



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

July 11, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Chesapeake Operating, Inc.
c/o Holland & Hart, LLP
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: **Ocean Munds-Dry**
omundsdry@hollandhart.com

Administrative Order NSL-5420

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-611160364*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on April 20, 2006 on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake") of Oklahoma City, Oklahoma; (ii) the Division's initial response by e-mail on Wednesday afternoon, May 24, 2006 from Mr. Michael E. Stogner, Staff Engineer in Santa Fe, requesting additional information to support this application; (iii) your e-mail reply of Thursday morning, June 1, 2006; (iv) Mr. Stogner's second notice of deficiency sent by e-mail on Thursday afternoon, June 1, 2006; (v) your letter of reply dated June 15, 2006 with the necessary information to complete this application; and (vii) the Division's records in Santa Fe and Hobbs: all considering Chesapeake's request for an exception to the well location requirements (**Rule 4**) provided within the "*Special Rules and Regulations for the Shipp-Strawn Pool*," as promulgated by Division Order No. R-8062, as amended, for its proposed LE "35" State Well No. 2 to be drilled 2255 feet from the South line and 898 feet from the East line (Unit I) of Section 35, Township 16 South, Range 37 East, NMPM, Shipp-Strawn Pool (**55695**), Lea County, New Mexico. The E/2 SE/4 of Section 35 is to be dedicated to this well in order to form a standard 80-acre stand-up oil spacing and proration unit for this pool (as provided for by Rule 2 of the special pool rules).

Your application for Chesapeake has been duly filed under the provisions of: (i) Rule 5 of the special rules for the Shipp-Strawn Pool; (ii) Division Rules 104.F; and (iii) Rule 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding that Chesapeake is seeking this location exception based on: (i) a 3-D seismic survey of the immediate area; and (ii) well control, whereby the Chesapeake as operator contends that a well drilled at this location should penetrate a small algal reef mound within the Strawn formation at a more structurally advantageous position than a well drilled at a standard location thereon, thereby increasing the likelihood of obtaining commercial production.

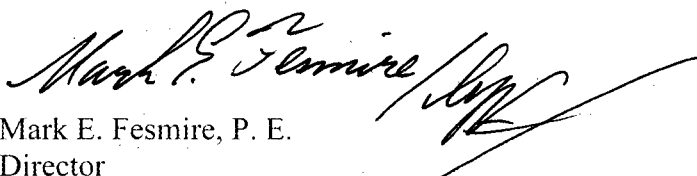
Further, from the Division's records, initial development of the Shipp-Strawn Pool within this 80-acre unit commenced in 1988 when Sohio Oil Company of Houston, Texas drilled and completed its State "35" Well No. 1 (API No. 30-025-30239) from a standard surface oil well location 600 feet from the South line and 660 feet from the East line (Unit P) of Section 35. Strawn oil production ceased from this well in September, 1990 (cumulative production: 35,349 BO, 31984 BW, and 71708 MCF). In June, 1993 P.G.&E. Resources Company of Dallas, Texas plugged and abandoned this well.

By the authority granted me under the provision of the applicable rules governing the Shipp-Strawn Pool and Division Rule 104.F (2), the above-described unorthodox Strawn oil well location for Chesapeake's proposed LE "35" State Well No. 2 is hereby approved.

Further, the aforementioned well and spacing unit will be subject to all existing rules, regulations, policies, and procedures applicable to this pool.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,


Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe