



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



June 25, 2008

Ms. Ocean Munds-Dry
Holland & Hart, LLP
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSL-5858

**Re: Chesapeake Operating, Inc.
Diamond 31 Federal Well No. 4H
API No. 30-015-36337
Unit H, Section 31-24S-29E
Eddy County**

Dear Ms Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pKVR08-15533274**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Chesapeake Operating, Inc. (Chesapeake), on May 30, 2008, and

(b) the Division's records pertinent to this request.

Chesapeake has requested to drill the above-referenced well as a horizontal well in the Bone Spring formation, at a location that will be unorthodox under Division Rule 111. The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 2200 feet from the North line and 150 feet from the East line
(Unit H) of Section 31, Township 24 South, Range 29 East, NMPM
Eddy County, New Mexico

Point of Penetration: Same as surface location.

Terminus 2200 feet from the North line and 1650 feet from the West line
(Unit F) of said Section 31.

Oil Conservation Division * 1220 South St. Francis Drive

* Santa Fe, New Mexico 87505

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The S/2 N/2 of Section 31 will be dedicated to the proposed well to form a project area comprising four adjacent, standard 40-acre oil spacing units in the undesignated Willow Lake-Bone Spring Pool (66450). [Chesapeake has specifically designated a project area including the four described spacing units, even though the wellbore will not penetrate the SW/4 NW/4 of Section 31.] This pool is governed by statewide Rule 104.B(1), which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is unorthodox because a portion of the producing interval will be less than 330 feet from the eastern boundary of the project area, and therefore outside the producing area.

Your application has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that you are seeking this location in order to prevent waste by penetrating the maximum amount of the target formation within the producing area.

It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 1210.A(2), in all adjoining units towards which the proposed location encroaches.

Pursuant to the authority conferred by Division Rule 104.F(2), the above-described unorthodox location is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe