



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

March 31, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Chesapeake Operating, Inc.
c/o **Kellahin & Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504

Attention: W. Thomas Kellahin
kellahin@earthlink.net

Administrative Order NSL-5180

Dear Mr. Kellahin:

Reference is made to the following: (i) your application on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake"), that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on March 4, 2005 (**administrative application reference No. pSEM0-506631290**); and (ii) the Division's records in Santa Fe: all concerning Chesapeake's request for an exception to the well location requirements (**Rule 4**) provided within the "*Special Rules and Regulations for the Stateline-Ellenburger Pool*," as promulgated by Division Order No. R-2944, as amended, for its proposed Newman "32" State Well No. 1 to be drilled 660 feet from the North line and 2310 feet from the East line (Unit B) of Section 32, Township 23 South, Range 38 East, NMPM, Undesignated Stateline-Ellenburger Pool (**57810**), Lea County, New Mexico. The N/2 NE/4 of Section 32 is to be dedicated to this well in order to form a standard 80-acre lay-down oil spacing and proration unit for this pool (as provided for by **Rule 2** of the special pool rules).

This application has been duly filed under the provisions of: (i) **Rule 5** of the special pool rules governing the Stateline-Ellenburger Pool; (ii) Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission ("Commission") in Case No. 12119 on August 12, 1999; and (iii) Rule 1207.A (2), revised by Division Order No. R-11205, issued by the Commission in Case No. 12177 on June 17, 1999.

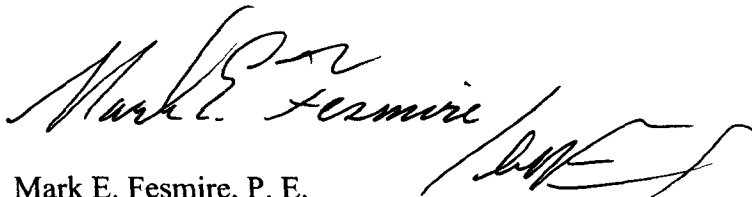
The geologic interpretation submitted with this application indicates that a well drilled at the proposed unorthodox oil well location will be at a more favorable geologic position within the Ellenburger formation underlying this unit, thereby increasing the likelihood of obtaining commercial production.

Furthermore, the N/2 and the N/2 SW/4 of Section 32 comprises a single State lease issued by the New Mexico State Land Office (State lease No. A-02614-0000) with common mineral ownership in which Chesapeake is the leasehold operator; therefore, there are no offsetting mineral interests to the subject 80-acre unit adversely affected.

By the authority granted me under the provision of the applicable rules governing the North Knowles-Devonian Pool and Division Rule 104.F (2), the above-described unorthodox Devonian oil well location is hereby approved.

Further, the aforementioned well and spacing unit will be subject to all existing rules, regulations, policies, and procedures applicable to this pool.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", followed by a large, stylized flourish or checkmark-like mark.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe