



May 9, 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

NSL 5720
5799-A

Re: Application of Chesapeake Operating, Inc. to amend Administrative Order NSL-5799 for administrative approval of an unorthodox penetration point for its IMC 21 Federal Well No. 2H 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 to amend Administrative Order NSL-5799 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 which has been 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

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. 3



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

In its original application, Chesapeake indicated that the well would be at a standard location at the producing interval. Administrative Order NSL-5799 granted Chesapeake's application for a non-standard location for the well, but also stated that it was the Division's understanding that "the only interval that will be perforated is the Lower Brushy Canyon member of the Delaware formation, and all perforations will be located in the producing area."

Chesapeake now requests approval to perforate and produce beginning at the northern boundary of the project area, at a measured depth of 7,228 feet, dedicated to the well. When the well was completed, in order to be 330 feet from the northern line, Chesapeake set the shallowest perforation at 7,558 feet. Chesapeake therefore requests approval to perforate and produce that interval from 7,228 feet to 7,558 feet.

Exhibit A is a copy of the mudlog for the IMC 21 Fed Com Well 2H. The lithology that corresponds to the highlighted interval from 7,228 feet to 7,558 feet is roughly 90% shale, has no shows, no gas increase and slow drilling. **Exhibit B** is a TerraVu (Geo-Steering) Cross-Section that illustrates, in the highlighted area that the interval is out of zone. This corresponds with what is shown on the mudlog.

unit A

As previously stated, ownership is identical in the offsetting spacing unit towards which the well encroaches and therefore no notice is required pursuant to Division rules. However, because Chesapeake seeks to perforate and produce closer to the offsetting unit, it is providing a copy of this application with all attachments to all interest owners in the offsetting spacing unit as well as Devon who is the operator to the north in Section 16. Affected parties are listed in **Exhibit C** to this application. The affected parties were 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

