

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-Quantified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

2005 MAR 4 PM 2 36

- [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.

Print or Type Name: \_\_\_\_\_ Signature: *[Handwritten Signature]* Title: **KELLAMIN & KELLAMIN**  
 Attorneys At Law  
 P.O. Box 2265  
 Santa Fe, NM 87504-2265  
 Date: **3/4/05**

**KELLAHIN & KELLAHIN**  
**Attorney at Law**

**W. Thomas Kellahin**  
Recognized Specialist in the Area of  
Natural Resources-oil and gas law-  
New Mexico Board of Legal Specialization

P.O. Box 2265  
Santa Fe, New Mexico 87504  
117 North Guadalupe  
Santa Fe, New Mexico 87501

Telephone 505-982-4285  
Facsimile 505-982-2047  
kellahin@earthlink.net

March 4, 2005

HAND DELIVERED

Mr. Mark Fesmire Director  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

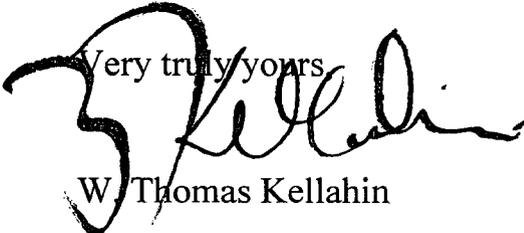
Re: Administrative Application of Chesapeake Operating, Inc.  
for approval of a unorthodox well location for its  
Newman "32" State Well No. 2, Unit B,  
N/2NE/4 (80-acre) dedication, Section 32,  
T23S, R38E, Lea County, New Mexico  
Stateline-Ellenburger Pool

2005 MAR 4 PM 2 37

Dear Mr. Fesmire:

On behalf of Chesapeake Operating, Inc., please find enclosed our referenced application that is being filed in accordance with Division Rule 104. This location crowds the western exterior boundary of this 80-acre spacing unit (330 feet instead of within 150 feet of the center of Unit B). The entire N/2 of this section has common owners with the same percentages.

Concurrent with this application, Chesapeake has filed its APD with the OCD-Hobbs.

Very truly yours,  
  
W. Thomas Kellahin

CC: Mr. Chris Williams-OCD-Hobbs  
Chesapeake Operating, Inc.  
Attn: Lynda Townsend

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE ADMINISTRATIVE  
APPLICATION OF CHESAPEAKE OPERATING, INC.  
FOR APPROVAL OF AN UNORTHODOX WELL LOCATION  
LEA COUNTY, NEW MEXICO**

**ADMINISTRATIVE APPLICATION**

Comes now CHESAPEAKE OPERATING, LTD. (“Chesapeake”) and by and through its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division (“Division”) for approval of an unorthodox oil well location for its proposed Newman “32” State Well No. 2 to be drilled at a unorthodox location 660 feet from the North line and 2310 feet from the East line (Unit B) of Section 32, T23S, R38E, Lea County, New Mexico to be dedicated to a standard 80-acre oil spacing unit consisting of the N/2NE/4 of this section for production from the Stateline-Ellenburger Pool.

In support, Chesapeake states:

1. Chesapeake is the proposed operator for this well to be dedicated to a standard 80-acre oil spacing and proration unit consisting of the N/2NE/4 of this section.
2. The well is to be located 660 feet FNL and 2310 feet FEL (Unit B) Section 32, T23S, R38E, at an unorthodox oil well location for the Ellenburger formation (Stateline-Ellenburger Pool). See APD and Form C-102, attached as Exhibit “A” and “B”
3. This well location is subject to the Special Rules and Regulations for the Stateline-Ellenburger Pool that require standard well locations within 150 feet of the center of either 40-acre tract within an standard 80-acre spacing unit.
4. This location, as illustrated on Exhibit “C” and explained in Exhibit “D” attached, is based upon geologic reasoning:

- a. The Ellenburger porosity intervals within Chesapeake proposed spacing unit is best tested at a location outside of the standard location drilling window because a standard location increases significantly the risk of encountering water and would be at a lower structural position increasing the risk of leaving "attic" oil will not be produced.
- b. This unorthodox well location will be at the highest structural position within this spacing unit.

