

CHESAPEAKE OPERATING, INC.

P.O. BOX 13496
OKLAHOMA CITY, OKLAHOMA 73134-0496
405/848-8000, EXT. 416
405/879-9560 FAX

LAND DEPARTMENT

MIKE HAZLIP, CPL
LANDMAN

December 9, 1997

VIA FACSIMILE (505) 393-0720 & FEDERAL EXPRESS

Mr. Chris Williams
New Mexico OCD
1000 West Broadway
Hobbs, New Mexico 88240

Mr. Michael Stogner
New Mexico OCD
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Lorena 1-1 well - Unorthodox Location
2,927' FSL & 1,104' FEL Section 1-T16S-R36E
Lea County, New Mexico

Dear Chris:

Pursuant to my discussion with you this morning, enclosed is Chesapeake's Application for Permit to Drill, Forms C-101 and C-102 for our Lorena 1-1 well to be drilled at the captioned location. Based on 3-D seismic, in order to insure the highest probability of discovering productive Strawn reserves, it is essential that a well in this proration unit be drilled at the captioned location. Our location places the well 287 feet from the southern boundary of the proration unit. The Anderson 1-1 well, drilled in the adjacent proration unit south of the Lorena unit, was likewise drilled at an unorthodox location from the same lease line boundary.

The failed Strawn tests in the immediate area have encountered both tight and wet reservoir suggesting the necessity for locating wells at the optimum site. The attached isopach map of the Strawn formation exhibits the maximum thickness of the potential reservoir to be located in the SW/4 of Lot 16 near the requested location. Please note that the alternate legal location in Lot 15, which would provide maximum thickness of reservoir quality rock, is interpreted to be as much as 40 feet lower structurally (see Strawn Structure Map).

Without being granted the unorthodox location requested, Chesapeake's ability to establish production capable of preventing waste and protecting correlative rights in the 80 acre proration unit consisting of Lots 15 and 16 is lost.

Chris Williams/NMOCD
December 9, 1997
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We have enclosed a copy of a letter which was sent via facsimile to the offset operator south of our location. Without his protest, we would appreciate your consideration of our request administratively.

We recognize and regret the timing of our application, affected by rig availability, and are striving to supply you with the proper information in a more timely manner. Thank you for your patience and consideration.

Most sincerely,

A handwritten signature in black ink, appearing to read "MH" followed by a stylized flourish.

Mike Hazlip

Robert Hefner

NSL 1/5/98

CHESAPEAKE OPERATING, INC.

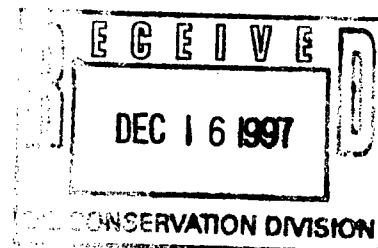
P.O. BOX 18496
OKLAHOMA CITY, OKLAHOMA 73154-0496
405/848-8000, Ext.416
405/879-9560 Fax

LAND DEPARTMENT

MIKE HAZLIP, CPL
LANDMAN

December 15, 1997

Mr. Michael Stogner
New Mexico Oil Conservation Division
Division Office
2040 South Pacheco
Santa Fe, New Mexico 87505



Re: Chesapeake's Lorena 1-1 well - Unorthodox location
2,927' FSL and 1,104' FEL Section 1-T16S-R36E,
Lea County, New Mexico

Dear Mr. Stogner:

Enclosed is an Isopach/Structure map prepared for your review of the application sent to Chris Williams of the Hobbs office. I've also enclosed a waiver letter signed by the offset operator, Kevin O. Butler. Please let me know if you need anything further from me in order to issue a favorable ruling regarding our request for administrative approval of our unorthodox location.

Thank you for your consideration in this matter.

Most sincerely,

A handwritten signature in dark ink, appearing to read "Mike Hazlip", written in a cursive style.

Mike Hazlip

30-025-34230

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 4172
Order No. R-3816
NOMENCLATURE

APPLICATION OF PENNZOIL UNITED, INC.,
FOR SPECIAL POOL RULES, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 6, 1969,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 14th day of August, 1969, the Commission, a
quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Pennzoil United, Inc., seeks the
promulgation of special rules and regulations for the East
Lovington-Pennsylvanian Pool, Lea County, New Mexico, including
a provision for 80-acre oil proration units.