Ocean Munds-Dry

Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

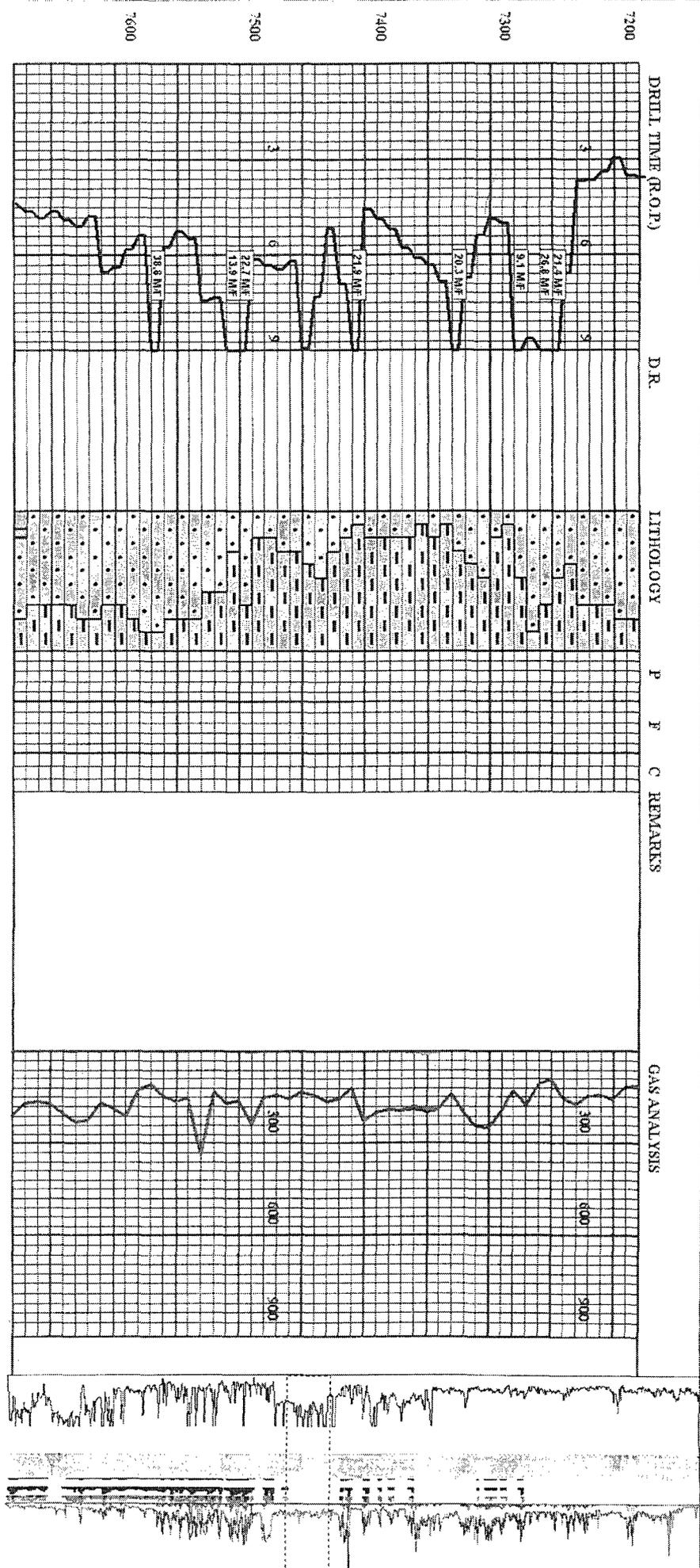
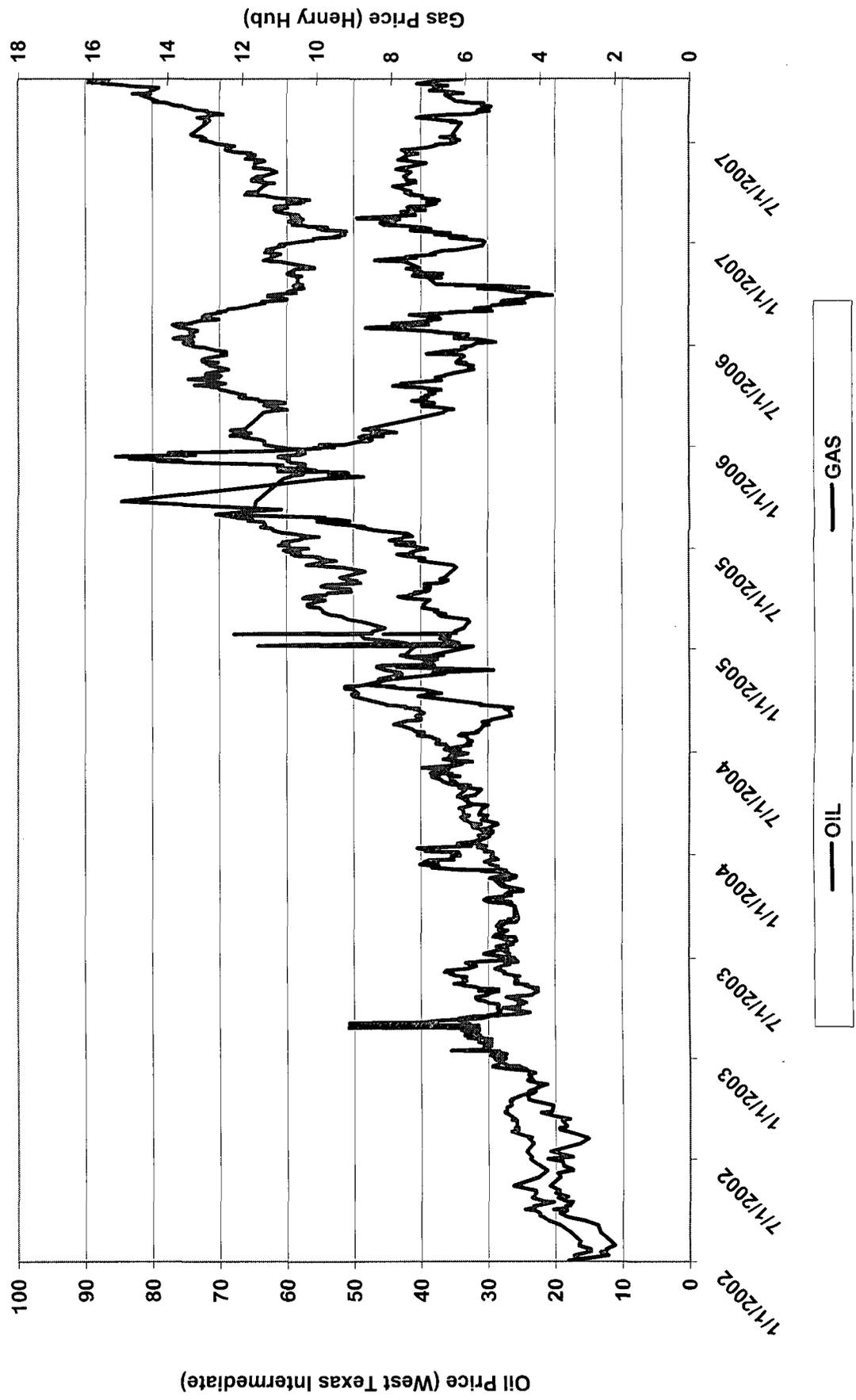


