

HOLLAND & HART LLP
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July 28, 2008

HAND-DELIVERED

Mark E. Fesmire, P.E.
 Director
 Oil Conservation Division
 New Mexico Department of Energy,
 Minerals and Natural Resources
 1220 South Saint Francis Drive
 Santa Fe, New Mexico 87505

Re: Application of Chesapeake Operating, Inc. to amend Administrative Order NSL-5858 for administrative approval of an unorthodox well location for its Diamond 31 Federal Well No. 4H to be drilled from a surface location and penetration point 1670 feet from the North line and 25 feet from the East line and a bottomhole location 1670 feet from the North line and 350 feet from the West line of Section 31, Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks to amend Administrative Order NSL-5858 for administrative approval pursuant to the provisions of Division Rules 104 and 111 for an unorthodox well location for its Diamond 31 Federal Well No. 4H. This well is located in Section 31, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico and will be drilled in the Bone Spring formation, Willow Lake Bone Spring Pool, from an unorthodox surface location and penetration point 1670 feet from the North line and 25 feet from the East line to a standard bottomhole location 1670 feet from the North line and 350 feet from the West line of said Section 31, Eddy County, New Mexico. A 160-acre project area has been dedicated to this horizontal well comprised of the S/2 N/2 of Section 31.

This location is unorthodox because the Bone Spring formation under this acreage is governed by the Division's statewide rules which provide for wells on 40-acre spacing units to be located no closer than 330 feet to the outer boundary of the spacing unit. Division Rule 111 defines the "Penetration Point" as "the point where the wellbore penetrates the top of the pool from which it is intended to produce." The wellbore penetrates the Bone Spring formation at a point 25 feet from the East line of Section 31.

In its original application, Chesapeake stated that the surface location and penetration point of the well would be 2200 feet from the North line and 150 feet from the East line

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and a bottomhole location 2200 feet from the North line and 1650 feet from the West line of Section 31, Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico. However, the correct location of the well will be at a surface location and penetration point 1670 feet from the North line and 25 feet from the East line and a bottomhole location 1670 feet from the North line and 350 feet from the West line of Section 31.

A copy of this application was mailed to Nearburg Exploration who is the offset operator in the adjoining spacing unit towards which Chesapeake is encroaching. The affected party was advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date notice was sent. It was also advised that if no objections were received by the Division within twenty days, the Division Director could approve the application.

Your attention to this application is appreciated.

Sincerely,

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

July 28, 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Nearburg Exploration
3300 N. A Street, Bldg 2
Suite 120
Midland, Texas 79705

Re: Application of Chesapeake Operating, Inc. to amend Administrative Order NSL-5858 for administrative approval of an unorthodox penetration point for its Diamond 31 Federal Well No. 4H which it proposes to drill as a horizontal wellbore in the Willow Lake-Bone Spring Pool in Section 31, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application which was filed with the New Mexico Oil Conservation Division on this date by Chesapeake Operating, Inc. to amend Administrative Order NSL-5858 for administrative approval of an unorthodox penetration point for its Diamond 31 Federal Well No. 4H. This well is located in Section 31, Township 24 South, Range 29 East, N.M.P.M., and will be drilled to test the Bone Spring formation, Willow Lake-Bone Spring Pool, from an unorthodox surface location and penetration point 1670 feet from the North line and 25 feet from the East line and to a terminus at a standard location 1670 feet from the North line and 350 feet from the West line of said Section 31, Eddy County, New Mexico.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing within twenty days from this date at the Division's Santa Fe office that is located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. 87505. If no objection is received within this twenty-day period, this application for an unorthodox well location may be approved.

Sincerely,

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

DATE IN	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



JUL 31 2008
 OCD-ARTESIA

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
☒ NSL ☐ NSP ☐ SD
 Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM
 [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
 [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
 [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
 [B] ☒ Offset Operators, Leaseholders or Surface Owner
 [C] ☐ Application is One Which Requires Published Legal Notice
 [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U S Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] ☐ Waivers are Attached
- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Ocean Munds-Dry
 Print or Type Name

Ocean Munds-Dry
 Signature

Attorney
 Title

7-28-08
 Date

omundsdry@hollandhart.com
 e-mail Address

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2008 JUL 28 PM 3 29
 RECEIVED