



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

February 7, 2007

Chesapeake Operating, Inc.
C/o Ocean Munds-Dry Esq.
Holland & Hart LLP
PO Box 2208
Santa Fe, NM 87504-2208

RE: Lou Wortham 11 Well No. 3 (API No 30-015-38236)
815 feet from the North Line, 1547 feet from the East line, Unit B
Section 11, Township 22 South, Range 37 East, NMPM, Lea County
NW/4 NE/4 (40 Acres) Section 11 Dedication

Administrative Order NSL-5559

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (administrative application reference No. pTDS0700533732 for non-standard location [NSL]) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on January 3, 2007, on behalf of Chesapeake Operating, Inc., OGRD 147179 ("Chesapeake"); and

(b) the Division's records pertinent to Chesapeake's request.

Chesapeake proposes to drill the above referenced well at the above referenced unorthodox oil well location within Section 11 and requests to produce from the Grayburg formation (Penrose Skelly-Grayburg Pool) within a 40-acre, more or less, spacing unit consisting of the NW/4 NE/4 of Section 11. The proposed well would be the first well in this 40-acre spacing and proration unit.

The Penrose Skelly-Grayburg Pool (50350) is governed by statewide rule Rule 104.B, which requires oil wells to be located no closer than 330 feet from the boundary of a 40 acre spacing and proration unit. This well location is un-orthodox because it is to be located 227 feet from the eastern boundary of the NW/4 NE/4 of Section 11 spacing and proration unit.

Your application states this well location is preferable to Chesapeake because of topographic reasons. The affected spacing and proration unit to the east is shown in Division records to be operated by Chesapeake.

Division Rule 104.F allows the Division director to grant location exceptions in order to prevent waste and protect correlative rights. Your application on behalf of Chesapeake has been duly filed and notice has been provided as required under the provisions of Division Rules 104.F and 1210.A. In order to prevent waste and protect correlative rights, the above-described non-standard Grayburg oil well location within the Penrose Skelly-Grayburg Pool is hereby approved.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire", written over a horizontal line.

Mark E. Fesmire, P.E.
Director

MEF/wvjj

cc: New Mexico Oil Conservation Division – Hobbs