

DATE IN 4/21/06	SUSPENSE 6-5-06	ENGINEER MIKE STOGNER	LOGGED IN 4/21/06	TYPE NSL	APP NO. PTD50611160364
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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



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 Ocean Munds Dry Attorney 4-18-06
 Print or Type Name Signature Title Date

omundsdry@hollandhart.com
 e-mail Address

2006 APR 20 PM 2 55



April 18, 2006

HAND DELIVERY

Mr. Mark Fesmire, 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., for administrative approval of an unorthodox well location for its LE 35 State Well No. 2, to be drilled to the Strawn formation at a surface location 2255 feet from the South line and 898 feet from the East line of Section 35, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2)-(4) and Rule 4 of the Special Rules for the Shipp-Strawn Pool, of an unorthodox well location in the Shipp-Strawn Pool for its LE 35 State Well No. 2 located 2255 feet from the South line and 898 feet from the East line of Section 35 (Unit E), Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

This proposed location in the Strawn formation is unorthodox because it is governed by Special Pool Rules and Regulations for the Shipp-Strawn Pool which provides for wells on 80-acre spacing units to be located within 150 feet of the center of a governmental quarter-quarter section or lot. The proposed unorthodox well location is 214 feet outside of the standard orthodox location circle. A standard 80-acre spacing unit and proration unit comprised of the E/2 SE/4 of Section 35 will be dedicated to the well.

The non-standard location is required by geologic conditions. As shown on the attached **Exhibit A**, the proposed location is positioned to encounter the Strawn formation at the highest and thickest point possible. Exhibit A is a composite map based upon subsurface geology and 3D seismic interpretation and shows a (Isopach) net

HOLLAND & HART^{LLP}



Strawn Porosity Contour Interval of 20 feet (in green) and a (Structure) T/Strawn Porosity Contour Interval of 50 feet (gray contour lines). The map also shows the Strawn producers in red along with the cumulative production gas (in red) and oil (in green). Finally, the map shows the Strawn water leg in blue. A location within the orthodox circle would find minimal thickness of Strawn porosity and would not be in the best structural position, resulting in a dryhole or a non-commercial producer which would ultimately leave the bulk of the reserves unrecovered. The abandoned Strawn producer in the SE/4 SE/4 (S/2 of 80-acre unit), produced 35 MBO, 72 MMCFG and 32 MBW. The water cut increased significantly late in the producing life of the well. The water leg depicted in blue on the map is the original water contact for the reservoir. The current water contact has moved up and sits at the structural level of this abandoned producer. A location within the orthodox circle of the SE4/SE4 would be essentially a twin to this wellbore and would result in a dryhole. An orthodox location in the NE4/SE/4 would also be within the present day water column and would encroach the edge of the Strawn porosity development.

Exhibit B is a plat that shows the subject area, the 80-acre proposed spacing unit comprised of the E/2 SE/4 of Section 35, the proposed unorthodox well location and the offsetting spacing units.

Exhibit C is the C-102 filed for the well that shows the surveyed location of the well.

Exhibit D is a list of affected parties. As required by Rule 1210(A)(2), a copy of this application (with attachments) has been sent to those listed on Exhibit D in accordance with Rule 1207(A)(5) and they have been 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 this notice was sent.

Also enclosed is a proposed administrative order prepared by Chesapeake on behalf of the Division.

Your attention to this application is appreciated.

Sincerely,

Ocean Munds-Dry

Ocean Munds-Dry
ATTORNEY FOR CHESAPEAKE
OPERATING, INC.

Enclosures

cc: David Godsey

HOLLAND & HART



**Ocean Munds-Dry
Associate**

omundsdry@hollandhart.com

April 20, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

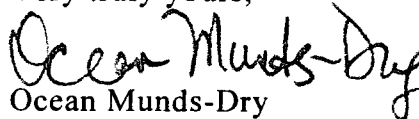
Re: Application of Chesapeake Operating, Inc. for administrative approval of an unorthodox well location for its LE 35 State Well No. 2, to be drilled 2255 feet from the South line and 898 feet from the East line of Section 35, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

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. for administrative approval of an unorthodox well location for its LE 35 State Well No. 2, to be drilled to the Strawn formation, Shipp-Strawn Gas Pool, at a location 2255 feet from the South line and 898 feet from the East line of Section 35, Township 16 South, Range 37 East, N.M.P.M., Lea 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.

Very truly yours,


Ocean Munds-Dry

ATTORNEY FOR CHESAPEAKE
OPERATING, INC.

Enclosures

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ☎

Chesapeake Operating, Inc.

