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Attorney at Law

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September 30, 2008

HAND DELIVERED

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

Case 14227

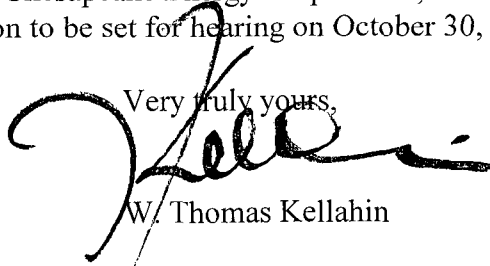
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2008 SEP 30 PM 4 21

Re: Chesapeake's Draco 14 Federal Com Well No. 2H
(API # pending)
S/2N/2 Section 14, 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 14227: 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 S/2N/2 of Section 14, T15S, R31E, Chaves County, N. M. to be dedicated to its Draco 14 Federal Com Well No. 2H (API# pending) which will be located at a standard surface location 1980 feet FNL and 330 feet FEL (Unit H) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an westerly 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 FNL and 330 feet FWL (Unit E). 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 32 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. 14227

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2008 SEP 30 PM 4 21

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 S/2N/2 of Section 14, T15S, R31E, Chaves County, N. M. to be dedicated to its Draco 14 Federal Com Well No. 2H (API# pending) which will be located at a standard surface location 1980 feet FNL and 330 feet FEL (Unit H) and deviated so that when the wellbore penetrates the Wolfcamp formation it will be at a standard subsurface location then drilled horizontally in an westerly 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 FNL and 330 feet FWL (Unit E). 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:

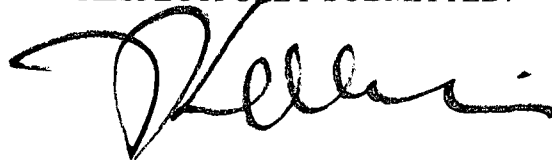
1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Wolfcamp formation underlying two of the four 40-acre tracts composing a 160-acre non-standard oil spacing and proration unit consisting of the S/2N/2 of Section 14, T15S, R31E, NMPM, Chaves 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:
 - a. S/2NE/4: Chesapeake = 50% and COG =50%
 - b. S/2NW/4: Chase = 100%

3. On November 26, 2007, Chesapeake proposed COG Oil & Gas LP ("COG") and on December 6, 2007 Chesapeake proposed to Chase Oil Corp ("Chase") that the S/2N/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 Draco 14 Federal Com Well No. 2H to be located drilled as a horizontal wellbore as shown on Form C-102 attached as Exhibit "B".
4. On October 16, 2007, COG, without first proposing its well to Chesapeake, obtained approval of an application for permit to drill ("APD") from the BLM for its Andromeda Federal Well No. 2H (API # 30-005-27976).
5. In doing so, COG violated the Division Form C-102 by falsely certify that it had an interest in the bottom hole location for this wellbore when in fact the bottom hole location and two tracts within this spacing unit are controlled by Chase. See Exhibit "C" attached.
6. On December 17, 2007, COG having received Chesapeake's well proposal responded to Chesapeake with a competing wellbore.
7. At this time, Chesapeake has not been able to obtain a written voluntary agreement from all the parties listed on Exhibit "D"
8. 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 S/2N/2 of this section as a 160-acre non-standard spacing and proration unit.
9. 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.
10. Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that a 200% risk charge be applied.
11. 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 "D" 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. Kellahin', with a stylized flourish at the end.

