

HOLLAND & HART LLP



Ocean Munds-Dry  
omundsdry@hollandhart.com

May 9, 2008

**HAND-DELIVERED**

30-015-36109

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. 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](http://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. ☏

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.

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.

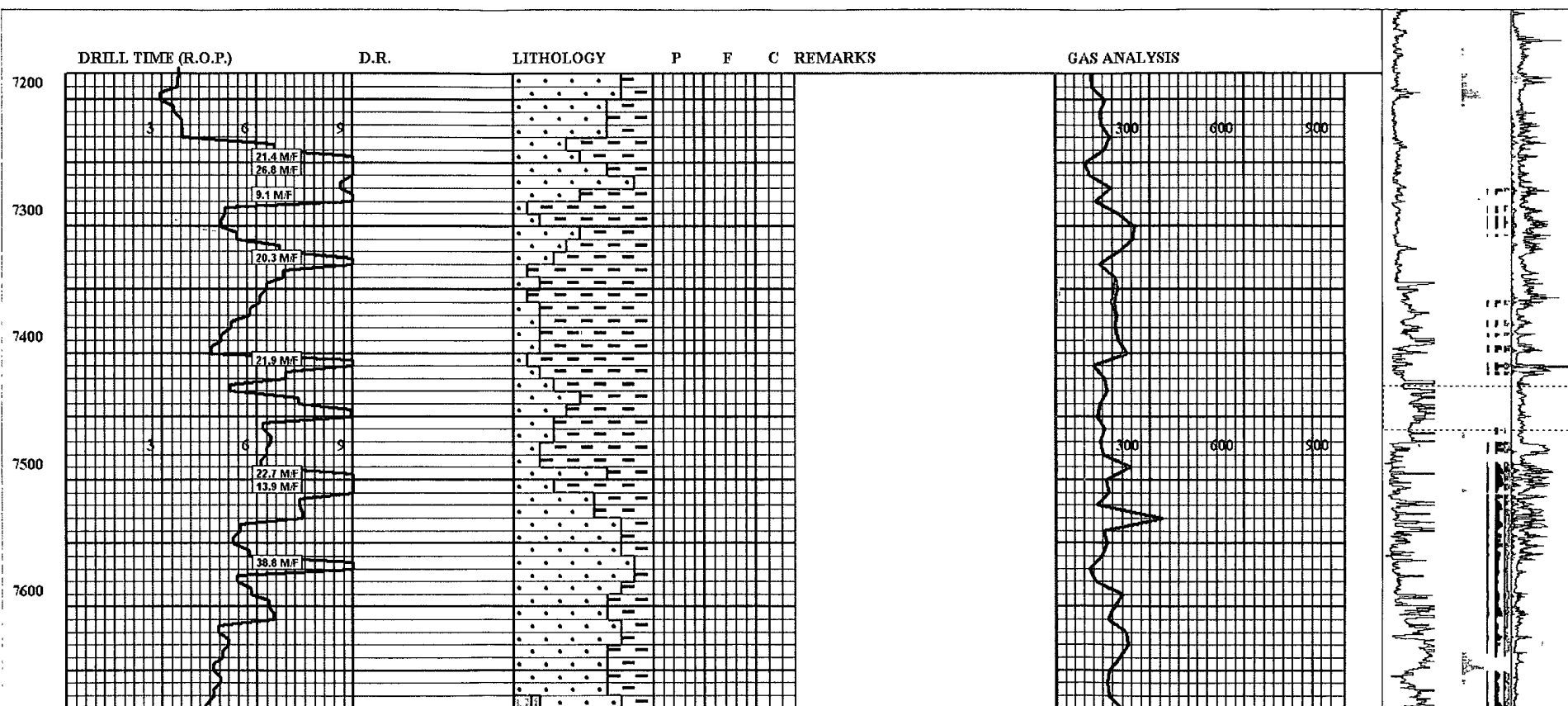
Sincerely,



Ocean Munds-Dry  
Attorney for Chesapeake Operating, Inc.

