

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



March 17, 2008

Ms. Ocean Munds-Dry
Holland & Hart, LLP
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSL-5799

Re: Chesapeake Operating, Inc.
IMC 21 Federal Com Well No. 2H
API No. 30-015-36109
Unit A, Section 21-23S-39E
Eddy County

MAR 27 2008
OCD-ARTESIA

Dear Ms Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pKVR08-0805056937**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Chesapeake Operating, Inc. (Chesapeake) on February 15, 2008, and

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

Chesapeake has requested to drill the above-referenced well as a horizontal well in the Delaware formation, at a location that will be unorthodox under Division Rule 111. The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 460 feet from the North line and 410 feet from the East line
(Unit A) of Section 21, Township 23S, Range 29E, NMPM
Eddy County, New Mexico

Point of Penetration: Same as Surface Location.

Terminus 330 feet from the South line and 650 feet from the East line
(Unit P) of said Section .

Oil Conservation Division * 1220 South St. Francis Drive
* Santa Fe, New Mexico 87505

* Phone: (505) 476-3440 * Fax (505) 476-3462* <http://www.emnrd.state.nm.us>



The SE/4 NE/4 and E/2 SE/4 of Section 21 will be dedicated to the proposed well to form a project area comprising three entire, standard spacing units in the Northeast Harroun Ranch-Delaware Pool (96878). This pool is governed by statewide Rule 104.B(1), which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is unorthodox because a portion of the producing interval will be located outside the boundaries of the project area, and therefore outside the producing area.

Your application has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that you are seeking this location because of surface topography. It is further understood that, although the wellbore penetrates the top of the Delaware Mountain Group in Unit A of Section 21 (which is outside of the project area, as well as outside the producing area), the only interval that will be perforated is the Lower Brushy Canyon member of the Delaware formation, and all perforations will be located within the producing area.

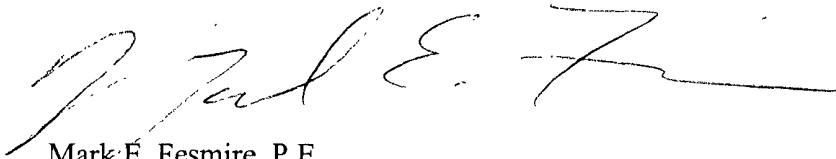
It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 1210.A(2), in all adjoining units towards which the proposed location encroaches.

Pursuant to the authority conferred by Division Rule 104.F(2), the above-described unorthodox location is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', with a long horizontal flourish extending to the right.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe
United States Bureau of Land Management - Carlsbad

HOLLAND & HART LLP



S

Ocean Munds-Dry
omundsdry@hollandhart.com

30-015-36109

February 15, 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 IMC 21 Federal Well No. 2H to be drilled as a horizontal wellbore from a surface location 460 feet from the North line and 410 feet from the East line, intersecting the Delaware formation at an unorthodox penetration point 460 feet from the North line and 410 feet from the East line to a standard bottomhole location 330 feet from the South line and 650 feet from the East line of Section 21, Township 23 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 IMC 21 Federal Well No. 2H. This well is located in Section 21, Township 23 South, Range 29 East, N.M.P.M., Eddy County, New Mexico and will be drilled to test the Delaware formation, Harroun Ranch Delaware Oil Pool, from an unorthodox surface location 460 feet from the North line and 410 feet from the East line, intersecting the Delaware formation at an unorthodox penetration point 460 feet from the North line and 410 feet from the East line, and to a standard bottomhole location 330 feet from the South line and 650 feet from the East line of said Section 21, Eddy County, New Mexico. A 120-acre project area has been dedicated to this horizontal well comprised of the SE/4 NE/4 and the E/2 SE/4 of Section 21.

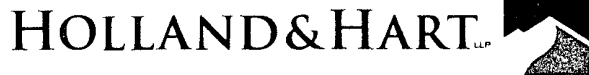
This location is unorthodox because the Delaware formation under this acreage is governed by the Division's statewide rules which provide for wells on 40-acre spacing units to be located no closer than 330 feet to the outer boundary of the spacing unit. Division Rule 111 defines the "Penetration Point"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

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Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ♻



penetrates the Delaware formation at a point outside of the producing area and the project area.