EXHIBIT
 A

Oil and Gas Prices 2002-2007



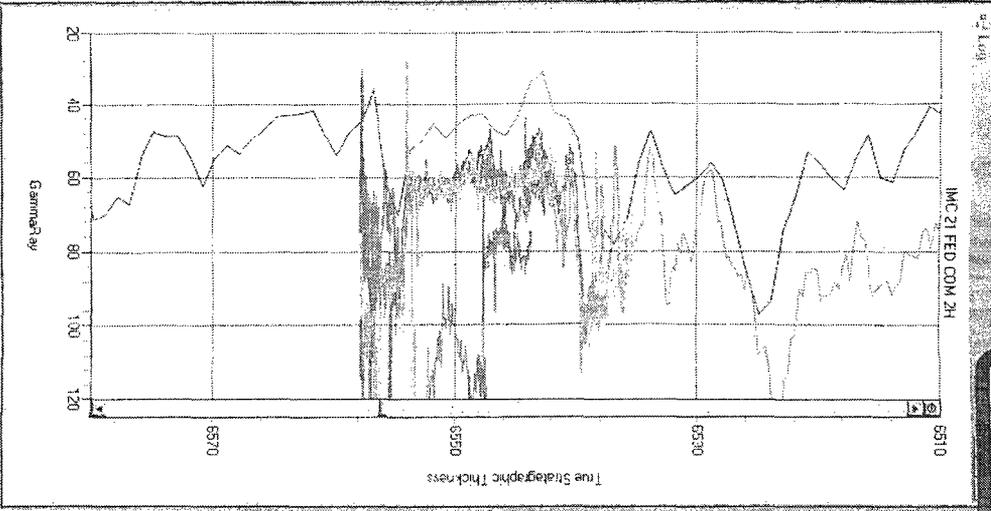
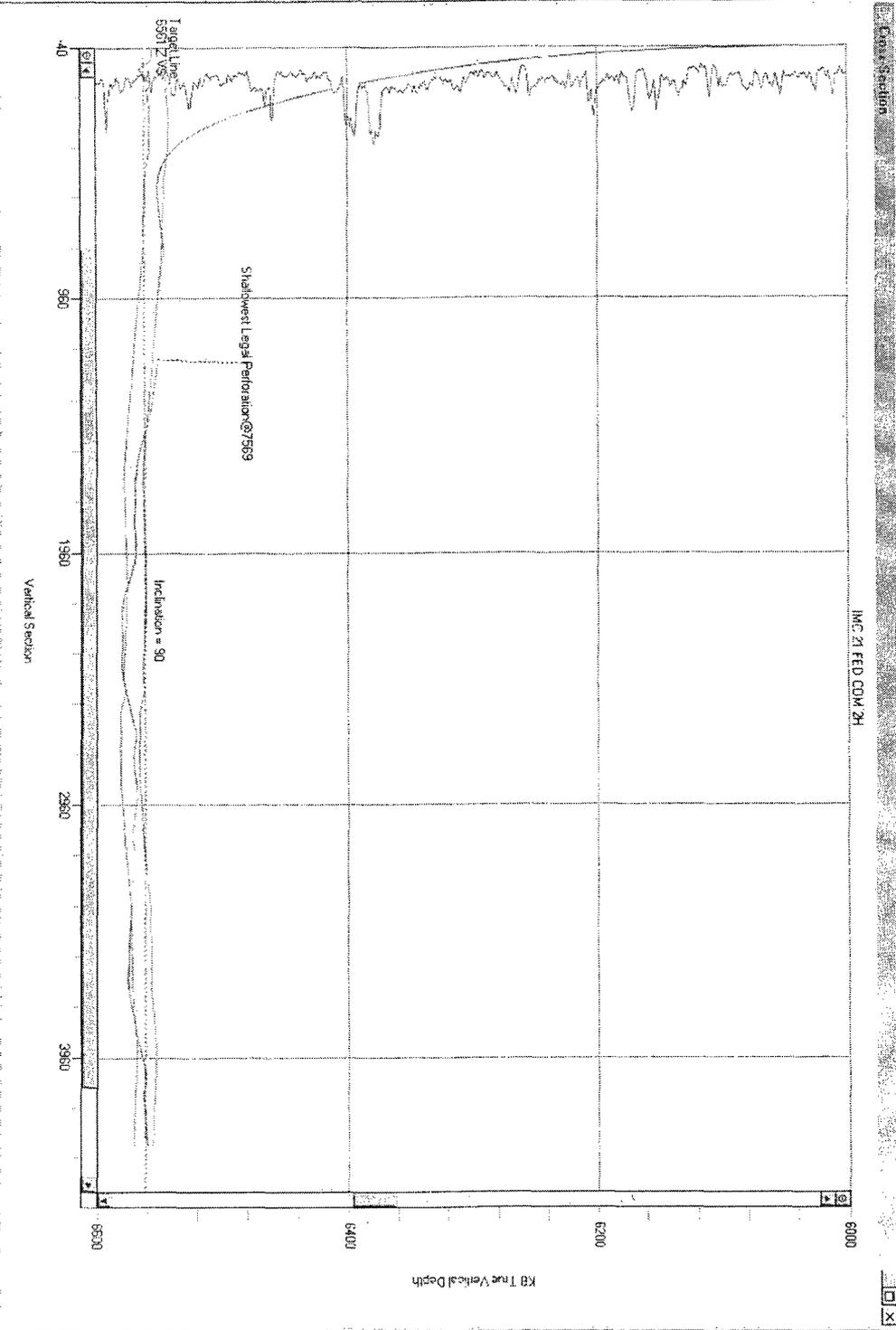


EXHIBIT
B

Exhibit C
Application of Chesapeake to Amend NSL-5799
Section 21, Township 23 South, Range 29 East
Eddy County, New Mexico

Devon Energy Production Co., LP
20 North Broadway
Suite 1500
Oklahoma City, OK 73102-8260

TLW Investments LLC
PO Box 54525
Oklahoma City, OK 73154-1525

Liberty Energy Corp.
175 Berkeley, 18K
Boston, MA 02116

Quientesa Royalty LP
508 W. Wall Ave Ste 500
Midland, TX 79701

TDY Industries Inc.
Bank of America AGT
PO Box 840738
Dallas, TX 75284-0738

Michael D. Hayes
3608 Meadowridge Ln.
Midland, TX 79707

Madison M. Hinkle
PO Box 2292
Roswell, NM 88202-2292

Rolla R. Hinkle III
PO Box 2292
Roswell, NM 88202-2292

DATE IN 7/15/08	SUSPENSE	ENGINEER BROOKS	LOGGED IN 2/19/08	TYPE NSL	APP NO. PKUR0805056937
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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



Chesapeake Operating
INC
IMC 21 Federal Com
2H

ADMINISTRATIVE APPLICATION CHECKLIST

5799

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

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.

