

*PME30 - 625438487*

September 8, 2006

2006 SEP 8 AM 10 38

**VIA HAND-DELIVERY**

Mr. Michael Stogner  
Engineer  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

**Re: *North Bagley Permo Penn Field***

Dear Mr. Stogner:

I am writing you on behalf of Chesapeake Operating Inc. (Chesapeake") regarding two wells it operates in the North Bagley Permo-Penn Pool. Chesapeake acquired the TP "11" State Well No. 1 (API No. 30-025-21850) located in Unit L of Section 11, Township 11 South, Range 33 East, NMPM, Lea County, New Mexico. An 80-acre spacing unit covering the W/2 SW/4 is dedicated to this well. Chesapeake subsequently drilled the TP "11" State Well No. 2 (API No. 30-025-37143) located in Unit M of said Section 11. Chesapeake originally dedicated the S/2 SW/4 to the No. 2 well but after discovering this clerical error, sought to dedicate the same W/2 SW/4 spacing unit attributed to the Well No. 1. However, after some discussion with the OCD Hobbs district office, Chesapeake has been told it must seek administrative approval in order to have an infill well on the spacing unit.

The Special Rules and Regulations for the North Bagley Permo-Penn Pool (formerly the Upper and Lower Pennsylvanian Pools) provide that a standard unit shall contain 80 acres but "nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the unit." See Rule 2; see also Rule 6 ("in the event there is more than one well on an 80-acre proration unit..."). Additionally, while the Special Rules require that an exception must be sought for an unorthodox well location or a non-standard spacing unit, there is no similar requirement for an infill well on a spacing unit. It is not clear therefore how an operator should seek approval for an infill well under these rules – whether the district office may grant such approval or if administrative approval from the Santa Fe office is necessary.

Will you please advise as to how Chesapeake should proceed in this matter?

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. 

HOLLAND & HART<sup>LLP</sup>



Thank you for your time and attention to this matter. If I may provide you with additional information, please let me know.

Sincerely,

*Ocean Munds-Dry*

Ocean Munds-Dry

ATTORNEY FOR CHESAPEAKE OPERATING INC.

TP "11" State #1 (30-025-21850) (2050' FSL - 550' FWL)  
TP "11" State #2 (30-025-37143) (660' FSL - 810' FWL)

9-11-2006

10:35 AM

Talked w/ Ocean, please provide  
me w/ a C-102 for both  
wells showing a stand-up 80.  
*M. Stan*



September 8, 2006

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Santa Fe, New Mexico 87505

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

Chesapeake Operating Inc.

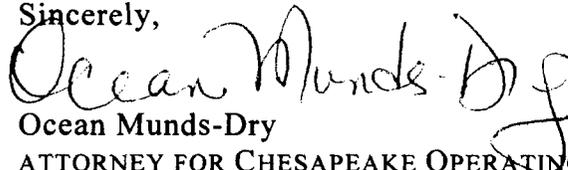
September 8, 2006

Page 2

HOLLAND & HART  LLP

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Sincerely,



Ocean Munds-Dry

ATTORNEY FOR CHESAPEAKE OPERATING INC.

Sec : 11 Twp : 11S Rng : 33E Section Type : NORMAL

D 40.00 RR L03137 0000 JOHN L COX 07/15/79	C 40.00 RR L03137 0000 JOHN L COX 07/15/79	B 40.00 RR OPEN 11/02/01	A 40.00 RR OPEN 11/02/01
E 40.00 RR L03137 0000 JOHN L COX 07/15/79	F 40.00 RR L03137 0000 JOHN L COX 07/15/79	G 40.00 RR OPEN 11/02/01	H 40.00 RR OPEN 11/02/01
L 40.00 RR OG0201 0004 KERR-MCGEE O/G ON 09/18/66	K 40.00 RR OG0201 0004 KERR-MCGEE O/G ON 09/18/66	J 40.00 RR OPEN 11/02/01	I 40.00 RR B09380 0005 CHEVRON USA INC 11/10/51
M 40.00 RR OG0201 0004 KERR-MCGEE O/G ON 09/18/66	N 40.00 RR OG0201 0004 KERR-MCGEE O/G ON 09/18/66	O 40.00 RR OG1320 0003 PROSPECTIVE INVES 09/17/67	P 40.00 RR OG1320 0003 PROSPECTIVE INVES 09/17/67

 Attachments can contain viruses that may harm your computer. Attachments may not display correctly.