(3) That the reservoir information presently available
indicates that the horizontal limits of the East Lovington-
Pennsylvanian Pool, as presently designated, encompass more
than one separate common source of supply.

(4) That the horizontal limits of the East Lovington-
Pennsylvanian Pool should, in order to prevent waste and protect

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CASE No. 4172

Order No. R-3816

correlative rights, be contracted by deleting the following-described lands in Lea County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM

Section 16: SW/4
Section 17: SE/4
Section 18: SE/4
Section 19: All
Section 20: NE/4 and S/2
Section 21: NW/4
Section 29: All
Section 31: N/2 N/2, SW/4 NW/4, SW/4,
and W/2 SE/4
Section 32: N/2 and N/2 S/2
Section 33: N/2 SW/4 and SE/4 SW/4

TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM

Section 4: NE/4, E/2 NW/4, and SW/4 NW/4
Section 5: S/2 N/2

(5) That in order to prevent waste and protect correlative rights, a new pool in Lea County, New Mexico, classified as an oil pool for Pennsylvanian production should be created and designated the Northeast Lovington-Pennsylvanian Pool, with vertical limits comprising the Pennsylvanian formation and horizontal limits comprising the following-described lands in Lea County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 24: SE/4

TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM

Section 16: SW/4
Section 17: SE/4
Section 18: SE/4
Section 19: All
Section 20: NE/4 and S/2
Section 21: NW/4

(6) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations

providing for 80-acre spacing units should be promulgated for the Northeast Lovington-Pennsylvanian Pool.

(7) That the temporary special rules and regulations should provide for limited well locations in order to assure orderly development of the pool and protect correlative rights.

(8) That the temporary special rules and regulations should be established for a one-year period in order to allow the operators in the subject pool to gather reservoir information to establish the area that can be efficiently and economically drained and developed by one well.

(9) That this case should be reopened at an examiner hearing in August, 1970, at which time the operators in the subject pool should be prepared to appear and show cause why the Northeast Lovington-Pennsylvanian Pool should not be developed on 40-acre spacing units.

IT IS THEREFORE ORDERED:

(1) That, effective September 1, 1969, the horizontal limits of the East Lovington-Pennsylvanian Pool, Lea County, New Mexico, are hereby contracted by the deletion therefrom of the following-described lands:

TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM

Section 16: SW/4
Section 17: SE/4
Section 18: SE/4
Section 19: All
Section 20: NE/4 and S/2
Section 21: NW/4
Section 29: All
Section 31: N/2 N/2, SW/4 NW/4, SW/4,
and W/2 SE/4
Section 32: N/2 and N/2 S/2
Section 33: N/2 SW/4 and SE/4 SW/4

TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM

Section 4: NE/4, E/2 NW/4, and SW/4 NW/4
Section 5: S/2 N/2

(2) That, effective September 1, 1969, a new pool in Lea County, New Mexico, classified as an oil pool for Pennsylvanian

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Order No. R-3816

production, is hereby created and designated the Northeast Lovington-Pennsylvanian Pool, with vertical limits comprising the Pennsylvanian formation and horizontal limits comprising the following-described lands:

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 24: SE/4

TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM

Section 16: SW/4

Section 17: SE/4

Section 18: SE/4

Section 19: All

Section 20: NE/4 and S/2

Section 21: NW/4

(3) That effective September 1, 1969, temporary Special Rules and Regulations for the Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico, are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS

FOR THE

NORTHEAST LOVINGTON-PENNSYLVANIAN POOL

RULE 1. Each well completed or recompleted in the Northeast Lovington-Pennsylvanian Pool or in the Pennsylvanian formation within one mile thereof, and not nearer to or within the limits of another designated Pennsylvanian oil pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2, or W/2 of a governmental quarter section; provided, however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the unit.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing with an application has been filed for a non-standard unit comprising a governmental quarter-quarter section or lot, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Land Surveys. All operators offsetting the proposed non-standard unit shall be

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Order No. R-3816

notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5. The Secretary-Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Secretary-Director has received the application.

RULE 6. A standard proration unit (79 through 81 acres) shall be assigned an 80-acre proportional factor of 6.67 for allowable purposes, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion.

