



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 26, 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-5406

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-616456430*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on June 12, 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 the well location requirements (**Rule 4**) provided within the "*Special Rules and Regulations for the Shipp-Strawn Pool*," as promulgated by Division Order No. R-8062, as amended, for its proposed Sid "3" State Well No. 1 to be drilled 1730 feet from the North line and 592 feet from the East line (Unit H) of Section 3, Township 17 South, Range 37 East, NMPM, Shipp-Strawn Pool (**55695**), Lea County, New Mexico. Lot 1 and the SE/4 NE/4 (E/2 NE/4 equivalent) of Section 3 is to be dedicated to this well in order to form a standard 81.16-acre stand-up oil spacing and proration unit for this pool (as provided for by Rule 2 of the special pool rules).

Your application for Chesapeake has been duly filed under the provisions of: (i) Rule 5 of the special rules for the Shipp-Strawn Pool; (ii) Division Rules 104.F; and (iii) 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].

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 the Chesapeake as operator 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 than a well drilled at a standard location thereon, thereby increasing the likelihood of obtaining commercial production

It is further understood that the NE/4 equivalent of Section 3 is comprises a single state lease issued by the New Mexico State Land Office (*State Lease No. VB-0641-0001*), in which all mineral interests are common.

Chesapeake Operating, Inc.

June 26, 2006

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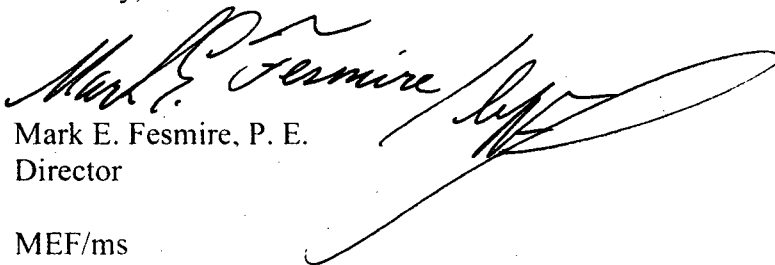
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By the authority granted me under the provision of the applicable rules governing the Shipp-Strawn Pool and Division Rule 104.F (2), the above-described unorthodox Strawn oil well location is hereby approved.

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

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

Sincerely,

A handwritten signature in cursive script, reading "Mark E. Fesmire", followed by a large, stylized flourish or loop.

Mark E. Fesmire, P. E.
Director

MEF/ms

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