### **OFFSETTING OWNERSHIP**

5. The North half of this Section is composed of a single State of New Mexico Oil & Gas Lease: NM 7700231-000
6. Chesapeake is the operator of the lease and the working interest owners are the same and with the same percentages. See Ownership list attached as Exhibit "E"
7. This well encroaches towards the NW/4 that has the same common ownership with the N/2NE/4 of this section.

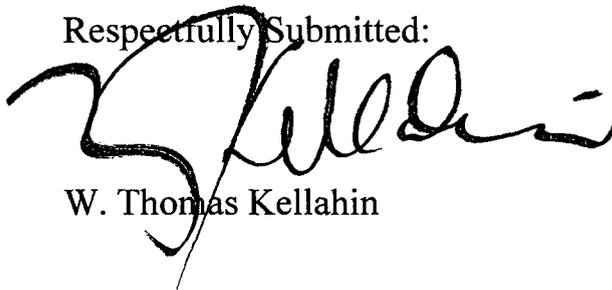
### **NOTIFICATION TO OFFSETTING OWNERS IS NOT REQUIRED**

8. Because all working interest owners have approved and will participate in this well are also the same parties towards whom this well encroaches then the Division rules do not require notice of this application. See Rule 1207.A(2)(a)(iii)

9. Approval of this application will afford the owners and the applicant the opportunity to produce their just and equitable share of the hydrocarbons in the Ellenburger formation, will promote the orderly development in this area, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

WHEREFORE, Applicant requests that this application be approve by the Division.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style. The signature is positioned above the printed name.

W. Thomas Kellahin

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Avenue, Artesia, NM 88210  
District III  
1000 Rio Brazos Road, Aztec, NM 87410  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy Minerals and Natural Resources

Form C-101  
May 27, 2004

Oil Conservation Division  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Submit to appropriate District Office

AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

<sup>1</sup> Operator Name and Address Chesapeake Operating, Inc. P. O. Box 18496 Oklahoma City, OK 73154-0496		<sup>2</sup> OGRID Number 147179
<sup>3</sup> Property Code	<sup>4</sup> Property Name Newman "32" State	<sup>5</sup> API Number 30-
<sup>9</sup> Proposed Pool 1 Stateline Ellenburger		<sup>6</sup> Well No. 2
<sup>10</sup> Proposed Pool 2		

<sup>7</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	32	23S	38E		660	N	2310	E	Lea

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Additional Well Information

<sup>11</sup> Work Type Code N	<sup>12</sup> Well Type Code 0	<sup>13</sup> Cable/Rotary R	<sup>14</sup> Lease Type Code S	<sup>15</sup> Ground Level Elevation 3305
<sup>16</sup> Multiple N	<sup>17</sup> Proposed Depth 12,500	<sup>18</sup> Formation Ellenburger	<sup>19</sup> Contractor Nabors #311	<sup>20</sup> Spud Date 03/15/05
Depth to Groundwater		Distance from nearest fresh water well		Distance from nearest surface water
Pit: Liner: Synthetic <input type="checkbox"/> _____ mils thick Clay <input type="checkbox"/>		Pit Volume: _____ bbls		Drilling Method:
Closed-Loop System <input type="checkbox"/>		Fresh Water <input type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>		

<sup>21</sup> Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2	13-3/8	48#	450	475	Surf
12-1/4	9-5/8	36#	3500	865	Surf
8-3/4 &	5-1/2	17#	12500	1280 1st stg	3000
7-7/8				55 2nd stg	

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Chesapeake Operating, Inc. proposes to drill to 12,500' w/TD in the Ellenburger with Nabor's Rig #311 as the drilling contractor.

Nabor's BOP stack is per attached schematics.



