



PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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July 13, 2005

Kellahin & Kellahin
P. O. Box 2265
Santa Fe, NM 87504

Attn: Mr. W. Thomas Kellahin

Re: Preliminary Approval
Proposed South Chavlea State Exploratory Unit
Chaves and Lea Counties, New Mexico

BEFORE THE
OIL CONSERVATION DIVISION
Case 13526 Exhibit No. 3
Submitted by Chesapeake
Operating, Inc. Hearing July 28, 2005

Dear Mr. Kellahin:

Thank you for providing the unexecuted copy of the unit agreement for the proposed South Chavlea State Exploratory Unit area, Chaves and Lea Counties, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval should not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner stating the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to 19.2.100.51 NMAC showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division (OCD). Our approval will be conditioned upon subsequent favorable approval by the OCD.
5. Please submit two copies of the Unit Agreement.

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM College of Arts & Sciences • Western New Mexico University

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6. A copy of the Unit Operating Agreement (if applicable).
7. Copies of all the well records for the initial unit well and any subsequent well.
8. The filing fee for a unit agreement is thirty dollars (\$30) for every section or partial section thereof; therefore a \$120 filing fee is required.

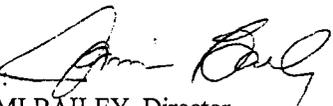
In addition to the above, please also submit the following:

- A. On page 3 of the unit agreement, the Unit Area description for Sec. 25-17S-31E should be changed to the N/2.
- B. On page 3 of the unit agreement, Unit Area acreage should be changed to 2,249.40 acres.
- C. The Geologic write up needs updating. In the first paragraph the unit acreage should be changed from 2,560 acres to 2,249.40 acres. Cheasapeake has leased 1,649.40 acres within the proposed unit.
- D. Please provide more historical information on the Graridge Livermore State G-9 Well. Why was a well making 300 MCFD abandoned?
- E. In your write up, please include the detailed cumulative production of specific wells. For example, the Enserch State 13 #1 is on the map, but we would also like the cumulative production included in the write up.
- F. Please submit larger copies of the cross section data. The copies provided are too small and need to be larger and more legible. It is difficult to tell which zones were tested and/or completed on such a small scale.
- G. In the write up, there is no explanation for Exhibit E and the mapped wells in the S/2SE/4 of Section 30-12S-32E.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 
JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

PL/JB/pm

cc: OCD-Santa Fe, Attention: Mr. Roy Johnson