

6/12/06 DATE IN	SUSPENSE	MINE STOPPER ENGINEER	6/13/06 LOGGED IN	NSL TYPE	APP NO. PTD50616456430
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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



2006 JUN 13 PM 4 09

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 6-12-06
 Print or Type Name Signature Title Date
 omundsdry@hollandhart.com
 e-mail Address



June 12, 2006

HAND DELIVERY

Mr. Mark Fesmire, 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 a non-standard well location for its Sid 3 State Well No. 1 to be drilled at a location 1730 feet from the North line and 592 feet from the East line of Section 3, Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico.

37

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2)(4), of a non-standard well location for its Sid 3 State Well No. 1 from a location 1730 feet from the North line and 592 feet from the East line of Section 3 (Unit G), Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico.

37

This proposed location in the Strawn formation is unorthodox because it is governed by Special Pool Rules and Regulations for the Shipp-Strawn Pool which provides for wells on 80-acre spacing units to be located within 150 feet of the center of a governmental quarter-quarter section or lot. The proposed unorthodox well location is 109 feet outside of the standard orthodox location circle. A standard 80-acre spacing unit and proration unit comprised of the E/2 NE/4 of Section 3 will be dedicated to the well.

The non-standard location is required by geologic conditions. As shown on the attached **Exhibit A**, the proposed location is positioned to encounter the Strawn formation at the highest and thickest point possible. Exhibit A is a composite map based upon subsurface geology and 3D seismic interpretation and shows a (Isopach) net

Strawn Porosity Contour Interval of 20 feet (in green) and a (Structure) T/Strawn Porosity Contour Interval of 50 feet (gray contour lines). The map also shows the Strawn producers in red along with the cumulative production gas (in red) and oil (in

HOLLAND & HART LLP



Application
June 12, 2006

green). Finally, the map shows the Strawn water leg in blue. A location within the orthodox circle would find minimal thickness of Strawn porosity and would not be in the best structural position, resulting in a dry hole or a non-commercial producer which would ultimately leave the bulk of the reserves unrecovered.

Exhibit B is a plat that shows the subject area, the 80-acre proposed spacing unit comprised of the E/2 NE/4 of Section 3, the proposed unorthodox well location and the offsetting spacing units.

The ownership in the east and the south offsetting unit is common with the proposed spacing unit and therefore there are no affected parties as defined in Division Rule 1210.

Also enclosed is a proposed administrative order prepared by Chesapeake on behalf of the Division.

Your attention to this application is appreciated.

Sincerely,

Ocean Munds-Dry
ATTORNEY FOR CHESAPEAKE
OPERATING, INC.