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 surface location was chosen for topography reasons due to the salt lake being nearby. Chesapeake penetrates the top of the Delaware at approximately 2,968 feet in the vertical portion of the well and then will kick-off at approximately 3215 feet. Chesapeake is targeting the Lower Brushy Canyon interval which is estimated at 6536 feet to 6528 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 120-acre horizontal well project area for this well comprised of the SE/4 NE/4 and the E/2 SE/4 of Section 21. The project area is comprised of federal acreage.

A copy of this application with all attachments was mailed to Devon Energy 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,

A handwritten signature in black ink that reads "Ocean Munds-Dry".

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

DISTRICT I

1626 N. FRENCH DR., HOBBBS, NM 88240

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1820 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico

Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

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

Form C-102

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30-015-36109	Pool Code 96878	Pool Name Harroun Ranch, Delaware, NE
Property Code 36999	Property Name IMC 21 FEDERAL COM	Well Number 2H
GRID No. 147179	Operator Name CHESAPEAKE OPERATING INC.	Elevation 2960'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	21	23-S	29-E		460	NORTH	410	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
P	21	23-S	29-E		330	SOUTH	650	EAST	EDDY

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
120			

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>DETAIL</p> <p>2959.8' 2956.7'</p> <p>600'</p> <p>2956.5' 2956.2'</p>	<p>SEE DETAIL</p> <p>460'</p> <p>410'</p> <p>SURF.</p>	<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 unless 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 Barnard</i> 11/5/07</p> <p>Signature _____ Date _____</p> <p>CRAIG BARNARD</p> <p>Printed Name _____</p>
<p>GEODETTIC COORDINATES NAD 27 NME SURFACE LOCATION</p> <p>Y=471746.9 N X=608549.5 E</p> <p>LAT.=32.296460° N LONG.=103.982034° W</p>	<p>GRID AZ.= 182°53'55" HORZ. DIST.= 4536.1'</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>MAP 10 E 2007</p> <p>Date Surveyed MEXICO REY 11/1/07</p> <p>Signature & Seal of Professional Surveyor 3239</p> <p><i>Ronald J. Eidson</i> 11/01/07</p> <p>07-13-1588</p> <p>Certificate No. GARY EIDSON 12841 RONALD J. EIDSON 3239</p>
<p>AS-DRILLED BOTTOM HOLE LOCATION</p> <p>Y=467217.7 N X=608320.0 E</p> <p>NOTE: AS-DRILLED BOTTOM HOLE LOCATION PROVIDED BY CHESAPEAKE OPERATING INC.</p>	<p>AS-DRILLED B.H.</p> <p>330'</p> <p>650'</p>	