<sup>23</sup> I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines <input type="checkbox"/> , a general permit <input type="checkbox"/> , or an (attached) alternative OCD-approved plan <input type="checkbox"/> .  Printed name: Lynda Townsend Title: Sr. Landman E-mail Address: ltownsend@chkenergy.com Date: 02/24/05	OIL CONSERVATION DIVISION	
	Approved by:	
	Title:	
	Approval Date:	Expiration Date:
	Conditions of Approval Attached <input type="checkbox"/>	

DISTRICT I  
1625 N. French Dr., Hobbs, NM 88240

DISTRICT II  
811 South First, Artesia, NM 88210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised March 17, 1999

Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

**OIL CONSERVATION DIVISION**

2040 South Pacheco  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number	Pool Code 57810	Pool Name Stateline Ellenburger
Property Code	Property Name NEWMAN "32" STATE	Well Number 2
OGRID No. 147179	Operator Name CHESAPEAKE ENERGY	Elevation 3305

**Surface Location**

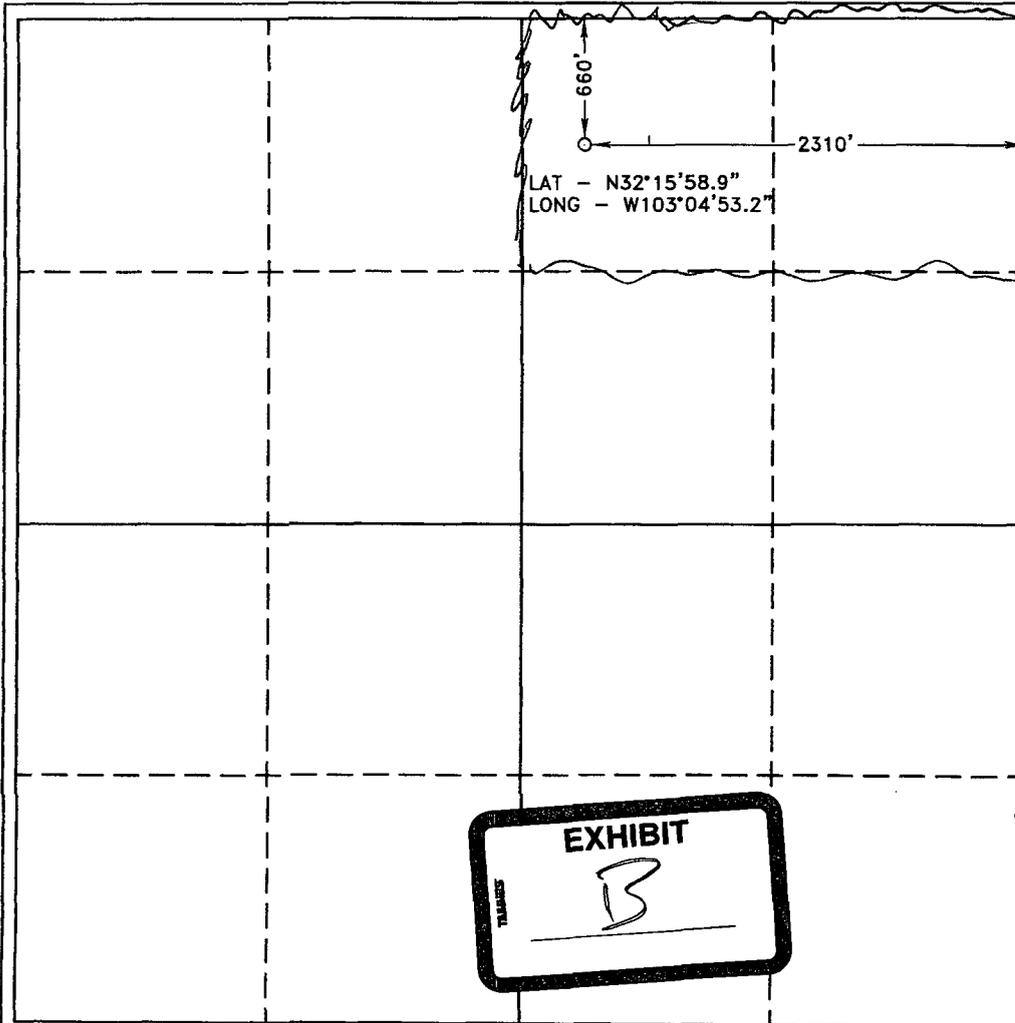
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	32	23 S	38 E		660	NORTH	2310	EAST	LEA

