



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

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Cabinet Secretary

Karen W. Garcia

Deputy Cabinet Secretary

Mark Fesmire

Division Director

Oil Conservation Division



August 24, 2010

Ms. Ocean Munds-Dry
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87505

Administrative Order NSL-6224-A

**Re: Chesapeake Operating, Inc.
Skeen 34 State Com. Well No. 1H
API No. 30-015-37805
315 feet FSL & 1670 feet FEL
Lot 3, Section 34-26S-28E
Eddy County, New Mexico**

Dear Ms. Munds-Dry:

This Order supersedes Administrative Order NSL-6224 in its entirety.

Reference is made to the following:

(a) your application (**administrative application reference No. pTGW10-16048212**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Chesapeake Operating, Inc. [OGRID 14179] (Chesapeake), on June 8, 2010,

(b) your revised application (**administrative application reference No. pTGW10-23555413**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Chesapeake, on August 23, 2010, and

(c) 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 16.14.B(2). The proposed surface location, point of penetration, and terminus of the well are as follows:

Oil Conservation Division
1220 South St. Francis Drive • Santa Fe, New Mexico 87505
Phone (505) 476-3440 • Fax (505) 476-3462 • www.emnrd.state.nm.us/OCD



Surface Location: 315 feet from the South line and 1670 feet from the East line
(Lot 3) of Section 34, Township 26S, Range 38E, NMPM,
Eddy County, New Mexico

Point of Penetration: same as surface location

Terminus 330 feet from the North line and 2270 feet from the East line
(Unit B) of Section 27 in said Township, Range and County

The W/2 E/2 of irregular Section 27 and the W/2 E/2 of irregular Section 34 will be dedicated to the proposed well to form a 226.61-acre project area comprising four 40-acre, more or less, wildcat spacing units, each consisting of a governmental quarter section or lot equivalent, in the Bone Spring formation. Spacing is governed by statewide Rule 15.9, which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is unorthodox because portions of the producing interval will be less than 330 feet from the southern and western boundaries of the project area, and therefore outside the producing area.

Your application on behalf of Chesapeake has been duly filed under the provisions of Division Rules 15.13 and 4.12.A(2).

It is our understanding that you are seeking this location for engineering reasons, in order to maximize the portion of the target interval that will be penetrated by the horizontal portion of the wellbore.

It is also understood that you gave due notice of your original application for this location (Application pTGW10-16048212) to all operators or owners who are "affected persons," as defined in Rule 4.12.A(2), in the adjoining unit to the south towards which the proposed location encroaches, and that no notice is required to owners of the adjoining units to the west since Chesapeake owns the entire working interest in those units.

Pursuant to the authority conferred by Division Rule 15.13.B, 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 5.9.

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.
Acting Director

MEF/db

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