EXHIBIT

A

EXHIBIT A-1

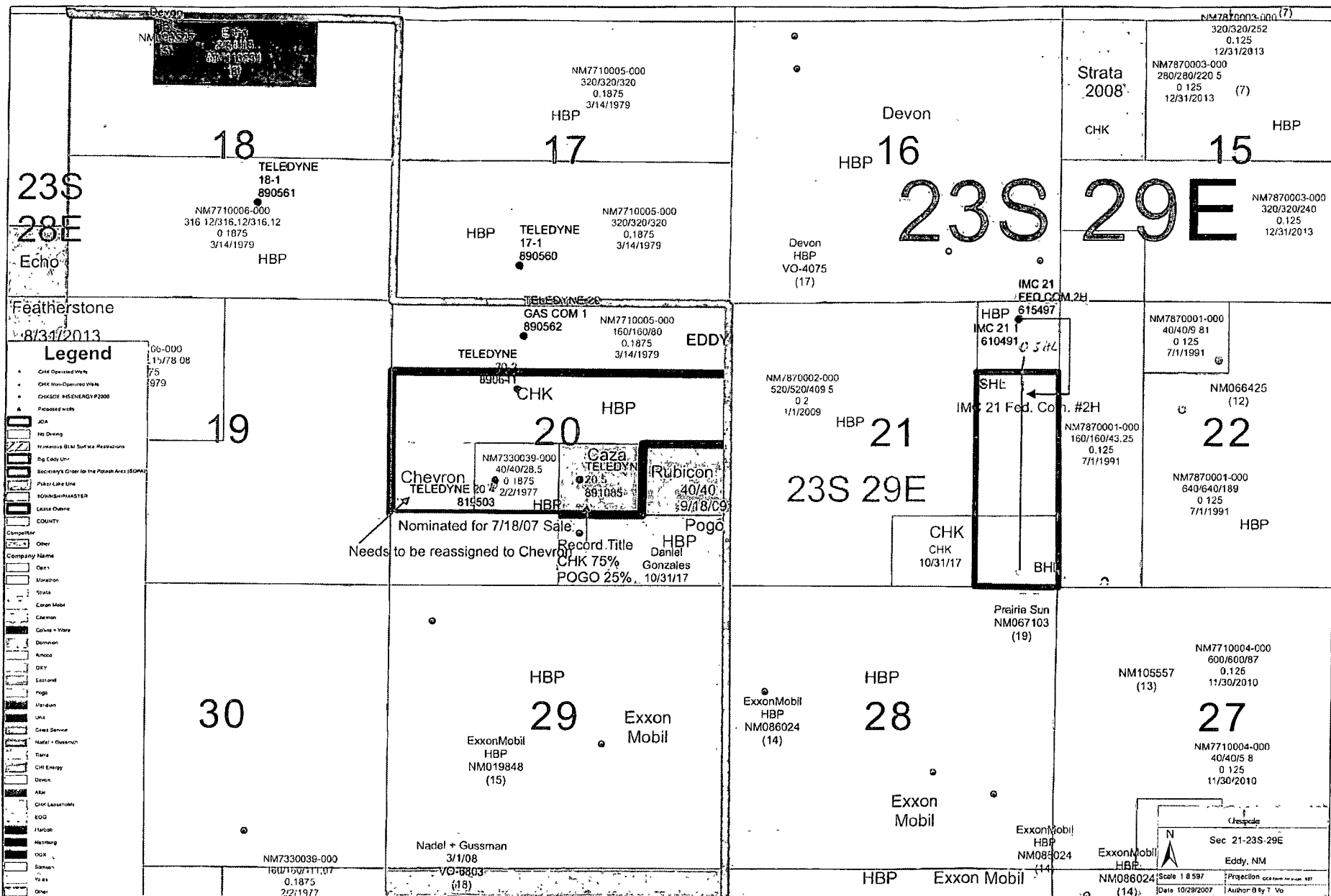


EXHIBIT
B



February 15, 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED**Devon Energy Production Co., LP**
20 North Broadway
Suite 1500
Oklahoma City, OK 73102-8260

Re: Application of Chesapeake Operating, Inc. for administrative approval of an unorthodox penetration point for its IMC 21 Federal Well No. 2H which it proposes to drill as a horizontal wellbore in the Harroun Ranch Delaware Oil Pool in Section 21, Township 23 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application which was filed with the New Mexico Oil Conservation Division on this date by Chesapeake Operating, Inc. for administrative approval of an unorthodox penetration point for its IMC 21 Federal Well No. 2H. This well is located in Section 21, Township 23 South, Range 29 East, N.M.P.M., and will be drilled to test the Delaware formation, Harroun Ranch Delaware Oil Pool, from an unorthodox surface location 460 feet from the North line and 410 feet from the East line, intersecting the Delaware formation at an unorthodox penetration point 460 feet from the North line and 410 feet from the East line, and to a terminus at a standard location 330 feet from the South line and 650 feet from the East line of said Section 21, Eddy County, New Mexico.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing within twenty days from this date at the Division's Santa Fe office that is located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. 87505. If no objection is received within this twenty-day period, this application for an unorthodox well location may be approved.

Sincerely,

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

30-015-36109

DATE IN	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO
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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



FEB 19 2008
 OCD-ARTESIA

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
 Print or Type Name

Ocean Munds-Dry
 Signature

attorney
 Title

2-15-08
 Date

omundsdry@hollandhart.com
 e-mail Address

RECEIVED
 2008 FEB 15 PM 4 04