Enclosures

cc: OCD/Artesia, District 2



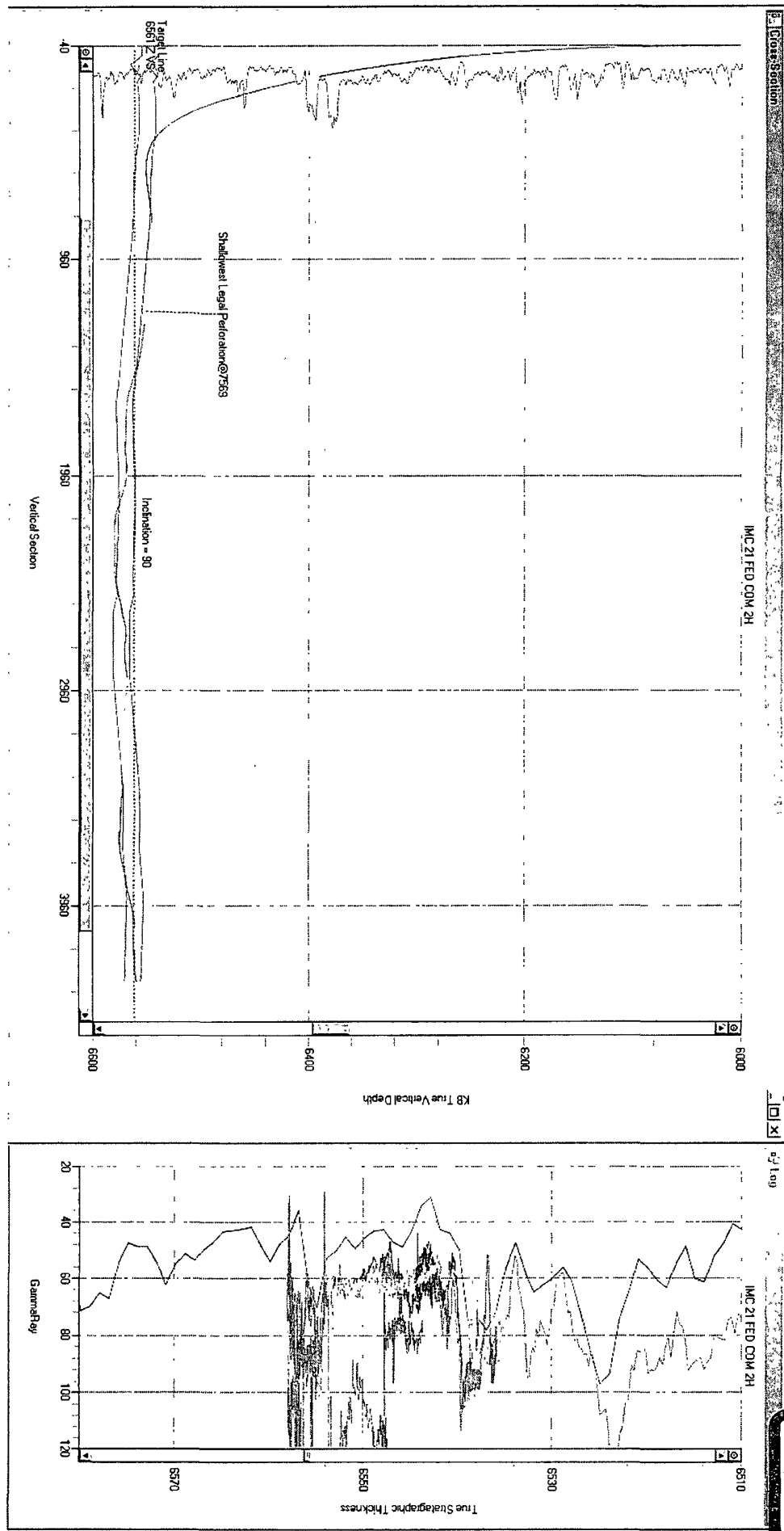


EXHIBIT  
**B**

**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	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO
---------	----------	----------	-----------	------	--------

ABOVE THIS LINE FOR DIVISION USE ONLY

## NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



MAY 14 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

5-9-08

Date

omundsdry@hollandhart.com  
 e-mail Address

RECEIVED  
 2008 MAY 9 PM 3 22