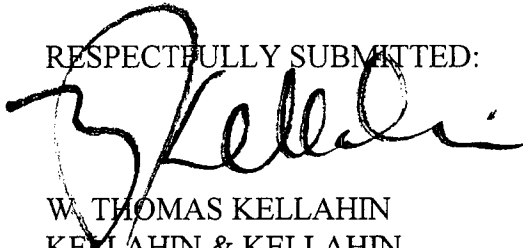
- (1) Chesapeake Operating, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of re-entering, completing, equipping and operating the well;

(3) In the event a mineral interest or working interest owner fails to elect to participate, then provisions 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', is written over the typed name and address.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
Telephone: (505) 982-4285
Fax: (505) 982-2047

EXHIBIT "A"

Kaiser Francis Oil Company
P. O. Box 21468
Tulsa, Oklahoma 74121-1468
Attn: Jim Wakefield

Samson Resources Company
2 W. 2nd Street
Tulsa, Oklahoma 74103
Attn: Mono Ables

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79707