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August 19, 2003

**HAND DELIVERED**

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

*Case 13147*

**RECEIVED**

AUG 19 2003

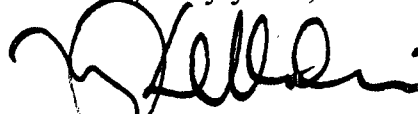
Oil Conservation Division

Re: Caudill "7" Well No. 1  
Unit P, W/2SE/4 Section 7, T16S, R37E  
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 September 18, 2003. 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

**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. 13147  
**RECEIVED**

AUG 19 2003

Oil Conservation Division

**APPLICATION**

CHESAPEAKE OPERATING, INC. ("Chesapeake") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests in the Upper Pennsylvanian formations underlying the E/2SE/4 of Section 7, T16S, R37E, NMPM, Lea County, New Mexico, forming a standard 80-acre oil spacing and proration unit for any production from these formations, including but not limited to the Northeast Lovington-(Upper) Pennsylvanian Pool. This unit is to be dedicated to its Caudill "7" Well No. 1 which is to be drilled at an amended unorthodox well location in Unit P (See Administrative Order NSL-4912, dated July 9, 2003, to be amended). 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 a risk charge of 200% for the 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 underlying the E/2SE/4 of Section 7, T16S, R37E, NMPM, Lea County, New Mexico.
2. The subject tract is subject to the Northeast Lovington-(Upper) Pennsylvanian Pool which provides for standard 80-acre oil spacing and proration unit with standard well locations within 150-feet of the center of a quarter-quarter section.

3. On June 26, 2003 Chesapeake, base upon geological reasons, filed its application with the Division for approval of an unorthodox well location for its Caudill 7-1 well to be located 1310 feet from the South line and 560 feet from the East line of this section.

4. By Division Administrative Order NSL-4912, dated July 9, 2003, the Division approved Chesapeake administrative application for this unorthodox well location.

5. When Chesapeake returned to the location for further inspection they were advised by the surface owner that he had misunderstood the well location and that there is a buried water line that would interfere with the pad for this well. With the consent of the surface owner, Chesapeake will seek approval from the Division of an amended location to be 1310 feet FSL and 500 feet FEL of this section.

6. More than 30-days prior to this application, Chesapeake proposed the formation of this spacing unit to be dedicated to a well to be drilled in Unit P of this section. Despite its reasonable efforts, Chesapeake has been unable to obtain the voluntary agreement of all of the interest owners.

7. 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.

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 August 18, 2003.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on August 18, 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 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name and address.

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Caudill notice list            Exhibit "A"

Nitram Enterprises, Inc.  
P. O. Box 3580  
Midland, Texas 79702

Matador Royalty Co.  
8340 Meadow Rd, Suite 158  
Dallas, Texas 75231

Coates Energy Interest, Ltd.  
P. O. Box 171717  
San Antonio, TX 78217

Coates Energy Trust  
Energy Plaza II, Ste 510  
8610 N. New Braunfels  
San Antonio, TX 78217

Janet Rhodes  
5221 E. Patterson St.  
Long Beach, CA 90815

Dorchester Minerals, L.P.  
3738 Oak Lawn Ave.  
Suite 300  
Dallas, TX 75219

Helen Brown  
2699 Altus Dr.  
Fayette, AR 72703

Marcenas Minerals, LLP  
P. O. 176  
Abilene, TX 79604

Kerr McGee Corporation  
16666 Northchase Drive  
Houston, TX 77060

Estate of Richard Floyd McAddo  
C/O Jo Ann Williams  
111 Colony Drive  
Sierra Madre, CA 91024

Estate of Ida Louise Brown McDonald  
3677 Ridgeview Rd.  
Ijamsville, Maryland 21754