

May 30, 2008

JUN 02 2008
OCD-ARTESIA

HAND-DELIVERED

30-015-36337

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Chesapeake Operating, Inc. for administrative approval of an unorthodox well location for its Diamond 31 Federal Well No. 4H to be drilled from a surface location and penetration point 2200 feet from the North line and 150 feet from the East line and a bottomhole location 2200 feet from the North line and 1650 feet from the West line of Section 31, Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks administrative approval pursuant to the provisions of Division Rules 104 and 111 for an unorthodox well location for its Diamond 31 Federal Well No. 4H. This well is located in Section 31, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico and will be drilled in the Bone Spring formation, Willow Lake Bone Spring Pool, from an unorthodox surface location and penetration point 2200 feet from the North line and 150 feet from the East line to a standard bottomhole location 2200 feet from the North line and 1650 feet from the West line of said Section 31, Eddy County, New Mexico. A 160-acre project area has been dedicated to this horizontal well comprised of the S/2 N/2 of Section 31.

This location is unorthodox because the Bone Spring formation under this acreage is governed by the Division's statewide rules which provide for wells on 40-acre spacing units to be located no closer than 330 feet to the outer boundary of the spacing unit. Division Rule 111 defines the "Penetration Point" as "the point where the wellbore penetrates the top of the pool from which it is intended to produce." The wellbore penetrates the Bone Spring formation at a point 150 feet from the East line of Section and is therefore 180 feet closer than allowed by Division rules.

HOLLAND & HART^{LLP}



Although the wellbore penetrates the top of the Bone Spring at an unorthodox location, the well will be at a standard location at the producing interval. Chesapeake penetrates the top of the Bone Spring at approximately 6,521 feet in the vertical portion of the well. Chesapeake is targeting the First Bone Spring Sand which is estimated at 7,466 feet. Therefore, once Chesapeake reaches the target formation, it will be at a standard location.

Exhibit A is a copy of the C-102 filed for this well. **Exhibit B** is a plat which shows the subject area and the 160-acre horizontal well project area for this well comprised of the S/2 N/2 of Section 31.

A copy of this application with all attachments was mailed to Nearburg Exploration who is the offset operator in the adjoining spacing unit towards which Chesapeake is encroaching. The affected party was advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date notice was sent. It was also advised that if no objections were received by the Division within twenty days, the Division Director could approve the application.

Your attention to this application is appreciated.

Sincerely,

A handwritten signature in black ink that reads "Ocean Munds-Dry".

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

DISTRICT I
1625 N FRENCH DR., RIVERS, NM 88240

DISTRICT II
1301 W GRAND AVENUE, ARTESIA, NM 88210

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

DISTRICT IV
1220 S ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name DIAMOND 31 FEDERAL	Well Number 4H
OGRID No.	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 2938'

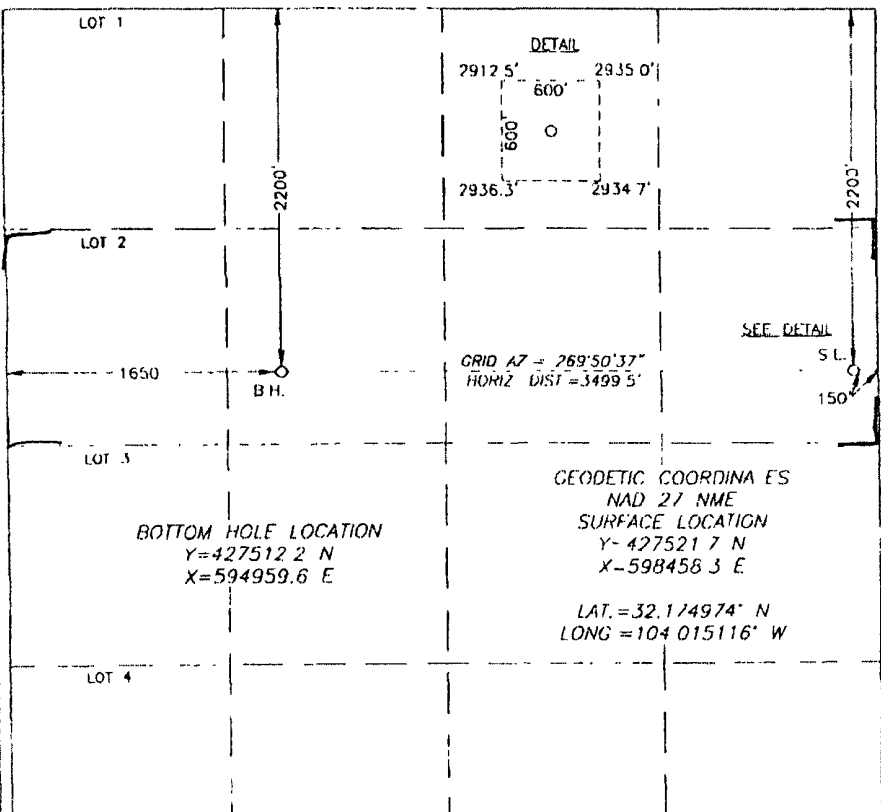
Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	31	24 S	29--E		2200	NORTH	150	EAST	EDDY

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
F	31	24-S	29-E		2200	NORTH	1650	WEST	EDDY
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

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

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Signature: <i>[Signature]</i> Date: <i>[Date]</i></p> <p>Printed Name: <i>[Name]</i></p> <p>SURVEYOR CERTIFICATION</p> <p>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.</p> <p>DECEMBER 6, 2007</p> <p>Date Surveyed: <i>[Date]</i> LA</p> <p>Signature & Seal of Professional Surveyor: <i>[Signature]</i> 12/14/07 107.11 1349</p> <p>Certificate No. GARY EIDSON 12641 RONALD J EIDSON 3239</p>
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DATE IN	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



JUN 02 2008

OCD-ARTESI

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

[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.

Ocean Munds Dry Ocean Munds Dry Attorney 5-30-08
 Print or Type Name Signature Title Date
 omundsdry@hollandhart.com
 e-mail Address

RECEIVED
 2008 MAY 30 PM 3 09



May 30, 2008

JUN 02 2008
OCD-ARTESIA

CERTIFIED MAIL
RETURN RECEIPT REQUESTED


Nearburg Exploration
3300 N. A Street, Bldg 2
Suite 120
Midland, Texas 79705

Re: Application of Chesapeake Operating, Inc. for administrative approval of an unorthodox penetration point for its Diamond 31 Federal Well No. 4H which it proposes to drill as a horizontal wellbore in the Willow Lake-Bone Spring Pool in Section 31, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application which was filed with the New Mexico Oil Conservation Division on this date by Chesapeake Operating, Inc. for administrative approval of an unorthodox penetration point for its Diamond 31 Federal Well No. 4H. This well is located in Section 31, Township 24 South, Range 29 East, N.M.P.M., and will be drilled to test the Bone Spring formation, Willow Lake-Bone Spring Pool, from an unorthodox surface location and penetration point 2200 feet from the North line and 150 feet from the East line and to a terminus at a standard location 2200 feet from the North line and 1650 feet from the West line of said Section 31, Eddy County, New Mexico.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing within twenty days from this date at the Division's Santa Fe office that is located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. 87505. If no objection is received within this twenty-day period, this application for an unorthodox well location may be approved.

Sincerely,

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ☻