**Stogner, Michael, EMNRD**

**From:** Ocean Munds-Dry [Omundsdry@hollandhart.com] **Sent:** Tue 9/19/2006 1:44 PM  
**To:** Stogner, Michael, EMNRD  
**Cc:**  
**Subject:**  
**Attachments:**  [chesapeakeplat.tif\(189KB\)](#)

Mike:

I have additional information for you re: Chesapeake's question as to whether simultaneous dedication may occur at the district level or in Santa Fe under the North Bagley Permo-Penn Pool rules. I have attached the amended and current C-102 for TP 11 State Well No. 2, as you requested. Chesapeake (CHK) submitted the C-102 in July but it has not been processed or is not showing up on the OCD website yet. CHK is following up with Ms. Mull to determine status.

As to your question regarding the multiple C-102s filed for the TP 11 State No. 2 (API No. 30-025-37143):

It appears to be a matter of misunderstanding/mistake regarding the pool rules. The original C-102 was filed in March and an 80-acre laydown was dedicated in error. Afterwards, CHK realized its interest was in the E/2 SW/4. In June, they therefore submitted a new C-102. However, they incorrectly dedicated 40 acres to the well. A new landman took over this area and began to look into the pool rules. That is when they learned that it was 80-acre spacing. That is also when the question came up about an infill well.

As stated in my letter to you, CHK would like to dedicate an 80-acre stand up unit to the No. 2 well and it appears that they need to file a simultaneous dedication application with you. Because the special pool rules are not clear however, I wanted to verify that with you first before filing.

I would appreciate your insight as to how you believe CHK should proceed with this matter.

Thanks,  
Ocean

**Ocean Munds-Dry**  
Holland & Hart LLP  
110 N. Guadalupe Suite 1  
Santa Fe, NM 87501  
Phone (505) 988-4421  
Fax (866) 851-8340  
E-mail: [Omundsdry@hollandhart.com](mailto:Omundsdry@hollandhart.com)

**HOLLAND & HART.**   
THE LAW OUT WEST

**CONFIDENTIALITY NOTICE:** This message is confidential and may be privileged. If you believe that this email has been sent to you in error, please reply to the sender that you received the message in error; then please delete this e-mail. Thank you.

DISTRICT I  
1625 N. French Dr., Hobbs, NM 88240

DISTRICT II  
611 South First, Artesia, NM 88210

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

DISTRICT IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised March 17, 1999

Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

2040 South Pacheco  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

To correct proration unit.

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37143	Pool Code 3820	Pool Name Bagley;Permo Penn, North
Property Code 34690	Property Name TP "11" STATE	Well Number 2
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING INC.	Elevation 4239'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	11	11 S	33 E		660	SOUTH	810	WEST	LEA

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
Dedicated Acres 80		Joint or Infill		Consolidation Code		Order No.			

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

<p>Lat.: N33.3748° Long.: W103.5903° (NAD 27)</p> <p>810'</p> <p>660'</p>	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Brenda Coffman</i> Signature Brenda Coffman Printed Name Regulatory Analyst Title July 21, 2006 Date</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>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.</p> <p>JANUARY 27, 2005 Date Surveyed</p>
	<p>Signature &amp; Seal of Professional Surveyor</p> <p><i>Gary L. Jones</i> Professional Surveyor No. 5047 Certificate No. Gary L. Jones 7977</p>
	<p><b>BASIN SURVEYS</b></p>

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Avenue, Artesia, NM 88210  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT *To correct previous unit.*

API Number 30-025-21850		Pool Code 3820	Pool Name Bagley; PermoPenn, North
Property Code	Property Name T. P. 11 State		Well Number 1
OGRID No. 147179	Operator Name Chesapeake Operating Inc.		Elevation 4243

<sup>10</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	11	11S	33E		2050	South	550	West	Lea

<sup>11</sup> 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				
<table border="1"> <tr> <td>" Dedicated Acres 80</td> <td>" Joint or Infill</td> <td>" Consolidation Code</td> <td>" Order No.</td> </tr> </table>										" Dedicated Acres 80	" Joint or Infill	" Consolidation Code	" Order No.
" Dedicated Acres 80	" Joint or Infill	" Consolidation Code	" Order No.										

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.

16					<p><sup>17</sup> OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or otherwise 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 a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i></p> <p><i>Brenda Coffman</i> 07/21/2006 Signature Date</p> <p>Brenda Coffman Printed Name</p>
					<p><sup>18</sup> SURVEYOR CERTIFICATION</p> <p><i>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.</i></p> <p>Date of Survey Signature and Seal of Professional Surveyor:</p>
Certificate Number					