

**KELLAHIN & KELLAHIN**  
**Attorney at Law**

**W. THOMAS KELLAHIN**  
**706 GONZALES ROAD**  
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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 14226*

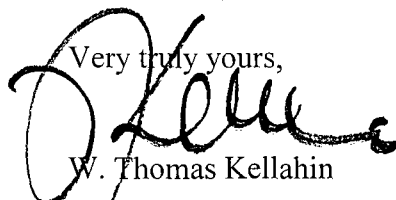
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2008 SEP 30 PM 4 20

**Re: Chesapeake's Draco 14 Federal Com Well No. 1H**  
**(API # pending)**  
**N/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 14/12<sup>6</sup> 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/2N/2 of Section 14, T15S, R31E, Chaves County, N. M. to be dedicated to its Draco 14 Federal Com Well No. 1H (API# pending) which will be located at a standard surface location 660 feet FNL and 330 feet FEL (Unit A) 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 660 feet FNL and 330 feet FWL (Unit D). 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. 14226

**RECEIVED  
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**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/2N/2 of Section 14, T15S, R31E, Chaves County, N. M. to be dedicated to its Draco 14 Federal Com Well No. 1H (API# pending) which will be located at a standard surface location 660 feet FNL and 330 feet FEL (Unit A) 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 660 feet FNL and 330 feet FWL (Unit D). 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:

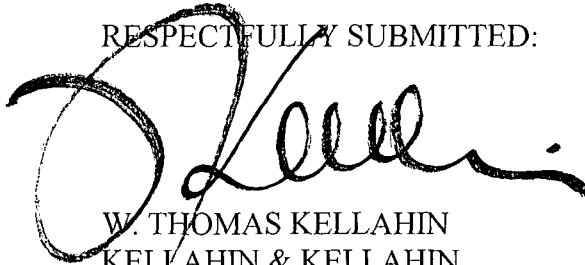
1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Wolfcamp formation underlying two of the four 40-acre tracts composing a 160-acre non-standard oil spacing and proration unit consisting of the N/2N/2 of Section 14, T15S, R31E, NMPM, Chaves 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. N/2NE/4: Chesapeake = 50% and COG =50%
  - b. N/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 N/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. 1H to be located drilled as a horizontal wellbore as shown on Form C-102 attached as Exhibit "B".
4. On October 23, 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. 1H (API # 30-005-27975).
5. In doing so, COG violated the Division Form C-102 by falsely certify that it had an interest in both the surface and bottom hole location for this wellbore when in fact the bottom hole location and two of the tracts to be penetrated are within tracts 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 N/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 large, stylized handwritten signature in black ink, appearing to read 'W. Kellahin', is written over the typed name and address.

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

Exhibit "D"

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

Penroc Oil Corporation  
1515 Calle Sur Street  
Hobbs, NM 88240

Chase (need address)

CIMAREX  
HBP  
STATE

us  
d.  
25%



Cimarex's  
Enterprise 11  
State Com #1

PENROC 24% HBP  
OTHER 76%  
2010  
FEE



opeia  
ed.  
125%



Draco 14 Fed. Com 1H 25%

CHASE  
2012  
STATE



Draco 14 Fed. Com 2H 25%

CHK 50.0%  
COG 50.0%  
1/8  
02/28/2011  
FEDERAL

SL

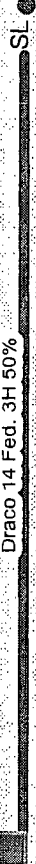
14

COG 100%  
2012  
STATE

Cassiopeia  
15 Fed.  
Com 3H 25%



Draco 14 Fed. 3H 50%



SL

siopela  
Fed.  
4H 25%



PENROC 24% HBP  
CIMAREX 18%  
OTHER 58%  
2010  
FEE

Medusa 23  
State Com  
#1 50%

SL

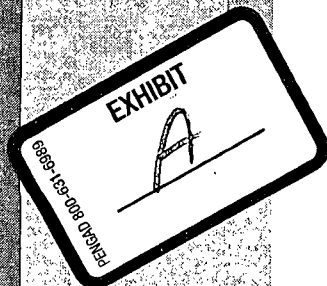
CHK 100%  
1/8  
HBP

Medusa 23

CROWN CENTRAL 50%

MOBIL 100%  
HBP  
STATE

seidon



PENROC 62%  
OTHER 38%  
HBP  
FFF  
1 (OO)