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

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II
1 W. GRAND AVENUE, ARTESIA, NM 88210

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

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

State of New Mexico
Energy, Minerals and Natural Resources Department

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 DRACO 14 FEDERAL COM	Well Number 2H
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 4375'

Surface Location

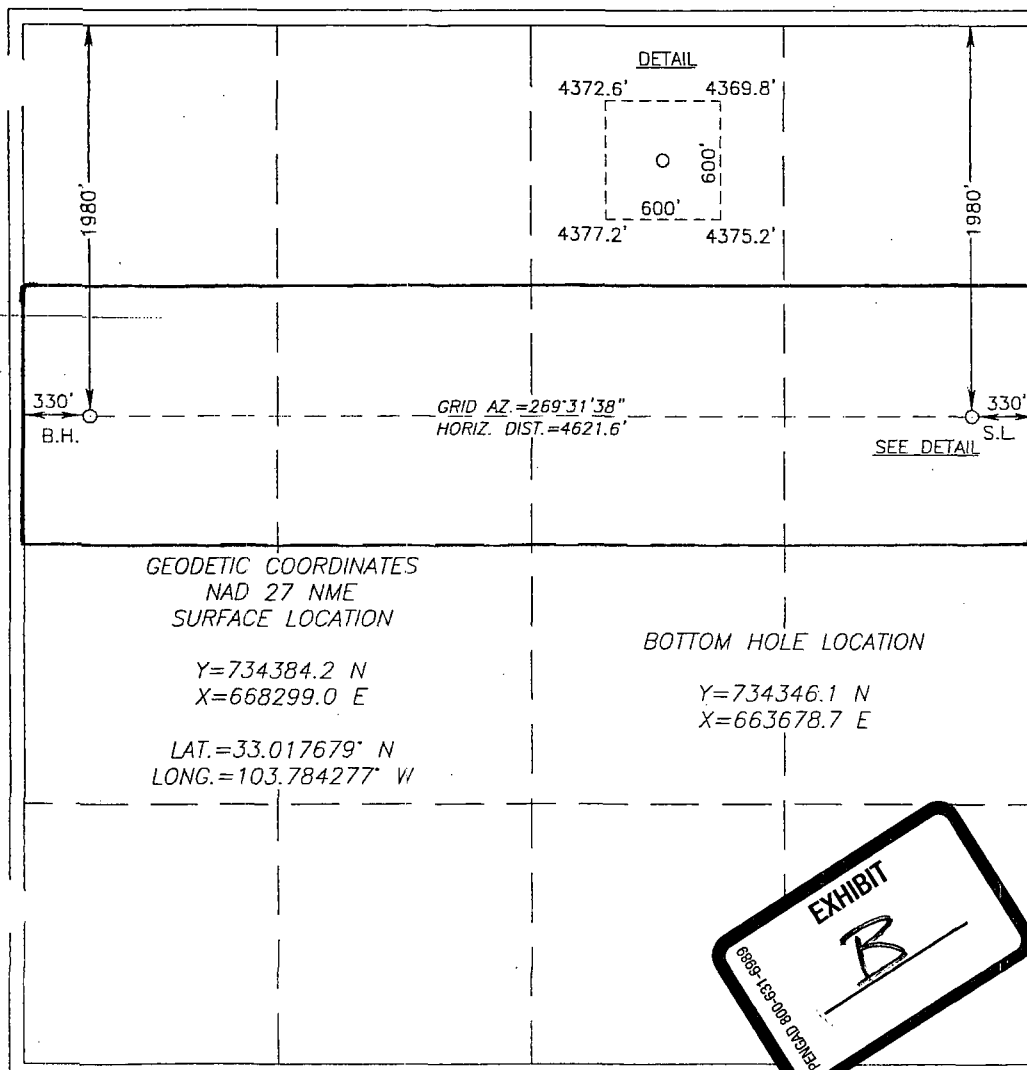
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	14	15-S	31-E		1980	NORTH	330	EAST	CHAVES

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
E	14	15-S	31-E		1980	NORTH	330	WEST	CHAVES

Dedicated Acres 160	Joint or Infill	Consolidation Code	Order No.
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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



OPERATOR CERTIFICATION

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.

Signature _____ Date _____

Printed Name _____

SURVEYOR CERTIFICATION

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.