**Bottom Hole Location If Different From Surface**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
80 N/2 NE			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



**EXHIBIT**  
B

**OPERATOR CERTIFICATION**

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

*Lynda Townsend*  
Signature

Lynda Townsend  
Printed Name

Sr. Landman  
Title

02/24/05  
Date

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**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

JANUARY 10 2005  
Date Signed

*Charles E. Jones*  
Signature

Professional Surveyor  
No. 5000

Certification No. 5000 Jones 7977

**NEW MEXICO**  
REGISTERED PROFESSIONAL LAND SURVEYOR  
7977

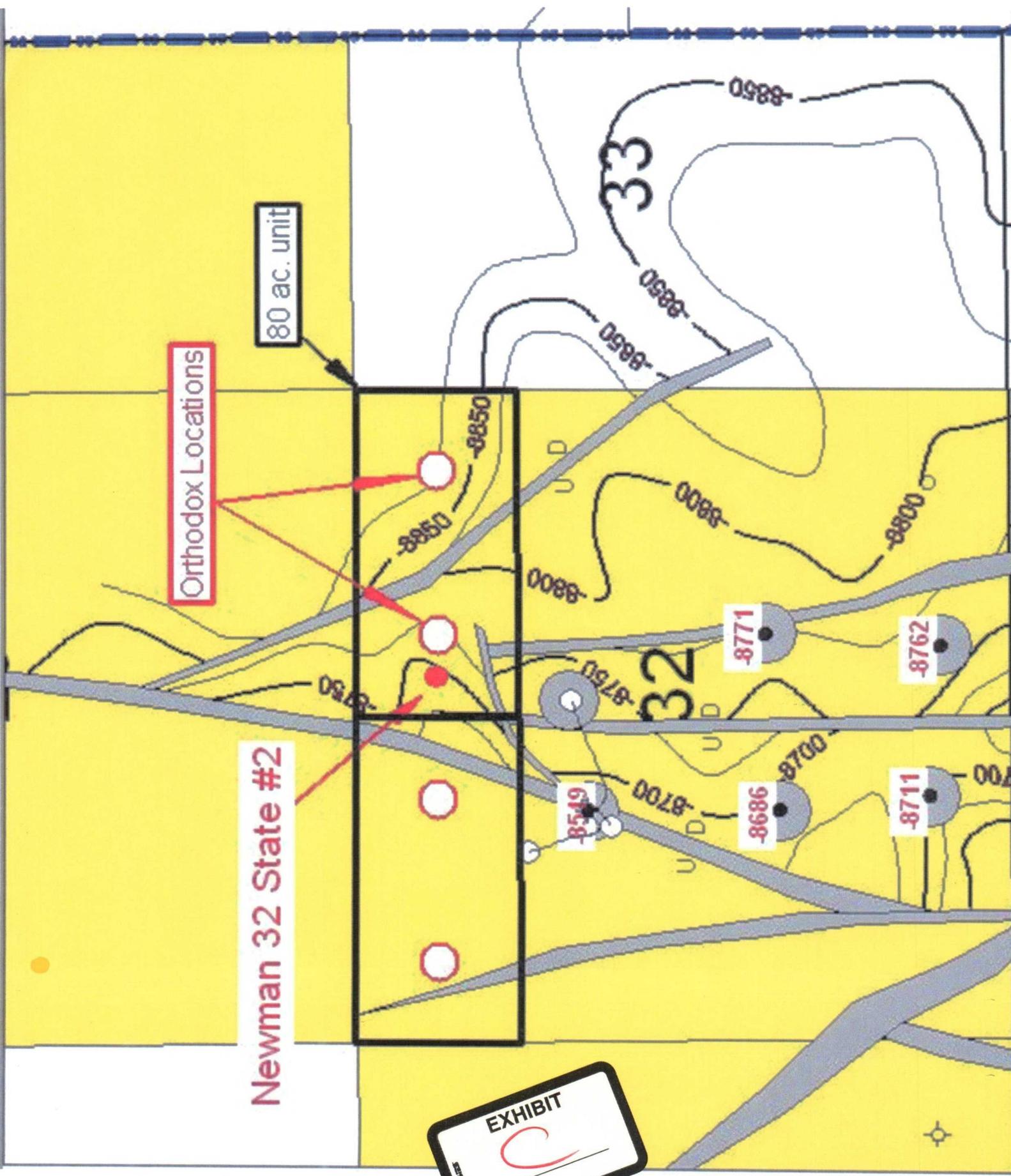
**BASIN SURVEYS**

Orthodox Locations

80 ac. unit

Newman 32 State #2

EXHIBIT  
C



COI  
Newman 32 State #2  
Unorthodox Location Exception  
660' FNL & 2310' FEL, SEC 32, T23S-R38E

The attached map is:  
STRUCTURE: T/ Ellenburger CI: 25'

The map is built from subsurface borehole data and 3D seismic interpretation. The Stateline Ellenburger Field is a faulted, high side closure, structural trap with down-dip water. The COI Newman State #1 (SL-32F, BHL-32G) is the only currently active Ellenburger producer in the field. Porosity and permeability is variable across the field. The Newman State #1 initial borehole and sidetrack #1 encountered no  $\emptyset$  due to proximity to a fault. Porosity is absent due to a "mineralization halo" around the westbounding fault trace. Sidetrack #1 moved further to the east of the original boreholes and encountered fair  $\emptyset$  development. The requested location is situated to test a potentially un-drained compartment of the structure. It is critical for a commercially productive wellbore to be situated in a high structural position.