Attention: David Godsey

Administrative Order NSL-_____

Dear Mr. Godsey:

Reference is made to your application dated April 18, 2006 for an unorthodox well location for Chesapeake Operating, Inc.'s LE 35 Well No. 2 to be drilled to the Strawn formation in the Shipp-Strawn Gas Pool. Said well will be located 2255 feet from the South line and 898 feet from the East line of Section 35, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico.

A 80-acre spacing and proration unit in the Strawn formation comprising the E/2 SE/4 of said Section 35 is to be dedicated to said well.

This application has been duly filed under the provisions of Rule 104.F of the General Rules of the Oil Conservation Division revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

By authority granted me under the provisions of Rule 104.F(2), the above-described unorthodox well location within this 80-acre unit in the Strawn formation is hereby approved.

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: Oil Conservation Division - Hobbs/Artesia

Exhibit D

**Application of Chesapeake Operating, Inc.
LE 35 State Well No. 2**

Chase Oil Company
P.O. Box 1767
Artesia, New Mexico 88211

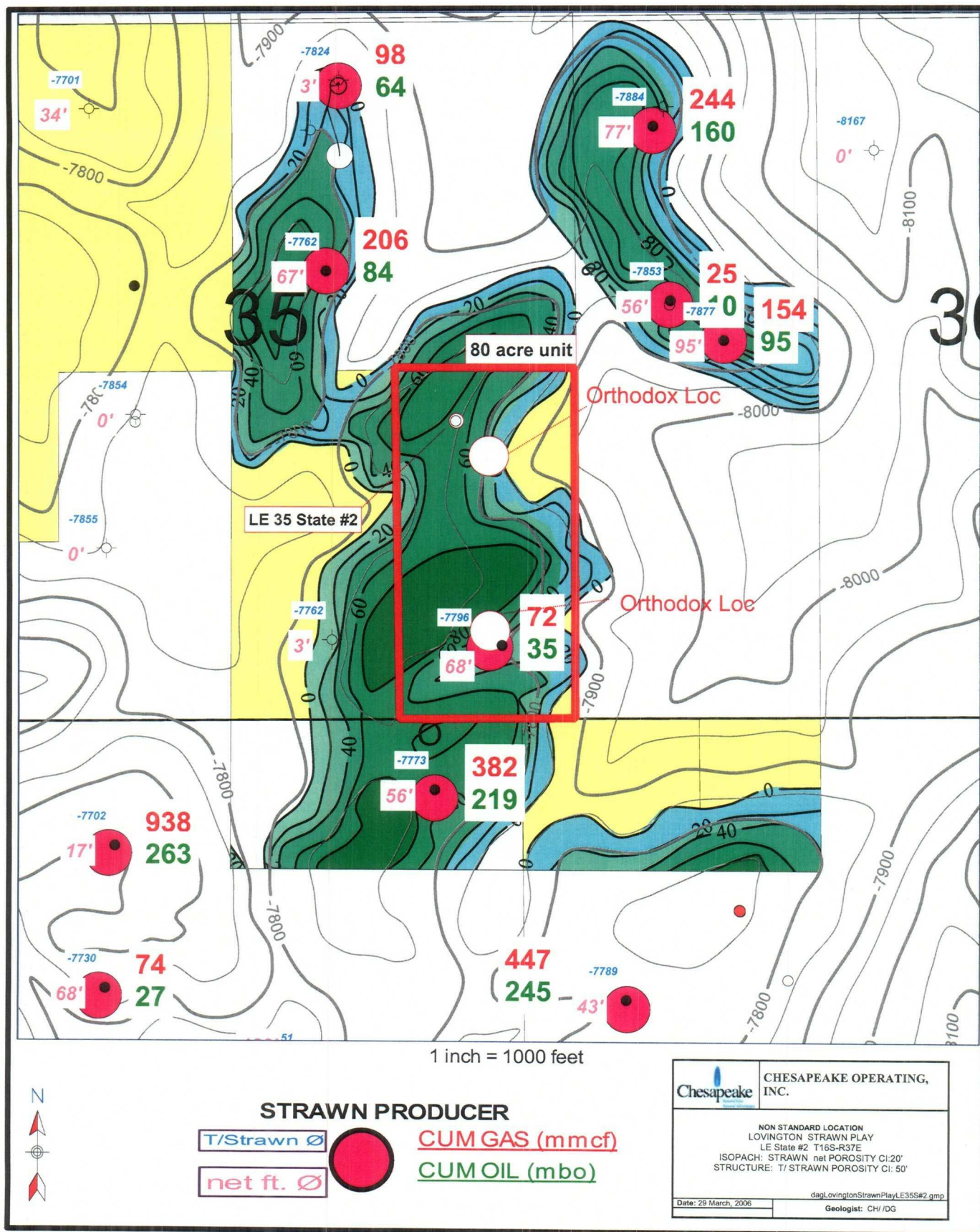
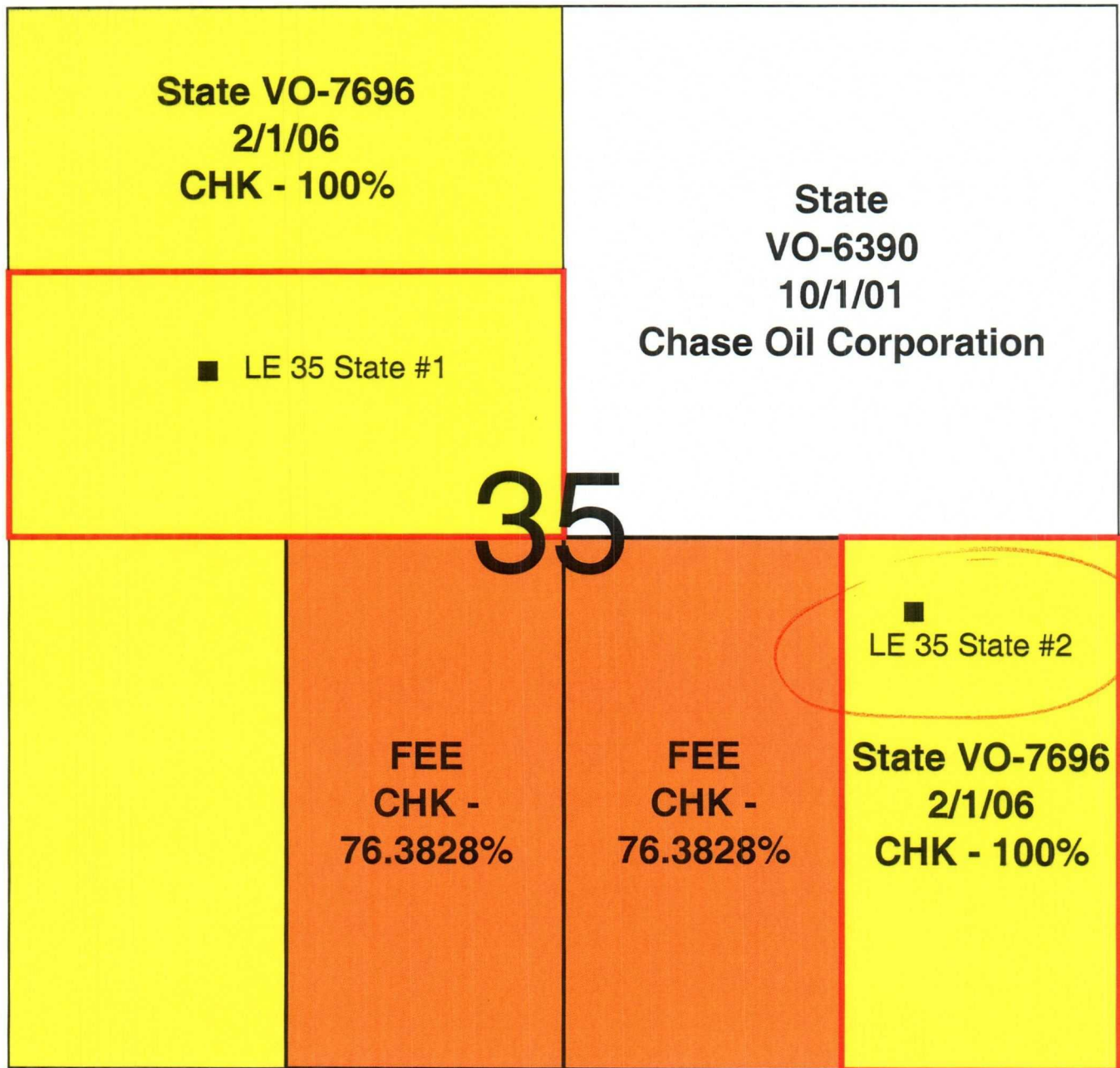


EXHIBIT A

LAND PLAT



CHESAPEAKE OPERATING, INC.
SECTION 35-16S-37E
Lea County, New Mexico

LE 35 State #1 Well
1879' FNL and 978' FWL
LE 35 State #2 Well
2255' FSL and 898' FEL

EXHIBIT B