Enclosures

cc: Lynda Townsend
Chesapeake Energy

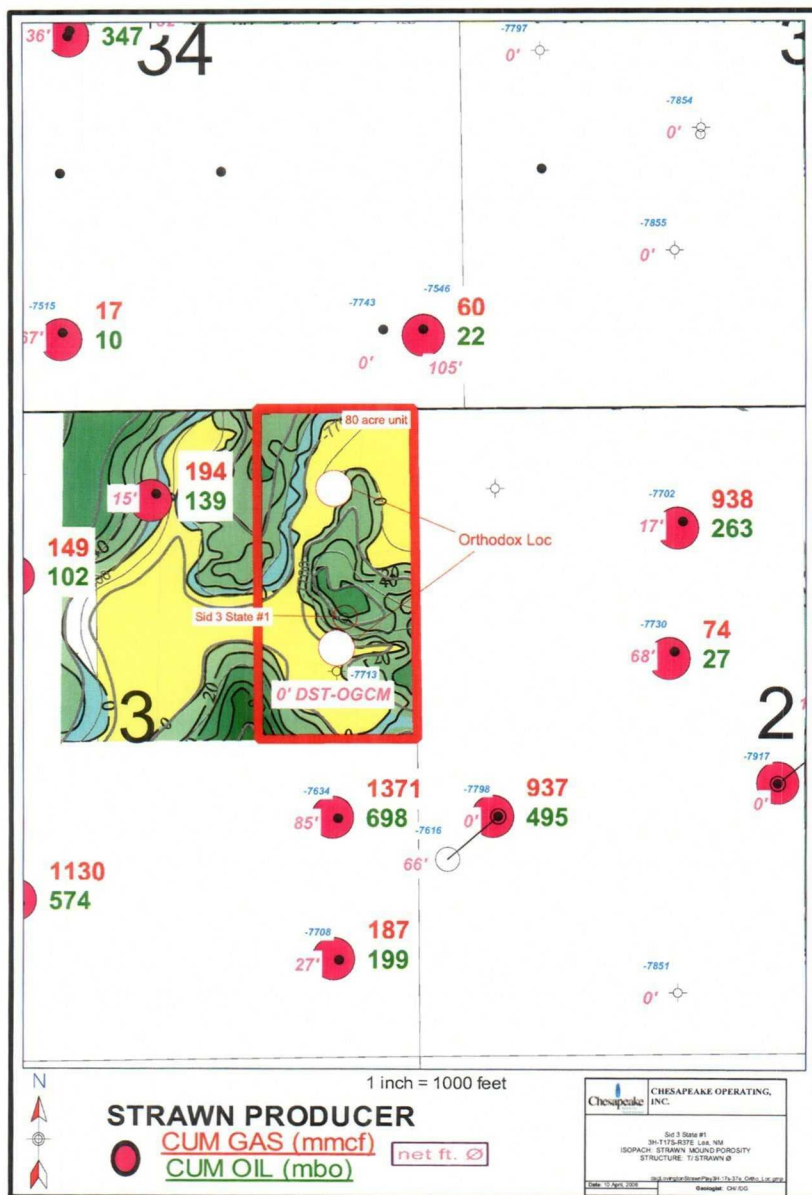
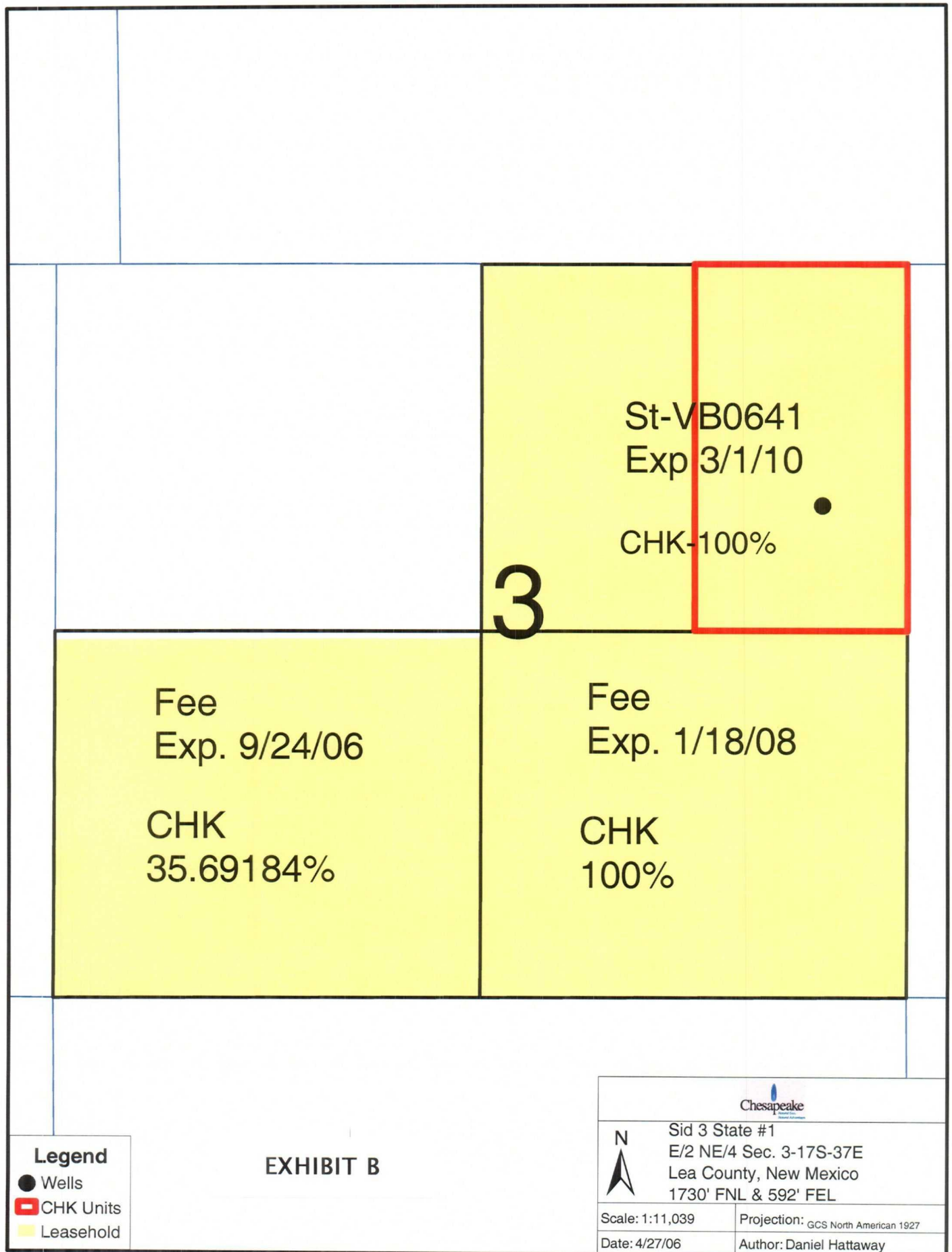


EXHIBIT A

Land Plat



Application
June 12, 2006

Chesapeake Operating, Inc.

Attention: Lynda Townsend

Administrative Order NSL-_____

Dear Ms. Townsend:

Reference is made to your application dated June 12, 2006 for an unorthodox well location for Chesapeake Operating, Inc.'s Sid 3 State Well No. 1 to be drilled at a location 1730 feet from the North line and 592 from the East line of Section 3, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico.

An 80-acre spacing and proration unit in the Strawn formation comprising the E/2 NE/4 of said Section 3 is to be dedicated to said well.

This application has been duly filed under the provisions of Rule 104.F of the General Rules of the Oil Conservation Division revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

By authority granted me under the provisions of Rule 104.F(2), the above-described unorthodox well location within this 80-acre unit in the Strawn formation is hereby approved.

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: Oil Conservation Division - Hobbs/Artesia