The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the Northeast Lovington-Pennsylvanian Pool or in the Pennsylvanian formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before September 1, 1969.

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CASE No. 4172

Order No. R-3816

(2) That, pursuant to Paragraph A. of Section 65-3-14.5, NMSA 1953, contained in Chapter 271, Laws of 1969, existing wells in the Northeast Lovington-Pennsylvanian Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 65-3-14.5, existing wells may have non-standard spacing or proration units established by the Commission and dedicated thereto.

Failure to file new Forms C-102 with the Commission dedicating 80 acres to a well or to obtain a non-standard unit approved by the Commission within 60 days from the effective date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the Northeast Lovington-Pennsylvanian Pool or in the Pennsylvanian formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(3) That this case shall be reopened at an examiner hearing in August, 1970, at which time the operators in the subject pool may appear and show cause why the Northeast Lovington-Pennsylvanian Pool should not be developed on 40-acre spacing units.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

DAVID F. CARGO, Chairman

ALEX J. ARMIJO, Member

S E A L

A. L. PORTER, Jr., Member & Secretary

esr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 4172
Order No. R-3816-A

APPLICATION OF PENNZOIL UNITED, INC.,
FOR SPECIAL POOL RULES, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:30 a.m. on August 19, 1970, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of August, 1970, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That by Order No. R-3816, dated August 14, 1969, temporary Special Rules and Regulations were promulgated for the Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico, establishing 80-acre spacing units for a period of one year.

(3) That pursuant to the provisions of Order No. R-3816, this case was reopened to allow the operators in the subject pool to appear and show cause why the Northeast Lovington-Pennsylvanian Pool should not be developed on 40-acre spacing units.

(4) That the evidence establishes that one well in the Northeast Lovington-Pennsylvanian Pool can efficiently and economically drain and develop 80 acres.

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CASE No. 4172

Order No. R-3816-A

(5) That the Special Rules and Regulations promulgated by Order No. R-3816 have afforded and will afford to the owner of each property in the pool the opportunity to produce his just and equitable share of the oil in the pool.

(6) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, the Special Rules and Regulations promulgated by Order No. R-3816 should be continued in full force and effect until further order of the Commission.

IT IS THEREFORE ORDERED:

(1) That the Special Rules and Regulations governing the Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico, promulgated by Order No. R-3816, are hereby continued in full force and effect until further order of the Commission.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

DAVID F. CARGO, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

CHESAPEAKE OPERATING, INC.**LAND DEPARTMENT**

P.O. BOX 18496

OKLAHOMA CITY, OKLAHOMA 73154-0496

405/848-8000, EXT. 416

405/879-9560 FAX

MIKE HAZLIP, CPL

LANDMAN

December 9, 1997

VIA FACSIMILE (915) 687-5725
AND CERTIFIED MAIL


Mr. Kevin Butler
Kevin Butler & Associates
500 West Texas Ave., Ste. 955
Midland, Texas 79701

Re: Waiver of Unorthodox Location
Chesapeake's Lorena 1-1 well
2,927' FSL and 1,104' FEL Section 1-T16S-R38E
Lea County, New Mexico

Dear Kevin:

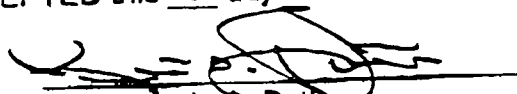
Chesapeake requests your waiver to protest our Lorena 1-1 well location which is 2,927' FSL and 1,104' FEL Section 1-T16S-R36E, Lea County, New Mexico. For your timely waiver, Chesapeake is willing to provide you with well information from the subject well. Should you have any questions or concerns regarding this matter, please give me a call.

Most sincerely,



Mike Hazlip

WAIVER TO PROTEST
AGREED TO AND ACCEPTED this 9TH day of December, 1997.


