



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 20, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Chesapeake Operating, Inc.
c/o **Holland & Hart, LLP**
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: Ocean Munds-Dry
omundsdry@hollandhart.com

RE: NMOCD Correspondence Reference No. SD-06-26: North Bagley-Permo Pennsylvanian Pool (3820) development by Chesapeake Operating, Inc. ("Chesapeake") within the W/2 SW/4 (Units "L" and "M") of Section 36, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, being a standard 80-acre stand-up oil spacing and proration unit.

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your initial letter on behalf of Chesapeake dated and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on September 8, 2006, which is hereby entered into the Division's administrative database as administrative correspondence (application) reference No. pMES0-625438487; (ii) our telephone conversation on Monday morning, September 11, 2006; (iii) your electronic correspondence with attachments submitted to the Division on Tuesday afternoon, September 19, 2006; and (iv) the Division's records in Hobbs and Santa Fe.

The rules currently governing spacing, well locations, gas/oil ratio limitation, and allowables for the North Bagley-Permo Pennsylvanian Pool include, but are not necessarily limited to:

- (a) Division Order No. R-3249, issued in Case No. 3249 on June 5, 1967, which order promulgated special pool rules for the North Bagley-Permo Pennsylvanian Pool (see also Division Orders No. R-3988, issued in Case No. 4355 on July 7, 1970, and R-7279, issued in Case No. 7867 on May 17, 1983) that included provisions: (i) for 80-acre oil spacing and proration units requiring comprising the N/2, S/2, E/2, or W/2 of a governmental quarter section (**Rule 2**); (ii) for wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot (**Rule 4**); and (iii) allowing two wells per 80-acre unit, with no more than one well per quarter-quarter section however (**Rule 2**); and

Chesapeake Operating, Inc.
NMOCD Correspondence Reference No. SD-06-26

September 20, 2006

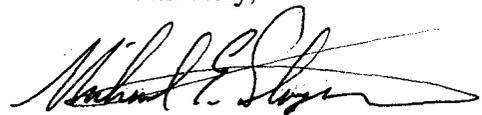
Page 2

- (b) Division Rules 505.A and 506, which allows for each standard 80-acre unit within this pool to have a top unit depth bracket allowable of 400 barrels of oil per day and a gas-oil ratio of 2,000 cubic feet of gas per barrel of oil, which results in a casinghead gas allowable of 800 MCF per day.

It is the Division's understanding that oil and casinghead gas production attributed to the North Bagley-Permo Pennsylvanian Pool within this 80-acre unit (W/2 SW/4 of Section 11) is to be simultaneously dedicated to the following two described Chesapeake operated wells:

- (1) TP "11" State Well No. 1 (*API No. 30-025-21850*), located at a standard oil well location 2050 feet from the South line and 550 feet from the West line (Unit L) of Section 11; and
- (2) TP "11" State Well No. 2 (*API No. 30-025-37143*), located at a standard oil well location 660 feet from the South line and 810 feet from the West line (Unit M) of Section 11.

Sincerely,



Michael E. Stogner
Staff Engineer

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