



January 17, 2008

HAND-DELIVERED

Mark E. Fesmire, P.E.
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 an unorthodox penetration point for its Diamond 31 Federal Well No. 2H to be drilled as a horizontal wellbore from a surface location 1722 feet from the South line and 1542 feet from the East line, intersecting the Delaware formation at an unorthodox penetration point 1722 feet from the South line and 1542 feet from the East line to a standard bottomhole location 1650 feet from the South and the West lines of Section 31, Township 24 south, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks administrative approval pursuant to the provisions of Division Rules 104 and 111 of an unorthodox penetration point for its Diamond 31 Federal Well No. 2H. This well is located in Section 31, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico and will be drilled to test the Delaware formation, Willow Lake Delaware Pool, from an unorthodox surface location 1722 feet from the South line and 1542 feet from the East line, intersecting the Delaware formation at an unorthodox penetration point 1722 feet from the South line and 1542 feet from the East line, and to a standard bottomhole location 1650 feet from the South and West lines of said Section 31, Eddy County, New Mexico. An 80-acre project area has been dedicated to this horizontal well consists comprised of the NE/4 SW/4 and the NW/4 SE/4 of Section 31.

This location is unorthodox because the Delaware formation under this acreage is governed by the Division's statewide rules which provide for wells on 40-acre spacing units to be located no closer than 330 feet to the outer boundary of the spacing unit. Division Rule 111 defines the "Penetration Point" as "the point where the wellbore penetrates the top of the pool from which it is intended to produce." The wellbore penetrates the Delaware formation at a point 1542 feet from the East line of Section 31

which is only 222 feet from the eastern boundary of the project area for the well and is therefore 222 feet closer than allowed by Division rules.

Although the wellbore penetrates the top of the Delaware Mountain Group at an unorthodox location, the well will be at a standard location at the producing interval. The Bureau of Land Management required the surface location be moved from a standard location to avoid archaeological sites. Chesapeake penetrates the top of the Delaware at approximately 2,770 feet in the vertical portion of the well and then will kick-off at approximately 4,608 feet in the Cherry Canyon. Chesapeake is targeting the Willow Lake interval which is estimated at 5076 feet to 5122 feet. Therefore, once Chesapeake reaches the target formation, it will be at a standard location.

Exhibit A is a copy of the C-102 filed for this well. **Exhibit B** is a plat which shows the subject area and the 80-acre spacing unit/horizontal well project area for this well comprised of the NE/4 SW/4 and the NW/4 SE/4 of Section 31. The project area is comprised of one federal oil and gas lease.

A copy of this application with all attachments was mailed to Judah Oil LLC who is the offset operator in the adjoining spacing unit towards which Chesapeake is encroaching. The affected party was advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date notice was sent. It was also advised that if no objections were received by the Division within twenty days, the Division Director could approve the application.

Your attention to this application is appreciated.

Sincerely,



Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number 30-015-36022	Pool Code 64453	Pool Name Willow Lake; Delaware
Property Code	Property Name DIAMOND 31 FEDERAL	Well Number 2H
OCRID No 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 2908'

Surface Location

UL or lot No	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	31	24-S	29-E		1722	SOUTH	1542	EAST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
K	31	24-S	29-E		1650	SOUTH	1650	WEST	EDDY

Dedicated Acres 80	Joint or Infill	Consolidation Code	Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>Craig Bernard</i> 8/14/07 Signature Date</p> <p>CRAIG BARNARD Printed Name</p>
	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>Date Surveyed: 8/18/07 Signature & Seal of Professional Surveyor: <i>GARY G. EIDSON</i></p> <p>Certificate No. GARY EIDSON 12641 RONALD J. EIDSON 3239</p>

EXHIBIT
A

EXHIBIT A-1

