

PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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Mr. Michael Hazlip
Chesapeake Energy Corporation
Post Office Box 18496
Oklahoma City, Oklahoma 79154-0496

RE: State Trust Land, Section 4, T-21-S, R-35-E

Dear Mr. Hazlip:

Thank you for meeting with representatives of the State Land Office ("SLO") to discuss issues pertaining to the entry by Chesapeake Operating Inc. on the above referenced trust land to drill the KF "4" State Com No. 1 well on behalf of the State's oil and gas lessee on the adjacent quarter section, Chesapeake Permian, L.P. The SLO has high regard for both of its lessees in the south half of Section 4, and its paramount interest is ensuring that state trust land generate the highest possible level of sustainable revenue for trust beneficiaries, consistent with protection of the environment. We appreciate Chesapeake's contributions over the years to New Mexico's trust revenue and recognize Chesapeake's responsible operation on trust lands in the State.

Based on the discussions presented, the SLO's does not believe that this entry onto State Trust Lands by Chesapeake was in bad faith and understands that issues pertaining to the configuration for the spacing unit for this well will be resolved by the proceedings pending in the Oil Conservation Division. As expressed in our meeting the Land Office believes that geology should solely dictate the correct spacing and all the parties will have their opportunity to be heard at the Oil Commission proceeding.

Sincerely,

Patrick H. Lyons

Patrick H. Lyons
Commissioner of Public Lands

cc: Mark E. Fesmire, P.E.

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Certified: True and Accurate Copy

(s)

Robert A. Stranahan
Robert A. Stranahan
General Counsel

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No.
Submitted By: *A*
Chesapeake Inc.
Hearing Date: August 22, 2005

BEFORE THE

-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 Saline Lands • Water Reservoirs • Western New Mexico University