

HOLLAND & HART LLP



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February 19, 2008

**HAND-DELIVERED**

Mark E. Fesmire, P.E.  
Director  
Oil Conservation Division  
New Mexico Energy, Minerals and  
Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 14101*

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2008 FEB 19 PM 3 45

**Re: Application of Chesapeake Operating, Inc. for an order authorizing the drilling of a well in the Potash Area, Lea County, New Mexico**

Dear Mr. Fesmire:

Enclosed is the application of Chesapeake Operating, Inc. in the above-referenced case as well as a copy of a legal advertisement. Chesapeake requests that this matter be placed on the docket for the March 20, 2008 Examiner hearings.

Sincerely,

*Ocean Munds-Dry*  
Ocean Munds-Dry

Enclosures

Holland & Hart LLP

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

**APPLICATION OF CHESAPEAKE OPERATING INC. FOR AN ORDER  
AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA, LEA  
COUNTY, NEW MEXICO.**

CASE NO. 14101

**APPLICATION**

CHESAPEAKE OPERATING, INC. ("Chesapeake"), pursuant to the provisions of Oil Conservation Division Order No. R-111-P ("The Rules and Regulations Governing the Exploration and Development of Oil and Gas in Certain Areas Herein Defined, Which Are Known to Contain Potash Reserves"), applies to the New Mexico Oil Conservation Division for an order approving the drilling of its Lost Tank 16 State Well No. 4 to test the Lower Brushy Canyon formation, Lost Tank Delaware Pool (40299), within the Potash Area at a location 330 feet from the North and West lines (Unit D) of Section 16, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, and in support of this application, states:

1. Chesapeake Operating Inc. is the lessee of certain oil and gas rights under Section 16, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico. Chesapeake has the right to develop the oil and gas reserves underlying this property.
2. Chesapeake proposes to drill its Lost Tank 16 State Well No. 4 to a total depth of approximately 8,700 feet to test the Lower Brushy Canyon formation on a standard 40-acre spacing unit comprised of the NW/4 NW/4.
3. Section 16, the tract upon which Chesapeake proposes to drill, is state land that is located within the Potash Area.

4. Order R-111-P states that “no mining operations shall be conducted in the Potash Area that would, in the opinion of the Division or its duly authorized representative, constitute a hazard to oil or gas production, or that would unreasonably interfere with the orderly development and production from any oil or gas pool.” C(2).

5. Chesapeake proposes to drill in an area where oil and gas are currently being produced and therefore mining operations would unreasonably interfere with oil and gas development and production.

6. Chesapeake’s application was improperly rejected because it was not afforded the opportunity to show that potash would not be unduly effected.

7. Chesapeake should be afforded the opportunity to show that this proposed well location would not unduly waste commercial potash. See R-111-P, ¶ 20.

8. Further, by rejecting this APD, the Division has denied Chesapeake and its lessor, the owners of the underlying oil and gas rights in this property, the opportunity to produce the recoverable oil and gas under their property and unless reversed and the denial will cause the waste of hydrocarbons. Chesapeake therefore requests that this matter be set for hearing before an examiner of the Oil Conservation Division.

9. Pursuant to R-111-P, an oil and gas operator is required to provide notice to any potash operator holding a potash lease within a one-mile radius of the proposed well. There are no potash leases within a one-mile radius and therefore no notice is required.

10. Approval of this application will protect correlative rights for it will afford Chesapeake and the other owners of the oil and gas rights the opportunity to produce their just and equitable share of the reserves under their property for it will honor the mutual agreement between the owners of both the potash and oil and gas interests for the development of these

state lands. Approval of this application will otherwise be in the best interest of conservation and the prevention of waste.

WHEREFORE, Chesapeake Operating, Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on March 20, 2008, and that, after notice and hearing, the Division enter its order authorizing Chesapeake to drill its proposed Lost Tank 16 State Well No. 4 to test the Lower Brushy Canyon formation, Lost Tank Delaware Pool, at the proposed standard well location in Unit D of Section 16, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico.

Respectfully submitted,

HOLLAND & HART, LLP

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ATTORNEYS FOR CHESAPEAKE OPERATING  
INC.

CASE NO. 14/01

**Application of Chesapeake Operating, Inc. for an order authorizing the drilling of a well in the Potash Area, Lea County, New Mexico.**

Applicant seeks an order approving the drilling of its proposed Lost Tank 16 State Well No. 4 to test the Lower Brushy Canyon Formation, Lost Tank Delaware Pool within the Potash Area at a location 330 feet from the North and West lines (Unit D) of Section 16, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico. This well will be drilled to an approximate depth of 8,700 to test the Lower Brushy Canyon formation. Said location is within the Potash Area and approximately 36.1 miles east of Eunice, New Mexico.