PENROC 100%  
HBP  
FEE

Wink  
13 Fed.  
Com 3H

13

CHK 50.0%  
COG 50.0%  
1/8  
02/28/2011  
FEDERAL

Wink  
13 Fed.  
Com 1H 37.5%

Wink  
13 Fed.  
Com 2H 25%

PITCH

## DISTRICT I

1626 N. FRENCH DR., MOHRS, NM 86240

## DISTRICT II

1901 W. GRAND AVENUE, ARTERIA, NM 86210

## DISTRICT III

1000 Rio Brazos Rd., Artec, 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 1H
OGRID No.	Operator Name CHESAPEAKE OPERATING, INC.		Elevation 4377'

## Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	14	15-S	31-E		660	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
D	14	15-S	31-E		660	NORTH	330	WEST	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><b>BOTTOM HOLE LOCATION</b> Y=735665.8 N X=663674.4 E</p> <p><b>GEODETIC COORDINATES</b> NAD 27 NME <b>SURFACE LOCATION</b> Y=735703.9 N X=668291.7 E LAT.=33.021307° N LONG.=103.784278° W</p> <p><b>DETAIL</b> 4380.8' 4379.0' 600' 600' 4373.5' 4370.3'</p>	<p><b>OPERATOR CERTIFICATION</b></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><b>SURVEYOR CERTIFICATION</b></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 11, 2007</p> <p>Date Surveyed _____ DSS</p> <p>Signature &amp; Seal of Professional Surveyor _____</p> <p>RONALD J. EIDSON 12/11/07</p>
	<p>Certificate No. GARY G. EIDSON 12641 RONALD J. EIDSON 3239</p>
	<p><b>EXHIBIT B</b></p>

## Exhibit "A"

DISTRICT I  
1626 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 Department

Form C-102  
Revised October 12, 2005

Submit 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 <b>30-005-27975</b>	Pool Code <b>✓</b>	Pool Name <b>Wildcat Undesignated Wolfcamp</b>
Property Code <b>36797</b>	Property Name <b>ANDROMEDA FEDERAL</b>	Well Number <b>1H</b>
OGRID No. <b>229137</b>	Operator Name <b>C.O.G. OPERATING L.L.C.</b>	Elevation <b>4375'</b>

## Surface Location

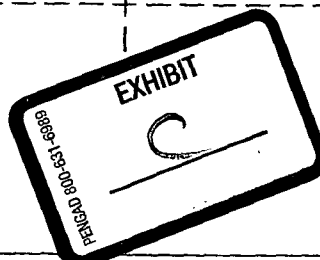
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	14	15 S	31 E		660	NORTH	330	EAST	CHAVES

## 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
D	14	15 S	31 E		660	NORTH	330	WEST	CHAVES
Dedicated Acres <b>160</b>	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>Project Area = 160 acres</p> <p>Producing Area</p> <p>330' B.H.</p> <p>4626'</p> <p>330' S.L.</p> <p>4377.3' 4375.8'</p> <p>4370.3' 4367.0'</p>		<p><b>OPERATOR CERTIFICATION</b></p> <p>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.</p> <p><i>[Signature]</i> <b>9/12/07</b> Signature Date</p> <p><i>[Printed Name]</i> <b>Agent for C.O.G.</b> Printed Name</p>
<p><b>BOTTOM HOLE LOCATION</b></p> <p>LAT.: N 33°01'07.36"</p> <p>LONG.: W103°46'57.48"</p> <p>SPC- N.: 734782.117</p> <p>E.: 710144.863</p> <p>(NAD-83)</p>	<p><b>SURFACE LOCATION</b></p> <p>LAT.: N 33°01'17.15"</p> <p>LONG.: W103°47'05.25"</p> <p>SPC- N.: 735769.1</p> <p>E.: 709469.5</p> <p>(NAD-83)</p>	<p><b>SURVEYOR CERTIFICATION</b></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><b>JULY 26, 2007</b></p> <p>Date Surveyed</p> <p><i>[Signature]</i> <b>GARY L. JONES</b> Signature &amp; Seal of Professional Surveyor</p> <p><b>7977</b></p> <p>Certificate No. Gary L. Jones</p>



BASIN SURVEYS

Exhibit "D"

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

Chase Oil Corporation  
11352 Lovington Highway  
Artesia, NM 88210