



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

July 9, 2003

Lori Wrotenbery
Director
Oil Conservation Division

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

Administrative Order NSL-4912

Dear Mr. Kellahin:

Reference is made to the following: (i) your application on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake"), dated June 26, 2003 (administrative application reference No. pLR0-317754639); and (ii) the New Mexico Oil Conservation Division's ("Division") records in Santa Fe: all concerning Chesapeake's request for an exception to **Rule 4** of the "*Special Rules and Regulations for the Northeast Lovington-(Upper) Pennsylvanian Pool*," as promulgated by Division Order No. R-3816, as amended, in order to drill its proposed Caudill "7" Well No. 1 at an unorthodox oil well location 1310 feet from the South line and 560 feet from the East line (Unit P) of Section 7, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico.

The E/2 SE/4 of Section 7, being a standard 80-acre stand-up oil spacing and proration unit for the Undesignated Northeast Lovington-(Upper) Pennsylvanian Pool (40760), see **Rule 2**, is to be dedicated to this well.

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 Northeast Lovington-(Upper) Pennsylvanian Pool.

It is our understanding that Chesapeake is seeking this location exception based on a 3-D seismic survey of the immediate area, whereby it 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 within the subject 80-acre unit than a well drilled at a standard location thereon, thereby increasing the likelihood of obtaining commercial production.

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 unorthodox oil well location of the proposed Caudill "7" Well No. 1 is hereby approved.

Sincerely,

Lori Wrotenbery
Director

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cc: New Mexico Oil Conservation Division - Hobbs