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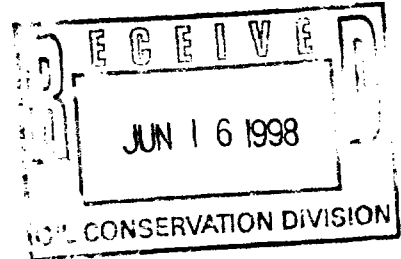
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W. THOMAS KELLAHIN\*

\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

June 16, 1998



**HAND DELIVERED**

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

12007

**Re: Warehouse "10" Well No 1  
Application of Chesapeake Operating, Inc.  
for Compulsory Pooling and approval of a Directional Wellbore  
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 July 9, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

W. Thomas Kellahin

cc: Chesapeake Operating, Inc.  
Attn: Mike Hazlip

*Drilling*

CASE <sup>2007</sup>       : Application of Chesapeake Operating Inc. for compulsory pooling and ~~a~~ directional wellbore, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying the E/2NW/4 of Section 10, T16S, R36E, NMPM, Lea County, New Mexico, forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within said vertical extent, which presently may include but is not necessarily limited to the Northeast Lovington-Pennsylvanian Pool, and forming a standard 40-acre oil spacing and proration unit underlying the SE/4NW/4 of said Section 10 for any and all formations/pools developed on 40-acre oil spacing. Said unit is to be dedicated to its Warehouse "10" Well No. 1 which applicant seeks approval to drill as a directional wellbore from a surface location 1172 feet FNL and 2445 feet FEL to an approximate bottomhole location 1438 feet FNL and 1856 feet FWL in said Section 10. Also to be considered will be the costs of drilling and completing said 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 charge for risk involved in said well. Said unit is located approximately 1-1/2 miles south from the center of the City of Lovington, New Mexico.

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 AND A  
DIRECTIONAL WELLBORE  
LEA COUNTY, NEW MEXICO.

CASE NO. 12007

APPLICATION

Comes now CHESAPEAKE OPERATING, INC. by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) NMSA (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying the E/2NW/4 of Section 10, T16S, R36E, NMPM, Lea County, New Mexico, forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within said vertical extent, which presently may include but is not necessarily limited to the Northeast Lovington-Pennsylvanian Pool, and forming a standard 40-acre oil spacing and proration unit underlying the SE/4NW/4 of said Section 10 for any and all formations/pools developed on 40-acre oil spacing. Said unit is to be dedicated to its Warehouse "10" Well No. 1 which applicant seeks approval to drill as a directional wellbore from a surface location 1172 feet FNL and 2445 feet FEL to an approximate bottomhole location 1438 feet FNL and 1856 feet FWL in said Section 10. Also to be considered will be the costs of drilling and completing said 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 charge for risk involved in said well.

In support of its application, Chesapeake Operating, Inc. ("Chesapeake") states:

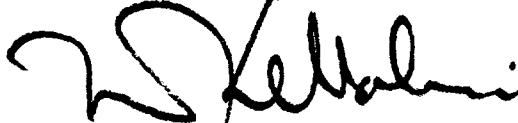
1. Chesapeake has the right to drill and develop the oil and gas minerals from the surface to the base of the Strawn formation underlying the E/2NW/4 of Section 10, T16S, R36E, NMPM, Lea County, New Mexico.
2. The subject tract is located approximately one-mile from the current boundaries of the Northeast Lovington-Pennsylvanian Pool.
3. In accordance with Rule 111, Chesapeake filed an administrative application with the Division seeking approval to directionally drill this well and to dedicate it to an 80-acre spacing unit consisting of the E/2NW/4.
4. Chesapeake's lease which expires on August 3, 1998 has been "top leased" by Bahlburg Exploration Inc. ("Bahlburg"). If Chesapeake fails to commence this well prior to August 3, 1998, it will "lose its lease" to Bahlburg.
5. Bahlburg also owns other working interests in this proposed E/2NW/4 spacing unit as well as a larger interest in the W/2NW/4 of said Section 10.
6. By letter dated June 9, 1998, Bahlburg has advised the Division that it objects to the granting of Chesapeake's Application for Permit to Drill.
7. In addition, Bahlburg objects to Chesapeake's proposed orientation of this spacing unit contending that the well should be dedicated to the S/2NW/4, an orientation which will substantially increase Bahlburg's interest in the well.
8. Chesapeake has proposed the subject well and its appropriate spacing unit to the working interest owners in the spacing unit as identified on Exhibit "A."
9. Because of Bahlburg's objections, it will not be possible for Chesapeake to obtain written voluntary agreement from all the parties listed on Exhibit "A."
10. 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.

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 as listed on Exhibit "A" 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 July 9, 1998.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on July 9, 1998 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 the subject 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 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 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) Approval to directionally drill the subject well as requested;
- (6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN  
KELLAHIN & KELLAHIN  
P. O. Box 2265  
Santa Fe, New Mexico 87501  
(505) 982-4285

**EXHIBIT "A"**

Bahlburg Exploration Inc.  
2115 Teakwood  
Plano, Texas 75075  
Attn: William C. Bahlburg

Dalco Petroleum, L.L.C.  
P. O. Box 1904  
Lovington, New Mexico 79702

Gary J. Lamb, Inc.  
P. O. Box 3383  
Midland, Texas 79702

J. M. Mineral & Land Company, Inc.  
P. O. Box 1015  
Midland, Texas 79702

Magnolia Royalty Company, Inc.  
P. O. Box 10703  
Midland, Texas 79702

Manzano Oil Corporation  
1801 West Second  
Roswell, New Mexico 88202