~ units 413P

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

HOLLAND & HART LLP



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,

Ocean Munds-Dry
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2

DISTRICT I
1625 N. FRANCIS DR., HOBUS, NM 87240

DISTRICT II
1501 W. GRAND AVENUE, ARTESIA, NM 88210

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

DISTRICT IV
1820 E. 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	Pool Name NE Harroun Ranch DLW
Property Code	Property Name IMC 21 FEDERAL COM	Well Number 2H
OGRID No.	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.
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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

DETAIL

2959.8' 2956.7' 2956.5' 2956.2'

600' 500'

GRID AZ = 182°53'55"

HORIZ. DIST. = 4536.1'

AS-DRILLED B.H. 330' 650'

OPERATOR CERTIFICATION

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.

Craig Barnard 11/5/07
Signature Date

CRAIG BARNARD
Printed Name

SURVEYOR CERTIFICATION

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.

Date Surveyed **ME/LA REV 11/1/07**

Signature & Seal of Professional Surveyor **3230**

Ronald J. Eidson 11/01/07
1588

Certificate No. **GARY EIDSON 12041**
RONALD J. EIDSON 3230

EXHIBIT
A

EXHIBIT A-1

POTASH? NOT in R-111

Protected Area

Brooks, David K., EMNRD

From: Brooks, David K., EMNRD
Sent: Tuesday, March 11, 2008 9:07 AM
To: 'Ocean Munds-Dry'
Subject: NSL - Chesapeake - IMC 21 Fed Com #2H

Dear Ocean

I gather that the NE/NE of Section 21, where the well is located, will not be included in the project area.

Is ownership identical between the NE/NE of 21 and the proposed project area? If not, I believe the NE/NE would be an affected unit, and notice to owners, if any other than Chesapeake, in that unit would be required.

Please advise.

Thanks

David K. Brooks
Legal Examiner

3/11/2008

Brooks, David K., EMNRD

From: Ocean Munds-Dry [Omundsdry@hollandhart.com]
Sent: Monday, March 17, 2008 1:19 PM
To: Brooks, David K., EMNRD
Subject: RE: NSL - Chesapeake - IMC 21 Fed Com #2H

David:

I have just confirmed with Chesapeake that ownership is identical in the NE/NE of Section 21.

Thanks,
Ocean

From: Brooks, David K., EMNRD [mailto:david.brooks@state.nm.us]
Sent: Tuesday, March 11, 2008 10:07 AM
To: Ocean Munds-Dry
Subject: NSL - Chesapeake - IMC 21 Fed Com #2H

Dear Ocean

I gather that the NE/NE of Section 21, where the well is located, will not be included in the project area.

Is ownership identical between the NE/NE of 21 and the proposed project area? If not, I believe the NE/NE would be an affected unit, and notice to owners, if any other than Chesapeake, in that unit would be required.

Please advise.

Thanks

David K. Brooks
Legal Examiner

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3/17/2008



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**

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>



unit A
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,



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

Warnell, Terry G, EMNRD

From: Ocean Munds-Dry [Omundsdry@hollandhart.com]
Sent: Thursday, June 19, 2008 4:49 PM
To: Warnell, Terry G, EMNRD
Subject: RE: Chesapeake's NSL for IMC 21 Federal Well No. 2H

Terry: I was referring to Unit A in Section 21.

From: Warnell, Terry G, EMNRD [mailto:TerryG.Warnell@state.nm.us]
Sent: Thursday, June 19, 2008 2:28 PM
To: Ocean Munds-Dry
Subject: Chesapeake's NSL for IMC 21 Federal Well No. 2H

Hi Ocean,

David Brooks and I have a question regarding this Admin Order.
You mentioned "ownership is identical in the offsetting spacing unit towards which this well encroaches and therefore no notice...."
Which 40 acre unit are you referring to A or P?

Regards,

Terry G. Warnell
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, NM 87505
505-476-3466

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