Kevin O. Butler

COUNTY Lea

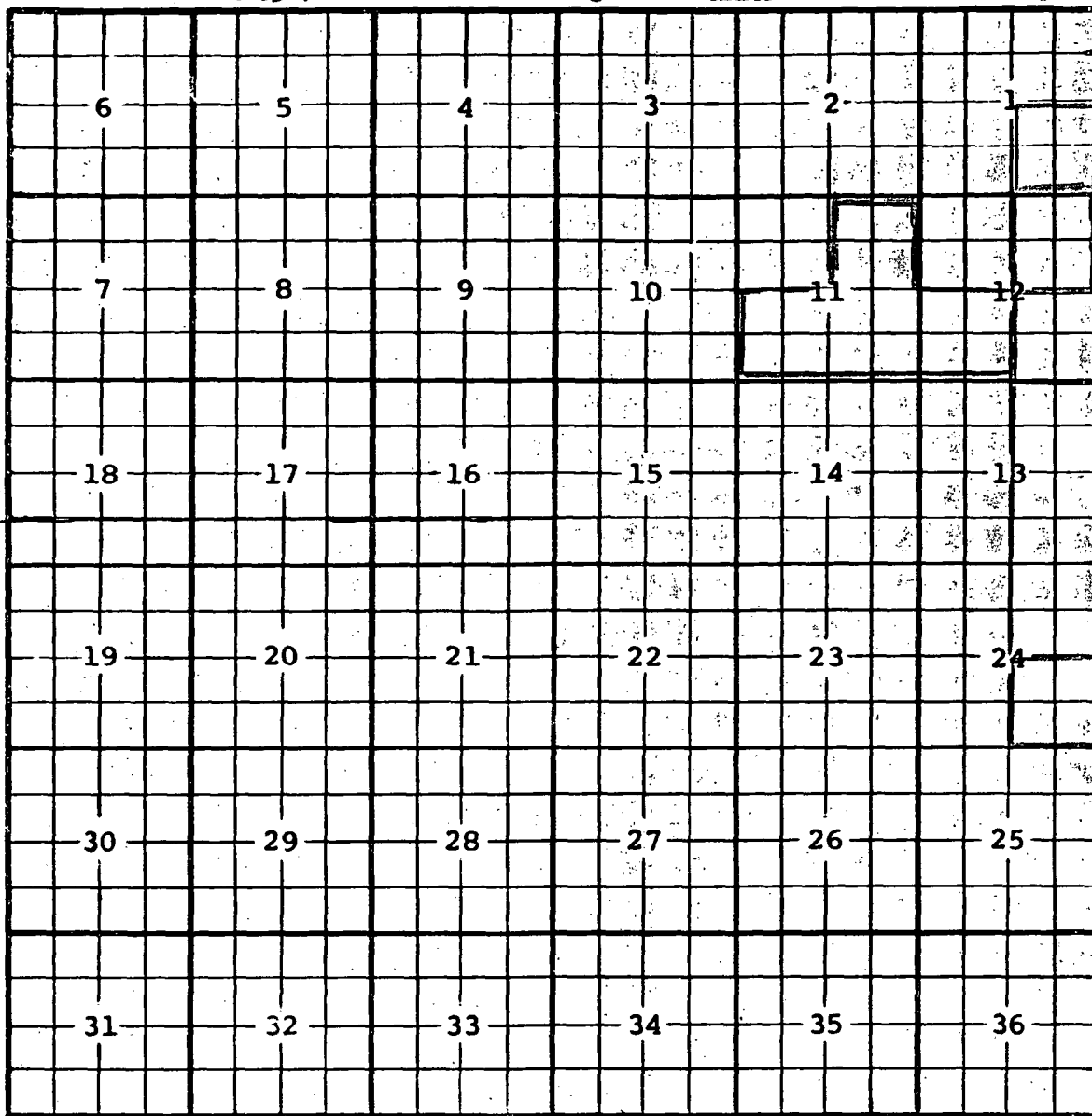
POOL

Northeast Lovington - PennsylvanianTOWNSHIP 16 South

RANGE

36 East

NMPM



Description: SE 1/4 Sec. 24 (R-3816, 8-14-69 Effective date 9-1-69)

Ext: E 1/2 sec 13, NE 1/4 sec. 24 (R-6576, 2-10-81) EXT: SE 1/4 SEC. 1 (R-8561 12/1/87)

EXT: SE 1/4 sec 12 (R-8946, 7-1-89) EXT: E 1/2 and SW 1/4 Sec. 11, SW 1/4 Sec. 12 (R-10776, 2-28-97)

Ext: NE 1/4 Sec. 12 (R-10910, 10-31-97)