



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

May 6, 2003

Chesapeake Operating, Inc.
c/o W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504-2265

Telefax No. (505) 982-2047

Administrative Order NSL-4875 (BHL)

Dear Mr. Kellahin:

Reference is made to the following: (i) your application on behalf of the operator, Chesapeake Operating, Inc. ("Chesapeake") dated April 15, 2003 (*administrative application reference No. pKRV0-310738250*); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe: all concerning Chesapeake's request for a non-standard subsurface oil producing area/bottomhole oil well location, as defined by Rule 4 of the "*Special Rules and Regulations Northeast Lovington-(Upper) Pennsylvanian Pool*," as promulgated by Division Order No. R-3816, as amended, and Division Rule 111.A (7), within a project area [see Division Rule 111.A (9)] comprising the S/2 NW/4 of Section 15, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, being a standard 80-acre lay-down oil spacing and proration unit for the Undesignated Northeast Lovington-Upper Pennsylvanian Pool (40760).

This application has been duly filed under the provisions of: (i) Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999; (ii) Division Rule 111.C (2); and (iii) Rule 5 of the special Northeast Lovington-(Upper) Pennsylvanian Pool rules.

It is our understanding from Division records that the Pennzoil Exploration and Production Company State "15" Well No. 1 (API No. 30-025-31063), located 1980 feet from the North line and 810 feet from the West line (Unit E) of Section 15, was originally drilled at a standard oil well location by Pennzoil Exploration and Production Company in November/December, 1990 to a total depth of 11,800 feet to the Undesignated Northeast Lovington-Pennsylvanian Pool within the S/2 NW/4 of Section 15. This interval however tested dry and was subsequently plugged and abandoned.

Per your application, Chesapeake, at this time, intends to re-enter this well, to be redesignated by Chesapeake the Billy State "15" Well No. 1, kick-off to the southeast, and directionally drill to a target point within the Strawn formation at a depth of 11,850 feet that is 2310 feet from the North line and 990 feet from the West line (Unit E) of Section 15.

It is our understanding that Chesapeake is seeking this location exception based on a 3-D seismic survey of the immediate area, whereby it contends that this new bottomhole location should

Administrative Order NSL-4875 (BHL)

Chesapeake Operating, Inc.

May 6, 2003

Page 2

penetrate a small algal reef mound within the Strawn formation at a more structurally advantageous position underlying this 80-acre unit, thereby increasing the likelihood of obtaining commercial production.

By the authority granted me under Division Rule 104.F (2) and the applicable provisions of the special pool rules governing the Northeast Lovington-(Upper) Pennsylvanian Pool, Chesapeake is hereby authorized to reenter this wellbore and directionally drill as close as is reasonably possible to a targeted subsurface location within the Strawn formation underlying the proposed 80-acre unit comprising the S/2 NW/4 of Section 15 considered to be unorthodox 2310 feet from the North line and 990 feet from the West line (Unit E) of Section 15.

The operator shall comply with all provisions of Division Rule 111 applicable in this matter.

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe