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July 2, 2001

FEDERAL EXPRESS

Mr. Chris Williams, Supervisor
Oil Conservation Division
1625 N. French Drive
Hobbs, New Mexico 88240

Re: Buchanan "5" Well No. 1
Application for Permit to Drill
Chesapeake Operating, Inc.
Unit G Section 5, T17S, R37E
Lea County, New Mexico

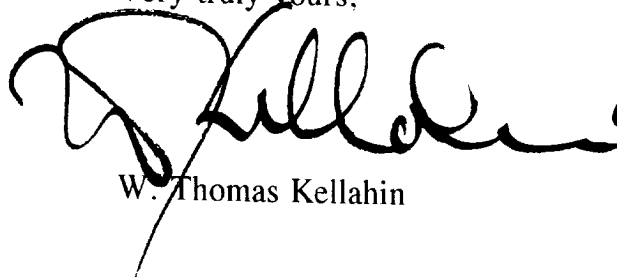
Dear Mr. Williams:

On behalf of Chesapeake Operating, Inc. and at their request, I have reviewed and now forward for your processing the enclosed application for approval to drill this well.

For your information, my research indicates that the Strawn formation at this location is an unorthodox well location and is subject to the Shipp-Strawn Pool which is subject to 80-acre spacing and standard well locations within 150 feet from the center of either 40-acre tract.

Also enclosed is a copy of Division Order R-11557-A entered on June 19, 2001 approving the location exception. The spacing unit is the W/2NE/4 of the section. Please call me if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin

cc: Chesapeake Operating, Inc.
Attn: Lynda Townsend
phone (405) 848.8000 (ext 414)

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12653
ORDER NO. R-11557-A**

**APPLICATION OF CHESAPEAKE OPERATING, INC. FOR AN UNORTHODOX OIL
WELL LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 3 and 17, 2001, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 19th day of June, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Chesapeake Operating, Inc. ("Chesapeake"), seeks approval to drill its Buchanan "5" Well No. 1 at an unorthodox oil well location 2365 feet from the North line and 1641 feet from the East line (Unit G) of Section 5, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico. The W/2 NE/4 is to be dedicated to the well forming a standard 80-acre spacing and proration unit for the Shipp-Strawn Pool.

(3) Conoco Inc. appeared at the May 3 and 17 hearings through legal counsel.

(4) Chesapeake testified that in Case No. 12595, which was heard by the Division on February 22, 2001, it originally sought approval of this unorthodox location for the Buchanan "5" Well No. 1. Chesapeake further testified that at the hearing in Case No. 12595:

(a) it presented geologic evidence to support the proposed unorthodox location; and

- (b) it sought approval to dedicate the S/2 NE/4 of Section 5 to the Buchanan "5" Well No. 1 forming a standard 80-acre spacing and proration unit for the Shipp-Strawn Pool.
- (5) Subsequent to the hearing in Case No. 12595, Chesapeake discovered that its farmout agreement with Texaco Exploration & Production, Inc., for this acreage in Section 5, mandated that a "stand-up" 80-acre spacing unit comprising the W/2 NE/4 of Section 5 be dedicated to the Buchanan "5" Well No. 1, instead of a "lay-down" 80-acre spacing unit comprising the S/2 NE/4 of Section 5.
- (6) By letter dated March 19, 2001, Chesapeake requested that Case No. 12595 be dismissed. By Order No. R-11557, issued on March 23, 2001, the Division dismissed the case.
- (7) At the May 3rd hearing, Chesapeake requested that the record in Case No. 12595 be incorporated in the immediate Case No. 12653.
- (8) The Buchanan "5" Well No. 1 is located within the Shipp-Strawn Pool. This pool is currently governed by special pool rules established by Division Order No. R-8062-A, which require standard 80-acre spacing and proration units with wells to be located within 150 feet of the center of either governmental quarter-quarter section or lot.
- (9) The geologic evidence presented by Chesapeake demonstrates that:
 - (a) the primary target within the Buchanan "5" Well No. 1 is a small Strawn structure (algal mound) that encompasses portions of the SW/4 NE/4 and the SE/4 NE/4 of Section 5;
 - (b) a well at the proposed unorthodox location should penetrate the Strawn formation at a structurally higher position than a well drilled at a standard location within the SW/4 NE/4 of Section 5, thereby increasing the likelihood of encountering porosity development within this Strawn reservoir; and
 - (c) the NW/4 NE/4 of Section 5 has previously been tested in the Strawn formation by the Frisco Energy, L.L.C., H. L. Batton Well No. 1 located 660 feet from the North line and 1980 feet from the East line

(Unit B) of Section 5. Division records demonstrate that this well cumulatively produced approximately 58,751 barrels of oil from the Strawn formation through the perforated interval from approximately 11,028 feet to 11,054 feet prior to being recompleted to the Lovington-Paddock Pool.

(10) Although the primary orientation of the Strawn structure is east-west within the S/2 NE/4 of Section 5, there is evidence in this case to demonstrate that the NW/4 NE/4 of Section 5 is productive within the Strawn formation.

(11) Conoco Inc. opposed the unorthodox location at the May 3rd hearing based upon its belief that it controlled the E/2 NE/4 of Section 5. Conoco withdrew its objection at the May 17th hearing after it determined that Texland Petroleum, Inc. controlled the SE/4 NE/4 of Section 5 as a result of an unrecorded operating agreement.

(12) Texland Petroleum, Inc. was notified of the hearing and waived objection to the proposed unorthodox location. No other offset operator or interest owner appeared at the hearing in opposition to the application.

(13) Approval of the proposed unorthodox location will afford the applicant the opportunity to produce its just and equitable share of the oil in the Strawn formation underlying the W/2 NE/4 of Section 5, and is necessary to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Chesapeake Operating, Inc. is hereby authorized to drill its Buchanan "5" Well No. 1 at an unorthodox oil well location 2365 feet from the North line and 1641 feet from the East line (Unit G) of Section 5, Township 17 South, Range 37 East, NMPM, to test the Strawn formation, Shipp-Strawn Pool, Lea County, New Mexico. The W/2 NE/4 shall be dedicated to the well forming a standard 80-acre spacing and proration unit for the pool.

(2) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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Order No. R-11557-A
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

SEAL

ELF
8/6/71
ABOVE DATE DOES NOT
INDICATE WHEN
CONFIDENTIAL LOGS
WILL BE RELEASED

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