

KELLAHIN & KELLAHIN
Attorney at Law

W. THOMAS KELLAHIN
706 GONZALES ROAD
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-982-4285
FACSIMILE 505-982-2047
TKELLAHIN@COMCAST.NET

September 30, 2008

HAND DELIVERED

Case 14237

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

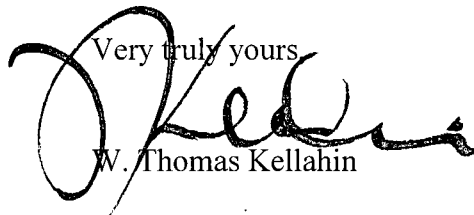
RECEIVED
2008 SEP 30 PM 4 26

Re: Chesapeake's Cepheus 27 State Com Well No. 1H
(API # pending)
N2S/2 Section 27, T15S R31E
Application of Chesapeake Energy Corporation
for approval of a 160-acre non-standard oil proration and
spacing unit and Compulsory Pooling
Chaves County, New Mexico

Dear Mr. Fesmire:

On behalf of Chesapeake Energy Corporation, enclosed for filing is our referenced application to be set for hearing on October 30, 2008.

Very truly yours



W. Thomas Kellahin

CC: Chesapeake Energy Corporation
Attn: Jared I. Boren, Landman

CASE 14237: Application of Chesapeake Energy Corporation for approval of a 160-acre non-standard spacing and proration unit and for compulsory pooling, Chaves County, New Mexico. Applicant seeks the formation of a 160-acre non-standard spacing and proration unit consisting of the N/2S/2 of Section 27, T15S, R31E, Chaves County, N. M. to be dedicated to its Cepheus 27 State Com Well No. 1H (API# pending) which will be located at a standard surface location 1980 feet FSL and 330 feet FWL (Unit L) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an easterly direction staying within a producing area 330 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1980 feet FSL and 330 feet FEL (Unit I). In addition, applicant seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the above-described acreage. 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 200% charge for risk involved in this well. This unit is located approximately 30 miles east of Hagerman, New Mexico.

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

**IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE ENERGY CORPORATION FOR
APPROVAL OF A 160-ACRE NON-STANDARD SPACING
AND PRORATION UNIT AND FOR COMPULSORY POOLING
CHAVES COUNTY, NEW MEXICO.**

CASE NO. 14237

RECEIVED
2008 SEP 30 PM 4 26

APPLICATION

Comes now CHESAPEAKE ENERGY CORPORATION ("Chesapeake") by its attorneys, Kellahin & Kellahin, applies to the New Mexico Oil Conservation Division for approval of a 160-acre non-standard spacing and proration unit consisting of the N/2S/2 of Section 27, T15S, R31E, Chaves County, N. M. to be dedicated to its Cepheus 27 State Com Well No. 1H (API# pending) which will be located at a standard surface location 1980 feet FSL and 330 feet FWL (Unit L) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an easterly direction staying within a producing area 330 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1980 feet FSL and 330 feet FEL (Unit I). In addition, applicant seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the above-described acreage. 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 200% charge for risk involved in this well.

In support of its application, Chesapeake Energy Corporation ("Chesapeake") states:

1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Wolfcamp formation underlying three of the four 40-acre tracts composing a 160-acre non-standard oil spacing and proration unit consisting of the N/2S/2 of Section 27, T15S, R31E, NMPM, Chaves County, New Mexico. See locator map attached as Exhibit "A"
2. This proposed 160-acre non-standard oil spacing unit contains four 40-acre tracts:

N/2SW/4 and NW/4SE/4:	Chesapeake = 100%
NE/4SE/4:	ChervonTexaco= 100%

3. On December 7, 2007, Chesapeake proposed to ChevronTexaco that the N/2S/2 of this section be dedicated as a 160-acre Wolfcamp oil spacing unit for production from the Wolfcamp formation to be obtained from its proposed horizontal wellbore the Cepheus 27 State Com Well No. 1H to be located drilled as a horizontal wellbore as shown on Form C-102 attached as Exhibit "B".
4. At this time, Chesapeake has not been able to obtain a written voluntary agreement from all the party listed on Exhibit "C"
5. While Division Rule 111 provides that a project area for a horizontal wellbore may include a combination of complete spacing units, the New Mexico Oil and Gas Act limits compulsory pooling to the tracts of land embraced within a spacing or proration unit. See 70-2-17.C NMSA 1978. It appears that a project area for a horizontal wellbore that contains multiple 40-acre oil spacing units cannot be pooled unless a non-standard spacing unit is also approved. Therefore, Chesapeake seeks the designation of the N/2S/2 of this section as a 160-acre non-standard spacing and proration unit.
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, 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.
7. Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that a 200% risk charge be applied.
8. 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 "C" of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for October 30, 2008.

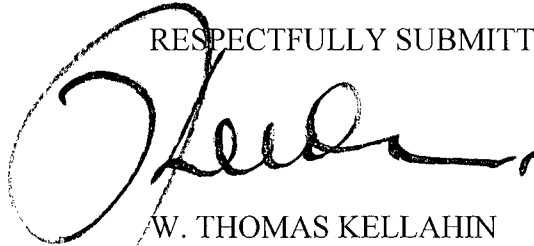
WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on October 30, 2008 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for the drilling of this well 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 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 charge 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.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501
(505) 982-4285

Poseidon
22 State
Com #2 75%

CIMAREX
2012
STATE

CHK 100
1/8
HBP
SL STATE

ELLIOT
(IV)

CHK 100%
3/16
02/01/2012
STATE

27

Cepheus 27
State Com
#1 75%

CHEVRON
HBP
STATE

PITCH
(I)

PITCH
(I)

LIPS

EXHIBIT
A
PENCAO 800-631-6999

DISTRICT I
1625 N. FRENCH DR., BOBBS, NM 86240

State of New Mexico
Energy, Minerals and Natural Resources Department

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 86210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

OIL CONSERVATION DIVISION

1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name CEPHEUS 27 STATE COM	Well Number 1H
OGRID No.	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 4394'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	27	15-S	31-E		1980	SOUTH	330	WEST	CHAVES

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
I	27	15-S	31-E		1980	SOUTH	330	EAST	CHAVES
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>GEODETIC COORDINATES NAD 27 NME SURFACE LOCATION</p> <p>Y=722413.5 N X=658451.5 E</p> <p>LAT.=32.984915° N LONG.=103.816594° W</p> <p>330' S.L.</p> <p>GRID. AZ. - 89°28'56" HORZ. DIST. - 4624.3'</p> <p>1980'</p> <p>BOTTOM HOLE LOCATION</p> <p>Y=722455.2 N X=663074.5 E</p> <p>1980'</p> <p>EXHIBIT B</p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Signature _____ Date _____</p> <p>Printed Name _____</p> <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>DECEMBER 4/2007</p> <p>Date Surveyed _____</p> <p>Signature & Seal of Professional Surveyor</p> <p>RONALD J. EIDSON 3239</p> <p>Certificate No. GARY C. EIDSON 12641 RONALD J. EIDSON 3239</p>
---	---

Exhibit "C"

ChevronTexaco
11111 South Wilcrest
Houston TX 77099