



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

January 16, 2007

Chesapeake Operating, Inc.
C/o Ocean Munds-Dry Exq.
Holland & Hart LLP
PO Box 2208
Santa Fe, NM 87504-2208

RE: Queen Lake 19 Federal Well No. 2 (API No 30-015-NA)
2550 feet from the North Line, 1649 feet from the West line, Unit F
Section 19, Township 24 South, Range 29 East, NMPM, Eddy County
SE/4 NW/4 (40 Acres) Section 19 Dedication

Administrative Order NSL-5548

Dear Ms. Munds-Dry:

Reference is made to the following:

- (a) your application (administrative application reference No. pTDS0634733983 for non-standard location [NSL]) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on December 12, 2006, on behalf of Chesapeake Operating, Inc., OGRD 147179 ("Chesapeake"); and
- (b) the Division's records pertinent to Chesapeake's request.

Chesapeake proposes to drill the above referenced well at the above referenced unorthodox oil well location within Section 19 and requests to produce from the Bone Spring within a 40-acre, more or less, spacing unit within the Pierce Crossing-Bone Spring Pool consisting of the SE/4 NW/4 of Section 19. The proposed well would be the first well in this spacing unit.

The Pierce Crossing-Bone Spring Pool (50371) is governed by statewide rule Rule 104.B, which requires oil wells to be located no closer than 330 feet from the boundary of a 40 acre spacing and proration unit. This well location is un-orthodox because it is to be located 90 feet from the southern boundary and 329 feet from the western boundary of the SE/4 NW/4 of Section 19 spacing and proration unit.

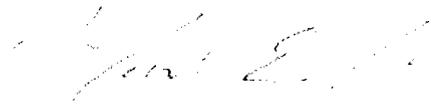
Your application states this well location is preferable to Chesapeake and to the U.S. Bureau of Land Management because it is further from a river, from a surface owner's cultivated

field, and from an archeological, staked location. The affected spacing and proration units to the south and to the west are operated by Chesapeake and no other parties are affected or were noticed.

Division Rule 104.F allows the Division director to grant location exceptions in order to prevent waste and protect correlative rights. Your application on behalf of Chesapeake has been duly filed and notice has been provided as required under the provisions of Division Rules 104.F and 1210.A. In order to prevent waste and protect correlative rights, the above-described non-standard Bone Spring oil well location within the Pierce Crossing-Bone Spring Pool is hereby approved.

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

Sincerely,



Mark E. Fesmire, P.E.
Director

MEF/wvjj

cc: New Mexico Oil Conservation Division – Artesia
Bureau of Land Management – Carlsbad