The requested location is necessary because a standard orthodox location does not exist that would effectively drain and prevent waste from this part of the structure. A location within the standard orthodox circle in 32B increases significantly the risk of encountering water and would, due to the lower structural position, leave significant attic reserves undrained.

David A Godsey  
Senior Geologist  
Chesapeake Energy



Owner	Burrus 23 #1 Well (south offset; NW/4 SW/4 Sec 23)	State 22 #3 and State 22 #1 Wells (west offset; SE/4 NE/4 Sec 22)	Burrus #4 Well (southwest offset; NE/4 SE/4 Sec 22)	Address1	City
Matrix Production Company and/or Matrix New Mexico Holdings, LLC	35.000%	31.500%	38.000%	5725 Commonwealth Blvd.	Sugar Land, TX 77479
Chesapeake Permian, LP	30.000%	37.000%	34.000%	P. O. Box 18496	Oklahoma City, OK 73154-0496
Claude C. Arnold Working Interest Oil & Gas Properties, LLC	12.000%	10.800%	9.600%	5600 N. May, Suite 125	Oklahoma City, OK 73112
H. J. Freede, Inc.	8.000%	7.200%	6.400%	430 NW 13th Street	Oklahoma City OK 73103
Blake Arnold Working Interest Oil & Gas Properties, LLC	3.000%	2.700%	2.400%	5600 N. May, Suite 125	Oklahoma City, OK 73112
Rehoboth, Inc.	3.000%	2.700%	2.400%	20 N. Broadway, Ste 1800	Oklahoma City, OK 73102
Cardinal River Energy Co.	2.500%	2.250%	2.000%	2601 Northwest Expressway, Suite 5	Oklahoma City OK 73112
J. Durwood Pate Trust	1.000%	0.900%	0.800%	3625 Goodger	Oklahoma City, OK 73112
James D. Pate Trust w/t/a 8-8-86	1.000%	0.900%	0.800%	3625 Goodger	Oklahoma City, OK 73112
Joe H. Pate Trust	1.000%	0.900%	0.800%	3625 Goodger	Oklahoma City, OK 73112
Larry Fenity	1.000%	0.900%	0.800%	2301 Brookside Avenue	Edmond OK 73034
Tropical Minerals, Inc.	1.000%	0.900%	0.800%	P. O. Box 20671	Oklahoma City OK 73156
Monarch Resources, L.L.C.	1.000%	0.900%	0.800%	P. O. Box 1197	Oklahoma City OK 73156
David C. Story	0.500%	0.450%	0.400%	1816 Rising Star	Edmond OK 73034
<b>Totals</b>	<b>100.000%</b>	<b>100.000%</b>	<b>100.000%</b>		

