



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

**April 25, 2006**

**Mark E. Fesmire, P.E.**

Director

**Oil Conservation Division**

**Chesapeake Operating, Inc.**  
c/o **Holland & Hart, LLP**  
**P. O. Box 2208**  
**Santa Fe, New Mexico 87504-2208**

**Attention: Ocean Munds-Dry**  
*omundsdry@hollandhart.com*

## **Administrative Order NSL-5371**

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-611159691*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on April 20, 2006 on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake") of Oklahoma City, Oklahoma; and (ii) the Division's records in Santa Fe and Hobbs: all considering Chesapeake's request for an exception to either:

(A) Rule 4 of the "*Special Rules and Regulations for the Casey-Strawn Pool*," as promulgated by Division Order No. R-4992, as amended; or

(B) Rule 4 of the "*Special Rules and Regulations for the Shipp-Strawn Pool*," as promulgated by Division Order No. R-8062-A, as amended.

Chesapeake is proposing to drill its LE "35" State Well No. 1 at an unorthodox Strawn oil well location 1879 feet from the North line and 978 feet from the West line (Unit E) of Section 35 Township 16 South, Range 37 East, NMPM, Lea County, New Mexico.

The S/2 NW/4 (Units E and F) of Section 35 is to be dedicated to this well in order to form a standard 80-acre lay-down oil spacing and proration unit for either the Undesignated Casey-Strawn Pool (**pool code 10310**) (as provided for by **Rule 2** of its special pool rules) or the Undesignated Shipp-Strawn Pool (**pool code 55695**) (as provided for by **Rule 2** of its special pool rules).

Your application for Chesapeake has been duly filed under the provisions of: (i) Division Rules 104.F; (ii) Rule 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005]; and (iii) the applicable provisions of the special rules governing both pools.

It is the Division's understanding that Chesapeake is seeking this location exception based on: (i) a 3-D seismic survey of the immediate area; and (ii) well control, whereby Chesapeake 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 proposed 80-acre unit than a well drilled at a standard location thereon, thereby increasing the likelihood of obtaining commercial production.

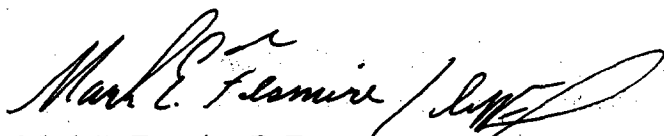
It is further understood that the NW/4 of Section 35 is included within a single state lease issued by the New Mexico State Land Office (*State Lease No. V-07696*), in which all mineral interest is common.

By the authority granted me under the provisions of the applicable rules governing both the Casey-Strawn and Shipp-Strawn Pools and Division Rule 104.F (2), the above-described unorthodox Strawn 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 whatever pool this well is ultimately placed.

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

Sincerely,



Mark E. Fesmire, P. E.  
Director

MEF/ms

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