



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

October 6, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Chesapeake Operating, Inc.
c/o **W. Thomas Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504

Administrative Order NSL-5116 (SD)

Dear Mr. Kellahin:

Reference is made to the following: (i) your original application (*administrative application reference No. pSEM0-424626014*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on September 1, 2004 on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake"); (ii) your letter dated September 8, 2004 requesting this application be withdrawn from the administrative review process and to set this matter for hearing; (iii) your e-mail correspondence with Mr. Michael E. Stogner, Engineer/Hearing Officer with the Division in Santa Fe, on September 9, 2004; (iv) your request by e-mail to Mr. Stogner and to Mr. David R. Catanach, Engineer/Hearing Officer with the Division in Santa Fe, on October 5, 2004 to dismiss the application subsequently set for hearing on October 7, 2004 as Division Case No. 13346 and to re-instate the administrative application initially filed on September 1, 2004; and (v) the Division's records in Santa Fe and Hobbs, including the file in Case No. 13346: all concerning Chesapeake's request for an exception to Rule 4 of the "*Special Rules and Regulations for the North Shoe Bar-Strawn Pool*," as promulgated by Division Order No. R-4658, as amended, for a non-standard infill oil well location within an existing standard 160-acre oil spacing and proration unit comprising the NW/4 of Section 13, Township 16 South, Range 35 East, NMPM, North Shoe Bar-Strawn Pool (56270), Lea County, New Mexico.

This 160-acre unit is currently dedicated to Chesapeake's Hilburn Well No. 1 (API No. 30-025-24473), located at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 13. It shall be noted that Chesapeake's Hilburn Well No. 3 (API No. 30-025-35596), which was directionally drilled from a surface location 510 feet from the North line and 250 feet from the West line (Unit D) of Section 3 has no reported production and is therefore not a factor in this application and has no current standing in the subject 160-acre Strawn oil spacing and proration unit.

The subject application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, and the applicable provisions of the rules governing the North Shoe Bar-Strawn Pool.

Chesapeake Operating, Inc.
October 6, 2004
Page 2

Division Administrative Application NSL-5116 (SD)

The geologic interpretation submitted with this application indicates that the proposed infill unorthodox oil well location will be at a more favorable geologic position within the NW/4 of Section 13 in order to excess additional reserves underlying this unit that may otherwise be unrecoverable.

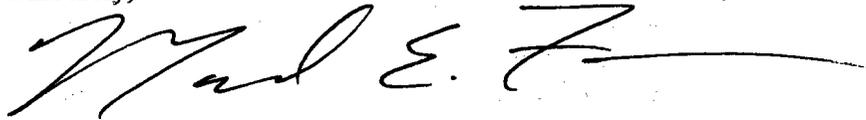
By the authority granted me under the provisions of: (i) Rule 5 of these special pool rules; and (ii) Division Rule 104.F (2), the following described well to be drilled at an unorthodox infill oil well location in Section 13 is hereby approved:

**Hillburn "13" Well No. 4
335' FNL & 1738' FWL (Unit C).**

Both the existing Hillburn Well No. 1 and proposed Hillburn "13" Well No. 4 are to be simultaneously dedicated to the subject 160-acre unit within the North Shoe Bar-Strawn Pool. Further, Chesapeake shall be permitted to produce up to the allowable assigned this unit from both wells in any proportion.

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
File: Case No. 13346
Mr. David R. Catanach, Engineer Hearing Officer -- NMOCD, Santa Fe