NOVEMBER 29 2007

Date Surveyed _____ LA

Signature & Seal of Professional Surveyor

Ronald J. Eidson 12/10/07
07-11-1795

Certificate No. GARY EIDSON 12641
RONALD J. EIDSON 3239

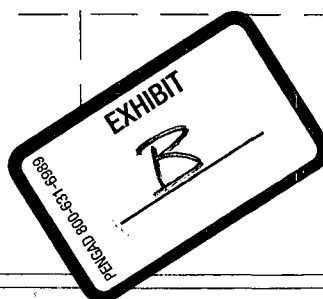


EXHIBIT A-1

Exhibit "A"

DISTRICT I

1825 N. French Dr., Hobbs, NM 88240

DISTRICT II

1301 W. Grand Avenue, Artesia, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources DepartmentForm C-102
Revised October 12, 2005Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, New Mexico 87505☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-005-27976	Pool Code	Pool Name Wildcat Undesignated Wolfcamp
Property Code 36797	Property Name ANDROMEDA FEDERAL	Well Number 24
OGRID No. 229137	Operator Name C.O.G. OPERATING L.L.C.	Elevation 4375'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	14	15 S	31 E		1980	NORTH	850	EAST	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
E	14	15 S	31 E		1980	NORTH	330	WEST	CHAVES

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160			

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

OPERATOR CERTIFICATION

I hereby certify that the information contained 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 pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

[Signature] 9/12/07
Signature Date
Dennis Wayne Agent for
Printed Name COG

SURVEYOR CERTIFICATION

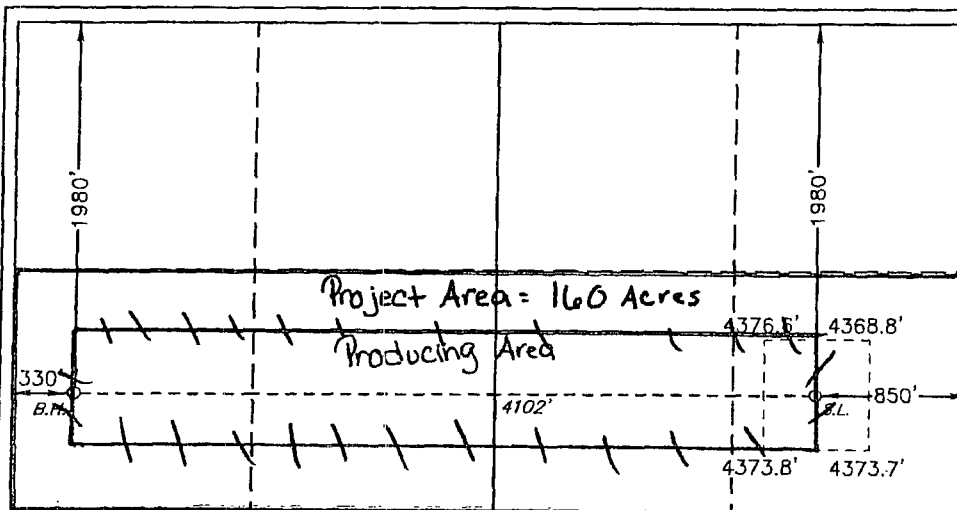
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

JULY 27, 2007

Date Surveyed
Signature & Seal
Professional Surveyor
[Signature]
W. L. Jones 12565

Certificate No. Gary L. Jones 7977

BASIN SURVEYS



BOTTOM HOLE LOCATION

LAT.: N 33°01'03.9"
LONG.: W103°47'59.5"
N.: 734407.51
SPC- E.: 704854.24
(NAD-83)

SURFACE LOCATION

LAT.: N 33°01'04.07"
LONG.: W103°47'11.35"
N.: 734444.6
SPC- E.: 708956.8
(NAD-83)

EXHIBIT
C

888-139-000
888-139-000

Exhibit "D"

COG Oil & Gas LP
550 West Texas Avenue
Suite 1300
Midland, TX 79701

Chase Oil Corporation
11352 Lovington Highway
Artesia, NM 88210